

SHEKEL SCALES 2008 LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017**

SHEKEL SCALES 2008 LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
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The amounts are stated in thousand U.S dollars

Independent Auditors' Statements to Shareholders of Shekel Scales 2008 Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shekel Scales 2008 Ltd. (the "Company"), which comprise the statements of financial position as of December 31, 2017, 2016 and 2015, and the related statements of comprehensive income, changes in equity and cash flows for each of the three years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, 2016 and 2015, its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| <i>Revenue Recognition</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>Revenues amounted to 18,221, 15,529 and 16,284 thousand U.S dollars for the years ended December 31, 2017, 2016 and 2015 respectively.</p> <p>Revenues are an important measure used to evaluate the performance of the company (also refer to the materiality). There is a risk that revenues are presented for amounts higher than what has been actually generated by the company. Revenues are accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Company have been transferred as a result.</p> | <p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> • We held discussions with key management personnel to understand the methodology applied by the Company. • We read relevant documents and contracts related to revenue recognition. • We have designed our audit procedures to obtain certainty with respect to revenue recognition. • We checked the revenue recognition through each year by conducting a sample and enquire about procedures applied to ensure that there is a proper cut off of sales transactions. • For each sample, we checked that all revenue recognition criteria are met. • We considered the adequacy of the Company's disclosures in respect of the treatment of revenues in the financial statements and over the disclosure on its accounting policies. |
| <i>Capitalization of development costs as intangible assets and subsequent valuation</i> | <i>How the matter was addressed in our audit</i> |
| <p>Capitalized development costs amounted to 1,068 and 233 thousand U.S dollars for the years ended December 31, 2017, and 2016 respectively.</p> <p>The related disclosure appears in Note 7 to the financial statements.</p> <p>Development costs mainly comprise of salary and subcontractors costs. The Company capitalizes costs upon meeting the criteria as described in IAS 38. Capitalization criteria assessment under</p> | <p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> • We assessed the eligibility of the development costs for capitalization as intangible assets under IAS 38. • We reviewed the methodology applied by the Company to identify the categories of intangible assets. • We reviewed the design of the controls identified by the management surrounding the |

| | |
|--|---|
| <p>IAS 38 require significant judgment and measurement uncertainty at inception and throughout the life of the project. As of December 31, 2017, the intangible assets are yet to be amortized.</p> <p>In accordance with IAS 36 'Impairment of Assets', the Company is required to carry out an annual impairment test of the intangible assets which are not amortized. Impairment of intangible assets is a key audit matter due to the high level of judgment required by our team members in assessing the inputs into the valuation models supporting management's assessment of impairment.</p> | <p>intangible assets capitalization and subsequent measurement, tested such controls and performed substantive test of details on the capitalized development costs.</p> <ul style="list-style-type: none"> • Our valuation team evaluated the assumptions and methodologies used by the Company to test the impairment of these intangible assets. • Our valuation team have validated that the cash flow forecasts used in the valuation are consistent with information approved by the Board. • Our valuation team have challenged the key assumptions such as the discount rates by comparing them to relevant market rates and verified that management had been consistent in its approach. |
|--|---|

Other information

Management and directors are responsible for the other information. The other information comprises the information included in the registration statement, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and directors for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management and the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the management and the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing,

as applicable, matters related to going concern and using the going concern basis of accounting unless the management and the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance regarding with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tel-Aviv, Israel
June 26, 2018

Ziv haft
Certified Public Accountants (Isr.)
BDO Member Firm


SHEKEL SCALES 2008 LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

| | <u>Note</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------|-------------|------------------------------|------------------------------|------------------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | | 1,725 | 1,542 | 1,315 |
| Short term investments | | 330 | 338 | 325 |
| Trade accounts receivable, net | | 5,299 | 4,018 | 4,122 |
| Other accounts receivable | 4 | 671 | 470 | 577 |
| Inventories | 5 | <u>3,525</u> | <u>3,353</u> | <u>3,605</u> |
| | | <u>11,550</u> | <u>9,721</u> | <u>9,944</u> |
| Non-Current Assets: | | | | |
| Property, plant and equipment, net | 6 | 603 | 601 | 640 |
| Intangible assets | 7 | 1,170 | 335 | 102 |
| Loans to related parties | 8 | 929 | 837 | 313 |
| Deferred tax assets | 17 | <u>204</u> | <u>52</u> | <u>71</u> |
| | | <u>2,906</u> | <u>1,825</u> | <u>1,126</u> |
| Total Assets | | <u>14,456</u> | <u>11,546</u> | <u>11,070</u> |

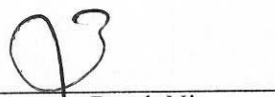
The accompanying notes are an integral part of the financial statements.

SHEKEL SCALES 2008 LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

| | Note | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|------|----------------------|----------------------|----------------------|
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities: | | | | |
| Short term loans and current portion of long term loans | 10 | 4,628 | 4,170 | 3,912 |
| Trade accounts payable | | 1,394 | 1,221 | 1,928 |
| Other accounts payable | 9 | 1,992 | 1,456 | 1,315 |
| | | <u>8,014</u> | <u>6,847</u> | <u>7,155</u> |
| Non-Current Liabilities: | | | | |
| Long term loans | 10 | - | 254 | 442 |
| Employee benefit liabilities | | 201 | 100 | 93 |
| Liability for royalties payable | 19 | 20 | 18 | 18 |
| | | <u>221</u> | <u>372</u> | <u>553</u> |
| Shareholders' Equity: | | | | |
| Equity attributable to owners of the parent: | | | | |
| Share capital | 12 | 1,796 | 1,796 | 1,278 |
| Foreign exchange reserve | | 1 | 48 | 24 |
| Retained earnings | | 4,121 | 2,237 | 1,855 |
| | | <u>5,918</u> | <u>4,081</u> | <u>3,157</u> |
| Non - controlling interest | | 303 | 246 | 205 |
| Total Shareholders' Equity | | <u>6,221</u> | <u>4,327</u> | <u>3,362</u> |
| Total Liabilities And Equity | | <u>14,456</u> | <u>11,546</u> | <u>11,070</u> |



 Yedidia Yossef
 CEO



 Barak Nir
 Member of the Board

June 26, 2018

 Date of approval of financial
 statements

The accompanying notes are an integral part of the financial statements.

SHEKEL SCALES 2008 LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(US Dollar in thousands, except for earnings per share)

| | Note | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|------|------------------------------------|------------------------------------|------------------------------------|
| Revenues | | 18,221 | 15,529 | 16,284 |
| Cost of revenues | 13 | <u>10,965</u> | <u>10,068</u> | <u>11,327</u> |
| Gross profit | | 7,256 | 5,461 | 4,957 |
| Research and development expenses | 14 | 433 | 518 | 332 |
| Selling and marketing expenses | 15 | 2,056 | 1,849 | 1,854 |
| General and administrative expenses | 16 | <u>2,316</u> | <u>2,150</u> | <u>2,285</u> |
| Operating profit | | 2,451 | 944 | 486 |
| Financial income | | 21 | 62 | 10 |
| Financial expenses | | <u>246</u> | <u>340</u> | <u>275</u> |
| Profit before tax on income | | 2,226 | 666 | 221 |
| Tax on income | 17 | <u>287</u> | <u>223</u> | <u>131</u> |
| Profit for the year | | <u>1,939</u> | <u>443</u> | <u>90</u> |
| Other comprehensive loss (income), net of tax: | | | | |
| Items that will or may be reclassified to profit or loss: | | | | |
| Exchange rate differentials pursuant to conversion of foreign activities | | <u>25</u> | <u>(21)</u> | <u>(16)</u> |
| Total comprehensive income for the year | | <u>1,914</u> | <u>464</u> | <u>106</u> |
| Profit for the year attributed to: | | | | |
| Owners of the parent | | 1,904 | 399 | 77 |
| Non - controlling interest | | <u>35</u> | <u>44</u> | <u>13</u> |
| | | <u>1,939</u> | <u>443</u> | <u>90</u> |
| Total comprehensive income for the year attributed to: | | | | |
| Owners of the parent | | 1,857 | 423 | 101 |
| Non - controlling interest | | <u>57</u> | <u>41</u> | <u>5</u> |
| | | <u>1,914</u> | <u>464</u> | <u>106</u> |
| Basic and diluted earnings per share (see Note 12) | | <u>\$ 166.8</u> | <u>\$ 37.3</u> | <u>\$ 7.7</u> |

