



ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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CORPORATE INFORMATION

FULL NAME

B.S.D Crown Ltd

LOCATION

7 Menachem Begin Road, Gibor Sport Tower, (8th floor), Ramat Gan 5268102, Israel

Tel: +972 (3) 7401770 Fax: +972 (3) 7401780

WEB SITE

www.bsd-c.com

E-MAIL

Joseph Williger Yossi@ydekel.co.il

AUDITOR TO B.S.D CROWN LTD

BDO Ziv Haft

www.bdo.com

CHAIRMAN STATEMENT

CAUTIONARY STATEMENT

This Chairman's Statement and the Business Review have been prepared solely to provide additional information to shareholders to assess B.S.D Crown Ltd's (the "Company" or "BSD") strategies and the potential for those strategies to succeed. These reports should not be relied on by any other party or for any other purpose. The Chairman's Statement and Business Review may contain certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

HIGHLIGHTS FOR THE PERIOD ENDING 31 DECEMBER 2018

The following sections reflect the position of the Company as at 31 December 2018 as well as several updates relating to the period from 1 January 2019 until the date of this report:

Financial Highlights

1. The Company's consolidated financial statements have been prepared, in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**");
2. The Company's consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.
3. Primary assets as at 31 December 2018 and to the date of this report:
 - approximately a 62 per cent interest in Willi-Food Investments Ltd ("**WFI**"), which operates in the import, marketing and distribution of several hundred food products (mainly in Israel) and is listed on the Tel Aviv Stock Exchange (the "**Food Activity**" and "**TASE**", respectively) and an approximately 44 per cent direct and indirect (held through WFI) interest in G. Willi-Food International Ltd ("**WFINT**", and, together with WFI, "**Willi-Food**"), an Israeli company listed on NASDAQ.
4. The Company through Willi-Food continued to generate a positive cash flow from operating activities, and as of the end of the reporting period has short term deposits and financial assets of NIS 289 million, which include:
 - NIS 140 million in cash, short term bank deposits and financial assets with an original maturity of three months from 31 December 2018; and
 - NIS 149 million in financial assets as shares, bonds and mutual funds with high liquidity.
5. Revenues for the year ending 31 December 2018 totalled NIS 338.2 million (2017: NIS 312.3 million) and income from continued operations totalled NIS 20.5 million (2017: NIS 6.4 million). The income in 2018 was, mainly, attributed to operating gain of NIS 27.8 million and from finance net loss of NIS

0.9 million which mainly due to loss from financial assets in the net amount of NIS 14.2 million deducting gain from foreign bond, interest and dividend from financial assets held in trading in the total amount of NIS 10.9 million and gain from foreign exchange rate in the amount of NIS 3 million.

Shareholding Highlights

6. The total number of issued shares of the Company as at 31 December 2018 was 140,578,154 of which 129,340,252 ordinary shares were outstanding, and 11,237,902 shares were held in treasury. For further information with respect to the sale of treasury share in August 2017 see Note 20(A)(2) to the consolidated financial statements.
7. The trading of Company's shares was temporarily suspended from 29 April 2016 until 13 December 2017 due to delay in publishing the financial statements reports as a result of events made in the past with respect to foreign bank deposits as described in Note 26(B) to the consolidated financial statement.
8. Since 5 May 2017 the Company is controlled by Mr. Joseph Williger after all its previous directors (excluding the external director) were replaced by directors who nominated by Mr. Joseph Williger.

Other Highlights

9. On 5 June 2018, the former Auditors of the Company, Deloitte, submitted to the Company a letter of resignation. This resignation was in response to the Company's announcement dated 28 May 2018, pursuant to which the Board has resolved to submit a motion of claims against the past Auditors as part of the Derivative Claim that was filed by Company's shareholder on 4 July 2016, for further information see Note 18(A)(4) to the consolidated financial statements. Following the resignation an Extraordinary General Meeting was held on 23 July 2018 and the Company appointed BDO Ziv Haft as its independent auditor.
10. On 15 January 2018 an indictment was filed at the economic department of the Tel Aviv District Court, against the former ultimate controlling shareholders of the Company, Mr. Alexander Granovsky and Mr. Gregory Gurtovoy and against the former Chief Executive Officer of the Company, Mr. Israel Jossef Schneorson (together herein, the "**Accused**").

According to the indictment the Accused used the deposits of the Company's and its parent company, BGI Investments (1961) Ltd., that were deposited in foreign banks, as collateral for loans taken by private companies related to the Accused, without having received applicable approvals by law. According to the indictment, the total amount of the misappropriated funds by the Accused, is USD 60 million.

The indictment attributes to the Accused to the following infringements: theft by officer, fraudulent conversion, fraud and breach of trust, falsification of corporate documents, breaches of reporting obligations under the Israeli Securities Authority Law, non-compliance with the provisions of the Israel Securities Authority with respect to misleading reasonable investors and offenses under section 4 of the Israeli Money Laundering Law.

On 7 January 2019 Mr. Gurtovoy and Mr. Schneorson were convicted in a plea bargain (the "**Plea Bargain**") reached under an amended indictment.

Under the Plea Bargain, Mr. Gurtovoy and Mr. Schneorson were convicted of various offenses under the Israeli Securities Law and the Israeli Penal Law as described above.

It has also come to the Company's attention (through public press releases) that the Plea Bargain includes 36 months imprisonment to Mr. Schneorson and 31 months imprisonment to Mr. Gurtovoy as well as a NIS 1.2 million fine. On 7 February 2019, the district court approved the Plea Bargain.

The Company wishes to clarify that the Accused no longer hold any positions in the Company and / or any of its subsidiaries.

BUSINESS REVIEW

This Business Review is designed to provide a fair review of the business of the Company during the financial period ended 31 December 2018 as well as several updates relating to the period from 1 January 2019 until the date of this report. It has been prepared for the Company as a whole and therefore gives greater emphasis to those matters which are significant to the Company and to its subsidiary undertakings when viewed as a whole. A description of the principal risks and uncertainties facing the Company can be found at the end of this section.

The Company was incorporated in Israel on 19 January 1994. We maintain our principal executive offices at 7 Menachem Begin Road, Gibor Sport Tower (8th floor), Ramat Gan 5268102, Israel and our telephone number is +972 (3) 740 1770. BSD completed the initial public offering of its ordinary shares on the alternative investment market of the London Stock Exchange in October 1996 and thereafter completed a listing on the Official List of the London Stock Exchange in 1998.

BUSINESS OPPORTUNITIES

The Company's management team is determined to change the Company's past business trajectory and to continue to actively seek to utilise the Company's resources in order to maximise value for its shareholders.

The Company intends to be continued its actively involvement in the management of Willi-Food and to improve the results and profitability of Willi-Food, which should create a value for the Company and its shareholders.

PREVAILING LITIGATION

- A. Pursuant to a motion to certify a derivative action that was filed on 19 July 2016, the Company has filed on 21 June 2018 a claim against its past directors, the former controlling shareholder and Company's former auditors.

In the motion it was claimed that an amount of approximately NIS 163 million, which was deposited by the Company with foreign banks and car agency, had been unlawfully pledged in favor of private companies that are related to the former controlling shareholders of the Company. For further information see Note 18(A)(4) to the consolidated financial statement.

- B. In October 2014, the Company and several of its past directors and officers were joined as direct defendants by one of the creditors of Mr Eli Reifman, one of the founders and a former director of the Company, who filed an attorney's claim. As part of Mr Reifman fiduciary and regulatory obligations, Mr Reifman was required to timely report to the Company of changes in his shareholding. All reports of Mr Reifman were duly reflected in the Company's reports, respectively. Mr Reifman's creditors assert reliance on information provided by the Company with respect to his shareholdings as reported by him to the Company. Some of the claims were directed at the Company, and also named some of its past

directors and officers as defendants. As of the date of the approval of these financial statements, the legal procedures have ended. The procedure is waiting for judge decision. For further information see Note

- C. 18(A)(1) to the consolidated financial statement.

WFI Group Legal proceedings

- C. In January 2015, a lawsuit was lodged in the court of first instance in Valencia against and against G. Willi-Food International Ltd. and its subsidiary, Gold Frost Ltd. (hereafter – “Gold Frost”), (hereafter – “the Companies”) by a Spanish food manufacturer (hereafter – “the Plaintiff”), with whom Gold Frost entered into an agreement for the production of Kosher food products in Spain and for the sale of these products by Gold Frost. The lawsuit was lodged in connection with a financial dispute in respect of a debt which was allegedly not paid to the Plaintiff; the Plaintiff also demands that the Companies compensate it for products it had produced and which, according to the statement of claim, were not collected by the Companies, and as a result the Plaintiff had to destroy them. On 1 October 2018, the parties sign on settlement agreement. According to the agreement Gold Frost will pay the amount of EURO 150 thousand in exchange for dismissal all claims. On 22 October 2018, the court in Valencia approved the settlement agreement. For further information see Note 18(B)(1) to the consolidated financial statement.
- D. On 27 July 2017 a labor claim was filed by Mr. Iram Graiver, former CEO of WFINT and president of WFINT, against WFINT to the Regional Labor Court in Tel-Aviv in the amount of approximately NIS 2.4 million with respect to the termination of his employment. On 27 July 2017 WFINT filed a counterclaim against the employee, with respect to disbursement of funds without having received the requisite approvals in accordance with applicable law, in the amount of approximately NIS 1.7 million. The parties are currently at the stage of documents disclosure. For further information see Note 18(B)(3) to the consolidated financial statement.
- E. On 3 January 2018, WFINT was served with a lawsuit and a motion to certify it as a class action to the District Court, in the cause of unlawful labeling of products imported and sold by WFINT in a way that allegedly misleads the public of consumer. The total amount of the claim is currently NIS 2.7 million. On July 18, 2018, the District Court approved the compromise agreement and the withdrawal of the lawsuit. For further information see Note 18(B)(5) to the consolidated financial statement.
- F. On 26 March 2018, a lawsuit was filed to the Tel-Aviv District Court together with an application to approve the lawsuit as a class action against WFINT for allegedly breaching consumer protection obligations in connection with one of its products, thereby allegedly misleading the consumers. At this stage, the amount claimed is NIS 2.7 million since the party that filed the application does not have data as to the extent of the damage. On 19 December 2018 a preliminary hearing was held. Another hearing was not scheduled yet. For further information see Note 18(B)(6) to the consolidated financial statement.
- G. On February 24, 2016, a motion to certify a class action claim (the "Motion") was received at the WFI's offices. The motion was submitted to the Economic Division of the District Court in Tel Aviv by the Yaad Pe'er Management Services Ltd. (the "Petitioner") company, which claims it holds shares in WFI. The lawsuit is against all of WFINT's directors as well as officers in WFINT (" Defendants"). The WFI and WFINT were joined as respondents to the motion. The certification motion deals with the Petitioner's claim of damages incurred by WFI, which are assessed by the Petitioner at the filing of the motion, at approximately USD 3 million because of claimed breaches of the duties of faith, care, and skill, by the directors and officers toward WFI in connection with an investment in the sum of

USD 3 million in a company registered in the Czech Republic, and that holds a hotel in the Czech Republic that is inactive.

On 16 August 2018, WFINT filed a notice whereby it intends to lodge a lawsuit against the office holders in connection with the events which are the subject matter of the derivative action and therefore it is no longer needed to discuss the motion to approve a derivative action. On 4 October 2018, the said motion was stricken out and the case was closed.

Further to above, on November 4, 2018 WFINT filed a NIS 4 million lawsuit against the Company's former controlling shareholder, Mr. Gregory Gurtovoy and against five (former) WFINT directors and senior office holder, Israel Joseph Schneerson, Pavel Buber, Iram Ephraim Graiver, Ilan Menachem Admon and Zalman Vigler (hereafter jointly: the "Defendants"). According to WFINT, the Defendants conspired to cause the use of WFINT's funds as collaterals to loans extended to foreign private companies related to the Company's controlling shareholders on dates which are relevant to the lawsuit without obtaining the required approvals from the WFINT's organs and without issuing the required report to Company's shareholders.

The lawsuit is based on the claim that an agreement signed by WFINT, whereunder it has allegedly invested in the bonds of a Czech company, is not a genuine agreement; rather, it is claimed, the purpose of the agreement was to assist the controlling shareholders (Gregory Gurtovoy and others) to secure private loans extended by the Austrian bank Meindl, while using WFINT's funds for their concealed and inappropriate purposes.

WFINT demands that the Defendants compensate it for the funds that were not refunded to WFINT (in NIS values) plus a compensation at the rate of the alternative yield and a compensation equal to the amounts paid by WFINT to enable the refund of the funds.

A preliminary hearing was held on 31 January 2019 at the Central District Court. During the hearing, the parties were given procedural directives and a further preliminary hearing was scheduled for 13 May 2019.

On 24 January 2019 the Defendants filed statements of defense and various motions (for dismissal of the lawsuit in limine or/ for delay of the proceedings). WFINT is required to reply to the Defendants' motions and file a statement of defense in respect of the counterclaim by 20 March 2019. For further information see Note 18(B)(4) to the consolidated financial statement.

RISK MANAGEMENT

The primary focus areas of the board of directors of the Company (the “**Board**”) include reviewing key risks and uncertainties that it considers to be strategic, operational and financial risks and identifying actions to manage and mitigate those risks. Set out below are the main features of the internal control and risk management system related to Company's financial reporting process.

Having carried out a robust assessment of the principle risk facing the Company, it provides the following information on its principal risks and uncertainties:

RISKS RELATING TO THE GROUP

1. External risks

BSD and its subsidiaries (the “**Group**”) are subject to a number of external risks. The Group defines external risks as those arising from factors that are mainly outside of its control. These risks often result from the nature of the Group’s businesses and the industries in which they operate.

1.1 *Risks associated with changes in customer and health protection, legal and regulatory frameworks*

The Group is subject to extensive regulation, both secular and religious, in Israel and in other countries, in which it and its suppliers are operating, as well as in the countries where its customers are located. These regulations include, inter alia, regulations related to stock exchange requirements, customer and health protection, licensing, tariffs, kosher certification and import/export (quota) policies.

Therefore, changes in any customer and health protection regulations, legal (from both religious and secular perspectives) and regulatory frameworks may affect various areas of the Group's activities, including importation and transportation of products, storage, distribution and sale of products to customers, marketing, labelling and packaging of food products and the eligibility of the products for kosher certification. Accordingly, such changes may increase the Group’s administrative or regulatory compliance costs and in the event that the Group should breach any such regulations, it may incur financial penalties and sanctions such as the withdrawal or recall of products, which may have material and adverse effects on the Group's brands, its reputation, performance and financial situation.

The Ministry of Trade and Industry or the Ministry of Finance of the State of Israel may increase the tariff levels for importing goods, which would have a direct impact on the Company and its financial performance.

1.2 *Risks associated with changes in the global economy and consumer demand*

The Group’s businesses are at risk from changes in the global economy and consumer demand for its products.

Negative prospects for the global economy may affect demand for the Group’s products. Deterioration in the economic situation in Israel may erode the purchasing power of potential consumers and, consequently, the Group may sell fewer products which will have an impact on the Group’s financial results.

The cost of food commodities and other food products is cyclical and subject to market factors which may fluctuate significantly. As a result, the cost to the Group in securing these products is subject to

substantial increases over which the Group has no control. In addition, fuel costs, which represent the most significant factor affecting both utility costs at the Group's facilities and its transportation costs, are subject to significant fluctuations. The Group may not be able to pass on to customers the increased costs associated with the procurement of these products and fuel. Moreover, there has in the past been, and there may in the future be, a delay between incurring such increased costs and passing on such increases to customers. To the extent that increases in the prices of the Group's products cannot be passed on to customers, or there is a delay in doing so, the Group is likely to experience an increase in its costs which may materially reduce the Group's profitability.

Further, there is a delay between the time the Group purchases (or commits to purchase) products from its suppliers until the time the Group sells such products to its customers. Consequently, to the extent that the selling price for goods already purchased (or committed to purchase) decreases during that time, the Group's profitability may be materially reduced.

The Group's success depends on its ability to anticipate the tastes and eating habits of consumers and to offer products suiting their preferences. Consumer preferences change from time to time and the Group's failure to anticipate, identify or react to these changes, the failure to anticipate the tastes and eating habits of consumers generally or the cost of innovation in relation to new products which do not prove popular may result in a reduction of the attraction and potential selling price of the Group's products and/or affect the results and profitability of the Group. Moreover, the Group has to cope with the unpredictability of consumer demand.

1.3 *Credit and market risks*

The Group is exposed to credit risk concentrations since its cash is held in various financial institutions and each of these institutions bears its own credit risk. The Group's cash preservation methods include utilising cash and cash equivalents, short-term deposits, securities and marketable securities (debentures) held in several Israeli and international financial institutions.

With regard to investing cash reserves, the Group holds a portfolio of marketable securities traded on the TASE and international stock exchanges. This portfolio of marketable securities is subject to various market risks resulting from fluctuations in interest rates and foreign currency, exchange rates, price fluctuations and other market risks in Israel and abroad.

A further credit risk to the Group is the risk that customers may default on their payment obligations, which would result in a financial loss to the Group. Such loss may have an adverse effect of the Group's financial position.

1.4 *Foreign exchange risks*

The Group is exposed to fluctuations in the rates of the US Dollar, the Euro and the New Israeli Shekel as against each other. A significant movement in one of these currencies against another could have a material adverse effect on Willi-Food's results of operations and financial condition.

1.5 *Competition risks*

The food distribution business in Israel is highly competitive. The food market in Israel is very price sensitive, barriers to entry in the food market are low and new potential competitors are constantly joining the market.

The Group's major competitors, which include international global brands, are more established than Willi-Food, benefit from greater market and brand recognition and have greater financial and marketing resources and a larger workforce. Competition to obtain shelf space for the Group's branded products with retailers is primarily based on the performance of the Group's product sales relative to its competitors.

The Group faces direct competition from both local manufacturers and wholesalers, as well as from a number of existing importers of food products. Local manufacturers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which the Group is subject.

Competitive pressures could cause the Group to lose market share, which may require it to lower prices, increase marketing expenditures, and/or increase the use of discounting or promotional programmes, each of which would adversely affect profit margins and could result in a decrease in the Group's operating results and profitability.

In addition, in the event the Group further expands its activity in the international food markets, the Group will also face similar competitive issues to those set out above from manufacturers and/or distributors in those locations.

1.6 *Risks associated with the protection of intellectual property rights*

The Group seeks to maintain the efficient protection of its intellectual property rights so as to maintain the respective competitive position of its members. Although the Group has registered trademarks for a number of its brands, including "Willi-Food" and "Gold Frost", there can be no assurance as to the degree of protection that the registration of the Group's trademarks will afford or that the Group's competitors will not infringe the Group's rights.

1.7 *Political risks*

The Group's businesses are at risk from political and military conditions.

The principal companies of the Group are incorporated under the laws of Israel, its principal offices are located in Israel and for the date of this report all of the Group's officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel have a direct influence on the Group. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbours. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially and adversely affect the Group's operations. During the summer of 2014, Israel was engaged in an armed conflict with Hamas, a militia group and political party operating in the Gaza Strip. This conflict involved missile strikes by Hamas against civilian targets in various parts of Israel which negatively affected business conditions in Israel. Ongoing or revived hostilities related to Israel may have a material adverse effect on the Group's business. The recent revolutions and political uncertainty in surrounding countries, including Egypt and Syria, are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries, and have raised concerns regarding security in the wider region and the potential for armed conflict.

Many of the Group's executive officers and employees in Israel are obliged to perform annual military reserve duty in the Israeli Defence Forces and, in addition, may be called to active duty under emergency circumstances at any time. If the current military conflict continues, or a war arises, these individuals could be required to serve in the military for extended periods of time. The Group's operations could be disrupted by the absence for a significant period of one or more of its executive officers or key employees or a significant number of the Group's other employees due to reserve duty. Any disruption in the Group's operations may have a material adverse effect on the Group's business.

The Group's commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Any losses or damages incurred by the Group could have a material adverse effect on its business.

From time to time, pro-Arab organisations in various locations around the world promote local boycotts of products from Israel. Prompted by political, religious or other factors, these and other restrictive laws or policies directed towards Israel and Israeli businesses may affect the Group's financial condition and results of operations.