The accompanying notes are an integral part of the financial statements

SHEKEL SCALES 2008 LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(US Dollar in thousands)

| | Equity attributable to owners of the parent | | | | | |
|-------------------------------------|---|--------------------------|-------------------|-------|--------------------------|----------------------------|
| | Share capital | Foreign exchange reserve | Retained earnings | Total | Non-controlling interest | Total Shareholders' equity |
| Balance at January 1, 2015 | 1,278 | - | 1,788 | 3,066 | 200 | 3,266 |
| Changes during 2015: | | | | | | |
| Profit for the year | - | - | 77 | 77 | 13 | 90 |
| Other comprehensive income (loss) | - | 24 | - | 24 | (8) | 16 |
| Total comprehensive income | - | 24 | 77 | 101 | 5 | 106 |
| Benefit to owners | - | - | (10) | (10) | - | (10) |
| Balance at December 31, 2015 | 1,278 | 24 | 1,855 | 3,157 | 205 | 3,362 |
| Changes during 2016: | | | | | | |
| Profit for the year | - | - | 399 | 399 | 44 | 443 |
| Other comprehensive income (loss) | - | 24 | - | 24 | (3) | 21 |
| Total comprehensive income | - | 24 | 399 | 423 | 41 | 464 |
| Issuance of shares | 518 | - | - | 518 | - | 518 |
| Benefit to owners | - | - | (17) | (17) | - | (17) |
| Balance at December 31, 2016 | 1,796 | 48 | 2,237 | 4,081 | 246 | 4,327 |
| Changes during 2017: | | | | | | |
| Profit for the year | - | - | 1,904 | 1,904 | 35 | 1,939 |
| Other comprehensive income (loss) | - | (47) | - | (47) | 22 | (25) |
| Total comprehensive income (loss) | - | (47) | 1,904 | 1,857 | 57 | 1,914 |
| Benefit to owners | - | - | (20) | (20) | - | (20) |
| Balance at December 31, 2017 | 1,796 | 1 | 4,121 | 5,918 | 303 | 6,221 |

SHEKEL SCALES 2008 LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US Dollar in thousands)

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net profit for the year | 1,939 | 443 | 90 |
| Adjustments to reconcile net profit to net cash provided by operating activities: | | | |
| Depreciation | 182 | 153 | 175 |
| Decrease (increase) in trade accounts receivable, net | (1,281) | 104 | 226 |
| Decrease (increase) in other accounts receivable | (201) | 107 | 101 |
| Decrease (increase) in inventories | (172) | 252 | 193 |
| Increase (decrease) in trade accounts payable | 173 | (707) | 295 |
| Increase (decrease) in other accounts payable | 536 | 141 | (394) |
| Increase in employee benefit liabilities | 101 | 7 | 19 |
| Change in short term investments | 8 | (13) | 79 |
| Increase in liability for royalties payable | 2 | - | - |
| Financial income charged to equity | (20) | (17) | (10) |
| Financial income (expenses), net | 389 | 170 | (515) |
| Taxes on income, net | (152) | 19 | 27 |
| Net cash provided by operating activities | <u>1,504</u> | <u>659</u> | <u>286</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| loan to related party | - | (518) | - |
| Purchase of property, plant and equipment | (193) | (153) | (169) |
| Proceeds from sale of property, plant and equipment | 9 | 39 | - |
| Capitalized development costs | (835) | (233) | - |
| Net cash used in investing activities | <u>(1,019)</u> | <u>(865)</u> | <u>(169)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Issuance of shares | - | 518 | - |
| Receipt of short term loans | 4,039 | 3,593 | 3,593 |
| Payment of short term loans | (4,039) | (3,593) | (3,593) |
| Receipt of long term loan | - | - | 527 |
| Payment of long term loan | (277) | (106) | - |
| Net cash provided by (used in) financing activities | <u>(277)</u> | <u>412</u> | <u>527</u> |
| Effects of exchange rate changes on cash and cash equivalents | <u>(25)</u> | <u>21</u> | <u>16</u> |
| Net increase in cash and cash equivalents | <u>183</u> | <u>227</u> | <u>660</u> |
| Cash and cash equivalents at the beginning of the year | <u>1,542</u> | <u>1,315</u> | <u>655</u> |
| Cash and cash equivalents at the end of the year | <u>1,725</u> | <u>1,542</u> | <u>1,315</u> |

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---|---|---|
| Appendix A - Amount paid during the year for: | | | |
| Interest | 187 | 198 | 210 |
| Tax | 122 | 73 | 81 |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 1 - GENERAL:

Shekel Scales 2008 Ltd. (hereinafter, “the Company”) was domiciled in Israel. The Company and its subsidiaries (together, the “Group”) is a global leader of digital weighing technology and engaged in the development, planning, assembly and marketing of electronic weighing systems.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed in the preparation of the financial statement, on a consistent basis, are:

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the measurement of certain financial assets and financial liabilities at fair value through profit or loss. The Group has elected to present the statement of comprehensive income using the function of expense method.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights.

The consolidated financial statements of the Group include the accounts of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies were eliminated in full. The consolidated financial statements of the Group include the accounts of the companies detailed in Note 22.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Business combination

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquirer's identifiable net assets.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary and also gains or losses on disposals to non-controlling interests are recorded in equity.

Foreign currency

The consolidated financial statements are prepared in US Dollars (the functional currency).

Transactions and balances in foreign currencies are converted into US Dollars in accordance with the principles set forth by International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates".

Foreign currency transactions

Transactions and balances have been converted as follows:

- Monetary assets and liabilities – at the rate of exchange applicable at the consolidated statements of financial position date;
- Exchange gains and losses from the aforementioned conversion are recognized in the statement of profit or loss.
- Expense items – at exchange rates applicable as of the date of recognition of those items.
- Non-monetary items are converted at the rate of exchange at the time of the transaction.

Foreign operations

On consolidation, the results of foreign operations are translated into US Dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of foreign operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Foreign currency (Cont.)

Foreign operations (Cont.)

Exchange differences arising on translating the opening net assets at opening rate and the results of foreign operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve. Exchange differences recognised in profit or loss in the Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are classified to profit or loss as part of the profit or loss on disposal.

Cash equivalents

Cash equivalents are considered by the Group to be highly-liquid investments, including, inter alia, short-term deposits with banks and the maturity of which do not exceed three months at the time of deposit and which are not restricted.

Use of estimates and assumptions in the preparation of the financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. See also Note 3.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Fair value measurement (Cont.)

generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification by fair value hierarchy

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques that use inputs that are not based on observable market data).

Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value and subsequently measured at amortized cost less any provision for impairment.

Financial Liabilities

The Group's financial liabilities are trade accounts payable, other accounts payable and loans, which are initially recognized at fair value net of direct transaction costs and subsequently measured at amortized cost using the effective interest rate method.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

De-recognition of financial instruments:

Financial assets: A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities: A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the creditor:

- discharges the liability by paying in cash, other financial assets; or
- is legally released from the liability.

Intangible assets

Intangible assets include internally generated capitalized development costs. Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, at each reporting date, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The Group's intangible assets were not depreciated yet as of December 31, 2017 (see also "Impairment of non-financial assets").

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Property, plant and equipment

Property, plant and equipment are initially recognized at cost, including costs directly attributable to the acquisition of the property, plant and equipment and bringing it to the location and condition necessary for use. The cost of an item of property, plant and equipment is the amount equal to the cash price on the date of recognition. In periods subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation and amortization methods - the Group depreciates separately each part of the property, plant and equipment with a cost that is significant in relation to the total cost of the item. Depreciation expenses for each period are recognized in profit or loss, unless they are included in the carrying amount of another asset. (see also "Impairment of non-financial assets").

Depreciation is computed by the straight line method, based on the estimated useful lives of the assets, as follows:

| | <u>Annual depreciation rate (%)</u> | <u>Main depreciation rate (%)</u> |
|-----------------------------------|-------------------------------------|-----------------------------------|
| Vehicles | 15-20 | 20 |
| Electronic equipment and software | 10-20 | 10 |
| Furniture and equipment | 6-33 | 33 |
| Leasehold improvements | 4 | 4 |

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and impairment charge is recognized accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the smallest group of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets).

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An impairment loss allocated to asset, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Impairment of non-financial assets (Cont.)

Prior years and the assets recoverable amount. The reversal of impairment loss of an asset is recognized in profit or loss. Impairment charges are included in general and administrative expenses.

During the years ended December 31, 2017, 2016 and 2015, no impairment charges of non-financial assets were recognized.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset as follows. Financial assets carried at amortized cost:

There is objective evidence of impairment of loans and receivables if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate at initial recognition).

If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, which is limited to the amount of any previous impairment, is recorded in profit or loss.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Group measures cost of raw materials and work in process on FIFO basis and finished goods according to costs based on direct costs of materials and labor and loading of indirect expenses.