2. Internal risks

Internal risks are those arising from factors primarily within the control of the Group or its businesses, including those that result from the corporate structure of the Group and its businesses and the way each carries on its business.

2.1 *Risks associated with legal proceedings*

The Group is exposed to legal and financial risks from existing legal disputes and proceedings brought by, amongst others, former employees, directors and customers of the Group to which members of the Group are parties. The Group is, and may in the future be, subject to litigation in the ordinary course of its operations. If such litigation results in fines, payments or damages, or causes reputational damage to the Group or its brand, the Group's business could be materially adversely affected. Significant claims or a substantial number of small claims may also be expensive to defend and may divert time and money away from the Group's operations, which could disrupt the Group's operations and have a material adverse effect on the Group's results and/or financial condition.

2.2 *Risk associated with the availability of key people*

The activities of key people may affect the Group's business. The Group benefits from the activities of certain key people such as Mr. Zvi Williger and Mr. Joseph Williger. There is no key-man insurance policy in place for any Group member. The loss of any such person could harm or delay the plans of the Group either whilst management time is directed to finding suitable replacements (who, in any event, may not be available to the Group) or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of the Group's business.

2.3 *Risks associated with business continuity*

Willi-Food stores most of its products in one main logistics centre warehouse situated in Yavne, Israel. Any interruption to this storage facility, whether by power failure, flooding (including in connection with any hostilities referred to above) or such other event, may have a material adverse impact on the Group's business.

Willi-Food imports the majority of its food products. Consequently, any disruption to the Israeli transport network through industrial action or otherwise may have a material impact on the Willi-Food's ability to source its food products which in turn may affect the Group's financial position and prospects.

The Group holds inventory of basic foodstuffs and other food products based on its expectations of the consumption of these products by its customers. If actual consumption does not meet predictions and the shelf-life of such products expires or the Group cannot otherwise sell such products, there may be material and adverse effects on the Group's reputation. On the other hand, to the extent that the Group does not have adequate inventory of these critical products (due, for example, to an emergency situation or a failure to anticipate the rate of consumption of such products), the Group may not be able to meet the needs of its customers which may adversely affect the Group's potential revenues and its reputation.

2.4 Risks associated with product liability claims for misbranded, adulterated, contaminated or spoiled food products

The Group sells food products for human consumption, which involves risks such as product contamination or spoilage, misbranding, product tampering and mishandling and other adulteration of food products. Consumption of a contaminated, spoiled, misbranded, tampered with, mishandled or adulterated product may result in personal illness or injury. The Group could be subject to claims or litigation relating to an actual or alleged illness or injury, and the Group could incur liabilities that are not insured or that exceed its insurance coverage.

A product that has been actually or allegedly misbranded or becomes adulterated could result in product withdrawals, product recalls, destruction of product inventory, negative publicity and damage to the Group's brands and substantial costs of compliance or remediation. Any of these events, including a significant product liability judgment against the Group, could result in a loss of confidence in its food products, which could have an adverse effect on the Group's brands, its financial performance, reputation and future prospects.

2.5 Risks associated with the Group's dependence on key customers

The Group's main customer, Shufersal Ltd represented 15 per cent of Willi-Food's income for the year ended 31 December 2018. The Group does not have any long-term and/or minimum purchase agreements in place with any of its customers. Accordingly, there is no guarantee that these customers will continue to purchase goods and products from the Group. Therefore, any significant reduction in sales to, or the loss of any significant customers, would have an adverse impact on the Group's financial performance and prospects.

Dependency on a limited number of major customers also increases the risk for the Company. Should any force majeure event affect any of the limited number of major customers on which the Group is dependent, this would have a direct impact on the Company's trading or financial results.

3 Risks relating to the Ordinary Shares

3.1 Trading in Ordinary Shares

Investors should be aware that the value of the Company's shares may go down as well as up and that they may not be able to realise their investment. Sales of a substantial number of the Company's shares in the public market could depress the market price of the Company's shares.

3.2 If the Company is wound up, distributions to holders of the Company's shares will be subordinated to the claims of creditors

On a return of capital on a winding-up, holders of the Company's shares shall be entitled to be paid out of the assets of the Company available for distribution to members only after the claims of creditors of the Company have been settled.

3.3 Dividends

The ability of the Company to pay a dividend on the Company's shares will depend on, inter alia, the solvency of the Company. The Company may make a distribution of its profits (the "**profit criterion**") provided that the Directors have no reasonable grounds to believe that such distribution might deprive the Company of its ability to pay its existing and anticipated debts when the time comes for so paying (the "**ability to pay criterion**"). This test requires the Board to make a future assessment by making reference to the profit criterion and the ability to pay criterion being satisfied immediately after a distribution or dividend payment is made. If at the time any dividend payment is to be authorised, or at any time before any dividend payment is to be made, the Directors believe that the profit criterion and/or the ability to pay criterion cannot be met, then no payment may be made to holders of the Company's shares.

3.4 Net asset value

There is no guarantee that the market price of the Company's shares will fully reflect the underlying value of the assets held by the Company. As well as being affected by the underlying value of the assets held, the market value of the Company's shares will, amongst other factors, be influenced by the market price of the Company's shares and the supply and demand for the Company's shares in the market. As such, the market value of the Company's shares may vary considerably from the underlying value of the Group's assets.

3.5 Volatility

The market price of the Company's shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Company's shares or in response to various factors and events, including legal or regulatory changes affecting the Group's operations and variations in the Group's operating results.

3.6 Holders of Depositary Interests must rely on the Custodian to exercise rights attaching to the underlying Company's shares for the benefit of the holders of Depositary Interests

The rights of holders of Depositary Interests will be governed by, among other things, the relevant provisions of the CREST Manual and the CREST Rules (as defined in the CREST Terms and Conditions issued by CRESTCo). The Custodian will hold the voting and other rights conferred by Israeli law and the Articles for the benefit of the relevant holder. Consequently, the holders of Depositary Interests must rely on the Custodian to exercise such rights for the benefit of the holders of Depositary Interests. Although the Company will enter into arrangements whereby CRESTCo will make a copy of the register of the names and addresses of holders of Depositary Interests available to the Company to enable the Company to send out notices of shareholder meetings and proxy forms to its holders of Depositary

Interests and pursuant to CRESTCo's omnibus proxy arrangements, subject to certain requirements, the Custodian will be able to give each beneficial owner of a Depositary Interest the right to vote directly in respect of such owner's underlying Shares, there can be no assurance that such information, and consequently, all such rights and entitlements, will at all times be duly and timely passed on or that such proxy arrangements will be effective.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Board is responsible for establishing and maintaining the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Company will ensure that its system of internal controls will apply to the whole Group.

In order to create an ongoing process to fulfil this responsibility, the Board has established a number of measures in order to identify, evaluate and manage the key financial, operating and compliance risks faced by the Company throughout the year and up to the date of the signing of the accounts.

The Board considers that the internal controls in place are appropriate for the size, complexity and the risk profile of the Group. The key elements of the Group's control system include:

- the Board generally meets at least four times a year and is responsible for the major business risks faced by the Company and for determining the appropriate course of action to manage those risks;
- the Company's non-executive directors meet together from time to time in the absence of management;
- the Board has a budgetary process in which the key risks faced by the Company are identified. Performance is monitored and relevant action taken through the monthly reporting to the Board of variances from the budget, updated forecasts for the period together with information on the key risk areas;
- capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond certain levels, detailed written reports have to be submitted to the Board;
- responsibility levels are communicated throughout the Company, including delegation of authority and authorisation levels, segregation of duties and other control procedures.
- the Financial Balance Committee, reviews the consolidated financial statements to ensure appropriate financial reporting. In this scope the Financial Balance Committee reviews the main assumptions and estimate made by the management, appropriateness of accounting policies applied and adequacy of the overall presentation and discloser maid in the financial statements. The findings of the Financial Balance Committee are communicated to the Board;
- the Financial Balance Committee, through the internal audit, monitors controls which are in force and any perceived gaps in the control environment and also considers and determines relevant action in respect of any control issues raised by the external auditors.; and
- the Board ensures that the Company sets the appropriate policies on internal control and maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets. In this respect, the Board takes ultimate responsibility for the internal controls of the Company.

The City Code on Takeovers and Mergers

The Company is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in shares of the Company are not subject to the provisions of the UK City Code on Takeovers and Mergers (the “**City Code**”) and the Company’s shareholders are therefore not afforded the protections of the City Code.

Israeli Law

Shareholders’ rights and responsibilities will be governed by Israeli law and these differ from the rights and responsibilities of shareholders under English law or the law of other non-Israeli jurisdictions. The Company is incorporated under Israeli law. The rights and responsibilities of holders of the Company’s shares are governed by the Company’s articles of association and by the Israeli Companies Law. In particular, a shareholder of an Israeli company has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his power in the company, including, amongst other things, in voting at the general meeting of shareholders on certain matters.

The directors continue to monitor all of the key risks and uncertainties and the directors will take appropriate actions to mitigate these risks and their potential outcomes. These actions include careful management of costs across all areas of the business with increased expenditure only in those areas that the directors decide are appropriate to drive growth and deliver long term strategic benefits.

FINANCIAL POSITION

The Company's management and directors have reviewed the performance and forecasts of the Company. The management and directors have concluded that the Company has adequate resources to continue its operations in the foreseeable future. Following a review of the Company's risks and uncertainties and management’s current expectations, the Board believes that the Company will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. The financial statements have therefore been prepared on a going concern basis.

OUTLOOK

The Company is acting to preserve its investment in WFI and is continuing with its efforts to increase its value by being actively involved in WFI management through its nominee board members to WFI and its subsidiary board. Additionally the current active chairman and several of the Company's board members have years of experience in the Food industry.

RESPONSIBILITY STATEMENT

The Board are responsible for preparing the consolidated financial statements of BSD. The directors confirm that to the best of their knowledge:

- The consolidated financial statements of BSD have been prepared in accordance with IFRS. The accounting policies set in the financial statement have been applied consistently to all periods presented in these consolidated financial statements. The Financial Statements, prepared in accordance with IFRS give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- The Business Review includes a fair review of the development and performance of the business, the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The consolidated financial statements of BSD, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board,

Joseph Williger, Executive Chairman

28 March 2019

BOARD OF DIRECTORS

ACTING BOARD OF DIRECTORS

Mr. Joseph Williger *Active Chairman, as from 5 May 2017 (FI)*. Mr. Williger is a member of the board of Y.M Dekel Holdings and Investments Ltd and Yossi Willi Management and Investments Ltd, both private companies. Mr. Williger is also a member of the Presidium of the Chamber of Commerce Israel and serves as the chairman of the Committee of import and customs Israel Chamber of Commerce. Mr. Williger attended Business Administration studies in California State University, Los Angeles for two years, and Business Administration studies in Bar-Ilan University, Israel, for one year. Mr. Williger has held positions as a chairman at Willi-Food Investments Ltd, and as Chief Executive Officer, president and director at G. Willi-food International Ltd.

Mr. Zwi Williger *Non-Executive Director, as from 29 May 2017 (FI)*. Mr. Zwi Williger also serves as a director in Zvi. V & Co. Ltd. and Titanic Ltd., both private companies. Mr. Williger is one of the founders of Willi Food group and has held positions as a CEO and director in Willi-Food Investments Ltd. and as an active chairman in G.Willi-Food International Ltd. and its subsidiaries. Mr. Williger attended Business Administration studies in Fresno California University, for two years and advance management program in Harvard University, for two months.

Mrs. Iris Even-Tov *Non-Executive and External Director, as from 20 July 2016 (A/FBC/R)*. Mrs. Even-Tov also serves as an external director in accordance with the Israeli Companies Law. Mrs. Even-Tov was appointed as a board member of the Company in July 2016. Mrs. Even-Tov is a certified public accountant in Israel and the Chief Executive Officer and Founder of Business Growth, a company providing financial services and CFO solutions to start-up companies in the gaming, medical devices and other industries. Mrs. Even-Tov served as Financial Controller at Pilat Technologies International Ltd and PMS Group Ltd (2006-2008). She was also served as the financial controller at Star Night Technologies Ltd. (2010-2011). Mrs. Even-Tov has previously served as a board member of PMS Group Ltd, Alonei Meitar Ltd. and ABE Trans Ltd. She is currently a director at RSL Electronics Ltd, an Israeli public company traded on the Tel Aviv Stock Exchange. Mrs. Even-Tov holds a Bachelor's degree in Business Management majoring in accounting from The College of Management and Academic Studies.

Mr. Gil Hochboim *Non-Executive Director, as from 7 May 2017*. Mr. Hochboim is the CFO of S.R. Accord Ltd., a public Israeli company traded in TASE which active in the finance market. Mr. Hochboim served more than 15 years as the CEO and CFO in Willi Food Investments Ltd. and G. Willi Food International Ltd. Mr. Hochboim is a certified public accountant (Israel) and holds a Bachelor's degree in Business Management and Accounting from The Academic College of Management, Israel.

Mr. Avi Zigelman *independent, non-executive director, as from 5 May 2017 (A/FBC/R/FI)*, CPA. Mr. Zigelman is an external director at Clal Industries and Drinks Ltd and at Exalenz Bioscience Ltd and a Shareholder, CEO and board member of Trust Deposit Ltd (Inactive Company) and was a board member of Mizrahi Tefahot Bank Ltd., Ultra Equity Investments Ltd, Clal Biotechnology Industries Ltd., Tefron Ltd., Ormat Industries Ltd., Gindi Investments Ltd etc, and has many years' experience serving as Chairman of Audit Committees, Chairman of Financial Statement Review Committees and additional non-executive positions. Mr. Zigelman, holds a B.A. in Accounting and Economics (Economics with honors), and a M.A. in Business Economics, (with honors), both from Tel-Aviv University.

Mr. Shlomo Wertheim *non-executive and External Director, as from 5 May 2017 (A/FBC/R)*. Mr. Wertheim serves as an external director in accordance with the Israeli Companies Law. Mr. Wertheim, has more then 40 years of experience in the practice of law, has served as a director in public companies for 10

years and is an arbitrator registered with the Israeli Bar Association. Mr. Wertheim received his law degree from Tel Aviv University in 1977 has handled corporate and debt transactions for private companies and public companies as well as gaining experience in handling corporate recovery matters and creditor arrangements.

The Active Chairman of the Board is not the Company's Chief Executive Officer. The Company currently does not have Deputy Chairman and Chief Executive Officer.

The aforesaid board members approved the consolidated financial statements as of 31 December 2018

A - Member of the Audit Committee

FBC – Member of the Financial Balance Committee

R - Member of the Remuneration Committee

FI- Member of the Financial Investments Committee

INTERNAL CONTROLLER

The Company's internal controller is responsible for the conduct of all internal auditing at the Company, and have a key role in the management of risks of the Company and contribute to safeguarding the shareholders' investment and rights in the Company and the Company's assets. The internal controller report to the Audit Committee of the Board which approve its work plan and review report and it supervise the financial statements preparation statements. In addition, the internal controller enables the Company to ensure performance efficiency, mitigate actual or potential risks, duly and timely complete the Company's reporting obligations, ensure compliance with applicable laws and preserve the Company's assets.

On 18 February 2018, the Board (after the approval of the audit committee) appointed Mr Doron Yonisi as the Company's internal controller.

CORPORATE GOVERNANCE

Incorporated in Israel, BSD is listed on the Standard List of the Official List of the London Stock Exchange. A standard listing requires the Company to comply with the harmonised regulatory requirements imposed by the EU that apply to all securities that are admitted to trading on EU regulated markets. As a company with a Standard Listing, the Company is not required to comply with the super-equivalent provisions of the Listing Rules which apply only to companies with a premium listing, including, without limitation, complying with or explaining against the UK Corporate Governance Code published by the Financial Reporting Council in July 2018 (the "**UK Corporate Governance Code**"). A copy of the UK Corporate Governance Code can be found at the following website address: <http://www.frc.org.uk>. However, the Board will apply certain provisions of the UK Corporate Governance Code on a voluntary basis and will comply with the requirements set out in rule 7.2 of the Disclosure and Transparency Rules.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the provisions set out in the UK Corporate Governance Code.

The Company has not complied with the requirement under the UK Corporate Governance Code to have a Nomination Committee. Instead, the Company complies with Israeli law with respect to the nomination of members of the Board of Directors.

THE GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the supreme body of BSD. Shareholders are required to approve a certain number of resolutions such as, *inter alia*, appointing the external auditors of the Company, approving allotment of shares, approving distribution of dividends, approving the directors' remuneration and the Remuneration Committee Policy, approving any change to the articles of association of the Company. Shareholders exercise their rights by attending and voting at general meetings. For each resolution, proxy appointment forms are provided to shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The Company holds its annual general meeting once a year. The last annual general meeting was held 23 July, 2018.

THE BOARD

The Board is responsible for the Company's corporate governance policy. It recognises the importance of high standards of integrity and consistently seeks to apply the provisions set out in the UK Corporate Governance Code. The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of Israel and its articles of association.

The Company is controlled through the Board whose main role is to:

- create value for shareholders;
- provide leadership of the Company;
- approve the Company's strategic and operating objectives;
- review management performance;
- consider, and if thought fit, to approve major acquisitions and disposals;
- provide treasury policies;
- provide the Company's governance policies;
- ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives; and
- operate within a framework of effective controls which enables the assessment and management of principal business risks.

The Board is responsible for approving, *inter-alia*, the Company's overall strategy and financial policy, acquisition and investment policy and major capital expenditure projects. It also appoints and removes members of the Board (including the independent non-executive directors but excluding External Directors)

and Board committees, reviews recommendations of the Audit Committee and the Financial Balance Committee and Remuneration Committee and is responsible for the appointment of the independent auditor. The Board also reviews the financial performance and operation of each of the Company's businesses, approves financial statements after discussions with the Financial Balance Committee, changes in capital structure, appointment, removal and compensation of senior management, engagement of professional advisors, internal control arrangements, risk management and corporate governance. The Board sets the standards and values of the Company and much of this has been embodied in the Company's Code of Conduct and Ethics and Human Rights Policy which can be found on the Company's website, www.bsd-c.com. These are matters specifically reserved to the Board for its decision. Other matters are delegated to management.

The Company's Code of Conduct and Ethics applies to all directors, officers and employees of the Company. The Company's Code of Conduct and Ethics contains provisions under which employees can report violations of company policy or any applicable law, rule or regulation. The current procedure provides for information to be given anonymously or by named employees under conditions of confidentiality. Those employees who come forward and give their name are assured that they will receive the full protection and no retaliation will take place.

The Chairman is responsible for setting the Board's agenda in particular to discuss strategic issues. The Chairman also promotes culture of openness and debates, involves non-executive directors in the strategic decisions of the Company in particular and ensures constructive relations between executive and non-executive directors.

The Chairman is also responsible for ensuring that the directors receive accurate, timely and clear information and ensuring effective communication with shareholders. In addition the Chairman is also responsible for the induction and training of each member of the directors whether executive or non-executive, and regularly reviews and agrees with each director their training and development needs.

The Board, which is responsible for the Company's overall leadership, believes that it holds an appropriate balance of skills, experience, and knowledge of the Company to enable it to discharge its respective duties and responsibilities effectively. To the date hereof, the Company's subsidiary WFI, is managed, by the current Executive Chairman, Mr. Joseph Williger together with professional management teams, other two board members of the Company are acting as board members in WFI, thus allowing the Company to control its main asset in a way that should raise the Company's value.

Directors are subject to re-election at every annual general meeting (with the exception of the External directors, as further described below). The Board has the power at any time, and from time to time, to appoint additional directors (either to fill any vacancy or as additional directors) provided that the number of directors does not exceed the maximum permitted in accordance with the Company's articles of association. In such cases, the newly appointed director holds office until the next annual general meeting of shareholders immediately following such appointment. By an ordinary resolution of shareholders any member of the Board can be removed.