Research and development costs

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Expenditure on research activities is recognized in profit or loss as incurred. Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Research and development costs (Cont.)

- adequate resources are available to complete the development
- there is an intention to complete and sell the product
- the Group is able to sell the product
- sale of the product will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

Capitalized development costs are not being amortized yet because the development has not been completed and the assets are yet to be in use. Subsequent expenditure on capitalized intangible assets is capitalized only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred. During the years 2017, 2016 and 2015 the Group capitalized development costs in the amounts of 835, 233 and 0 respectively.

Deferred tax

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies.

Deferred taxes are computed in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributable for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the temporary differences are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carry forward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within

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the statement of comprehensive income. All deferred tax assets and liabilities are presented in the statement of financial position as non-current items, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Earnings per share

Earnings per share is calculated by dividing the net profit attributable to owners of the parent, by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period.

Liability for royalties payable

The Group measured its governmental liabilities on grants received, each period, based on discounted cash flows derived from Group's future anticipated revenues.

Provision for warranty

The Group generally offers up to one year warranty on its products. The Group records the provision for warranty based on past experience.

Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received or receivables less any trade discounts, volume rebates and returns.

Revenues from the sale of goods and repair services are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which risks and rewards pass.

Allowance for doubtful accounts

The allowance for doubtful accounts is based on specific receivables, which their collection, in the opinion of Group's management, is in doubt. Trade accounts receivable are charged off in the period in which they are deemed to be uncollectible. As of December 31, 2017, 2016, and 2015, the Group record allowance for doubtful accounts in the amount of 40, 26 and 40 respectively.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Employee benefits

The Group contributes towards the state pension in accordance with local legislation where required. The only obligation of the Group is to make the required contributions. Costs related to such contributions are expensed in the period in which they are incurred.

The Group has several employee benefit plans as to Israeli and Chinese employees:

1. Short-term employee benefits: Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.
2. Post-employment benefits: The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans. In Israel, the Group has defined for most of its employees contribution plans pursuant to Section 14 to the Severance Pay Law since 2004 under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution. The Group also operates for some employees an immaterial defined benefit plan in respect of severance pay pursuant to the Severance Pay Law.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New accounting policies and disclosures

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative:

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information in note 11.

New IFRSs in the period prior to their adoption

IFRS 9 Financial Instruments:

In July 2014, the IASB published the final and complete version of IFRS 9 "Financial Instruments" (hereinafter - "IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and applies to all assets within the scope of IAS 39. The IAS 39 requirements related to recognition and derecognition were carried forward unchanged to IFRS 9.

Key differences between IFRS 9 and IAS 39 are summarized below:

Classification and measurement of financial assets

IFRS 9 replaces the rules based model in IAS 39 with an approach which bases classification and measurement on the business model of an entity, and on the cash flows associated with each financial asset. This has resulted in:

- i. Elimination of the 'held to maturity', 'loans and receivables' and 'available-for-sale' categories. Instead, IFRS 9 introduces two classification categories: 'amortized cost' and 'fair value through other comprehensive income' to accompany 'fair value through profit or loss'.
- ii. Elimination of the requirement to separately account for (i.e. bifurcate) embedded derivatives in financial assets. However, the concept of embedded derivatives has been retained for financial liabilities and for non-financial assets.
- iii. Elimination of the limited exemption to measure unquoted equity investments at cost rather than at fair value, in the rare circumstances in which the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot reasonably be assessed.

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Classification and measurement of financial liabilities: IFRS 9 introduces a requirement for most changes in fair value related to an entity's credit risk to be recorded in other comprehensive income and not profit or loss. The IAS 39 requirements related to recognition and derecognition were carried forward unchanged to IFRS 9.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs in the period prior to their adoption (Cont.)

IFRS 9 Financial Instruments (Cont.):

IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39 and applies to:

- Financial assets measured at amortised cost,
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guarantee contracts.

Under the IFRS 9 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. An entity will now always recognise (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

The effective date of IFRS 9 is for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 9 will not have a material effect on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 shall replace other IFRS provisions relating to revenue recognition.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step model framework:

- 1) Identify the contract(s) with a customer.
- 2) Identify the performance obligations in the contract.
- 3) Determine the transaction price.
- 4) Allocate the transaction price to the performance obligations in the contract.
- 5) Recognize revenue when the entity satisfies a performance obligation.

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IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

New IFRSs in the period prior to their adoption (Cont.):

IFRS 15 Revenue from Contracts with Customers (Cont.):

IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue.

The standard shall be applied retrospectively for annual reporting periods starting on January 1, 2018 or thereafter, IFRS 15 will not have a material impact on the financial statements.

IFRS 16 Leases (hereafter – IFRS 16)

Adoption of IFRS 16 will result in the Group recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease.

In the new model a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

- i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset; and
- ii) leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

For leases currently classified as operating leases, under current accounting requirements the Group does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

Instead of recognizing an operating expense for its operating lease payments, the Group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets.

IFRS 16 Leases is effective for reporting periods (interim and annual) beginning on or after January 1, 2019. The Group is currently evaluating the impact of the IFRS 16 on its financial statements, but does not expect to have material impact.

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NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The area requiring the use of estimates and critical judgments that may potentially have a significant impact on the Group's earnings and financial position is the tax income.

Tax on income

The Group is subject to income tax in jurisdictions in which it is registered and judgment is required in determining the liability for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law.

NOTE 4 - OTHER ACCOUNTS RECEIVABLE:

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|-----------------------|------------------------------|------------------------------|------------------------------|
| Institutions | 294 | 105 | 197 |
| Prepaid expenses | 193 | 4 | 65 |
| Advances to suppliers | 99 | 227 | 125 |
| Related parties | 28 | 3 | 54 |
| Others | 57 | 132 | 136 |
| | <u>671</u> | <u>470</u> | <u>577</u> |

NOTE 5 - INVENTORIES:

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|-----------------|------------------------------|------------------------------|------------------------------|
| Raw materials | 2,213 | 2,037 | 2,204 |
| Work in process | 223 | 96 | 229 |

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| | | | |
|----------------|--------------|--------------|--------------|
| Finished goods | 1,089 | 1,220 | 1,172 |
| | <u>3,525</u> | <u>3,353</u> | <u>3,605</u> |

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET:

| | Leasehold improvements | Furniture and equipment | Vehicles | Electronic equipment and software | Total |
|----------------------------------|---------------------------|-------------------------------|-------------|---|----------------|
| Cost: | | | | | |
| As of January 1, 2017 | 29 | 593 | 136 | 1,051 | 1,809 |
| Additions | 7 | 106 | 30 | 50 | 193 |
| Disposals | - | - | (30) | - | (30) |
| As of December 31, 2017 | <u>36</u> | <u>699</u> | <u>136</u> | <u>1,101</u> | <u>1,972</u> |
| Accumulated depreciation: | | | | | |
| As of January 1, 2017 | (6) | (483) | (29) | (690) | (1,208) |
| Additions | (1) | (32) | (49) | (100) | (182) |
| Disposals | - | - | 21 | - | 21 |
| As of December 31, 2017 | <u>(7)</u> | <u>(515)</u> | <u>(57)</u> | <u>(790)</u> | <u>(1,369)</u> |
| Net Book Value: | | | | | |
| As of December 31, 2017 | <u>29</u> | <u>184</u> | <u>79</u> | <u>311</u> | <u>603</u> |

| | Leasehold improvements | Furniture and equipment | Vehicles | Electronic equipment and software | Total |
|----------------------------------|---------------------------|-------------------------------|------------|---|--------------|
| Cost: | | | | | |
| As of January 1, 2016 | 29 | 537 | 149 | 1,022 | 1,737 |
| Additions | - | 56 | 68 | 29 | 153 |
| Disposals | - | - | (81) | - | (81) |
| As of December 31, 2016 | <u>29</u> | <u>593</u> | <u>136</u> | <u>1,051</u> | <u>1,809</u> |
| Accumulated depreciation: | | | | | |

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| | | | | | |
|--------------------------------|------------|--------------|-------------|--------------|----------------|
| As of January 1, 2016 | (4) | (455) | (41) | (597) | (1,097) |
| Additions | (2) | (28) | (30) | (93) | (153) |
| Disposals | - | - | 42 | - | 42 |
| As of December 31, 2016 | <u>(6)</u> | <u>(483)</u> | <u>(29)</u> | <u>(690)</u> | <u>(1,208)</u> |
| Net Book Value: | | | | | |
| As of December 31, 2016 | <u>23</u> | <u>110</u> | <u>107</u> | <u>361</u> | <u>601</u> |