Under the Israeli Companies Law a person who lacks the necessary qualifications and the ability to devote an appropriate amount of time to the performance of his or her duties as a director shall not be appointed director of a publicly traded company. While determining a person's compliance with such provisions, the company's special requirements and its scope of business shall be taken into consideration. Where the agenda of a shareholders meeting of a publicly traded company includes the appointment of directors, each

director nominee should submit a declaration to the company confirming that he or she has the necessary qualifications and that he or she is able to devote an appropriate amount of time to performance of his or her duties as a director. In the declaration, the director nominee should specify his or her qualifications and confirm that the restrictions set out in the Israeli Companies Law do not apply.

Under the Israeli Companies Law, if a director ceases to comply with any of the requirements provided in the Israeli Companies Law, such director must immediately notify the company, and his or her term of service shall terminate on the date of the notice.

On appointment, non-executive directors receive a range of information about the Company which aims to provide an understanding of the Company as a whole, including its strategy, structure, financial position, technologies and people, as well as their legal responsibilities as directors. There is in place a procedure whereby the directors may, in furtherance of their duties, take independent legal and financial advice at the Company's expense, and also have access to the advice and services of the financial controller who is responsible to the Board for ensuring that Board procedures are complied with. As of 31 December, 2018, the Executive Chairman of the Board, Mr. Joseph Williger holds together with his private companies, in Y.M Dekel Holding and Investments Ltd. and Yossi Willi Management and Investment Ltd., 25.04 per cent of the voting rights of the Company's shares and Zwi Williger, a member of the Board of Directors, holds 22.3 per cent of the voting rights of the Company's shares. To the Company's best knowledge, all other directors and their respective immediate families had no direct or indirect interests, both beneficial and non-beneficial, in the ordinary shares of the Company at the day of this report.

Under Israeli law, the Board of Directors of an Israeli company has the power to cause the company to either issue or repurchase securities of such company, subject to the conditions set forth in the Israeli Companies Law and the company's articles of association as well as any agreement to which such company is party.

The Company does not comply with the requirement under the UK Corporate Governance Code that its Board's Committees' and individual Directors' evaluate their performance on an ongoing basis since the Company follows in this respect the Israeli Companies Law.

SHARE CAPITAL

Total number of issued shares of the Company as at 31 December 2018: 140,578,154

Total number of issued and outstanding shares of the Company as at 31 December 2018: 129,340,252.

DIRECTOR'S REMUNERATION

Members of the Board are paid for the performance of their duties and reimbursed for expenses arising from the exercise of their functions. The remuneration of independent and non-independent members of the Board is determined according to the laws and approved by the shareholders during the annual general meeting.

The Company's Remuneration Policy is further detailed in the Office Holders' Remuneration section below.

BOARD MEETINGS

The Board meets on a regular basis to discuss the overall direction and strategic plan of the Company. Ad hoc meetings may also be convened at any time to deal with matters between scheduled meetings as appropriate. Prior to each Board meeting, each director receives background materials related to the matters for discussion at the meeting. A budget is discussed and approved by the Board for the following year in

each board meeting which approves the financial statement. All directors are properly briefed on progress with respect to matters discussed at Board meetings and further information requested by a director is made available.

It is expected that all directors attend physically or by teleconference the Board and relevant committee meetings, unless they are prevented from doing so by prior commitments. Directors leave the meeting where matters relating to them, or which may constitute a conflict of interest to them, are being discussed.

The Board votes on decisions by simple majority. Each member of the Board has one vote. The quorum for meeting is the majority of its members.

Board members have the opportunity to ask any questions and request any additional information on agenda items

The table below shows the current acting board of director's attendance rate at scheduled Board meetings and at meetings of the Audit, Financial Balance and Remuneration Committees for a period of 12 months ended 31 December 2018:

| Meetings held in 2018 | Board | FBC | Remuneration | Audit | Financial Investments |
|---------------------------|-------|------|--------------|-------|-----------------------|
| <u>Meetings attended:</u> | | | | | |
| Mr. Joseph Williger | 100% | n/a | n/a | n/a | 100% |
| Mr. Zwi Williger | 100% | n/a | n/a | n/a | - |
| Mrs. Iris Even-Tov | 92% | 100% | 50% | 50% | n/a |
| Mr. Gil Hochboim | 92% | n/a | n/a | n/a | n/a |
| Mr. Avi Zigelman | 83% | 100% | 100% | 100% | 100% |
| Mr. Shlomo Wertheim | 92% | 100% | 100% | 100% | n/a |

n/a = not applicable (where a director is not a member of a committee).

During 2018, other directors have attended meetings of the Financial Balance Committees, Remuneration Committee and Audit Committee by invitation. These details are not included in the table above.

INDEPENDENCE & QUALIFICATION

The UK Corporate Governance Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The UK Corporate Governance Code recommends that at least half the board of directors of a UK listed company (excluding the chairman) should comprise 'independent' non-executive directors being individuals determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

In particular, the UK Corporate Governance Code provides that smaller companies (i.e. companies which are below the FTSE 350 throughout the year immediately prior to the reporting year) should have at least two independent non-executive directors. The UK Corporate Governance Code states that the board of directors should determine whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The Board has considered the independence of its non-executive directors in line with the principles of the UK Corporate Governance Code (section B.1.1) and, following careful consideration, assessed the independence of the non-executive directors as set out herein.

Pursuant to the Israeli Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two statutory independent directors (“**External Directors**”) who meet certain statutory criteria of independence. The Israeli Companies Law provides that a person may not be appointed as an External Director if the person is a relative of the controlling shareholder of the company or if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subject, or any entity under the person’s control, has, as of the date of the person’s appointment to serve as External Director, or had, during the two years preceding that date, any affiliation or one of certain other prohibited relationships with the company or any person or entity controlling (or relative of such controlling person), controlled by or under common control with the company (or, in the case of a company with no controlling shareholder, any affiliation or one of certain other prohibited relationships with a person serving as Chairman of the board of directors, Chief Executive Officer, a substantial shareholder or the most senior office holder in the company’s finance department). The term “affiliation” and the similar types of prohibited relationships include:

- an employment relationship;
- a business or professional relationship, even if not maintained on a regular basis (but excluding a de minimise level relationship);
- control; and
- service as an office holder.

No person may serve as an External Director if the person’s position or other business activities create, or may create, a conflict of interest with the person’s responsibilities as an External Director or may otherwise interfere with the person’s ability to serve as an External Director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. Furthermore, a person may not continue to serve as an External Director if he or she accepts, during his or her tenure as an External Director, direct or indirect compensation from the company for his or her role as a director, other than amounts prescribed under the Israeli Companies Law regulations (as described below) or indemnification, the company’s undertaking to indemnify such person, exemption and insurance coverage. If, at the time of election of an External Director, all other directors who are not the company’s controlling persons or their relatives are of the same gender, the External Director to be elected must be of the other gender.

Pursuant to the Israeli Companies Law, all External Directors must have accounting and financial expertise or professional qualifications, and at least one External Director must have accounting and financial expertise. A director with “accounting and financial expertise” is a director that due to his or her education, experience and skills has a high expertise and understanding in financial and accounting matters and financial statements, in such a manner which allows him to understand deeply the financial statements of the company and initiate a discussion about the presentation of financial data. A director is deemed to have “professional qualifications” if he or she either (i) has an academic degree in economics, business management, accounting, law or public service, (ii) has an academic or other degree or has completed other higher education, all in the field of business of the company or relevant for his/her position, or (iii) has at least five years’ experience as either a senior managing officer in the company’s line of business with a significant volume of business, a public office, or a senior position in the company’s main line of business.

An External Director may be removed from office only: (i) by a court, upon determination that the External Director to be so removed ceased to meet the statutory qualifications for his or her appointment or if he or she violated his or her duty of loyalty to the company; (ii) by the same percentage of shareholders, acting

through a shareholders' meeting, as is required for his or her election, if the board of directors has determined that the External Director to be so removed has ceased to meet the statutory qualifications for his or her appointment or violated his or her duty of loyalty to the company and has proposed the removal to the shareholders. Such determination by the board of directors is to be made in the first meeting of the board of directors to be convened following learning of the said cessation or violation.

An External Director who ceases to meet the conditions for his or her service as such must notify the company immediately and such service shall cease immediately upon such notification.

As of the day hereof, Mrs. Iris Even-Tov and Mr. Shlomo Wertheim serves as external directors within the meaning of "external" as defined in the Israeli Companies Law and as independent non-executive directors in accordance with the UK Corporate Governance Code. The senior external director is Mrs. Iris Even-Tov. The initial term of an External Director is three years and may be extended by a general meeting of shareholders for up to two additional three-year terms.

The directors of the Company support high standards of corporate governance. As of the day hereof, the Company complies with certain of the provisions of the UK Corporate Governance Code. The Company's Board include an Executive Chairman, two independent non-executive directors which serves as external directors, one independent director and three non-executive directors, within the meaning of the UK Corporate Governance Code.

On appointment, non-executive directors receive a range of information about the Company which aims to provide an understanding of the Company as a whole, including its strategy, structure, geographic spread of operations, financial position, markets, products, technologies and people, as well as their legal responsibilities as directors. There is in place a procedure whereby the directors may, in furtherance of their duties, take independent legal and financial advice, at the Company's expense.

Finally, under the Israeli Companies Law, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors (not merely External Directors) who must have accounting and financial expertise (according to the same criteria described above with respect to External Directors). In accordance with the Israeli Companies Law, the determination of the board of directors should be based on, among other things, the type of the company, its size, the volume and complexity of its activities and the number of directors. Based on the foregoing considerations, the Board determined that the number of directors with financial and accounting expertise in the Company shall not be less than two. As of today, Mr. Avi Zigelman, and Mrs. Iris Even-Tov is possess such accounting and financial expertise

Pursuant to section B.1.2 of the UK Corporate Governance Code, a smaller company (below the FTSE 350 throughout the year immediately prior to the reporting year) should have at least two independent non-executive directors. As of the day hereof, the Company has three independent directors- Mrs. Iris Even-Tov and Mr. Shlomo Wertheim (who were elected as External Directors under the Israeli Companies Law) and Mr. Avi Zigelman.

The Board has determined that Mrs. Iris Even-Tov and Mr. Avi Zigelman have the requisite accounting, financial and professional expertise as required of External Directors under the Israeli Companies Law. Iris Even-Tov was appointed as External Director of the Company at the annual general meeting on 5 July 2016 for a period of three.

Each committee of a Company's Board is required to include at least one External Director and the Audit Committee must include all of the External Directors.

An External Director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any compensation, directly or indirectly, in connection with services provided as an External Director or otherwise to the company.

As of the day hereof, the Board has determined that Mrs. Iris Even-Tov, Mr. Shlomo Wertheim and Mr. Avi Zigelman meet the UK Corporate Governance Code's independence requirements, as they are independent of the Company's executive management and free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of its independent judgment.

As of 7 May 2017 the Company's Executive Chairman of the Board is Mr. Joseph Williger who holds as of the date of these financial statements, 25.04% of the outstanding share capital of the Company.

The Company complies with certain requirements under Israeli law with respect to the appointment of non-executive directors (including external directors, who must comply with certain requirements under Israeli law in order to be eligible for appointment as such) and their conduct after being appointed.

Minutes of meetings of a board of directors of an Israeli company are expected to reflect the matters discussed by the board members.

Under Israeli law, external directors of Israeli companies whose securities are listed on the London Stock Exchange may be appointed for up to three three-year terms.

Where Directors have concerns which cannot be resolved about the management of the Company or a particular matter they should ensure that their concerns are recorded in the Board Minutes.

The Company will institute and provide a sounding Board for the Chairman and serves as an intermediary with the other Directors when necessary and is also available to Shareholders if they have concerns where contact through the normal channels of Chairman, Chief Executive or other Executive Directors has failed to resolve the matter or where such contact is appropriate.

Each director prior to his appointment presented the shareholders with a director declaration pursuant to the Israeli Companies Law. The Company does not appoint directors via appointment letters, and hence no such letters have been made available for inspection at the Company's annual general meeting in accordance with the UK corporate governance code.

BOARD COMMITTEES

The Board has established Audit, Financial Balance and Remuneration Committees. The duties of these committees are set out in formal terms of reference and the Board is satisfied that these terms conform to best corporate governance practice. The terms of reference for all Board committees can be found on the Company's website at www.bsd-c.com. In addition, the Board may appoint from time to time other committees and delegate to them certain responsibilities, subject to applicable law. For example, during 2018 the Board appointed a committee for financial investments.

AUDIT COMMITTEE

In accordance with the requirements of the UK Corporate Governance Code and the Israeli Companies Law, the Audit Committee is made up of at least three members who are all independent non-executive directors

and includes one member with recent and relevant financial experience. As of the day of the report the Audit Committee chaired by Shlomo Wertheim, Non-Executive, External director. The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It receives and reviews reports from the Company's internal auditor relating to the internal control systems in use throughout the Company. The Audit Committee will generally meet at least three times a year at the appropriate times in the reporting and audit cycle and has unrestricted access to the Company's auditors. The committee is required to oversee the relationship with the Company's external auditors.

Under the Israeli Companies Law, the Audit Committee must have at least three members, including all External Directors, and neither the Chairman of the Board, nor any person who is employed by or provides services to the Company nor any person having control over the Company (or any relative of such control person) may be a member of the Audit Committee.

Pursuant to the Israeli Companies Law, the Audit Committee of a publicly traded company must consist of a majority of independent directors. An "independent director" is defined as an External Director and as a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an External Director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

The Israeli Companies Law further provides that a company may also elect to impose, via the adoption of a proposed set of corporate governance rules, certain independence requirements with respect to the composition of the board of directors as a whole. Those requirements, if undertaken by a company, mandate that (i) if the company has no controlling shareholder or no shareholder that holds at least 25 per cent of the company's voting rights, most of the members of the board of directors must be independent directors, whereas (ii) if the company has a controlling shareholder or a shareholder that holds at least 25 per cent of the voting rights, then at least one-third of the directors need to be independent directors.

As of the date of this report, the Company has not elected to adopt these corporate governance rules and the Audit Committee comprises three members which includes two independent members non-executive directors: Mrs. Iris Even-Tov (External Director) and Mr. Shlomo Wertheim (External Director) and also one independent member, Mr. Avi Zigelman (non-executive director).

The Board has determined that the three members of the Audit Committee are independent for the purposes of the Israeli Companies Law as well as for the purposes of the UK Corporate Governance Code. The members bring wide-ranging financial, commercial and management experience to the work of the Audit Committee. Hence, as previously described, the Board has determined that Iris Even Tov and Avi Zigelman are 'financial expert' as that term is defined under the Israeli Companies Law, having recent and relevant financial and accounting knowledge and experience.

The Audit Committee meets at least two times a year and on other occasions when circumstances require. The quorum for a meeting of the committee is two members. The Company's financial team and

representatives from the independent auditor and the internal auditor attend meetings under a standing invitation.

In accordance with its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external auditors and to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted. It reviews the Company's internal control and risk management. The Audit Committee also reviews the arrangements by which the Company's employees may, in confidence, raise concerns about improprieties in matters of financial reporting and other matters (commonly referred to as "whistle-blowing" procedures).

The UK Corporate Governance Code and the Israeli Companies Law require the Company to ensure a sound system of internal control to safeguard shareholders' investments and the Company's assets. Such system should cover all material controls – financial, operational, compliance and risk management. To comply with this provision, the Board appointed an internal auditor, who is responsible for examination of the Company's internal controls and reviewing their effectiveness. All the recommendations provided by the internal auditor are presented to the Audit Committee for review and evaluation. The Audit Committee then recommends the required measures, if any, to the Board final decision and execution.

Part of the role of the Audit Committee is to review and monitor the independence and objectivity of the Company's external auditor as well as the effectiveness of the audit process. Following the acquisition of WFI, the Company is required to produce consolidated accounts for all members of its Group, including the Company, WFI and its subsidiaries.

As of 23 July 2018, and following the approval at the shareholder meeting after receiving the recommendation of the Company's Audit Committee and the Board, the Company's independent auditors are BDO Israel ("BDO") who are also the independent auditors of Willi-Food. The Board and the Company's Audit Committee consider that it presents greater efficiency and value for the Company to engage the same firm of independent auditors for the entire Group, so as to minimize costs to the Company and prevent duplication of the work. The general meeting held on 23 July 2018 approved the appointment of BDO as the Company's independent auditors, and to serve as the Company's auditors for the year ending December 31, 2018 and until the appointment of independent auditors at the next annual general meeting of the Company.

The Audit Committee has recommended the appointing of BDO as the Company's external auditors, inter alia, after considering the following considerations:

1. BDO also serves as WFI external auditors;
2. BDO is a leading firm and one of the largest 'big 4' firms in Israel;

For the year ended 31 December 2017, the Board of the Company, upon the recommendation of the Audit Committee, has determined the audit remuneration of its external auditors at the rate of USD 100 thousand for a year .

The Company complies with the Israeli Companies Law with respect to the appointment of its external auditors, and the discharge of the Audit Committees' responsibility regarding the external audit process.

FINANCIAL BALANCE COMMITTEE

Pursuant to the Israeli Companies Law, Israeli companies must appoint a Financial Balance Committee to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted. The Financial Balance Committee reviews the Company's internal control and risk management.

The UK Corporate Governance Code and the Israeli Companies Law require the Company to ensure a sound system of internal control to safeguard shareholders' investments and the Company's assets. Such system should cover all material controls – financial, operational, compliance and risk management. To comply with this provision, the Board appointed an internal auditor, who is responsible for examination of the Company's internal controls and reviewing their effectiveness. All the recommendations provided by the internal auditor are presented to the Financial Balance Committee for review and evaluation. The Financial Balance Committee then recommends the required measures, if any, to the Board for final decision and execution.

The Financial Balance Committee must have at least three members and the Chairman of the Financial Balance Committee shall be an External Director. To the date of the report, the Financial Balance Committee is chaired by Mr. Shlomo Wertheim, an External Director. In addition, all of the Company's External Directors shall be the members of the Financial Balance Committee and the majority of the members of the Financial Balance Committee shall be independent directors. The members of the Financial Balance Committee shall have the skills necessary to read and understand financial statements and at least one the independent directors shall have accounting and financial expertise and shall make a declaration before their appointment in this respect. In addition, members of the Financial Balance Committee can be those members that comprise the Audit Committee as set out above. The Financial Balance Committee meets at least twice a year and on other occasions when circumstances require.

As of the date of the report the Financial Balance Committee of the Company includes two independent non-executive directors: Mrs. Iris Even-Tov (External Director) and Mr. Shlomo Wertheim (External Director) and also one independent director, Mr. Avi Zeligman (non-executive director). The members bring wide-ranging financial, commercial and management experience to the work of the Financial Balance Committee.

The quorum required for discussions and the Financial Balance Committee's decision-making process is the majority of its members provided that the majority of the attending directors are independent directors and includes at least one External Director.

According to the Israeli Companies Law, prior to the approval of the financial accounts by the Board, the Financial Balance Committee shall discuss the financial statements of the Company and formulate recommendations to the Board in respect of, inter alia, data and underlying assumptions, internal controls over financial reporting, the completeness and adequacy of disclosure in the financial statements.

The internal auditor is invited to meetings of the Financial Balance Committee to examine the financial statements.

No significant issues considered in relation to financial statements.

REMUNERATION COMMITTEE

In accordance with the requirements of the UK Corporate Governance Code and the Israeli Companies Law, the Remuneration Committee is made up of at least three members who are all independent non-executive directors.

As of the date of this report, the Remuneration Committee is made up of three members which includes: Mrs. Iris Even-Tov (External Director) Mr. Shlomo Wertheim (External Director) and Mr. Avi Zeligman (non-executive director). In accordance with its terms of reference, the Remuneration Committee reviews the remuneration of all of the Company's senior executives and is responsible for making recommendations to the Board on the Company's framework of executive remuneration to the Board and for determining on behalf of the Board the remuneration package for each executive director and chairman. In accordance with the Israeli Companies Law, the remuneration of executive directors requires the approval of the Company's Audit Committee, the Board and its shareholders, in this order. The Remuneration Committee meets at least twice a year. No director participates in Board discussions on, or votes on matters relating to, their own remuneration unless the discussions are relating to general matters affecting the majority of the directors.