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET (CONT.):

| | <u>Leasehold improvements</u> | <u>Furniture and equipment</u> | <u>Vehicles</u> | <u>Electronic equipment and software</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|--|-----------------|--|----------------|
| Cost: | | | | | |
| As of January 1, 2015 | 7 | 486 | 105 | 970 | 1,568 |
| Additions | <u>22</u> | <u>51</u> | <u>44</u> | <u>52</u> | <u>169</u> |
| As of December 31, 2015 | <u>29</u> | <u>537</u> | <u>149</u> | <u>1,022</u> | <u>1,737</u> |
| Accumulated depreciation: | | | | | |
| As of January 1, 2015 | (3) | (412) | (23) | (484) | (922) |
| Additions | <u>(1)</u> | <u>(43)</u> | <u>(18)</u> | <u>(113)</u> | <u>(175)</u> |
| As of December 31, 2015 | <u>(4)</u> | <u>(455)</u> | <u>(41)</u> | <u>(597)</u> | <u>(1,097)</u> |
| Net Book Value: | | | | | |
| As of December 31, 2015 | <u>25</u> | <u>82</u> | <u>108</u> | <u>425</u> | <u>640</u> |
| As of December 31, 2014 | <u>4</u> | <u>74</u> | <u>82</u> | <u>486</u> | <u>646</u> |

NOTE 7 - INTANGIBLE ASSETS:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|------------------------------|------------------------------|------------------------------|
| Internally generated capitalized development costs | 1,068 | 233 | - |
| Goodwill | <u>102</u> | <u>102</u> | <u>102</u> |
| | <u>1,170</u> | <u>335</u> | <u>102</u> |

In order to estimate the fair value of internally generated capitalized development costs, the Group used a finite time discounted cash flows approach. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

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During the years ended December 31, 2017, 2016 and 2015, no impairments were recognized.

NOTE 8 - LOANS TO RELATED PARTIES:

In March, 2014, the Company signed an agreement with a shareholder, according to which the Company will provide a loan in the amount of approximately 313 (1,220 thousands NIS). The loan bears interest as set for the in section 3 of the Israeli Income Tax Ordinance. In June, 2016, the Company signed an agreement with another shareholder, according to which the Company will provide a loan in the amount of approximately 518 (2,000 thousands NIS). The loan bears interest as set for the in section 3 of the Israeli Income Tax Ordinance. Both loans to shareholders were provided in NIS and will be repaid as soon as the shareholders hold marketable shares of the Company. There is no accrued interest on the loans, therefore, financing income is recorded against equity as benefit to owners.

NOTE 9 - OTHER ACCOUNTS PAYABLE:

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|------------------------------|
| Employees, salaries and related liabilities | 532 | 416 | 519 |
| Tax authorities | 477 | 211 | 48 |
| Institutions | 325 | 179 | 119 |
| Provision for warranty | 225 | 326 | 385 |
| Provision for vacation | 184 | 135 | 136 |
| Accrued expenses | 113 | 60 | 36 |
| Customers advances | 95 | 52 | 3 |
| Others | 41 | 77 | 69 |
| | <u>1,992</u> | <u>1,456</u> | <u>1,315</u> |

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NOTE 10 - LOANS

Loans from related parties

In 2012, the Company signed an agreement to receive loans in the amount of approximately 230 from its shareholders. The loans were received and bear interest at the rate of 5% per annum that will be paid twice a year and has no repayment date.

In June 2016, the Company signed an additional agreement to receive a loan in the amount up to approximately 325 (1,250 thousands NIS) from its shareholders. As of December 31, 2016, the Company received approximately 128 (500 thousands NIS). The loans bear interest at the rate of 5% per annum that will be paid twice a year and has no repayment date. As of December 31, 2017, 2016 and 2015 the total amount of loans from related parties is 417, 358 and 230, respectively.

Short term loans from banks

During the years 2015 through 2017, the Company received several short-term loans from Banks in Israel. The loans were received in NIS and bear interest of 3.2% per annum. As of December 31, 2017, 2016 and 2015 the total amount of short-term loans is 4,039, 3,651 and 3,607, respectively.

Long term loans from banks

On July 2015, the Company received long-term loan from Bank in Israel in the amount of approximately 517 (2,000 thousands NIS). The loan were received in NIS and bears interest of 3.1% per annum and will be fully paid in 3 years. The Company committed to certain covenants related to its operation such as:

- Maintaining a minimum level of shareholders' equity of no less than 20% of total assets.
- Maintaining a ratio of EBITDA to Debt coverage no less than 2;
- Maintaining maximum amount of financial debt (excluding operating working capital) of no more than 3.

As of December 31, 2017, the Company met all of its covenants to the bank.

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NOTE 10 - LOANS (CONT.):

Composed as follows as of December 31, 2017, 2016 and 2015:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|------------------------------|------------------------------|------------------------------|
| Long-term loans from banks | 172 | 415 | 517 |
| Current portion on of long-term loans from banks | (172) | (161) | (75) |
| Total long-term loans | <u>-</u> | <u>254</u> | <u>442</u> |
| Short-term loans from banks | 4,039 | 3,651 | 3,607 |
| Current portion on of long-term loans from banks | 172 | 161 | 75 |
| Short-term loans and current portion on of long-term loans from banks | 4,211 | 3,812 | 3,682 |
| Short-term loan from related parties | 417 | 358 | 230 |
| Total short-term loans | <u>4,628</u> | <u>4,170</u> | <u>3,912</u> |
| Total loans | <u>4,628</u> | <u>4,424</u> | <u>4,354</u> |

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NOTE 11 - FINANCING ACTIVITIES IN THE STATEMENT OF CASH FLOWS:

Reconciliation of the changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows (See also Note 2 "New accounting policies and disclosures"):

| | <u>Loans from banks</u> |
|---|-------------------------|
| As of January 1, 2017 | (4,066) |
| Changes from financing cash flows: | |
| Receipt of loans | (4,039) |
| Repayment of loans | 4,316 |
| Total changes from financing cash flows | <u>277</u> |
| Interest paid | 187 |
| Exchange rate differences | <u>(609)</u> |
| As of December 31, 2017 | <u><u>(4,211)</u></u> |

| | <u>Loans from related parties</u> |
|-----------------------------------|-----------------------------------|
| As of January 1, 2017 | (358) |
| Changes from financing cash flows | - |
| Accrued Interest expenses | (20) |
| Exchange rate differences | <u>(39)</u> |
| As of December 31, 2017 | <u><u>(417)</u></u> |

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NOTE 12 - SHAREHOLDERS' EQUITY:

Composed as follows as of December 31, 2017, 2016 and 2015:

| | | |
|---|---|-------------------------------|
| | <u>Authorized</u> | <u>Issued and outstanding</u> |
| | <u>Number of shares as of December 31, 2017</u> | |
| Ordinary shares par value of NIS 0.01 per share | <u>100,000</u> | <u>11,415</u> |
| | <u>Authorized</u> | <u>Issued and outstanding</u> |
| | <u>Number of shares as of December 31, 2016</u> | |
| Ordinary shares par value of NIS 0.01 per share | <u>100,000</u> | <u>11,415</u> |
| | <u>Authorized</u> | <u>Issued and outstanding</u> |
| | <u>Number of shares as of December 31, 2015</u> | |
| Ordinary shares par value of NIS 0.01 per share | <u>100,000</u> | <u>10,000</u> |

Ordinary shares confer upon their holders the rights to receive notice to participate and vote in general meeting of the Group, and the right to receive dividends if declared.

Share issuance:

In June, 2016 the Company issued 1,415 ordinary shares at a price per share of approximately \$ 366 (1,413 NIS) to its shareholders. The total consideration was 518 (see also Note 8).