The primary responsibilities of the committee are:

- to recommend to the Board, a remuneration policy for directors (which should be re-approved every three years) and any updates that are recommended from time to time as well as how such policy should be implemented;
- to recommend the approval or rejection of conditions of service and employment of directors, where such approval is required pursuant to Israeli law;
- to ensure that individual pay levels for executive directors should generally be in line with levels of pay for executives in similar companies with similar performance achievement and responsibilities;
- to ensure that share option and bonus schemes, if any, should be set at a level that provides sufficient incentive to the executive to produce results that will reflect the Board's expectations;
- to ensure that total pay and long term remuneration will be sufficient to retain executives; and
- to ensure that aggregate pay for all executive directors is reasonable in light of the Company's size and performance;

The Company does not have a Nomination Committee as matters normally reserved for this Committee are dealt with by the full Board.

According to Companies Regulation (Easements on the mandatory requirement for Compensation Policy)-2013, Company's Remuneration Policy approved by the board on 17 June 2018, and after receiving Remuneration Committee approval.

EMPLOYEES

The Company's employees are all located in Israel. The Group carefully monitors its overhead and employment expenditure to insure streamlined and efficient operation, both on the cost side and from a

professional aspect. The Group is subject to various Israeli labour laws and labour practices, and to administrative orders extending certain provisions of collective bargaining agreements between the Israeli General Federation of Labour ("**Histadrut**") and the Coordinating Bureau of Economic Organizations (the Israeli federation of employers' organizations) to all private sector employees. For example, mandatory cost of living adjustments, which compensate Israeli employees for a portion of the increase in the Israeli consumer price index, are determined on a nationwide basis.

Israeli law also requires the payment of severance benefits upon the termination, retirement or death of an employee. The Company meets this requirement by (i) contributing on an ongoing basis towards funds that combine pension, insurance and, if applicable, severance pay benefits and (ii) payment of differences, if applicable. In addition, Israeli employers and employees are required to pay specified percentages of wages to the National Insurance Institute. Other provisions of Israeli law or regulation govern matters such as the length of the workday, minimum wages as well as terms of employment and discrimination restrictions.

As of 31 December 2018, the Group has 160 employees.

The table below shows the geographical breakdown of employees by their main activity.

| <i>Company</i> | <i>Total No. of Employees</i> | <i>Management</i> | <i>Accounting and Import</i> | <i>Sales</i> | <i>Administration & Logistics</i> |
|----------------|-----------------------------------|-------------------|----------------------------------|--------------|---|
| BSD Group | 160 | 5 | 34 | 35 | 86 |

RELATIONS WITH SHAREHOLDERS

The Company places a high degree of importance on maintaining good relationships and communications with both institutional and private investors and ensures that shareholders are kept informed of significant Company developments.

The Company's website (www.bsd-c.com) contains up to date information on the Company's activities and published financial results.

The Company welcomes dialogue with its shareholders and communicates with them through timely announcements, its interim and annual reports and through the Company's website, which is regularly updated. Regular meetings are held with institutional investors and the Company encourages the direct approach of its senior management by shareholders for questions and clarifications on the Company's business activities.

The Company's annual general meeting is also used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's annual general meetings in order to take advantage of the opportunity to ask questions to the Company's representative attending the meeting. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration, including the approval of the annual report and accounts. Proxy votes are announced after each proposed resolution is voted on by a show of hands.

Notice of general meetings and related documentation are sent to shareholders generally at least 14 (but up to 35) days in advance of such meeting (as permitted by Israeli Companies Law).

The Board have not considered it necessary to take steps to ensure they understand the views of the Company's major shareholders as those shareholders have had representation on the Board during the accounting period.

SHARES IN PUBLIC HANDS

To the date of the publication of the reports, and to the best of the knowledge of the Company pursuant to public information available to the Company, the Company has maintained a free float as required by the Listing Rules, namely at least 25% of the Company's issued share capital was held by EEA persons. As of the date of issuing these financial statements the Company's issued share capital consists of 129,340,252 Ordinary Shares and 11,237,902 Ordinary Shares held in treasury.

SHAREHOLDERS' RIGHTS

The Company has one class of ordinary shares in issue of NIS0.01 each, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The total issued share capital of the Company as of the date of the report is 140,578,154 of which, 129,340,252 ordinary shares are outstanding.

SHAREHOLDERS' DUTIES

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards a company in which he holds shares and towards other shareholders and to refrain from abusing his power in the respective company. The Company's articles of association represent the rules of contract between the Company and its shareholders and among shareholders themselves.

MAJOR SHAREHOLDINGS

As at 20 March 2019, being the most recent practicable date prior to the publication of this report, the major shareholders and number of shares held (beneficially or otherwise) as notified to the Company in writing by the respective shareholders under the Disclosure and Transparency Rules:

| | Number of Shares | Percentage Held |
|--|------------------|-----------------|
| Joseph Williger together with his private companies, Y.M Dekel holdings and Investments and Yossi Willi Management and Investment Ltd. | 32,384,880 | 25.04 |
| Zvi Williger and Zvi and Partners | 28,843,074 | 22.3 |
| BGI Group | 33,878,451 | 26.19 |
| Public (*) | 35,533,846 | 27.48 |

(*) To the best knowledge of the Company and according to publications of BGI Investments (1961) Ltd. along with its subsidiaries and its direct controlling

shareholder, T'aaman (the "**BGI Group**") at the Tel Aviv Stock Exchange, as of the day hereof, owns 26.19% of the Company's shares.

OFFICE HOLDERS' REMUNERATION

In accordance with Section 267A of the Israeli Companies Law (under Amendment 20), and the Companies Regulation (Easements on the mandatory requirement for Compensation Policy)- 2013, the Company is required to approve a remuneration policy, which prescribes the principles pursuant to which the Company's directors and officers are compensated (the "**Remuneration Policy**"). The Remuneration Policy was approved by the Board and following the evaluation and recommendation of the Company's Remuneration Committee on 17 June 2018.

The Remuneration Policy shall be effective for three years as of the date of its approval by the Board and then, once every three years, will be presented for the renewed approval by the competent committees of the Company (being, in this case, the Company's Remuneration Committee and the Board), in accordance with Section 267A(d) of the Israeli Companies Law and the Companies Regulation (Easements on the mandatory requirement for Compensation Policy)- 2013.

Summary of the key terms of the Remuneration Policy

Office holders' remuneration plans are designed to reflect their duties and responsibilities within the Company and to contain targets that are set for them in the context of promoting the Company's goals, its business plan and its policies in the short and long-term.

The Remuneration Policy's goals are:

- (a) the promotion of the Company's goals, its business plans and its policy in the short- and long-term;
- (b) the creation of appropriate incentives for the office holders, considering, inter alia, the Company's risk management policy; and
- (c) the recruitment and retention of high-quality managers who form the foundation of the Company's management, its continued development and success.

In setting the terms of employment for office holders, the Remuneration Policy takes into account:

- (a) the skills, expertise, professional experience, education and achievements of the candidate or incumbent office holder;
- (b) the duties, responsibilities, term of employment of and previous agreements with the office holder (in the case of an existing office holder);
- (c) the Company's size and the nature of its business;
- (d) the recommendations of the office holder's supervisor;
- (e) the office holder's contribution to achieving the Company's targets and maximising its profits (with reference to variable remuneration components);
- (f) a comparison with: (i) the remuneration of office holders at a similar level in the Company (insofar as relevant); (ii) the salary of the previous office holder in the same position (insofar as relevant); (iii) the average salary and the median salary of the Company's employees and contract workers engaged by the

Company. In this context, the effect of any disparity between the terms of employment of the office holders and those of the Company's other employees at the Company will be examined;

- (g) a periodic review of the remuneration of office holders in similar positions at similar companies. Similar companies for this purpose will be public companies similar to the Company in terms of the size and nature of its business. Key financial data, such as the market capitalisation, total assets and revenue will also be considered. The Company shall aim to have no less than eight companies in its comparison group at any one time; and
- (h) the Company's financial position.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is set by the Remuneration Committee and approved by the Audit Committee and the Board (subject to the approval at the annual general meeting) and in accordance with the Company's Remuneration Policy.

Non-executive directors are entitled to fees of £20,000 per annum, paid quarterly. These fees have been determined with reference to available information on the fees paid to non-executive directors in other companies of broadly similar size, market cap and complexity. Remuneration of non-executive directors did not include share options or other performance-related elements. Non-executive directors were also entitled to reimbursement of reasonable out-of-pocket expenses.

Each director (excluding the External Directors) is subject to re-election at each annual general meeting. The two External Directors are appointed, as required by Israeli law, for a term of three years and may be appointed for two additional three-year term.

None of the directors is involved in any discussion with the Board or any committee of the Board relating to their own remuneration, nor do they participate in any vote on their remuneration by the Board or any committee of the Board unless the discussions are relating to general matters affecting the majority of the directors.

No share options were granted to the non-executive directors who held office during 2017 and of the date of this report.

B.S.D CROWN LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

B.S.D CROWN LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

IN NIS

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INDEPENDENT AUDITOR'S REPORT To the shareholders of B.S.D. Crown Ltd.

Opinion

We have audited the accompanying consolidated financial statements of B.S.D. Crown Ltd. (the "Company") and its subsidiaries (the: "Group"), which comprise the statement of financial position as of December 31, 2018, the related statements of comprehensive income, changes in equity and cash flow for the year ended December 31, 2018, 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 of December 31, 2018, its financial performance and its cash flows for the year ended December 31, 2018 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 consolidated 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 26(B) of the financial statements describing a Plea Agreement served under an amended indictment against former controlling shareholders of the Company. Under the Plea Agreement, the former controlling shareholders were convicted. Similarly, we draw attention to Note 18(A)(4) of the financial statements describing ongoing lawsuit, against the Company's former directors and former officers.

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Key Audit Matters

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

| <i>Key Audit Matter</i> | <i>How the matter was addressed in our audit</i> |
|---|--|
| <p>Inventory:</p> <p>The Company's subsidiary holds inventory for a total amount of 49.3 million NIS. The related disclosure appears in Note 11 to the financial statements.</p> <p>A provision for slow moving inventory is included, which involves a high degree of judgement by management.</p> <p>Inventory is considered to be a key audit matter due to the significance of the balance to the Group as a whole, together with high level of judgment required by management in assessing the value of the provision for slow moving inventory.</p> | <p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> - We reviewed the design and implementation of controls surrounding the assessment of the provision for slow moving inventory by management. -We gained an understanding of policies applied for calculation of the provision and evaluated the consistency of the methodology applied on calculation of the provision for slow moving inventory with prior periods. -We performed an observation of inventory during the inventory count to identify goods which seem to be unsalable. - We made inquiries of sales and operations personnel about items which were identified by management as salable. -We have reviewed sale transactions, after the end of the reporting period, of items which management has identified as saleable. - We have conducted substantive procedures to assess the completeness and accuracy of the calculation of the provision and the related underlying data. - We have assessed the adequacy of the provision by testing management's calculation and checking whether it was made consistently with the above mentioned policies. - We considered the adequacy of the Company's disclosures with respect to the treatment of inventories in the financial report. |

| | |
|--|---|
| <p>Revenue recognition:</p> <p>As described in note 2(F) of the consolidated financial statements, the Company has applied the new standard IFRS 15 – “Revenue from Contracts with Customers”</p> <p>According to the new standard, revenues from the sale of goods are recognized when control over the goods is transferred to the customer. Revenue is recognized in the consolidated statements of profit or loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if relevant, can be measured reliably.</p> <p>Approximately 99.9% of the revenues in the financial statements derive from the sale of goods by a subsidiary of the Company.</p> <p>Additionally, the Company's sales may be subject to chargebacks by the Company's customers. The provision for such chargebacks involves estimation and judgment by management.</p> <p>Therefore, the risk in relation to the chargebacks provision being misstated is also considered to be a key audit matter.</p> | <p>Our procedures in respect of this area included:</p> <ul style="list-style-type: none"> - We reviewed the design and implementation of controls in Company's subsidiary surrounding revenue recognition and revenue cut off. - We reviewed the revenue recognition policy applied by the Company's subsidiary for compliance with the IFRS requirements in general, and the new standard IFRS 15 in particular. - We performed an analysis of goods returned after the end of the reporting period, in comparison to the months before the end of the reporting period and to prior year. - We performed tests of details and substantive analytical procedures to evaluate the appropriateness of the provision for chargebacks from customers. |
|--|---|

Other information

Management and directors are responsible for the other information. The other information comprises the information contained in the annual report and financial statements for the year ended December 31, 2018, 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the



consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 consolidated 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 consolidated 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 (UK) 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 consolidated financial statements.

As part of an 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 consolidated 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

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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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 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.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

David Wertheimer
Partner
Tel-Aviv, Israel
March 28, 2019

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

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B.S.D CROWN LTD.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| | Note | 31 December | |
|---|-------------|-------------------------|----------------|
| | | 2018 | 2017 |
| | | NIS in thousands | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 6 | 139,544 | 134,888 |
| Short-term deposits | 7 | - | 40 |
| Financial assets at fair value through profit or loss | 8 | 149,402 | 141,720 |
| Trade receivables | 9 | 98,017 | 85,942 |
| Other receivables and prepaid expenses | 10 | 5,217 | 12,078 |
| Inventories | 11 | 49,289 | 39,899 |
| Total current assets | | <u>441,469</u> | <u>414,567</u> |
| NON-CURRENT ASSETS: | | | |
| Long term deposits | 7 | 1,277 | 766 |
| Property, plant and equipment, net | 12 | 46,115 | 48,179 |
| Intangible assets: | 5 | | |
| Customer relationships | | 10,736 | 13,212 |
| Supplier relationships | | 882 | 3,534 |
| Brands | | 2,037 | 2,909 |
| Total non-current assets | | <u>61,047</u> | <u>68,600</u> |
| Total assets | | <u>502,516</u> | <u>483,167</u> |

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

B.S.D CROWN LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | 31 December | |
|--|-------------|-------------------------|-------------|
| | Note | 2018 | 2017 |
| | | NIS in thousands | |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | 14 | 16,159 | 13,330 |
| Other accounts payable | 15 | 13,260 | 11,978 |
| Employee benefit liabilities, net | 16 | 2,723 | 2,322 |
| Total current liabilities | | 32,142 | 27,630 |
| NON-CURRENT LIABILITIES: | | | |
| Employee benefit liabilities, net | 16 | 834 | 1,122 |
| Deferred taxes | 22 | 1,751 | 5,544 |
| Total non-current liabilities | | 2,585 | 6,666 |
| EQUITY: | | | |
| | 20 | | |
| Share capital | | 1,349 | 1,349 |
| Share premium | | 1,690,591 | 1,692,120 |
| Treasury shares | | (126,747) | (126,747) |
| Reserve from transactions with non- controlling interests | | (3,664) | (3,307) |
| Reserve from translation of financial statements of foreign operation | | 600 | 655 |
| Reserve from benefit employee | | (265) | (397) |
| Adjustments arising from initial translation of the Company financial statements | | 85,279 | 85,279 |
| Accumulated deficit | | (1,420,256) | (1,427,537) |
| Equity attributable to Company's equity holders | | 226,887 | 221,415 |
| Non- controlling interests | | 240,902 | 227,456 |
| Total equity and non-controlling interests | | 467,789 | 448,871 |
| Total liabilities and equity | | 502,516 | 483,167 |

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

28 March, 2019

| | | | |
|---|--|--|--|
| Date of approval of the financial statements | Joseph Williger Chairman of the board | Shlomo Wertheim Chairman of the Audit Committee | Moran Attar Chief Financial Officer |
|---|--|--|--|

B.S.D CROWN LTD.**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | Note | 31 December | |
|--|------|---------------|---------------|
| | | 2018 | 2017 |
| <u>NIS in thousands (except gain (loss) per share)</u> | | | |
| Revenues | | 338,245 | 312,354 |
| Cost of sales | 21A | (242,826) | (240,597) |
| Gross profit | | <u>95,419</u> | <u>71,757</u> |
| Selling expenses | 21B | 47,188 | 45,591 |
| General and administrative expenses | 21C | 21,591 | 24,026 |
| Other income | 21D | (1,182) | (167) |
| Total operating expenses | | <u>67,597</u> | <u>69,450</u> |
| Operating income | | 27,822 | 2,307 |
| Financial income | 21E | 14,038 | 13,505 |
| Financial expense | 21E | (14,895) | (5,097) |
| Income before taxes on income | | 26,965 | 10,715 |
| Taxes on income | 22B | (6,436) | (4,217) |
| Income | | <u>20,529</u> | <u>6,498</u> |
| <u>Other comprehensive income (loss) may be reclassified to profit or loss in subsequent periods, net of tax :</u> | | | |
| Exchange differences on translating of foreign operation | | (55) | (27) |
| <u>Other comprehensive income (loss) will not to be reclassified to profit or loss in subsequent periods, net of tax :</u> | | | |
| Remeasurement loss from defined benefit plans | | <u>331</u> | <u>(647)</u> |
| Total other comprehensive (loss) income, net of tax | | <u>276</u> | <u>(674)</u> |
| Total comprehensive (loss) income for the year | | <u>20,805</u> | <u>5,824</u> |
| Net (loss) income attributable to: | | | |
| Equity holders of the Company | | 7,281 | (1,866) |
| Non- controlling interests | | <u>13,248</u> | <u>8,364</u> |
| Net income (loss) | | <u>20,529</u> | <u>6,498</u> |
| Total comprehensive (loss) income attributable to: | | | |
| Equity holders of the Company | | 7,358 | (2,290) |
| Non- controlling interests | | <u>13,447</u> | <u>8,114</u> |
| Total comprehensive (loss) income for the year | | <u>20,805</u> | <u>5,824</u> |
| Basic and diluted income (losses) per share (in NIS): | 23 | <u>0.06</u> | <u>(0.02)</u> |

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

B.S.D CROWN LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---------------|-----------------|---|--|---|---------------------------------------|---------------------|-------------|---------------------------|--------------|---------|
| Share capital | Share premium | Treasury shares | Reserve from transactions with non-controlling interest | Equity-settled employee benefits reserve | Reserve from translation of financial statements of foreign operation | Initial translation financial reserve | Accumulated deficit | Total | Non-controlling interests | Total equity | |
| NIS in thousands | | | | | | | | | | | |
| Balance as of 1 January 2018 | 1,349 | 1,692,120 | (126,747) | (3,307) | (397) | 655 | 85,279 | (1,427,537) | 221,415 | 227,456 | 448,871 |
| Net income | - | - | - | - | - | - | 7,281 | 7,281 | 13,248 | 20,529 | |
| Other comprehensive (loss) income: | | | | | | | | | | | |
| Exchange differences on translating foreign operation | - | - | - | - | (55) | - | - | (55) | - | (55) | |
| Remeasurement loss from defined benefit plans | - | - | - | 132 | - | - | - | 132 | 199 | 331 | |
| Total comprehensive (loss) income | - | - | - | - | 132 | (55) | 7,281 | 7,358 | 13,447 | 20,805 | |
| Transaction with non-controlling interest-purchase shares of subsidiary | - | - | - | (357) | - | - | - | (357) | (1) | (358) | |
| Proceeding from Treasury shares (see Note 20(A)(2)) | - | (1,529) | - | - | - | - | - | (1,529) | - | (1,529) | |
| Balance as of 31 December 2018 | 1,349 | 1,690,591 | (126,747) | (3,664) | (265) | 600 | 85,279 | (1,420,256) | 226,887 | 240,902 | 467,789 |