Earnings per share:

Earnings per share has been calculated using the weighted average number of shares in issue during the relevant financial periods, the weighted average number of equity shares in issue and profit for the period as follows:

| | | | |
|--|---------------------|-------------------|-------------------|
| | <u>Year ended</u> | <u>Year ended</u> | <u>Year ended</u> |
| | <u>December 31,</u> | | |
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| profit for the year attributed to owners of the parent | <u>1,904</u> | <u>399</u> | <u>77</u> |
| Weighted average number of ordinary shares | <u>11,415</u> | <u>10,707</u> | <u>10,000</u> |
| Basic and diluted profit per share | <u>\$ 166.8</u> | <u>\$ 37.3</u> | <u>\$ 7.7</u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 13 - COST OF REVENUES:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--------------------------------------|---|---|---|
| Purchase of scales and raw materials | 7,355 | 6,078 | 7,333 |
| Salary and related expenses | 2,853 | 2,819 | 2,766 |
| Vehicle maintenance | 409 | 385 | 442 |
| Rent and office maintenance | 278 | 241 | 268 |
| Depreciation | 59 | 50 | 61 |
| Others | 183 | 243 | 264 |
| Change in inventories | <u>(172)</u> | <u>252</u> | <u>193</u> |
| | <u><u>10,965</u></u> | <u><u>10,068</u></u> | <u><u>11,327</u></u> |

NOTE 14 - RESEARCH AND DEVELOPMENT EXPENSES:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|-----------------------------|---|---|---|
| Salary and related expenses | 436 | 349 | 236 |
| Development costs | 150 | 169 | 277 |
| Grant received | <u>(153)</u> | <u>-</u> | <u>(181)</u> |
| | <u><u>433</u></u> | <u><u>518</u></u> | <u><u>332</u></u> |

NOTE 15 - SELLING AND MARKETING EXPENSES:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|-------------------------------|---|---|---|
| Salary and related expenses | 1,175 | 1,134 | 1,097 |
| Marketing expenses | 260 | 280 | 143 |
| Transportation and deliveries | 203 | 168 | 249 |
| Travel abroad | 182 | 71 | 129 |
| Vehicles maintenance | 170 | 139 | 147 |
| Rent and office maintenance | 64 | 57 | 71 |
| Royalties expenses | <u>2</u> | <u>-</u> | <u>18</u> |
| | <u><u>2,056</u></u> | <u><u>1,849</u></u> | <u><u>1,854</u></u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 - GENERAL AND ADMINISTRATIVE EXPENSES:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| Salary and related expenses | 860 | 754 | 758 |
| Professional fees | 267 | 72 | 94 |
| Rent and office maintenance | 258 | 255 | 191 |
| Depreciation | 123 | 103 | 114 |
| Management fees | 376 | 306 | 303 |
| Vehicles maintenance | 68 | 66 | 66 |
| Others | 364 | 594 | 759 |
| | <u>2,316</u> | <u>2,150</u> | <u>2,285</u> |

NOTE 17 - TAXES ON INCOME:

1. General tax rate applicable to income in Israel:

Israeli corporate tax rates are 26.5% in 2015, 25% in 2016 and 24% in 2017.

On January 5, 2016, the Israeli government published a law to amend the Income Tax Ordinance (No. 216) - 2016. According to the new law, there will be a decrease of corporation tax by 1.5% from 2016 onwards. Hence, there will be a decrease in the tax rate from 26.5% to 25%.

On December 2016, the Israeli government published the Economic Efficiency Law (2016) (legislative amendments to accomplish budget goals for the years 2017 and 2018) According to which, in 2017 the tax rate will decrease by 1% and starting 2018 by 2%; so that the tax rate will be 24% in 2017 and 23% in 2018 and onwards. Accordingly, the tax rate will be 24% in 2017 and 23% in 2018 and onwards. All tax rates changes mentioned above do not expect to have material impact on the Group.

The Company in Israel has final tax assessments until 2012.

2. Tax benefits under the law for the Encouragement of Capital Investments, 1959:

In December 2010 new legislation amending the Investment Law was adopted. This new legislation was effective as of January 1, 2011 and applies to preferred income produced or generated by a preferred company from the effective date. Under this new legislation, a uniform corporate tax rate applies to all qualifying income of certain Industrial Companies ("Preferred Enterprise"), as opposed to the previous law's incentives, which were limited to income from Approved Enterprises and Privileged Enterprises during their benefits period.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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In July 29, 2013, the Israeli parliament approved the Law to Change the Tax Burden. According to such law, the tax rate to income generated by its Preferred Enterprise will be 16% from and after 2014.

NOTE 17 - TAXES ON INCOME (CONT.):

2. Tax benefits under the law for the Encouragement of Capital Investments, 1959 (Cont.):

In December 2016, the Israeli government published the Economic Efficiency Law (2016) (legislative amendments to accomplish budget goals for the years 2017 and 2018). According to such law, the tax rate that applies to Preferred Enterprises in preferred area will be decreased by 1.5% to 7.5% starting January 1, 2017.

The tax rate that applied to the Israeli company's taxable income which derived from its manufacturing activities is 16% in 2017, 2016 and 2015, according to the Preferred Enterprise rate. The tax rates that applied to the Israeli company's taxable income which do not derived from its manufacturing activities are 26.5% in 2015, 25% in 2016 and 24% in 2017, according to Israeli corporate tax rates.

3. Non - Israeli subsidiaries:

Non - Israeli subsidiaries are taxed based on tax laws in the country of domicile of subsidiary.

The Company's major subsidiaries' general tax rates are:

Shekel (Ningbo) Scales Ltd.: 25% in 2017, 2016 and 2015.

Abilanx: 28% in 2017, 33.3% in 2016 and 2015.

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 17 - TAXES ON INCOME (CONT.):

4. Deferred tax assets:

Deferred tax assets, net reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Group's deferred tax asset, net resulting from:

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|------------------------------|
| Deferred tax assets: | | | |
| Accrued severance pay | 42 | 18 | 16 |
| Other provisions and employee-related obligations | 35 | 26 | 43 |
| Research and development expenses deductible over three years | 154 | 31 | 27 |
| | <u>231</u> | <u>75</u> | <u>86</u> |
| Deferred tax liabilities: | | | |
| Property, plant and equipment, net | <u>(27)</u> | <u>(23)</u> | <u>(15)</u> |
| Deferred tax asset | <u><u>204</u></u> | <u><u>52</u></u> | <u><u>71</u></u> |

5. Composition:

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--------------------------------|---|---|---|
| Current tax | 439 | 204 | 104 |
| Deferred tax expenses (income) | <u>(152)</u> | <u>19</u> | <u>27</u> |
| | <u><u>287</u></u> | <u><u>223</u></u> | <u><u>131</u></u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 17 - TAXES ON INCOME (CONT.):

6. Theoretical tax:

| | <u>Year ended December 31, 2017</u> | <u>Year ended December 31, 2016</u> | <u>Year ended December 31, 2015</u> |
|---|---|---|---|
| Profit before taxation | 2,226 | 666 | 221 |
| Theoretical tax credit at applicable statutory 2017: 24% ,2016: 25%, 2015: 26.5% | 534 | 167 | 59 |
| Effect of preferred enterprise tax rate in Israel (less non - manufacturing activities) | (153) | (58) | (22) |
| Non allowable expenses | 2 | 2 | 2 |
| Temporary differences | (115) | 149 | 115 |
| Miscellaneous | 19 | (37) | (23) |
| Tax on income | <u>287</u> | <u>223</u> | <u>131</u> |

NOTE 18 - SEGMENTS:

The chief operating decision maker (CODM) monitors the operating results of the Group at a unified level. The Group is engaged only in digital weighing operations and therefore has one operating segment.

Additional information about revenues:

Revenues from major customers each of whom amount to 10% or more of total revenues reported in the financial statements:

| | <u>Year ended December 31, 2017</u> | <u>Year ended December 31, 2016</u> | <u>Year ended December 31, 2015</u> |
|------------------------------|---|---|---|
| Customer A | 2,845 | 2,604 | 2,411 |
| Others (non-major customers) | <u>15,376</u> | <u>12,925</u> | <u>13,873</u> |
| Total revenues | <u>18,221</u> | <u>15,529</u> | <u>16,284</u> |

SHEKEL SCALES 2008 LTD.
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NOTE 19 - COMITMENTS AND CONTINGENT LIABILITIES:

Liability for royalties payable

The Group is committed to pay royalties to the Israeli government on proceeds from sales of products in China. Under the terms of the Israeli government funding program, the Group will pay royalties of 3% of the increase in sales. The royalties' payment shall not exceed 100% of the grant received. As of December 31, 2017, 2016, and 2015, the liability for royalties payable is 20, 18 and 18 respectively.

Liens and guarantees

To ensure the bank liabilities, fixed liens have been registered on the Company's non-redeemable share capital and on its goodwill. There is also a general lien on all Company property, its factory and all other assets and rights of any kind or type that the Company currently has or will have in the future. Furthermore, there is a first-degree floating lien on all Company assets of any kind or type, as they exist or will exist in the future, on the Company's goodwill and on all rights stemming from the insuring of the property subject of the lien.

Leases

The Group leases its offices & vehicles and under an operating lease agreement. The total future value of minimum lease payments is due as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|------------------------------|------------------------------|------------------------------|
| Not later than one year | 316 | 255 | 301 |
| Later than one year and not later five years | <u>943</u> | <u>859</u> | <u>862</u> |
| | <u>1,259</u> | <u>1,114</u> | <u>1,163</u> |

SHEKEL SCALES 2008 LTD.
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NOTE 20 - RELATED PARTIES AND SHAREHOLDERS:

The following transactions arose with related parties:

| Transaction - expenses (income) | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|---|
| Salary expenses – Kibbutz Beit Keshet members (shareholder) | 211 | 199 | 202 |
| Rental fees for Kibbutz Beit Keshet (shareholder) | 182 | 170 | 165 |
| Wages for directors | 104 | 98 | 96 |
| Management fees | 376 | 306 | 303 |
| Interest expenses to shareholders | 20 | 12 | 11 |
| Interest income from shareholders | (20) | (17) | (10) |
| Services for shareholder | - | (22) | - |

Receivables from related parties

| Name | Nature of transaction | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|-----------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Related parties | Loans to shareholders | 929 | 837 | 313 |
| Related parties | Ongoing transactions | 28 | 3 | 54 |
| Total | | 957 | 840 | 367 |

Liabilities to related party

| Name | Nature of transaction | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|-----------------|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Related parties | Short term loan from shareholders | (417) | (358) | (230) |
| Related parties | Ongoing transactions | (75) | (66) | (65) |
| Total | | (492) | (424) | (295) |

SHEKEL SCALES 2008 LTD.
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NOTE 21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

The Group is exposed to a variety of financial risks, which results from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial performance and position. The Group's financial instruments are its cash, trade accounts receivable and other accounts receivable, trade accounts payables and other accounts payables and loans. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Group's financial instruments are mainly credit risk and currency risk. The risk management policies employed by the Group to manage these risks are discussed below.

Credit risk:

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances. The Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the statement of financial position net of doubtful debt provisions estimated by the management based on prior year experience and an evaluation of prevailing economic circumstances. Wherever possible and commercially practical the Group holds cash with major financial institutions In Israel.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------|------------------------------|------------------------------|------------------------------|
| Cash and cash equivalents | 1,725 | 1,542 | 1,315 |
| Short term investments | 330 | 338 | 325 |
| Trade accounts receivable | 5,299 | 4,018 | 4,122 |
| Other accounts receivable | <u>379</u> | <u>239</u> | <u>387</u> |
| Total | <u><u>7,733</u></u> | <u><u>6,137</u></u> | <u><u>6,149</u></u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the NIS, Euro and CNY. The Group's policy is not to enter into any currency hedging transactions.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| Assets | December 31, 2017 | | | |
|---|---------------------------|-----------------------|-------------------------|---------------------------|
| | NIS | EURO | CNY | TOTAL |
| Cash and cash equivalents | 191 | 225 | 7 | 423 |
| Trade accounts receivable | 2,474 | 877 | 23 | 3,374 |
| Other accounts receivable | 159 | 134 | 37 | 330 |
| Loans to related parties | 929 | - | - | 929 |
| | <u>3,753</u> | <u>1,236</u> | <u>67</u> | <u>5,056</u> |
| | | | | |
| Liabilities | NIS | EURO | CNY | TOTAL |
| Short term loans and current portion of long term loans | 4,455 | 1 | - | 4,456 |
| Trade accounts payable | 931 | 118 | 99 | 1,148 |
| Other accounts payable | 1,645 | 186 | 33 | 1,864 |
| Employee benefit liabilities | 31 | - | 170 | 201 |
| Liability for royalties payable | 20 | - | - | 20 |
| | <u>7,082</u> | <u>305</u> | <u>302</u> | <u>7,689</u> |
| Net | <u>(3,329)</u> | <u>931</u> | <u>(235)</u> | <u>(2,633)</u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (Cont.):

| Assets | December 31, 2016 | | | |
|---|--------------------------|---------------------|---------------------|-----------------------|
| | NIS | EURO | CNY | TOTAL |
| Cash and cash equivalents | 231 | 685 | 75 | 991 |
| Trade accounts receivable | 2,026 | 718 | 19 | 2,763 |
| Other accounts receivable | 105 | 39 | 2 | 146 |
| Loans to related parties | 837 | - | - | 837 |
| | <u>3,199</u> | <u>1,442</u> | <u>96</u> | <u>4,737</u> |
| Liabilities | | | | |
| | NIS | EURO | CNY | TOTAL |
| Short term loans and current portion of long term loans | 4,004 | 5 | - | 4,009 |
| Trade accounts payable | 770 | 116 | 211 | 1,097 |
| Other accounts payable | 1,136 | 59 | 140 | 1,335 |
| Long term loans | 254 | - | - | 254 |
| Employee benefit liabilities | 28 | - | 72 | 100 |
| Liability for royalties payable | 18 | - | - | 18 |
| | <u>6,210</u> | <u>180</u> | <u>423</u> | <u>6,813</u> |
| Net | <u>(3,011)</u> | <u>1,262</u> | <u>(327)</u> | <u>(2,076)</u> |

SHEKEL SCALES 2008 LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US Dollar in thousands)

NOTE 21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Currency risk (Cont.):

| Assets | December 31, 2015 | | | |
|---|-----------------------|-------------------|---------------------|-----------------------|
| | NIS | EURO | CNY | TOTAL |
| Cash and cash equivalents | 305 | 377 | 65 | 747 |
| Trade accounts receivable | 1,944 | 666 | - | 2,610 |
| Other accounts receivable | 73 | 101 | 112 | 286 |
| Loans to related parties | 313 | - | - | 313 |
| | <u>2,635</u> | <u>1,144</u> | <u>177</u> | <u>3,956</u> |
| Liabilities | | | | |
| | NIS | EURO | CNY | TOTAL |
| Short term loans and current portion of long term loans | 3,823 | 14 | - | 3,837 |
| Trade accounts payable | 1,160 | 86 | 505 | 1,751 |
| Other accounts payable | 1,055 | 250 | 108 | 1,413 |
| Long term loans | 442 | - | - | 442 |
| Employee benefit liabilities | 28 | - | 65 | 93 |
| Liability for royalties payable | 18 | - | - | 18 |
| | <u>6,526</u> | <u>350</u> | <u>678</u> | <u>7,554</u> |
| Net | <u>(3,891)</u> | <u>794</u> | <u>(501)</u> | <u>(3,598)</u> |

Sensitivity analysis:

A 10% strengthening of the United States Dollar against the following currencies would have increased (decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

| | Year ended December 31, 2017 | Year ended December 31, 2016 | Year ended December 31, 2015 | |
|------|---------------------------------|---------------------------------|---------------------------------|---|
| NIS | (333) | (301) | (389) | NO TE 21 - FI NA NC IA L |
| Euro | 93 | 126 | 79 | |
| CNY | <u>(24)</u> | <u>(33)</u> | <u>(50)</u> | |
| | <u>(263)</u> | <u>(208)</u> | <u>(360)</u> | |

INSTRUMENTS AND RISK MANAGEMENT (CONT.):

Shekel Scales 2008 Ltd.

Written representation of the Board of Directors regarding an audit of the consolidated financial statements as of December 31, 2017, 2016 and 2015.

Date: June 26, 2018

To:
BDO Ziv Haft, Certified Public Accountants
Derech Menachem Begin 48
Tel Aviv 6618001

Re: **Written Representation of the Board of Directors on consolidated financial statements of Shekel Scales 2008 Ltd. as of December 31, 2017, 2016 and 2015 and for the three years then ended**

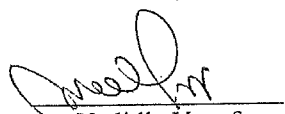
1. This written representation is provided in connection with your audit of the consolidated financial statements of Shekel Scales 2008 Ltd. (the "Company"), which include the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and statements of cash flows for each of the three years ended on December 31, 2017, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with the International Financial Reporting Standards (IFRS).
2. We hereby confirm that, with regards to:
 - A. The consolidated financial statements:
 - We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 20, 2017, for the preparation and the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).
 - We understand that your audit of the consolidated financial statements was performed in accordance with International Standards on Auditing (ISAs).
 - Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
 - Balances and transactions with controlling shareholder, related party and principal shareholder have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards (IFRS).
 - All events occurring subsequent to the date of the consolidated financial statements and up to the date of their signing, with respect to International Financial Reporting Standards (IFRS) which require adjustment or disclosure, have been adjusted or disclosed.
 - The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole. Appendix A includes a list of audit adjustments that were not implemented.
 - During or subsequent to the reporting period or until the date of signing the consolidated financial statements, no events have occurred or have been discovered that indicate possible difficulties in the continuation of the Company's activity, which cast significant doubt on its ability to continue its activity as a "going concern".