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

B.S.D CROWN LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| Attributable to equity holders of the Company | | | | | | | | | | | |
|---|----------------------|------------------------|--|---|--|---|----------------------------|--------------|----------------------------------|---------------------|---------|
| <u>Share capital</u> | <u>Share premium</u> | <u>Treasury shares</u> | <u>Reserve from transactions with non-controlling interest</u> | <u>Equity-settled employee benefits reserve</u> | <u>Reserve from translation of financial statements of foreign operation</u> | <u>Initial translation financial statements reserve</u> | <u>Accumulated deficit</u> | <u>Total</u> | <u>Non-controlling interests</u> | <u>Total equity</u> | |
| NIS in thousands | | | | | | | | | | | |
| Balance as of 1 January 2017 | 1,349 | 1,890,454 | (344,989) | (3,307) | - | 682 | 85,279 | (1,425,671) | 203,797 | 223,861 | 427,658 |
| Net (loss) income | - | - | - | - | - | - | (1,866) | (1,866) | 8,364 | 6,498 | |
| Other comprehensive (loss) income: | | | | | | | | | | | |
| Exchange differences on translating foreign operation | - | - | - | - | (27) | - | - | (27) | - | (27) | |
| Remeasurement loss from defined benefit plans | - | - | - | - | (397) | - | - | (397) | (250) | (647) | |
| Total comprehensive (loss) income | - | - | - | - | (397) | (27) | (1,866) | (2,290) | 8,114 | 5,824 | |
| Subsidiary's dividends declaration and payment to non-controlling interests | - | - | - | - | - | - | - | - | (4,519) | (4,519) | |
| Treasury shares (see Note 20(A)(2)) | - | (198,334) | 218,242 | - | - | - | - | 19,908 | - | 19,908 | |
| Balance as of 31 December 2017 | 1,349 | 1,692,120 | (126,747) | (3,307) | (397) | 655 | 85,279 | (1,427,537) | 221,415 | 227,456 | 448,871 |

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

B.S.D CROWN LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | |
|---|-------------------------------|-------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| <u>Cash flows from operating activities:</u> | | |
| Income (loss) for the period | 20,529 | 6,498 |
| Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities: | | |
| Gain from investment in foreign bonds (Note 26(C)(7)) | (3,970) | (1,398) |
| Depreciation and amortisation (Note 5, Note 12) | 9,867 | 10,199 |
| Gain on disposal of fixed assets | (69) | (361) |
| Increase (Decrease) employee benefit liabilities, net | 43 | (163) |
| Change in financial assets at fair value through profit or loss | 14,229 | (7,402) |
| Decrease in deferred tax | (3,793) | (51) |
| Current tax expenses | 10,229 | 4,268 |
| | 26,536 | 5,092 |
| Change in asset and liability items: | | |
| Decrease (increase) in inventories | (9,390) | 2,014 |
| Decrease (increase) in trade receivables | (12,075) | (5,696) |
| Decrease in receivables and prepaid expenses | (527) | 1,951 |
| Increase (decrease) in trade payables, other payables and accrued expenses | 4,474 | (253) |
| | (17,518) | (1,984) |
| Cash received (paid) during the year: | | |
| Interest received | (47) | - |
| Income taxes paid, net | (4,344) | (5,926) |
| | (4,391) | (5,926) |
| Net cash provided by operating activities | 25,156 | 3,680 |

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

B.S.D CROWN LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 31 December
2018 **2017**

NIS in thousands

Cash flows from investing activities:

| | | |
|---|----------|----------|
| Proceeds from sale of property and equipment | 415 | 361 |
| Purchase of property and equipment | (2,149) | (2,653) |
| Investment in short-term and long-term deposits | (424) | (20) |
| Proceeds from sale of (investment in) financial assets at fair value through profit or loss | (21,911) | (30,165) |
| Proceeds from (investment in) foreign bonds (Note 26(C)(7)) | 3,970 | 2,168 |
| Net cash provided by (used in) investing activities | (20,099) | (30,309) |

Cash flows from financing activities:

| | | |
|--|---------|----------|
| Issue of treasury shares | (43) | - |
| Repurchase of shares from non – controlling interest of subsidiary by Company | (358) | - |
| Dividend paid by subsidiary | - | (4,519) |
| Issue of treasury share (Note 20(A)(2)) | - | 18,377 |
| Net cash (used in) provided by financing activities from continuing operations | (401) | 13,858 |
| Net increase (decrease) in cash and cash equivalents | 4,656 | (12,771) |
| Cash and cash equivalents at the beginning of the year | 134,888 | 147,659 |
| Cash and cash equivalents at the end of the year | 139,544 | 134,888 |

(b) Non-cash transactions:

| | | |
|--|---|-------|
| Issue of treasury shares (Note 20(A)(2)) | - | 1,531 |
|--|---|-------|

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

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

- A. B.S.D Crown Ltd. ("BSD" or "the Company") is a corporation registered in Israel. The address of its registered office is 7 Menachem Begin Road, Ramat Gan 5268102, Israel. The Company's shares are listed on the Official List of the London Stock Exchange on the Standard List ("LSE") under the symbol BSD. The Company is engaged in managing its investments that comprise mainly an investment in a subsidiary which imports markets and distributes food products (see sub-section (B) below).
Since 5 May 2017 the Companies are controlled by Mr. Joseph Williger. For further information see Note 26(A).
- B. In May 2014 the Company completed an acquisition of shares (approximately 62%) of Willi-Food Investments Ltd. ("WFI") for an aggregate cash consideration of NIS 287 million (the "Acquisition"). WFI controls G.Willi-Food International Ltd ("WFINT") and together with its subsidiaries are engaged in the import, marketing and distribution of food products, mainly in Israel. The financial statements of WFI and its subsidiaries (the "WFI Group") have been consolidated in these consolidated financial statements.
- C. On 14 November 2018, WFINT's Board of Directors decided to enter into the field of non-bank credit ("extending credit"). These activities will be funded out of WFINT's own resources and will be carried out in parallel to WFINT's existing activities of import, marketing and distribution of food products. In February 2019, WFINT extended a first loan of NIS 18 million through W.F.D. (Import, Marketing and Trading) Ltd., a fully-owned and controlled subsidiary of WFINT, which is expected to take charge of the credit extending activities.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation of the consolidated financial statements:

1) Measurement basis:

The consolidated financial statements have been prepared on the historical cost basis, except of certain financial assets measured at fair value through profit or loss which are measured at fair value.

2) Basis of preparation of the consolidated financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

3) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has right, to variable returns from its involvement with the investee; and
- has the ability to use its power to effect its returns.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Basis of presentation of the consolidated financial statements (Cont.):

3) Basis of consolidation (Cont.):

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transaction between members of the Group are eliminated in full on consolidation.

4) Functional currency and presentation currency:

a. Exchange rates and the linkage basis:

- 1) Balances in foreign currencies or which are linked thereto are included in the financial statements according to the exchange rates published by the Bank of Israel and which were in effect at the end of the reporting period.
- 2) Balances linked to the Consumer Price Index are presented in accordance with the last known index at the end of the reporting period (the monthly index preceding the month of the financial statement) or according to the index with respect to the last months of the reporting period (the monthly index for the month in which the date of the financial statement falls), in accordance with the terms of the transaction.
- 3) Below are the data on the exchange rate of the dollar and the index:

| | Exchange rate For the dollar (NIS per \$1 US) | Exchange rate For the Euro (NIS per \$1 Euro) | Israeli CPI (*) Known index Points |
|--|--|--|--|
| Date of the financial statements: | | | |
| For December 31, 2018 | 3.75 | 4.29 | 101.5 |
| For December 31, 2017 | 3.46 | 4.15 | 100.3 |
| Percent change: | | | |
| For year ending | % | % | % |
| December 31, 2018 | 8.38 | 3.37 | 1.2 |
| December 31, 2017 | (9.9) | 2.7 | 0.3 |

(*) 2016 basis

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Basis of presentation of the consolidated financial statements (Cont.):

4) Functional currency and presentation currency (Cont.):

b. Foreign currencies

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into the Company's currency using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

5) Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognising a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognised at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39, "Financial Instruments: Recognition and Measurement". Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

6) Inventories:

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Basis of presentation of the consolidated financial statements (Cont.):

6) Inventories (Cont.):

completion and estimated selling costs. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

The cost of purchased merchandise and products is determined by using the weighted average cost method.

7) Leases:

Leases are classified as finance leases whenever the terms of the lease transfer all the significant risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

A. Lease of land and vehicles by the Group

Finance lease:

In finance lease transactions in which the Group leases properties from another entity, the Group recognizes at the inception of the lease an asset at the lower of its fair value and the present value of the minimum lease payments. The liability to transfer the minimum lease payments to the lessor is included in the statement of financial position as a finance lease obligation. In subsequent periods, the current payments for the finance lease are allocated between the finance element and the liability element so as to achieve a constant rate of interest on the remaining liability. The portion that was allocated to the finance element is recognized in the statement of profit or loss.

Lease of land (other than investment property at fair value) from the Israel Land Administration for which all lease payments have been fully paid in advance are classified as finance leases. Deferred lease payments that have been paid at the inception of the lease are presented in the statement of financial position under the "property, plant and equipment" item and are recognized on a straight-line basis over the remaining lease term, while eliminating the extension option.

Operating lease:

Operating lease payments are recognized on a straight-line basis over the lease term. In lease agreements where lease payments are not paid at the inception of the lease or where the lease payments are reduced, and additional benefits are received from the lessor, the Group recognizes the expenses on a straight-line basis over the lease term.

As to the publication of a new standard on leases – IFRS 16 "Leases", see Note 4(1).

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Basis of presentation of the consolidated financial statements (Cont.):

8) Property, plant and equipment:

Property, plant and equipment are measured at cost, including direct attributable costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

| | <u>%</u> | <u>Mainly %</u> |
|--------------------------------|----------|-----------------|
| Land(*) | 2 | |
| Buildings | 4 | |
| Motor vehicles | 15-20 | 20 |
| Office furniture and equipment | 6-15 | 15 |
| Computers | 20-33 | 33 |
| Mechanical equipment | 10 | |

(*) the land is leased for 50 years from the Israeli land authority.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

9) Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Expenditures relating to internally generated intangible assets, excluding capitalised development costs, are recognised in profit or loss when incurred.

Intangible assets with a finite useful life are amortised over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each year end.

If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortised systematically over its useful life.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Basis of presentation of the consolidated financial statements (Cont.):

9) Intangible assets: (Cont.)

The intangible assets are amortised over their estimated useful life as follows:

| | |
|------------------------|---------|
| Customer relationships | 9 years |
| Supplier relationships | 5 years |
| Brands | 7 years |

10) Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher

of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, other than goodwill, 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 recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

B. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

C. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Financial assets:

(1) Accounting treatment through December 31, 2017:

(1.1) General

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Investments in financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition:

- Financial assets 'at fair value through profit or loss' (FVTPL)
- Loans and receivables

(1.2) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(1.3) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest Income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(1.4) Impairment of financial assets

Financial assets, except for those classified as financial assets at fair value through profit and loss, are tested at the end of the reported period for any impairment indicator. Such impairment arises when there is objective evidence that an impairment has been incurred as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) had an adverse impact on the estimated future cash flows of the investment.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Financial assets: (Cont.)

(1) Accounting treatment through December 31, 2017 (Cont.):

(1.4) Impairment of financial assets (Cont.)

In respect of all other financial instruments, including receivables in respect of finance lease, impairment indicators may include:

- Significant financial difficulties of the borrower;
- Default on current principal or interest payments;
- Probability that the borrower will enter bankruptcy or financial reorganization;

In respect of certain financial assets, such as receivables for which no impairment indicators have been identified, the Group assesses whether impairment has been incurred on a Group basis, based on past experience with groups of receivables with similar characteristics, change in the number of delayed payments and economic changes attributable to the industry and the economic environment in which they operate.

As for financial assets which are presented at amortized cost, the impairment is recognized as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at their original effective interest rate.

If in a subsequent period the amount of the impairment loss of a financial asset decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, all or part of the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets except trade receivables, whose carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

(2) Accounting treatment through December 31, 2018:

(2.1) General

IFRS 9 – “Financial Instrument” is applicable to reporting periods starting on 1 January 2018. Comparative figures in respect of the year ended 31 December, 2017 is presented in accordance with the provisions of IAS 39, which was in force before the application of IFRS 9.

The first-time application of the standard did not have a material effect on the financial assets.

Financial assets are recognized in the Group’s statement of financial position when the Group becomes a party to the contractual provisions of the instrument, using settlement date accounting.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Financial assets: (Cont.)

(3) Accounting treatment through December 31, 2018 (Cont.):

(2.1) General (Cont.)

Financial assets were classified in the categories detailed below based on the Group's business model for managing the financial assets and based on the contractual cash flow characteristics of the financial asset:

- Financial assets at fair value through profit or loss; and
- Debt instruments at amortized cost.

(2.2) Financial assets at fair value through profit or loss:

All other financial assets, including debt instruments that were designated to fair value through profit or loss upon initial recognition in order to eliminate or significantly reduce measurement or recognition inconsistency, were initially measured at fair value and any changes in fair value subsequent to initial recognition were recognized in profit or loss. Transaction costs directly attributable to those assets were recognized in profit or loss as incurred.

(2.3) Debt instruments at amortized cost

Debt instruments at amortized cost - debt instruments held according to a business model whose objective is achieved by collecting the contractual cash flows and whose contractual terms give rise to cash flows that are solely payments of principal and interest, were initially measured at fair value plus directly attributable

(2.3) Debt instruments at amortized cost (Cont.)

transaction costs, except for receivables that were initially measured at their transaction price. Subsequent to initial recognition, these assets were measured at amortized cost.

When, and only then, the Group changes its business model for managing financial assets it shall reclassify assets between categories.

(2.4) Impairment of financial assets:

The Group recognized impairment loss allowance for expected credit losses in respect of contracts with customers. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. The impairment loss allowance reduces the carrying amount of the asset.

The Group measures the expected credit losses such that they reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and reasonable and supportable information which is reasonably available at the reporting date without undue cost or effort including information about past events, current conditions and forecasts of future economic conditions. The Group update the provision for impairment at the end of each reporting period and changes in the recognition are recognized in profit or loss as impairment gain or loss.

The Group measured credit losses at the amount of the lifetime expected credit losses of the instrument in respect of receivables. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Financial assets: (Cont.)

(2) Accounting treatment through December 31, 2018 (Cont.):

(2.4) Impairment of financial assets (Cont.):

The Group measured expected credit losses at the amount of the lifetime expected credit losses of the instrument in respect of receivables, assets arising from contracts with customers and lease receivables on a collective basis. The Group aggregates receivables and assets in respect of contracts with customers according to shared credit risk characteristics.

The Group derecognizes all or a portion of the gross carrying amount of a financial asset when it no longer reasonably expects to recover the asset.

At the end of every reporting period, the Group assesses whether the credit risk of a financial asset has significantly increased since the date of initial recognition by comparing the risk of a default event as of reporting date to the risk of a default event as of the date of initial recognition. The Group considers a default event to have taken place when it is expected that the debtor will not pay the full amount of the debt to the Group or when contractual payments are more than 90 days overdue. In order to make such an assessment the Group takes into account supportable information (quantitative and qualitative), which is reasonably available, that may be obtained without undue cost or effort, including past experience and forward-looking information. Among other things, the Group takes into account the following information:

- Internal and external credit ratings;
- Significant changes in external market indicators of credit risk in respect of a particular financial instrument;
- Existing or forecast adverse changes in business, financial or economic conditions or in the regulatory, economic or technological environment that are expected to cause a significant change in a borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- Existing or forecast significant change in the borrower's operating results;
- Significant increase of the credit risks of other financial instruments of the same borrower;

Furthermore, the Group assumes that the credit risk of a financial instrument has not increased significantly since the date of initial recognition if the Group determined at the end of the reporting period that the financial instrument has low credit risk, i.e., the financial instrument has a low default risk, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and if adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the borrower's ability to pay those obligations.

E. Financial liabilities and equity instruments issued by the Group:

(1) Classification as a financial liability or as an equity instrument

Liabilities and equity instruments issued by the Group are classified as financial liabilities or as equity instruments in accordance with the nature of the contractual arrangements and the definition of a financial liability and an equity instrument.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Financial liabilities and equity instruments issued by the Group: (Cont.)

(2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the Group's assets after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received net of expenses that are directly attributable to the issuance of these instruments.

A purchase of the Group's equity instruments by the Group is recognized and deducted directly in equity. No gain or loss is recognized upon purchase, sale, issuance or cancellation of the Group's equity instruments.

(3) Financial liabilities

Financial liabilities are presented and measured based on the following classification:

- Financial liabilities at fair value through profit or loss.
- Financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is either held for trade or designated as a financial liability at fair value through profit or loss.

A financial liability is classified as held for trade, if:

- It was incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee)

A financial liability, except for a financial liability held for trade or contingent consideration from a business combination that is not classified as equity, is classified as a financial liability at fair value through profit or loss upon initial recognition, when:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would have otherwise arisen had it not been for this designation; or
- The financial liability is part of a group of financial liabilities or financial assets and financial liabilities and is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy of the Group, and information about the group is provided internally on that basis to the Group's key management personnel; or
- It is part of a contract containing one or more embedded derivatives and the Group may designate the entire hybrid contract (asset or liability) as at fair value through profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Financial liabilities and equity instruments issued by the Group:

(3) Financial liabilities (Cont.)

Financial liabilities at fair value through profit or loss are stated at fair value. Any gain or loss arising on remeasurement of fair value is recognized in profit or loss. The net gain or loss recognized in the statement of profit or loss incorporates interest paid on financial liabilities and is included in the finance expenses item within the statement of profit or loss.

(4) Treasury shares:

The cost of Company shares held by the Company or its consolidated companies is deducted from shareholders' equity as a separate component.

F. Revenue recognition:

(1) Accounting treatment through December 31, 2017

Revenue is measured at the fair value of the consideration received and/or the consideration that the Group is entitled to receive for revenue from sale of goods in the ordinary course of business. Revenue is presented net of estimated returns, discounts, etc.

(1.1) Revenue from sale of goods

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- The Group transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be reliably measured,
- it is probable that future economic benefits will flow to the Group: and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably;
- Revenue from the sale of goods are recognized on the date on which they are delivered and legal ownership is transferred.

(2) Accounting treatment through December 31, 2018

IFRS 15 – “Revenue from Contracts with Customers” is mandatory for reporting periods starting on 1 January 2018. The Comparative figures relating for the year ended 31 December 2017 is presented in accordance with the provisions of IAS 18 which was effective prior to the application of IFRS 15.

The first-time application of the standard had no impact on the financial statements.

The standard determines a five-step model for the application of the standard. In accordance with the model, revenues from contracts with customers are recognized in the statement of comprehensive income when control over the goods or services is transferred to the customer. Revenue is measured and recognized at the fair value

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Revenue recognition (Cont.):

(2) Accounting treatment through December 31, 2018 (Cont.)

of the consideration receivable according to the terms of the contract, net of amounts collected in favor of third parties (such as taxes). Revenue is recognized in the consolidated statements of profit or loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if relevant, can be measured reliably.

(2.1) Recognition of revenue from sale of goods:

The Group is mainly engaged in the sale of food products in the Israeli market. Revenue from sale of goods is recognized when control of the goods has transferred to the buyer, being when the goods arrived to the buyer's specific location. Upon receipt of the goods, the buyer has full discretion over the distribution channels and price to sell the goods; the buyer has principal responsibility upon sale of the goods and it bears the risks of obsolescence and/or loss of the goods. After delivery of the goods, the Group recognizes receivables in respect of the sale since as of that point in time the consideration is unconditional. In most cases, the Group enables specific customers to return products which they have not sold, despite that there is no agreement between the Group and its customers regarding such returns and the Group does not have such policy. Accordingly, the Group recognizes a provision for return of goods against a decrease in revenues and a corresponding inventory asset against the right to return the goods. The amount of the asset is determined based on the lower of cost of net realizable value. Past experience is used by the Group to estimate the number of returns. Based on past experience, the Group estimates, with a high level of probability that no significant portion of revenue recognized in respect of sale of goods will be reversed.

(2.2) Interest revenue:

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(2.3) Dividend revenue:

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

G. Taxes on income:

The tax results of current or deferred taxes are recognized in profit or loss, except to the extent that they refer to items which are recognized in other comprehensive income or equity.

1) Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability payable in respect of previous years.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Taxes on income: (Cont.)

2) Deferred taxes:

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

Deferred tax balances are measured at the tax rate that is expected to apply when the taxes are reversed in profit or loss or equity, based on tax laws that have been enacted or substantively enacted by 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 utilised. Temporary differences for which deferred tax assets had not been recognised are reviewed at the end of each reporting period and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group's policy not to initiate distribution of dividends that would trigger an additional tax liability.

Deferred taxes are offset 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 and the Group intends to settle its current tax assets and liabilities on a net basis.

H. Treasury shares:

Company shares held by the Company and/or subsidiaries are recognised at cost and deducted from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognised directly in equity.