3. Information Provided

- For the purpose of audit Company's Reports, we have provided you with:
 - Access to all information:
 - Which we are aware is relevant to the preparation of the Company's Reports, such as records, documentation and other matters.
 - Which might have a material impact on the Company's Reports.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the company from whom you determined it was necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the Company's Reports.
- We have disclosed to you the results of our assessment of the risk that the Company's Reports may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the company and involves:
 - Members of the board of directors and/or Management;
 - Employees who have significant roles in internal control; or
 - Others-where the fraud could have a material effect on the Company's Reports.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Company's Reports, reported by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Company's Reports.
- We have brought to your attention all significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting that could reasonably adversely affect the Company's ability to collect, process, summarize or report financial information in such a manner as to cast doubt on the reliability of financial reporting in accordance with the law.
- We have disclosed to you the identity of the company's controlling shareholder, the company's principal shareholder and related parties and all the balances and transactions which were executed with the aforesaid which we are aware of.



Barak Nir
Member of the Board



Yedidia Yosef
Chief Executive Officer

| Total according to financial statements | # of Journal Entries | Description | Account Number | Working Paper Ref. | Suggested Journal entry USD | | Impact on balance sheet | | | | Impact on profit and loss | | | | | | | | | |
|---|----------------------|-------------|----------------|--------------------|-----------------------------|--------|----------------------------|---------------------------------|-------------------------------------|---|---------------------------|-------------------|---|---|-----------|--|--|--|--|--|
| | | | | | Debit | Credit | Assets Increase (Decrease) | Liabilities Increase (Decrease) | Working Capital Increase (Decrease) | equity attributed to the controlling shareholders of the parent company | Gross profit | Profit before tax | Net income attributed to the controlling shareholders of the parent company | Comprehensive income attributed to the controlling shareholders of the parent company | | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| | | | | | | 23,040 | 23,040 | 14,456,000 | 8,235,000 | 3,536,000 | 5,918,000 | 7,256,000 | 2,226,000 | 1,904,000 | 1,857,000 | | | | | |
| | | | | | | | | - | 23,040 | (23,040) | (23,040) | - | - | (23,040) | (23,040) | | | | | |
| | | | | | | | | 14,456,000 | 8,258,040 | 3,512,960 | 5,894,960 | 7,256,000 | 2,226,000 | 1,880,960 | 1,833,960 | | | | | |

Total suggested journal entries
Total after effect of audit adjustments not implemented

Shekel Scales 2008 Ltd.

Written representation of those authorized to sign the consolidated financial statements regarding the audit of the consolidated financial statements as of December 31, 2017, 2016 and 2015

Date: June 26, 2018

To
BDO Ziv Haft, Certified Public Accountants
Derech Menachem Begin 48
Tel Aviv 6618001

Re: **Written representation of those authorized to sign the consolidated financial statements on consolidated financial statements of Shekel Scales 2008 Ltd. as of December 31, 2017, 2016 and 2015 and for the three years then ended**

1. This written representation is provided in connection with your audit of the consolidated financial statements of Shekel Scales 2008 Ltd. (the "Company"), which include the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and statements of cash flows for each of the three years in the period ended on December 31, 2017, for the purpose of expressing an opinion as to whether the consolidated financial statements are presented fairly, in all material respects, in accordance with the International Financial Reporting Standards (IFRS).
2. We hereby confirm that, with regards to:
 - A. The consolidated financial statements:
 - We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 20, 2017, for the preparation and the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).
 - We are responsible for the consolidated financial statements.
 - We understand that your audit of the consolidated financial statements was performed in accordance with International Standards on Auditing (ISAs).
 - We know that the audit includes a sample examination of evidence supporting the amounts and disclosures in the consolidated financial statements, an examination of the accounting principles used and significant estimates made by us, and an evaluation of the overall consolidated financial statement presentation. We also know that due to the sample nature of the audit and its other inherent limitations, together with the inherent limitations of any control and reporting system, there is an undeniable risk that a material misstatement in the consolidated financial statements has not been revealed, even though the audit was planned and performed properly in accordance with International Standards on Auditing (ISAs).
 - We know that the audit of consolidated financial statements does not constitute an investigation aimed at exposing possible fraud (including misappropriation, embezzlement, forgery, concealment, etc.), and does not include specific means, methods and procedures used in such an investigation and we acknowledge that we are aware that the fact that the risk

that a material misstatement due to a fraud in the consolidated financial statements will not be discovered is even greater than the risk that a material misstatement due to an error will not be discovered.

- We are responsible for the internal control system, which we determine is necessary to enable preparing consolidated financial statements which are free from materially misstated, whether due to an error or due to fraud.
- We are responsible for designing and implementing internal control system that should prevent and identify fraud.
- The accounting policy adopted and implemented in the consolidated financial statements is adequate, including:
 - When choosing the accounting alternatives which needed to be applied in the consolidated financial statements on all those matters for which the International Financial Reporting Standards (IFRS) have not explicitly stated the guidelines, we have exercised proper judgment based on the principles set forth in the IFRS.
 - The transactions executed by the Company were expressed in the consolidated financial statements in accordance with the economic nature of the transactions.
- To the best of our knowledge and belief, after we have made the necessary inquiries in order to have all the appropriate knowledge, the provisions included in the consolidated financial statements are appropriate.
- The consolidated financial statements include the necessary sufficient provisions for onerous contracts or losses that may arise in the execution of the Company's commitments or because of its inability to execute its contacts.
- The expenses included in the reporting period were expensed solely for the Company's needs.
- Revenues related to the reported year are included in the financial statements on a cumulative basis. The revenues belong solely to the Company and do not belong to others.
- We affirm the contents of the draft of the reconciliation of the computation of the estimated tax that you relied upon for the purpose of auditing certain items included in the financial statements and the notes.
- The Company has insurance coverage that is suitable for the scope of its business and its liabilities, directly and indirectly.
- The basis for the contradiction of the fair value assumption as determined in IFRS, with respect to those accounting estimates that were not measured at fair value or in situations where the fair value was not disclosed, is appropriate.
- The disclosures relating to the accounting estimates are complete and appropriate in accordance with IFRS.
- The assumptions used in accounting estimates and disclosures adequately reflect our intention and ability to take special action in the name of the Company.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- The measurement processes, including assumptions and related models used by us in determining accounting estimates in the context of IFRS are appropriate and have been consistently applied.
- Transactions executed with a Controlling shareholder, Related party and / or Principal shareholder do not include side agreements that have not been disclosed.
- Balances and transactions with Related party have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards (IFRS).
- All events occurring subsequent to the balance sheet date and up to the date of the consolidated financial statement were sign, for which the IFRS require adjustments or disclosure, including adjustments of financial estimates, have been appropriately treated.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. Appendix A includes a list of audit adjustments that were not implemented.
- All written and oral liabilities known to the Company as of the balance sheet date are presented in the consolidated financial statements and there are no contingent liabilities (such as guarantees, claims, tax payment requirements for previous years, purchase back commitments, sales at undetermined prices, checks and banknotes etc.) except as noted in the consolidated financial statements.
- The effects of all legal proceedings and existing or potential claims have been treated and disclosed in accordance with IFRS.
- The consolidated financial statements were prepared based on "going concern" assumption. During the reporting period or subsequent to this period and until the date of signing the consolidated financial statements, no events have occurred or have become known that indicate possible difficulties in the continuation of the Company's activity, which cast significant doubt on its ability to continue as a going concern.
- **Fair value:**
 - When the consolidated financial statements require the use of an expert's work, (e.g. valuations etc.) in connection with the various items in the consolidated financial statements, including the notes, the expert is professionally certified / licensed by an appropriate professional body and reputable and has the experience required to perform the work. The consolidated financial statements reflect this work properly and in accordance with the required rules.
 - The data provided to the expert are complete, accurate, relevant, etc., all in accordance with the expert's instructions.
 - The measurement methods, including the related assumptions, used by us in determining the fair value are consistent, appropriate and acceptable, and in accordance with the relevant framework for the Company's financial reporting.
 - The consolidated financial statements provide proper disclosure, if necessary, to fair value, in accordance with the financial reporting framework applicable to the Company.
 - In these consolidated financial statements, the Company implemented the guidance of International Accounting Standard No. 36 of the International Accounting Standards Board regarding *impairment of assets* ("IAS 36"). We are not aware of any assets for

which there is evidence of impairment that was not brought to your attention and therefore, as of the balance sheet date, the Company did not record a provision for impairment of its assets in the consolidated financial statements.

- **Commitments:** The Company has no material commitments (for purchase or sale) that were not brought to your attention.
- The Company has no commitments to acquire investments in other companies (including shares that were not yet signed and paid), except for those disclosed in the financial statements.
- The Company has no commitments to build or acquire assets or equipment, nor are there any commitments to sell assets, except as disclosed in the financial statements.

- **Segments:** The Group's operating segments were identified in accordance with the guidance set out in International Financial Reporting Standard 8, with emphasis on the "management approach" in this matter.