I. Employee benefits liabilities:

The Group has several employee benefit plans:

1) Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised 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.

The Group operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Employee benefits liabilities: (Cont.)

1) Short-term employee benefits: (Cont.)

pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Group.

Remeasurements, comprising of actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in accumulated deficit and are not reclassified to profit or loss in subsequent periods. Whenever the liability is remeasured, any change in fair value is recognized in profit or loss with a corresponding adjustment to the equity settled employee benefit reserve.

J. Earnings per share (EPS):

Basic EPS amounts are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit or loss attributable to Ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

K. Provisions:

A provision in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects part or all of the expense to be reimbursed to the Group, such as in an insurance contract, the reimbursement is recognized as a separate asset only when it is virtually certain that it will be received by the Group. The expense is recognized in profit or loss net of the reimbursed amount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

- A. In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

1) Revenue recognition:

The Group recognized revenues from food product sales of NIS 338,245 thousand in 2018 (2017- NIS 312,354 thousand). Although, in general, the Group does not grant rights of return, it enables for certain customers from time to time to return products. As a result, the Group recognised revenues from these sales with corresponding provisions for returns.

2) Slow moving inventory:

The group records a provision for slow moving inventory in respect of inventory items estimated by management not to be realized due to expiration date. The slow-moving inventory is based on the historic realization rate of the respective item as well as on management's estimate with respect to its future realization rate.

- B. The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1) Legal claims:

In estimating the likelihood of outcome of legal claims filed against the Group, the Group relies on the opinion of its legal counsels. These estimates are based on the best professional judgment of the legal counsels' and management, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates. See Note 18 for additional information.

2) Impairment of intangible assets:

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the Group estimates the projected future cash flows from the continuing use of the cash generating unit (or group of cash-generating units) to which the intangible asset is allocated. See Note 5 for additional information.

3) Useful life of property, plant and equipment:

The Group's management reviews the estimated useful life of terms of property, plant and equipment at the end of each reporting period. During the year to which these accounts relate, there were no changes in the estimates of the useful life of items of property, plant and equipment.

4) Employee benefits:

The current value of the Group's liability for payment of severance compensation and for pension plans for its employees is based on a large number of data, which are determined on the basis of actuarial valuation, while utilizing a large number of assumptions, including the discount rate. Changes in the actuarial assumptions may impact the carrying amount of the Group's liabilities for payment of severance compensation and pension payments. The Group estimates is the discount rate once per year, based on the discount rate of high rated corporate bonds. Other key assumptions are determined based on the prevailing market conditions and on the basis of the Group's accrued experience. For additional details about the assumptions utilized by the Group, see Note 16.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - DISCLOSURE OF NEW STANDARDS

1) IFRS 16 – “Lease”:

The new Standard supersedes IAS 17 "Leases" (the “Standard”) and the related interpretations, and sets out the rules for recognition, measurement, presentation and disclosure of leases in relation to both parties to the transaction, i.e., the customer ('lessee') and the supplier ('lessor'). The Standard does not change the current accounting treatment applied in the lessor’s books of accounts.

In terms of lessee accounting, the new Standard eliminates the existing distinction between operating and financial leases and sets out a uniform accounting model relating to all the types of leases. According to the new model, for every leased asset, the lessee is required to recognize a right-of use asset on the one hand, and a financial lease liability in respect of the lease fees on the other hand.

The provisions for recognizing the asset and liability as described above shall not apply to assets leased for a period of up to 12 months and in relation to leases of low-value assets (such as personal computers).

In view of the above, leases of the Group’s vehicles, which are currently accounted for as operating leases shall be accounted for as assets and liabilities in the Group’s statement of financial position upon application of the Standard.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

Manner of first-time application

As a rule, the Standard will be applied retrospectively, but entities will have the option to opt for certain adjustments under the Standard’s transitional provisions regarding its application to previous reporting periods.

The anticipated quantitative effects:

The Group estimates that it will opt not to retrospectively adjust the comparative figures. Comparative figures relating to the year ended 31 December 2018 will be presented in accordance with the provisions of IAS 17 and its related interpretations.

The Group estimates that it will opt to apply the standard while applying the reliefs available pursuant to the Standard’s transitional provisions, as follows:

- a. The Group will not reassess whether the contract is a lease or includes a lease as of the application date. Therefore, agreements that are currently accounted for as operating leases shall be accounted for in accordance with the provisions of the Standard, whereas the accounting treatment of agreements previously accounted for as service contracts shall not change.
- b. The Group expects to use a single discount rate for a portfolio of leases with similar characteristics.
- c. The Group expects that it will not apply the provisions of the Standard to leases whose term ends within 12 months from the date of first-time application.
- d. The Group expects that it will not include direct initial costs when measuring the right of use asset upon first-time application.

Set forth below are the principal expected effects as of the date of first-time application, as estimated by Group’s management:

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4 - DISCLOSURE OF NEW STANDARDS (Cont.)****1) IFRS 16 – “Lease” (Cont.):**

Principal effects on the Group’s statement of financial position as of 1 January 2019:

| <u>The leased asset</u> | <u>Right of use asset</u> | <u>Lease liability</u> |
|-----------------------------|---------------------------|------------------------|
| <u>NIS in thousands</u> | | |
| Vehicles | 1,675 | (1,675) |
| Total | 1,675 | (1,675) |

The discount rates used in the aforementioned calculations are based on the lessee’s incremental borrowing rate which varies according to the lease’s amount and average duration and the nature of the leased asset. The discount rate range between 2.5% to 3%.

Principal effects on the Group’s statement of profit or loss as of 1 January 2019:(Cont.)

| <u>The leased asset</u> | <u>Decrease in lease expenses pursuant to IAS 17</u> | <u>Increase in depreciation expenses pursuant to IFRS 16</u> | <u>Total increase in income from operating activities</u> | <u>Increase in finance expenses pursuant to IFRS 16</u> | <u>Decrease in tax expenses pursuant to IFRS 16</u> | <u>Total decrease in income for the year</u> |
|-----------------------------|--|--|---|---|---|--|
| <u>NIS in thousands</u> | | | | | | |
| Vehicles | (808) | 780 | 28 | 44 | 4 | (12) |
| Total | (808) | 780 | 28 | 44 | 4 | (12) |

2) IFRIC 22 – “Foreign Currency Transactions and Advance Consideration”

The interpretation applies to foreign currency transactions when an entity recognizes an asset in respect of the payment of advance consideration where the asset that was recognized does not qualify as a monetary item. Pursuant to the interpretation, for purposes of determining the relevant exchange rate, the date of the transaction is the date on which the advance consideration qualifies for recognition in the financial statements.

The amendment is applied prospectively for annual reporting periods beginning on or after 1 January 2018 or thereafter.

Company’s management is of the opinion that the application of the amendment will not have a material effect on the Group’s financial statements.

3) Amendment of IAS 12 – “Taxes on Income” (regarding the income tax consequences of dividends)

The standard clarifies that the impact tax consequences of dividends will be recognized in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were recognized, regardless of whether different tax rate apply to distributed and non-distributed profits.

The amendment is applied prospectively for annual reporting periods beginning on or after 1 January 2019 or thereafter. Early adoption is permitted.

Company’s management is of the opinion that the application of the amendment will not have a material effect on the Group’s financial statements.

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5 - INTANGIBLE ASSETS**

| | Remaining useful life as of 31 December | | | | | | |
|---|--|-------------|----------------------------------|----------------------------------|---------------|--|--------------|
| | 2018 | 2017 | Customer relationship | Supplier relationship | Brands | Non- competition agreements | Total |
| NIS in thousands | | | | | | | |
| Cost: | | | | | | | |
| Balance at 1 January 2017 and 2018 | 22,743 | 13,533 | 6,225 | 4,754 | 47,255 | | |
| Accumulated amortization and impairment: | | | | | | | |
| Balance at 1 January 2018 | 9,531 | 9,999 | 3,316 | 4,754 | 27,600 | | |
| Amortization expense | 2,476 | 2,652 | 872 | - | 6,000 | | |
| Balance at 31 December 2018 | 12,007 | 12,651 | 4,188 | 4,754 | 33,600 | | |
| Balance at 1 January 2017 | 7,051 | 7,343 | 2,444 | 4,560 | 21,398 | | |
| Amortization expense | 2,480 | 2,656 | 872 | 194 | 6,202 | | |
| Balance at 31 December 2017 | 9,531 | 9,999 | 3,316 | 4,754 | 27,600 | | |
| Amortization cost: | | | | | | | |
| At December 31, 2018 | 10,736 | 882 | 2,037 | - | 13,655 | | |
| At December 31, 2017 | 13,212 | 3,534 | 2,909 | - | 19,655 | | |

NOTE 6 - CASH AND CASH EQUIVALENTS

| | 31 December | |
|-----------------------------|--------------------|-------------|
| | 2018 | 2017 |
| NIS in thousands | | |
| Cash | 56,216 | 21,358 |
| Cash equivalents – deposits | 83,328 | 113,530 |
| Cash and cash equivalents | 139,544 | 134,888 |

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 - SHORT-TERM AND LONG-TERM DEPOSITS**

| | 31 December | |
|------------------------|-------------------------|-------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Short term deposits | - | 40 |
| Long term deposits (*) | 1,277 | 766 |

(*) Includes deposit for court procedures, see Note 18(A)(4)

NOTE 8 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December | |
|--|-------------------------|----------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Non-derivative financial instruments at fair value through profit or loss: | | |
| Shares | 32,323 | 44,323 |
| Government loan and other bonds | 110,291 | 83,354 |
| Certificate of participation in mutual funds | 6,788 | 14,043 |
| | <u>149,402</u> | <u>141,720</u> |

For further information regarding the valuation of financial instruments see Note 19

NOTE 9 - TRADE RECEIVABLES

| | 31 December | |
|--|-------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Open accounts (1) | 83,224 | 70,437 |
| Credit card companies | 5 | 70 |
| Checks receivable | 17,158 | 17,816 |
| | <u>100,387</u> | <u>88,323</u> |
| Less - allowance for doubtful accounts (2) | 2,370 | 2,381 |
| | <u>98,017</u> | <u>85,942</u> |

(1) Net from provision for returns of approximately NIS 2.3 million for 2018 (2017- NIS 1.8 million)

(2) Movement in the allowance for doubtful debts

| | 31 December | |
|---------------------------------------|-------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Balance at the beginning of the year | 2,381 | 2,155 |
| Increase (decrease) in doubtful debts | (11) | 226 |
| Balance at the end of the year | <u>2,370</u> | <u>2,381</u> |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TRADE RECEIVABLES (Cont.)

- (3) Before accepting any new customer, the Group assesses the customer's credit quality and defines credit limits. Limits attributed to the Group's customers are reviewed annually or more frequently based on new information received and compliance with payment of past debts. In order to minimize customer credit risk, the Group insures and takes various guarantees (personal, promissory notes and bank guarantees). However, it should be noted that in relation to the majority of the large food marketing chains, the Group does not have any collateral whatsoever.
- (4) The trade receivables balance as of 31 December, 2018, NIS 10,271 thousand a (2017-NIS 7,932 thousand) are due from major customers. The Group does not have other customers, who represent more than 10% of the total balance of trade receivables as of 31 December, 2018.
- (5) The average credit period on sales of goods is 88 days

NOTE 10 - OTHER RECEIVABLES AND PREPAID EXPENSES

| | 31 December | |
|--|-------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Treasury shares purchases (1) | - | 1,492 |
| Prepaid expenses | 952 | 1,519 |
| Government authorities | 312 | 1,064 |
| Income tax receivables | 909 | 6,806 |
| Advances to suppliers | 1,051 | 339 |
| Accrued receivable and interest receivable | 449 | - |
| Receivables from related parties (2) | - | 858 |
| Other | 1,544 | - |
| | <u>5,217</u> | <u>12,078</u> |

(1) See Note 20(A)(2)

(2) 2017- See Note 24(B)(1)

NOTE 11 - INVENTORIES

| | 31 December | |
|---|-------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Finished products (*) | 44,183 | 32,690 |
| Merchandise - products in transit and prepayments | 5,106 | 7,209 |
| | <u>49,289</u> | <u>39,899</u> |

(*) Including provision of NIS 1,681 thousand for slow inventories (2017- NIS 1,834 thousand)

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT, NET

| | Building and land | Motor vehicles | Office furniture and equipment | Computers | Mechanical equipment | Leasehold improvements | Total |
|---|------------------------------|---------------------------|---|------------------|---------------------------------|-----------------------------------|--------------|
| | NIS in thousands | | | | | | |
| Cost: | | | | | | | |
| Cost at January 1, 2018 | 61,730 | 12,208 | 1,995 | 5,599 | 5,076 | 432 | 87,040 |
| Acquisition | 592 | 815 | 65 | 270 | 407 | - | 2,149 |
| Disposals | - | (1,130) | - | - | - | - | (1,130) |
| Cost at December 31, 2018 | 62,322 | 11,893 | 2,060 | 5,869 | 5,483 | 432 | 88,059 |
| Cost at January 1, 2017 | 61,720 | 11,975 | 1,672 | 5,403 | 4,441 | 432 | 85,643 |
| Acquisition | 10 | 1,489 | 323 | 196 | 635 | - | 2,653 |
| Disposals | - | (1,256) | - | - | - | - | (1,256) |
| Cost at December 31, 2017 | 61,730 | 12,208 | 1,995 | 5,599 | 5,076 | 432 | 87,040 |
| Accumulated depreciation: | | | | | | | |
| Accumulated depreciation at January 1, 2018 | 19,441 | 10,049 | 1,031 | 4,757 | 3,530 | 53 | 38,861 |
| Depreciation expense | 2,013 | 1,077 | 85 | 272 | 420 | - | 3,867 |
| Depreciation expenses on disposals | - | (784) | - | - | - | - | (784) |
| Accumulated depreciation at December 31, 2018 | 21,454 | 10,342 | 1,116 | 5,029 | 3,950 | 53 | 41,944 |
| Accumulated depreciation at January 1, 2017 | 17,592 | 10,205 | 940 | 4,431 | 2,899 | 53 | 36,120 |
| Depreciation expense | 1,849 | 1,100 | 91 | 326 | 631 | - | 3,997 |
| Depreciation expenses on disposals | - | (1,256) | - | - | - | - | (1,256) |
| Accumulated depreciation at December 31, 2017 | 19,441 | 10,049 | 1,031 | 4,757 | 3,530 | 53 | 38,861 |
| Depreciated cost: | | | | | | | |
| At December 31, 2018 | 40,868 | 1,551 | 944 | 840 | 1,533 | 379 | 46,115 |
| At December 31, 2017 | 42,289 | 2,159 | 964 | 842 | 1,546 | 379 | 48,179 |

NOTE 13 - DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

- A. The Company owns 61.79% equity shares of WFI. The Company has the power to appoint and remove the majority of the board of directors of WFI. The relevant activities of WFI are determined by the board of directors of WFI based on simple majority votes. Therefore, the directors of the Company concluded that the Company has control over WFI and WFI is consolidated in these financial statements.

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|-------------------------|--|---|--------|---|-------|---------------------------------------|---------|
| | | 31 December, | | Year ended 31 December, | | 31 December, | |
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| NIS in thousands | | | | | | | |
| WFI | Israel | 38.21% | 38.35% | 13,248 | 8,364 | 240,902 | 227,456 |

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 13 - DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (Cont.)****B. Summarised financial information with respect to WFI:**

| | 31 December | |
|--|--------------------------------|-------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Current assets | 425,571 | 392,972 |
| Non-current assets | 43,621 | 43,142 |
| Current liabilities | 25,621 | 20,885 |
| Non-current liabilities | 836 | 1,148 |
| Equity attributable to owners of the Company | 275,046 | 257,535 |
| Non-controlling interests | 167,689 | 156,546 |
| | Year ended December 31, | |
| | 2018 | 2017 |
| | NIS in thousands | |
| Revenue | 338,245 | 312,214 |
| Profit for the year | 28,323 | 18,540 |
| Dividend declaration and payment to non-controlling interest (*) | - | 4,519 |
| Net cash inflow from operating activities | 26,680 | 10,557 |
| Net cash inflow (outflow) from investing activities | (8,419) | (28,888) |
| Net cash outflow from financing activities | - | (11,891) |
| Net cash inflow (outflow) | 18,261 | (30,222) |

(*) for non-controlling interest

NOTE 14 - TRADE PAYABLES

| | December 31 | |
|----------------|-------------------------|-------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Open accounts | 14,583 | 12,920 |
| Checks payable | 1,576 | 410 |
| | 16,159 | 13,330 |

The average credit period on purchases of goods is 26 days. The Group manages a program according to which all payables are paid within the pre-agreed credit term.

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 15 - OTHER ACCOUNTS PAYABLE**

| | December 31 | |
|------------------------|-------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Accrued expenses | 10,176 | 9,656 |
| Related parties (*) | 488 | 242 |
| Government authorities | 233 | - |
| Customer advances | 1,270 | 1,250 |
| Other | 1,093 | 830 |
| | <u>13,260</u> | <u>11,978</u> |

(*) see Note 24

NOTE 16 - EMPLOYEE BENEFITS LIABILITIES**A. Composition:**

| | December 31 | |
|---|-------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Post-employment benefits under defined benefit plans: (See Note C below) | | |
| Accrued severance pay and retirement compensation | <u>834</u> | <u>1,122</u> |
| Short-term employee benefits: (See Note B below) | | |
| Salary, related expenses and social contributions | 1,988 | 1,645 |
| Short-term absence compensation and recreation | <u>735</u> | <u>677</u> |
| | <u>2,723</u> | <u>2,322</u> |
| Employee benefit liabilities: | | |
| Current | 2,723 | 2,322 |
| Non-current | <u>834</u> | <u>1,122</u> |
| | <u>3,557</u> | <u>3,444</u> |

B. Short-term employee benefits:

- (1) According to labor laws and the Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement (including employees who quit their job under other specific circumstances). The computation of the employee benefit liability is made according to the current employment contract based on the employee's latest salary which, in the opinion of management, establishes the entitlement to receive the compensation and considering the employment term.

The current legal retirement age is 62 for women and 67 for men. Therefore, according to the plan, an employee who has been employed by the Group for at least one consecutive year (and under circumstances defined by law) and is dismissed after the said period is entitled to severance pay. The rate of compensation stipulated in the Law is the employee's last salary for each year of employment.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - EMPLOYEE BENEFITS LIABILITIES (Cont.)

B. Short-term employee benefits: (Cont.)

As part of the plan, the Company and its subsidiaries are obligated to deposit amounts, at a rate to be determined by law, in order to secure the accrual of severance pay. As stipulated in the Extension Order (Consolidated Version) of compulsory pension under the laws in Israel (hereinafter: "the Extension Order"). In the reporting year, the Group's rate of provisions for severance pay is 6.5%, to be deposited in a pension fund / insurance fund.

The plan detailed above exposes the Group to investment risk, i.e., the risk that the program assets will bear a negative yield and thus reduce the plan's assets in a way that does not suffice to cover the obligation. i.e., risk of actuarial assumptions regarding the expected increase in wages will be underestimated Compared with the actual wage increases, thereby exposing the Group to the risk that the obligation will increase accordingly.

The current value of the Group's post-employment benefits obligation is based on an actuarial estimation. The actuarial estimation was performed by external actuary, member of Israel Association of Actuaries.

(2) Paid annual leave:

In accordance with the Annual Leave Law, 1951, Company employees are entitled to several leave days per each working year. According to the above law (and addendums determined in personal contracts between the Company and several employees), the leave days due to an employee during the year is established based on the number of years of employment of that employee.

The employee may use leave days based on the employee's needs and with the Company's consent and to accumulate the remaining unused leave days based on the employee's personal employment contract. Employees who cease employment before using the balance of leave days are entitled to payment for the above balance of leave days.

The balance of the Group's leave fund is in accordance with the leave entitlement of each individual employee, according to the personal contract with the company to which the employee belongs and based on the employee's salary. The balance of the Group's leave fund as of December 31, 2018 is NIS 603 thousand (2017 - NIS 526 thousand).