- There are no pending and outstanding claims or legal proceedings against the Company which have not been properly disclosed to you and in the financial statements if required.

- The liabilities and provisions in respect of employee rights, including pension liability, severance pay, and severance pay under special circumstances, cover the Company's liability, as disclosed in the notes to the financial statements. The Company's provisions in respect of the accrued vacation, and convalescence pay of its employees are covered in full by its liabilities.

- **Fixed assets**
- Fixed assets do not include assets that were sold, destroyed, or abandoned, or assets that cannot be used.
- The provision for depreciation was computed consistently, in accordance with the principles used to compute depreciation in the prior year, while taking into account the estimated useful life of the assets on which depreciation was computed.

- **Other information:**
- There is no material discrepancy between facts included in the "other information" and information included in the audited financial statements of the Company.

- There is no material misstatement of facts in the "other information" and information included in the audited consolidated financial statements of the Company.

3. Information provided and completeness of transactions and events

- For the purpose of the Company's Reports, we have provided you with:
 - Access to all information:
 - Which we are aware is relevant to a proper preparation and presentation of the Company's Reports, such as records, documentation and other matters.
 - Which might have a material impact on the Company's Reports.
 - Additional information that you have requested from us for the purpose of the audit; and

- Unrestricted and direct access to persons within the Company, and to the Company's advisors or external experts as well as to other outsourced personnel within the Company, from whom you determined it was necessary to obtain information and/or audit evidence.
- We have provided you with all of the minutes of shareholders' meetings, meetings of the Board of Directors and Board of Directors committees, and a record of decisions and discussions from recent meetings for which minutes have not yet been prepared.
- We have provided you with all draft reports and reports of the internal auditor.
- We have brought to your attention all the deficiencies in internal control that we are aware of.
- We have brought to your attention that all balances, transactions and events have been recorded in the accounting records and are properly reflected in the consolidated financial statements.
- We have disclosed to you the results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Members of the board of directors and/or Management;
 - Employees who have significant roles in internal control; or
 - Others - where the fraud could have a material effect on the consolidated financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Company's consolidated financial statements reported by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated financial statements.
- We have disclosed to you the identity of the Company's Related Parties and all the related party relationships and transactions of which we are aware.
- We have brought to your attention that all assets and liabilities, including contingent liabilities, have been included and measured appropriately in the consolidated financial statements.
- We have brought to your attention that we have no plans that may materially affect the carrying amount or classification of assets and liabilities that have not been reflected in the consolidated financial statements.
- No collateral were imposed on the Company's assets other than those that were brought to your attention, and which have been properly disclosed in the consolidated financial statements.
- We have proper documents of ownership in respect of the Company's assets.
- There are no restrictions on the use of cash balances in banks or other assets other than those that have been brought to your attention and which have been properly disclosed in the consolidated financial statements.
- We have brought to your attention all legal proceedings and known or potential claims (whether the Company is the defendant or the plaintiff) whose effects should be considered in the preparation of the consolidated financial statements and we have not received any legal advice regarding any legal proceedings or claims that we have not brought to your attention.
- We have brought to your attention all conductance with the Securities Authority, the Stock Exchange and other Regulators.
- We have brought to your attention all notices received from regulatory authorities regarding the Company's Reports.
- We have brought to your attention all information regarding the breach of financial covenants relating to the Company's debt.
- We undertake to update you, without delay, whenever any matter comes to our attention after the date of our signature on this declaration and appears to be contrary to the contents of this declaration.

We have been informed by you that there are control weaknesses that may cause fraud, forgery and embezzlement and we intend to address it.

We undertake not to distribute or transmit the above-mentioned Company's reports to external entities without including your auditor's report relating to them.



Barak Nir
Member of the Board



Yedidia Yosef
Chief Executive Officer

Appendix A - list of audit adjustments that were not implemented

31.12.2017

Financial Statements as of:

Shekel Scales 2008 Ltd.

Audited entity

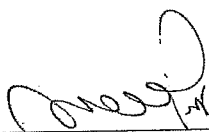
| | # of Journal Entries | Description | Account Number | Working Paper Ref. | Suggested Journal entry USD | | Impact on balance sheet | | | | Impact on profit and loss | | | |
|---|----------------------|---|----------------------|------------------------|-----------------------------|--------|----------------------------|---------------------------------|-------------------------------------|---|----------------------------------|---------------------------------------|---|---|
| | | | | | Debit | Credit | Assets Increase (Decrease) | Liabilities Increase (Decrease) | Working Capital Increase (Decrease) | equity attributed to the controlling shareholders of the parent company Increase (Decrease) | Gross profit Increase (Decrease) | Profit before tax Increase (Decrease) | Net income attributed to the controlling shareholders of the parent company Increase (Decrease) | Comprehensive income attributed to the controlling shareholders of the parent company Increase (Decrease) |
| | | | | | | | | | | | | | | |
| Total according to financial statements | | | | | | | 14,456,000 | 8,235,000 | 3,536,000 | 5,918,000 | 7,256,000 | 2,226,000 | 1,904,000 | 1,857,000 |
| Audit adjustments in the current period | 1 | Current tax expenses updates (due to decrease in G&A issuance expenses) | Current tax expenses | Other accounts payable | 23,040 | - | - | - | - | - | - | - | (23,040) | (23,040) |
| | | | Provision for tax | | - | - | - | 23,040 | (23,040) | (23,040) | - | - | - | - |
| Audit adjustments not transferred in prior periods that affect the current period | | | | | | | | | | | | | | |

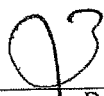
| | # of Journal Entries | Description | Account Number | Working Paper Ref. | Suggested Journal entry USD | | Impact on balance sheet | | | | Impact on profit and loss | | | | |
|---|----------------------|-------------|----------------|--------------------|-----------------------------|--------|----------------------------|---------------------------------|-------------------------------------|---|----------------------------------|---------------------------------------|---|---|-----------|
| | | | | | Debit | Credit | Assets Increase (Decrease) | Liabilities Increase (Decrease) | Working Capital Increase (Decrease) | equity attributed to the controlling shareholders of the parent company Increase (Decrease) | Gross profit Increase (Decrease) | Profit before tax Increase (Decrease) | Net income attributed to the controlling shareholders of the parent company Increase (Decrease) | Comprehensive income attributed to the controlling shareholders of the parent company Increase (Decrease) | |
| Total according to financial statements | | | | | | 23,040 | 23,040 | 14,456,000 | 8,235,000 | 3,536,000 | 5,918,000 | 7,256,000 | 2,226,000 | 1,904,000 | 1,857,000 |
| | | | | | | | | | | | (23,040) | | | (23,040) | (23,040) |
| | | | | | | | | 14,456,000 | 8,258,040 | 3,512,960 | 5,894,960 | 7,256,000 | 2,226,000 | 1,880,960 | 1,833,960 |

Total suggested journal entries
Total after effect of audit adjustments not implemented

SHEKEL SCALES 2008 LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(US Dollar in thousands)

| | Note | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|------|----------------------|----------------------|----------------------|
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities: | | | | |
| Short term loans and current portion of long term loans | 10 | 4,628 | 4,170 | 3,912 |
| Trade accounts payable | | 1,394 | 1,221 | 1,928 |
| Other accounts payable | 9 | <u>1,992</u> | <u>1,456</u> | <u>1,315</u> |
| | | <u>8,014</u> | <u>6,847</u> | <u>7,155</u> |
| Non-Current Liabilities: | | | | |
| Long term loans | 10 | - | 254 | 442 |
| Employee benefit liabilities | | 201 | 100 | 93 |
| Liability for royalties payable | 19 | <u>20</u> | <u>18</u> | <u>18</u> |
| | | <u>221</u> | <u>372</u> | <u>553</u> |
| Shareholders' Equity: | | | | |
| Equity attributable to owners of the parent: | | | | |
| Share capital | 12 | 1,796 | 1,796 | 1,278 |
| Foreign exchange reserve | | 1 | 48 | 24 |
| Retained earnings | | <u>4,121</u> | <u>2,237</u> | <u>1,855</u> |
| | | <u>5,918</u> | <u>4,081</u> | <u>3,157</u> |
| Non - controlling interest | | <u>303</u> | <u>246</u> | <u>205</u> |
| Total Shareholders' Equity | | <u>6,221</u> | <u>4,327</u> | <u>3,362</u> |
| Total Liabilities And Equity | | <u>14,456</u> | <u>11,546</u> | <u>11,070</u> |


Yedidia Yossef
CEO


Barak Nir
Member of the Board

June 26, 2018
Date of approval of financial statements

The accompanying notes are an integral part of the financial statements.