(3) Paid sick leave:

In accordance with the Sick Pay Law, 1976, the Company's employees are entitled to 18 sick days per year (1.5 sick days per month). Sick days may be used only with a medical confirmation of an employee's illness. Employees who cease employment before using the sick days due to the employees are not entitled to payment for the above balance of sick days and, therefore, such provision is not recorded in the Company's books.

B.S.D CROWN LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - EMPLOYEE BENEFITS LIABILITIES (Cont.)

C. Post -employment benefits:

1) Changes in the defined benefit obligation and fair value of plan assets:

| | <u>Expenses recognised in profit or loss</u> | | | | <u>Gain (loss) from Remeasurement in other comprehensive income</u> | | | | | <u>Balance at 31 December 2018</u> |
|---------------------------------------|--|-----------------------------|------------------------------|---|---|--|--|--|----------------------------------|------------------------------------|
| | <u>Balance at 1 January 2018</u> | <u>Current service cost</u> | <u>Net interest expenses</u> | <u>Total expenses recognised in profit or loss for the period</u> | <u>Payments from the plan</u> | <u>Actuarial gain (loss) arising from changes in financial assumptions</u> | <u>Actuarial gains arising from experience adjustments</u> | <u>Total effect on other comprehensive loss for the period</u> | <u>Contributions by employer</u> | |
| NIS in thousands | | | | | | | | | | |
| Defined benefit obligation | (5,111) | (505) | (118) | (623) | 584 | 221 | 615 | 836 | - | (4,314) |
| Fair value of plan assets | 3,989 | - | 74 | 74 | (495) | (505) | - | (505) | 417 | 3,480 |
| Net defined benefit asset (liability) | <u>(1,122)</u> | <u>(505)</u> | <u>(44)</u> | <u>(549)</u> | <u>89</u> | <u>(284)</u> | <u>615</u> | <u>331</u> | <u>417</u> | <u>(834)</u> |

| | <u>Expenses recognised in profit or loss</u> | | | | <u>Gain (loss) from Remeasurement in other comprehensive income</u> | | | | | <u>Balance at 31 December 2017</u> |
|---------------------------------------|--|-----------------------------|------------------------------|---|---|--|--|--|----------------------------------|------------------------------------|
| | <u>Balance at 1 January 2017</u> | <u>Current service cost</u> | <u>Net interest expenses</u> | <u>Total expenses recognised in profit or loss for the period</u> | <u>Payments from the plan</u> | <u>Actuarial gain (loss) arising from changes in financial assumptions</u> | <u>Actuarial gains arising from experience adjustments</u> | <u>Total effect on other comprehensive loss for the period</u> | <u>Contributions by employer</u> | |
| NIS in thousands | | | | | | | | | | |
| Defined benefit obligation | (4,739) | (753) | (162) | (915) | 927 | - | (384) | (384) | - | (5,111) |
| Fair value of plan assets | 3,901 | - | 21 | 21 | (814) | (263) | - | (263) | 1,144 | 3,989 |
| Net defined benefit asset (liability) | <u>(838)</u> | <u>(753)</u> | <u>(141)</u> | <u>(894)</u> | <u>113</u> | <u>(263)</u> | <u>(384)</u> | <u>(647)</u> | <u>1,144</u> | <u>(1,122)</u> |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - EMPLOYEE BENEFITS LIABILITIES (Cont.)

C. Post-employment benefits (Cont.):

2) According to the labour laws and the Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

3) Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognised and for which the Group deposits amounts in qualifying insurance policies.

4) Plan assets:

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

5) Plan assets (liabilities), net:

| | 31 December | |
|---|-------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Defined benefit obligation | 4,314 | 5,111 |
| Fair value of plan assets | 3,480 | 3,989 |
| Net liability arising from defined benefit obligation | <u>834</u> | <u>1,122</u> |

6) The principal assumptions used in defined benefit plan:

| | 31 December | |
|--|--------------------|-------------|
| | 2018 | 2017 |
| | % | |
| Discount rate of the plan liability | <u>3.30</u> | <u>2.55</u> |
| Expected rate of return on plan assets | <u>3.30</u> | <u>2.55</u> |
| Expected salary increases | <u>4</u> | <u>4</u> |
| Employee turnover rate (*) | <u>-</u> | <u>-</u> |

(*) Employee turnover rates are 35%, 30%, 20% for period of service of first year, second year and third year respectfully.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - EMPLOYEE BENEFITS LIABILITIES (Cont.)

C. Post-employment benefits (Cont.):

- 7) Pursuant to the position of the accounting staff number 21-1 of the Israel Securities Authority with regard to the existence of a deep market for corporate debentures, commencing from December 31, 2014, for purposes of capitalising the obligation with respect to employee benefits, the Group uses a capitalisation rate conforming to market yields on high quality government debentures. As of 31 December 2018 the Group used annual interest rate of 3.30%.
- 8) **Sensitivity analyzes principal actuarial assumptions:**
The sensitivity analyzes below have been determined based on reasonably possible changes in actuarial assumptions at the end of the reporting period. Sensitivity analysis does not account for any existing interdependence between assumptions:
If the discount rate was increased (decreased) by 0.5%, the defined benefit obligation would have increased / decreased by NIS 147 thousand.
If the rate hikes expected salaries would have increased (decreased) by 0.5%, the defined benefit obligation would have increased / decreased by NIS 138 thousand.

NOTE 17 - COMMITMENTS AND GUARANTEES

A. Guarantees and Commitments:

- 1) As of 31 December 2018, the Company provided bank guarantees aggregating to NIS 250 thousand as security for rent to be paid for it's offices.
According to lease agreement, the annual minimum rent fee for each year within the period of five years is NIS 410 thousand.
- 2) As of 31 December 2018, the Company provided bank guarantees in the amount of NIS 190 thousand mainly in favor of Company's legal procedures against its past directors, officers and controlling shareholders. For further information see Note 18(A)(4).

B. Commitments regarding the import marketing and distribution of food products segments:

- 1) The Group has an obligation to pay incentives to several customers that are not subject to the Promotion of Competition in the Food Industry Law, 2014 which came into effect on 15 January 2015. Some of those incentives are payable as a rate of total annual sales to those customer, and some of those incentives are payable as a rate of acquisitions in excess of an agreed upon annual volume of activities. The incentives are calculated for each customer specifically.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - COMMITMENTS AND GUARANTEES (Cont.)

B. Commitments regarding the import marketing and distribution of food products segments (Cont.):

- 2) On October 17, 2017, after receiving the approval of WFINT's Remuneration Committee and its board of directors, as required by law, the WFINT general meeting approved the management agreements for the services of the co-Chairmen of the board of Joseph and Zvi Williger, between WFINT and companies owned and controlled by Messrs. Joseph Williger and Zvi Williger (the "Management Service Agreements"). According to the Management Service Agreement, each of the co-Chairmen will serve as an active co-Chairman of the board of directors of WFINT in a part time position (60% of a full time position) for a period of three (3) years.

The main terms and conditions of each of the Management Service Agreement are as follows:

- a. Monthly service fees of NIS 60 thousands, excluding VAT. The co-Chairmen will be also entitled to annual remuneration, remuneration for participation in the meeting of the board of WFINT as applicable by law.
- b. Payment of measurable bonus of up to NIS 720 thousands subject to achieving an operating profit target before bonuses of at least NIS 15 million ("Minimum Operating Profit before Bonuses"). Achieving or exceeding the Minimum Operating Profit before Bonuses the co-Chairman will entitle to receive a bonus in the following manner: (i) a bonus of 2% of the actual operating profit before bonus up to and including NIS 10 million (ii) a bonus of 3% of the actual operating profit before bonus above NIS 10 million and up to and including NIS 15 million (iii) a bonus of 4% of the actual operating profit before bonus above NIS 15 million and up to and including NIS 20 million (iv) a bonus of 5% of the actual operating profit before bonus exceeding NIS 20 million
- c. WFINT may terminate the Management Service Agreement at any time by prior written and the co-Chairman will be entitled to a retirement grant for a period between 3-6 months.
- d. WFINT will provide to co-Chairman with use of vehicle and will cover all the operating expenses of the car.
- e. The co-Chairman will be entitled to be included in WFINT's directors and officers insurance policies, and they entitled to receive an indemnification and exemption letter in accordance with the letters adopted and / or will be adopted by WFINT in relation to all its officers.

On 11 and 17 February 2019 WFINT's Remuneration Committee and Board, approved respectively, subject to General Meeting which convene on 3 April 2019, to increase the co-Chairman position from 60% to 100%. As a result, each of the co-Chairman will be entitled to monthly management fees of NIS 100 thousand plus VAT. Pursuant to that, it was also approved payment of measurable bonus of up to NIS 1,500 thousand subject to achieving an operating profit target before bonuses of at least NIS 20 million.

- 3) On 19 October 2017, WFINT announced it received a notice from Arla Foods amla ("Arla"), one of the suppliers of WFI in the dairy and dairy substitute products, to end their exclusive distribution agreement effective as of December 31, 2017. Further to this announcement, WFINT entered into engagements with several European dairies for the supply of a range of dairy products that will replace the products that were supplied by Arla. In August 2018, WFI launched a line of dairy products under independent brand "Euro Dairy Europe".

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - COMMITMENTS AND GUARANTEES (Cont.)

B. Commitments regarding the import marketing and distribution of food products segments (Cont.):

- 4) On April 1, 1997, the WFI signed an agreement with WFINT regarding receipt of management, administration, comptroller and bookkeeping services as well as offices that WFINT rented. In October 2017 the general meeting of WFINT reapproved and ratified the update of the management fees to NIS 10 thousand for period of another three years until 21 August 2020.

- 5) The liabilities to banks of the Group as of December 31, 2018 with respect to credit from bank, On Call loans, documentary credit and credit from suppliers with bank guarantees for importing food products in the amount of NIS 7,685 thousand (2017- NIS 7,106 thousand) are secured by current liens on bank accounts, share capital, goodwill, all the property of WFI and the insurance rights.

NOTE 18 - CONTINGENT LIABILITIES

A. Material legal proceedings:

- 1) The Company and some of its past directors and officers were named as defendants in a claim that was filed in the context with the bankruptcy of Mr. Eli Reifman, one of the founders and a former director of the Company.

As part of his fiduciary and regulatory obligations, Mr Reifman was required to timely report to the Company of changes in his shareholding. All Mr Reifman's reports were duly reported and reflected in the Company's annual and immediate reports, respectively. Mr Reifman's creditors assert reliance on information provided by the Company with respect to his shareholdings as was reported by him to the Company.

In October 2014, the Company and several of its past directors were joined as direct defendants by one of the creditors who filed the attorney's claim.

The outstanding amount pursuant to claims filed against the Company in respect of Mr. Reifman, is approximately NIS 30 million.

As of the date of the approval of these financial statements, the legal procedures have ended. The procedure is waiting for judge decision. In accordance with the above, the Company's management stipulates that the registration in the Company's Financial Statements and in Notes to the Financial Statements with respect to the proceeding matters above, is sufficient.

- 2) On 25 December 2015 a labor claim was filed by former Company employee, against the Company to the Regional Labor Court in Tel-Aviv in the amount of approximately NIS 1.6 million with respect to the termination of her employment. On 16 July 2017 the Company filed a counterclaim against the employee in the amount of approximately NIS 1 million. Taking note of the preliminary stage of this case, it is not yet possible to assess the likelihood of the lawsuit's outcome.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

A. Material legal proceedings: (Cont.)

- 3) On July 19, 2016, prior to the change of control of the Company, a claim and a motion to certify the claim as a derivative action (the "Motion to Certify") were filed with the Tel Aviv District Court (Economic Department) by Dan Iram (the "Applicant"), a shareholder of B.G.I Investments (1961) Ltd. ("BGI"), against BGI, the Company, the Company's auditors, and the former officers of the Company and BGI. In light of the abstention of the judges of the Economic Department from hearing the claim, the adjudication thereof was transferred to the Central District Court. In the Motion to Certify it was alleged that the amount of approximately \$46 million deposited by the Company in foreign banks had been unlawfully pledged in favor of private companies related to the Company's previous controlling shareholders. According to the Applicant, the Company's former controlling shareholders, officers and auditors at the time, had violated their obligations towards the companies in a manner that created a cause of action for the Company.

On August 2, 2018, the Court granted the Applicant's request to withdraw from the Motion to Certify, due to the filing of a direct claim by the Company in connection with this case (as detailed in Section 4 below).

- 4) On June 17, 2018, the Company filed a Statement of Claim pursuant to Derivative Claim (Central District Court) Iram v. B.G.I Investments (1961) Ltd. On August 2, 2018, the Court handed down a decision according to which the claim would be heard in a separate proceeding. Accordingly, the abovementioned file was opened on August 6, 2018.

In the Statement of Claim, the Company sues the amount of approximately NIS163 million from its former controlling shareholder (Israel 18 B.V., hereinafter: "Israel 18"), the former members of its Board of Directors, its former CEO and CFOs, foreign banks, its former auditors and insurance companies which insured the officers' professional liability.

The claim deals with two matters: the first deals with the Defendants' negligence in transferring approximately USD 46 million to banks with speculative rating in Austria and Azerbaijan; The second deals with a negligent decision to step into the shoes of the former controlling shareholder of the Company in a transaction for the purchase of car dealerships and negligence in transferring the Company's funds in respect of this transaction.

In addition to the monetary relief, the Court was requested in the Statement of Claim to grant declaratory relief regarding the breach of the duty of care by the directors and the CFOs; the controlling shareholders' violation of the duty of care and the duty of trust towards the Company; and that the Company does not owe the foreign banks any funds.

On November 22, 2018, the Statements of Defense of 17 of the 20 Defendants in this proceeding were submitted. On December 18, 2018, the Company submitted a response to these Statements of Defense. The three other Defendants (who have not yet filed their Statements of Defense) are foreign. In respect of two of them the proceedings regarding service of process have not yet been completed. The third foreign defendant service of process completed lately, and he required to file his Statement of Defense soon.

In view of the preliminary stage of the proceeding, Company's legal advisers are unable to estimate the chances of the claim.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

- 5) On 3 September 2017, an Originating Motion was filed with the Tel Aviv District Court (the Economic Department) by BGI Investments (1961) Ltd. and Israel 18 (hereinafter together: “the Applicants”) against the Company and the directors serving in the Company.

In the motion, the Applicants object to the decision of the Company’s Board of Directors to sell dormant shares of the Company and ask that it be voided because, according to the Applicants, the sale of such dormant shares was not done in accordance with the provisions of the Companies Law and the Company’s Articles of Association and was not classified as a transaction in which the Company's controlling shareholder have a personal interest, or alternatively, the Applicants moved to instruct the Company and its directors, including the controlling shareholder, to transfer 19,350,000 shares (the total of the dormant shares sold) to the Company for no consideration. Alternatively, the Applicants request an order that the shares sold be dormant shares.

The Court was also asked to declare that the appointment of Mr. Shlomo Wertheim as an external director is null and void, and that all Company decisions that required the participation of an external director and which were made with his participation are null and void.

On 25 March 2018, the Applicants filed a request to Court to approve the cancellation of the process, subject to the payment of NIS 200,000 to the Company, which will be paid only if the Applicants (or anyone acting on their behalf) will raise claims against the Company and / or its directors in the future. On 29 March 2018 the court approved the Applicants request and the withdrawal of the motion.

B. Provision for contingent liabilities regarding the import marketing and distribution of food products segments:

- 1) In January 2015, a lawsuit was lodged in the court of first instance in Valencia against G. Willi-Food International Ltd. and its subsidiary, Gold Frost Ltd. (hereafter – “Gold Frost”) (hereafter – “the Companies”), by a Spanish food manufacturer (hereafter – “the Plaintiff”), with whom Gold Frost entered into an agreement for the production of Kosher food products in Spain and for the sale of these products by Gold Frost. The lawsuit was lodged in connection with a financial dispute in respect of a debt which was allegedly not paid to the Plaintiff; the Plaintiff also demands that the Companies compensate it for products it had produced and which, according to the statement of claim, were not collected by the Companies, and as a result the Plaintiff had to destroy them.

On July 7, 2015 the Companies were served by post with judicial documents in the Spanish language. These judicial documents pertained to service of a legal procedure in the court of first instance in Valencia. A further service of process was carried out

in December 2015. In this case as well the judicial documents were in the Spanish language.

On March 3, 2016, the court of first instance in Valencia, Spain, allowed the lawsuit against the Companies in an ex parte proceeding and ruled payment by the Companies of app. € 530 thousand (NIS 2.2 million) (hereafter – “Spanish Ruling”). In April 2016, the Companies received the Spanish Ruling in the Spanish language and also a translation of the Spanish Ruling into English.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

B. Provision for contingent liabilities regarding the import marketing and distribution of food products segments (Cont.)

1) Cont.

In December 2017, an enforcement order in the Spanish language was received at the Companies's offices. In the order, which was issued on November 22, 2017, the Companies are asked to provide details of assets and/or bank accounts for the purpose of enforcing the ruling in Spain.

On 1 October 2018, the parties signed a compromise agreement whereby Gold Frost shall pay a total of € 150 thousand in consideration for the withdrawal of all of the Plaintiff's claims against it. In 22 October 2018, the court of first instance in Valencia approved the compromise agreement as a Court ruling.

2) On November 14, 2016, Green Cola Hellas SA (the "Plaintiff") filed a suit against WFINT in the Magistrate's Court in Kfar Saba, in the cause that WFINT breach the agreement in a way that WFINT, allegedly, didn't pay the consideration for the products which were provided to it by the Plaintiff. The amount of the claim was NIS 201 thousand. On 12 June 2017, the court granted his approval to the settlement reached by the Plaintiff and WFINT as part of a mediation process in which WFINT paid the Plaintiff an immaterial amount for the purpose of the dismissal of the claim.

3) On 23 July 2017 a labor claim was filed by Mr. Iram Graiver, former CEO of WFINT and president of WFINT, against WFINT to the Regional Labor Court in Tel-Aviv in the amount of approximately NIS 2.4 million with respect to the termination of his employment on 5 July 2017. On 27 July 2017 WFINT filed a counterclaim against the employee in the amount of approximately NIS 1.7 million. On 26 November 2017 Mr. Graiver filed a statement of defence. Preliminary hearing was held on 7 March 2018. The parties are currently at the stage of documents disclosure. Evidence hearing was settled on 18 December 2019 and 15 January 2020. In accordance with the above, WFI's management stipulates that the registration in WFI's Financial Statements and in Notes to the Financial Statements with respect to the proceeding matters above, is sufficient.

4) On February 24, 2016, a motion to certify a class action claim (the "Motion") was received at the WFI's offices. The motion was submitted to the Economic Division of the District Court in Tel Aviv by the Yaad Pe'er Management Services Ltd. (the "Petitioner") company, which claims it holds shares in WFI. The lawsuit is against all of WFINT's directors as well as officers in WFINT (" Defendants"). The WFI and WFINT were joined as respondents to the motion. The certification motion deals with the Petitioner's claim of damages incurred by WFI, which are assessed by the Petitioner at the filing of the motion, at approximately USD 3 million because of claimed breaches of the duties of faith, care, and skill, by the directors and officers toward WFI in connection with an investment in the sum of USD 3 million in a company registered in the Czech Republic, and that holds a hotel in the Czech Republic that is inactive. The Petitioner claims that the investment has no connection to WFI's activities, and it apparently serves in assisting the former controlling shareholder in the Company in other matters or to cover other obligations that he has.

On 16 August 2018, WFINT filed a notice whereby it intends to lodge a lawsuit against the office holders in connection with the events which are the subject matter of the derivative action and therefore it is no longer needed to discuss the motion to approve a derivative action. On 4 October 2018, the said motion was stricken out and the case was closed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

B. Provision for contingent liabilities regarding the import marketing and distribution of food products segments (Cont.)

4) Cont.

Further to above, on November 4, 2018 WFINT filed a NIS 4 million lawsuit against the Company's former controlling shareholder, Mr. Gregory Gurtovoy and against five (former) WFINT directors and senior office holder, Israel Joseph Schneerson, Pavel Buber, Iram Ephraim Graiver, Ilan Menachem Admon and Zalman Vigler (hereafter jointly: the "Defendants"). According to WFINT, the Defendants conspired to cause the use of WFINT's funds as collaterals to loans extended to foreign private companies related to the Company's controlling shareholders on dates which are relevant to the lawsuit without obtaining the required approvals from the WFINT's organs and without issuing the required report to Company's shareholders.

The lawsuit is based on the claim that an agreement signed by WFINT, whereunder it has allegedly invested in the bonds of a Czech company, is not a genuine agreement; rather, it is claimed, the purpose of the agreement was to assist the controlling shareholders (Gregory Gurtovoy and others) to secure private loans extended by the Austrian bank Meinl, while using WFINT's funds for their concealed and inappropriate purposes.

WFINT demands that the Defendants compensate it for the funds that were not refunded to WFINT (in NIS values) plus a compensation at the rate of the alternative yield and a compensation equal to the amounts paid by WFINT to enable the refund of the funds.

A preliminary hearing was held on 31 January 2019 at the Central District Court. During the hearing, the parties were given procedural directives and a further preliminary hearing was scheduled for 13 May 2019.

On 24 January 2019 the Defendants filed statements of defense, various motions (to dismiss in limine and/or delay the proceedings) and a counterclaim against WFINT and against the WFI as part of this proceeding.

In their counterclaim the Defendants claims that they are entitled for funding of their legal defense and/or for indemnification and exemption from WFINT in respect of the lawsuit and request the Court to order the WFINT to fund their legal defense against the WFINT's lawsuit.

Since the Defendants are accused of breaching their fiduciary duty to WFINT, WFINT's management is of the opinion that their claims on this matter will be rejected. In view of the preliminary stages of the proceedings WFINT's chances of prevailing in the lawsuit could not be assessed.

- 5) On 3 January 2018, WFINT was served with a lawsuit and a motion to certify it as a class action to the District Court, in the cause of unlawful labeling of products imported and sold by WFINT in a way that allegedly misleads the public of consumer. The total amount of the claim is currently NIS 2.7 million. WFINT and the plaintiff reached a compromise agreement whereby the plaintiff will withdraw his lawsuit and the lawsuit will be struck out at an immaterial cost to WFINT. On July 18, 2018, the District Court approved the compromise agreement and the withdrawal of the lawsuit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

B. Provision for contingent liabilities regarding the import marketing and distribution of food products segments (Cont.)

- 6) On 26 March 2018, a lawsuit was filed to the Tel-Aviv District Court together with an application to approve the lawsuit as a class action against WFINT for allegedly breaching consumer protection obligations in connection with one of its products, thereby allegedly misleading the consumers. At this stage, the amount claimed is NIS 2.7 million since the party that filed the application does not have data as to the extent of the damage. On 13 September 2018, WFINT filed its reply to the motion. The plaintiff is required to reply to WFINT's reply by 1 December 2018. On 19 December 2018 a preliminary hearing was held. Another hearing was not scheduled yet. In view of the preliminary stage of the proceedings, it is not yet possible to assess the result of the lawsuit.
- 7) A lawsuit and an application to approve the lawsuit as a class action was filed on July 22, 2018 to the Jerusalem District Court against Gold Frost, a company wholly owned by WFINT (hereafter – “Gold Frost”), and eight other companies, for allegedly not complying with the food labelling regulations in connection with one of its products thereby allegedly misleading consumers. At this stage, the amount specified in the lawsuit is NIS 4 million, since according to the plaintiff he does not have any data regarding the extent of the damage. On November 16 2018, the plaintiff filed a motion to withdraw the lawsuit, including payment compensation and attorneys' fees at amounts that are immaterial to the Gold Frost . As of the date of this report, the Court has not yet issued a ruling approving the withdrawal of the lawsuit.
- 8) On 29 October 2009, WFINT and its subsidiary Gold-Frost Ltd. (hereafter: the “Companies”) filed to the Rishon-LeZion Magistrates Court a lawsuit demanding the refund of import permit fees at the total amount of approximately NIS 1.3 million. The fees were paid to the Ministry of Health in respect of early registration for food import permits with the national food service between the years 2002-2009; the Companies claim that those fees were collected unlawfully.

In a ruling issued on 13 May 2015, the Rishon-LeZion Magistrates Court accepted the position of the Companies to the effect that the fees in respect of early registration for food import permits were collected unlawfully and that the Companies and other food importers have an independent cause to demand the repayment of the fees that were paid, by virtue of the Unjust Enrichment Law, 1979 (hereafter: the “Law”). In addition, a partial exemption from refund was determined in accordance with Section 2 of the Law in respect of an amount equivalent to 30% of the amounts of fees claimed and proven, due to the Ministry of Health's mechanism for regulating imported food, which granted the Companies protection from criminal and civil lawsuits in respect of damage caused to consumers from damaged imported food. As a result of the ruling, the WFINT received in 2015 a total of approximately NIS 1.1 million.

After the Ministry of Health appealed against the ruling, on 19 April 2017 a partial ruling was issued that upholds the rulings of the Magistrates Court unchanged in connection with the refund of fees and the rate of fees to be refunded; however, the question relating to the threshold for proving the damage remained outstanding.

On 15 November 2015, the Companies filed a second lawsuit against the Ministry of Health for the refund of early registration fees for food import permits at the total amount of approximately NIS 2 million, which were paid by the Companies in 2009-2016. This lawsuit is pending until the appeal against the ruling in the first lawsuit is resolved.

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CONTINGENT LIABILITIES (Cont.)

B. Provision for contingent liabilities regarding the import marketing and distribution of food products segments (Cont.)

8) Cont.

On 1 December 2013, the Companies filed to the Rishon-LeZion Magistrates Court a lawsuit against the Ministry of Health, demanding the refund of customs clearance fees at the total amount of approximately NIS 2.1 million. The fees were paid to the Ministry of Health in respect of clearance of food products from the port, which, according to the Companies, was in effect carried out by the Customs Authorities and therefore the fees were collected unlawfully.

The parties agreed to enter into a mediation process on all issues included in the appeal and the three pending lawsuits. In December 2018, the mediator sent to the parties a suggested compromise plan. As of the date of publication of this report, the Companies are negotiating the compromise according to the plan issued by the mediator together with other importers of food products, which lodged lawsuits against the Ministry of Health in respect of the issue in question.

In the opinion of the Companies legal advisors, even if a compromise is not reached by the parties as part of the mediation process, the WFINT' chances of prevailing in the lawsuit are higher than 50%.

As of the date of this report, WFINT did not recognize a contingent asset in its financial statements regarding the lawsuits aforementioned.

NOTE 19 - FINANCIAL INSTRUMENTS

A. Significant accounting policies:

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized for each category of financial assets, financial liabilities and equity instruments are disclosed in Note 2.

B. Categories of financial instruments:

| | 31 December | |
|---|-------------------------|----------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Financial assets: | | |
| Cash and cash equivalents | 139,544 | 134,888 |
| Short- term and long term deposits | 1,277 | 806 |
| Financial assets at fair value through profit or loss | 149,402 | 141,720 |
| Trade receivables and other receivables | 101,231 | 96,163 |
| | <u>391,454</u> | <u>373,577</u> |
| Financial liabilities measured amortised cost: | | |
| Employee benefit liabilities, net | 3,557 | 3,444 |
| Trade payable and other financial liabilities | 29,419 | 25,308 |
| | <u>32,976</u> | <u>28,752</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS (Cont.)

C. Management of financial risks:

The Group's finance departments provide services for the business operations, permit access to domestic and international financial markets, monitor and manage the financial risks relating to the Group's operations by means of internal reports which analyze the degree of exposure to risks according to level and magnitude. These risks include market risks (including currency risk, fair value risk with respect to interest rate, price risk, and cash flow risk with respect to interest rate), credit risk, and liquidity risk.

The Group minimizes the effects of these risks from time to time by using derivative financial instruments to hedge risk exposure, but such derivatives are not intended as hedges for accounting purposes. Use of derivative financial instruments is done according to the Group's policy which was approved by the boards of directors. The policy establishes principles regarding: management of currency risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group's financial management department reports to the investment committee and the Board of WFINT on the risks and the implementation of the policy established to mitigate the exposure to risk.

1) Market risks:

The Group's activity exposes it mainly to financial risks of changes in foreign currency exchange rates and/or changes in the prices of the imported products and/or changes in interest rates. The Group enters into forward foreign exchange swap contracts, as needed, opens documentary credit to suppliers and carries out orders for imported goods.

During the reporting period, there has been no change in the exposure to market risks or in the manner in which the Group manages and measures the risk.

2) Foreign exchange risk:

Most of the Group's purchases are made in foreign currency whereas most of the Group's sales are made in Israel in NIS. Consequently, large exposure to exchange rates fluctuations arises. The Group's policy is to minimise, to the extent possible, market risks of exchange rates and prices of imported commodities and, for that purpose, the Group opens large documentary credit to its foreign suppliers. The Group also takes, from time to time, measures to hedge against changes in exchange rates and it does this mainly by holding its excess cash in foreign currency and timely purchase of foreign currency.

During 2018, there has been no change in the exposure to currency risk or in the manner in which the Group manages and measures the risk.

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

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19 - FINANCIAL INSTRUMENTS (Cont.)****C. Management of financial risks: (Cont.)****2) Cont.**

| | Assets | | Liabilities | |
|-------|-------------------------|-------------|---------------------|-------------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | NIS in thousands | | | |
| USD | 28,544 | 34,633 | 7,105 | 2,222 |
| Other | 9,071 | 9,409 | 3,537 | 7,002 |

Foreign currency sensitivity analysis:

The Group's currency exposure is mainly to the USD and others that include mainly the Euro. The following table details the sensitivity to a 10% increase and decrease in the relevant exchange rate. 10% is the sensitivity rate used when reporting to key management personnel in the Group and represents management assessment as to the reasonable potential change in exchange rates. Sensitivity analysis includes outstanding balances of foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

A positive number in the table indicates an increase in profit or loss or an increase in equity if the NIS strengthens 10% against the relevant currency or a decrease in profit or loss or a decrease in equity if the NIS weakens 10% against the relevant currency.

The impact of a 10% increase in the NIS against other currencies before the tax effect:

| | NIS impact | | Other impact (*) | |
|----------------|-------------------------|-------------|-------------------------|-------------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | NIS in thousands | | | |
| Profit or loss | 2,143 | 3,241 | 553 | 240 |

(*) Mainly Euro and GBP

3) Other price risks:

The Group is exposed to price risks of shares, mutual funds and bonds which are classified as financial assets held for trading (at fair value through profit or loss).

The carrying amount of investments exposed to price risks of shares, mutual funds and bonds is NIS 149,402 thousand (2017- NIS 141,720 thousand).

Sensitivity analysis to shares, mutual funds and bonds:

The sensitivity analysis below is determined on the basis of the exposure to price risks of - shares, mutual funds and bonds on the reporting date. If the prices of shares, mutual funds and bonds held had been 10% higher, the impact before tax would have been:

The income/loss as of December 31, 2018 would increase/decrease by NIS 14,940 thousand as a result of changes in the fair value of shares, mutual funds and bonds held for trading.

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19 - FINANCIAL INSTRUMENTS (Cont.)****C. Management of financial risks (Cont.):****4) Exposure to the Israeli CPI:**

The Group is exposed to cash flow risk in respect of changes in the Israeli CPI attributable to quoted securities that are linked to the Israeli CPI out of total investment portfolio.

The carrying amount of quoted securities exposed to changes in the Israeli CPI as of December 31, 2018 is NIS 25,292 thousand (2017- NIS 18,286 thousand)

The impact of a 10% increase in the Israeli CPI on the profit or loss before tax would have been:

The income for the year ended December 31, 2018 would increase by NIS 2,529 thousand. This change is mainly attributable to changes in the WFI's gain.

5) Liquidity risk management:**a. Non-derivative financial liabilities:**

The following tables detail the remaining contractual maturity for the Group's non-derivative financial liabilities. The tables have been prepared on the basis of undiscounted cash flows of financial liabilities by reference to the earliest date on which the Group may be required to repay them. The table includes both interest and principal flows.

| | <u>Less than 1 month</u> | <u>1 - 3 months</u> | <u>3 months to 1 year</u> | <u>1 - 5 years</u> | <u>Total</u> |
|--|------------------------------|-------------------------|-------------------------------|------------------------|---------------|
| | <u>NIS in thousands</u> | | | | |
| 2018 | | | | | |
| Trade payables and other financial liabilities | - | 24,100 | 5,319 | - | 29,419 |
| Employee benefit liabilities, net | - | - | 2,723 | 834 | 3,557 |
| | <u>-</u> | <u>24,100</u> | <u>8,042</u> | <u>834</u> | <u>32,976</u> |
| 2017 | | | | | |
| Trade payables and other financial liabilities | - | 19,207 | 6,101 | - | 25,308 |
| Employee benefit liabilities, net | - | - | 2,322 | 1,122 | 3,444 |
| | <u>-</u> | <u>19,207</u> | <u>8,423</u> | <u>1,122</u> | <u>28,752</u> |

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19 - FINANCIAL INSTRUMENTS (Cont.)****C. Management of financial risks (Cont.):****5) Liquidity risk management: (Cont.)****b. Non-derivative financial assets:**

The following tables detail the expected maturity for the Group's non-derivative financial assets. The tables have been prepared on the basis of undiscounted contractual maturities of the financial assets including interest that will be earned from these assets, except instances where the Group anticipates that the cash flow will occur at a different period.

| | <u>Less than 1 month</u> | <u>1 - 3 months</u> | <u>3 months to 1 year</u> | <u>More than 1 year</u> | <u>Total</u> |
|---|------------------------------|-------------------------|-------------------------------|-----------------------------|----------------|
| | <u>NIS in thousands</u> | | | | |
| 2018 | | | | | |
| Cash and cash equivalents | 139,544 | - | - | - | 139,544 |
| Short term and long term deposits | - | - | - | 1,277 | 1,277 |
| Financial assets carried at fair value through profit or loss | 41,407 | 5,707 | 5,933 | 96,355 | 149,402 |
| Trade receivables and other receivable | - | 101,231 | - | - | 101,231 |
| | <u>180,951</u> | <u>106,938</u> | <u>5,933</u> | <u>97,632</u> | <u>391,454</u> |
| 2017 | | | | | |
| Cash and cash equivalents | 134,888 | - | - | - | 134,888 |
| Short term and long term deposits | - | - | 40 | 766 | 806 |
| Financial assets carried at fair value through profit or loss | 58,973 | 728 | 3,471 | 78,548 | 141,720 |
| Trade receivables and other receivable | 1,492 | 94,671 | - | - | 96,163 |
| | <u>195,353</u> | <u>95,399</u> | <u>3,511</u> | <u>79,314</u> | <u>373,577</u> |

c. fair value hierarchy:

The table below summarises financial instruments carried at fair value, using a valuation method in accordance with the fair value hierarchy level. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: input that are unobservable for the asset or liability.

Financial assets at fair value through profit or loss:

| | <u>31 December 2018</u> | | |
|--|-------------------------|----------------|----------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
| | <u>NIS in thousands</u> | | |
| Financial asset at fair value through profit or loss | <u>149,402</u> | <u>-</u> | <u>149,402</u> |
| | | | |
| | <u>31 December 2017</u> | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
| | <u>NIS in thousands</u> | | |
| Financial asset at fair value through profit or loss | <u>141,720</u> | <u>-</u> | <u>141,720</u> |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - SHAREHOLDERS' EQUITY

A. Ordinary shares:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends, and the right to a share in excess assets upon liquidation of the Company. Composed of Ordinary shares of NIS 0.01 par value, as follows:

| | 31 December | |
|-------------|-------------------------|--------------------|
| | 2018 | 2017 |
| | Number of shares | |
| Authorized | <u>200,000,000</u> | <u>200,000,000</u> |
| Issued | <u>140,578,154</u> | <u>140,578,154</u> |
| Outstanding | <u>129,340,252</u> | <u>129,340,252</u> |

- 1) The trading of Company's shares was temporarily suspended from 29 April 2016 until 13 December 2017 due to delay in publishing the financial statements reports.

- 2) Pursuant to Chapter 14 of the listing rules under section 74 of the Financial Services and Markets Act 2000 (as amended) (the "Listing Rules"), at least 25% of the Company's issued and outstanding share capital is required to be held by EEA residents who are unaffiliated with the Company and are not shareholders with personal interest of the Company. In order to comply with such requirement and in order to raise capital for the ongoing operations of the Company, on 22 August 2017, the Company has completed the sale of 19,350,000 of its Ordinary Shares, nominal value NIS0.01 per share (the "Purchased Shares"), representing (after the sale thereof) 14.96% of the Company's issued and outstanding share capital. The purchasers of the Purchased Shares have confirmed to the Company that they are EEA residents and that they are unaffiliated with the Company. According to the agreements between the Company and the purchasers the purchase price per Purchased Share was GBP 0.25 or GBP 0.20, subject to the cancelation of the suspension from trading of the Company's shares on the London Stock Exchange. The funds paid to the Company were used for its general operations. Following the sale of the Purchased Shares, the Company's issued share capital consists of 129,340,252 Ordinary Shares with voting rights ("Voting Capital") and 11,237,902 Ordinary Shares held in treasury.

B. WFI and WFINT dividend distribution:

- a. On 23 February 2017 WFI announced on distribution of NIS 8 million. The distribution was completed on 20 March 2017. The Company's share was approximately NIS 5 million.

- b. On 27 November 2017 WFI announced a distribution of NIS 4 million (USD 1.1 million). The distribution was completed on 14 December 2017. The Company's share was approximately NIS 2.5 million.

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 21 - ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****A. Cost of sales**

| | Year ended December 31, | |
|--|------------------------------------|----------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Transportation to warehouse and unloading containers | 1,966 | 1,580 |
| Maintenance, lease of warehouse and storage | 4,175 | 5,202 |
| Depreciation and amortisation | 5,108 | 5,117 |
| Other | 1,910 | 2,062 |
| | <u>13,159</u> | <u>13,961</u> |
| Decrease (increase): | | |
| Inventories | (11,331) | 2,704 |
| Purchases | 240,998 | 223,932 |
| | <u>229,667</u> | <u>226,636</u> |
| Total cost of sales | <u>242,826</u> | <u>240,597</u> |

B. Selling expenses

| | Year ended December 31, | |
|---------------------------------|------------------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Expenses for employee benefits | 15,057 | 14,490 |
| Advertising and sales promotion | 4,766 | 5,377 |
| Transportation and maintenance | 12,541 | 11,677 |
| Vehicle maintenance | 3,908 | 3,564 |
| Depreciation and amortisation | 4,169 | 4,149 |
| Other | 6,747 | 6,334 |
| | <u>47,188</u> | <u>45,591</u> |

C. General and administrative expenses

| | Year ended December 31, | |
|--------------------------------------|------------------------------------|---------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Payroll and related expenses | 6,920 | 10,028 |
| Management fees and related expenses | 4,381 | 255 |
| Rent and office maintenance (*) | 2,213 | 2,044 |
| Consulting and directors fees | 5,429 | 8,398 |
| Expenses relating to claims | - | 101 |
| Depreciation and amortisation | 651 | 739 |
| Doubtful debts (income) expenses | (59) | 226 |
| Other | 2,056 | 2,235 |
| | <u>21,591</u> | <u>24,026</u> |

(*) See Note 17(A)

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 21 - ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)****D. Other income (loss)**

| | Year ended | |
|------------------------------------|-------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| | NIS in thousands | |
| Decrease in non- competition asset | - | (194) |
| Income from legal proceedings net | 1,113 | - |
| Other | 69 | 361 |
| | <u>1,182</u> | <u>167</u> |

E. Financial Income and Expenses

| | Year ended | |
|--|-------------------------|---------------|
| | December 31, | |
| | 2018 | 2017 |
| | NIS in thousands | |
| Financial income: | | |
| Gain from foreign bonds | 3,970 | - |
| Net foreign exchange gain | 2,962 | - |
| Interest income on bank deposits | 1,536 | 35 |
| Gain from financial assets held for trading | - | 8,800 |
| Interest income from debentures held for trading | 3,762 | 3,274 |
| Financial assets designated at fair value through profit or loss | - | - |
| Dividends received from share held for trading | 1,595 | 1,380 |
| Other | 213 | 16 |
| Total financial income recognized in profit or loss | <u>14,038</u> | <u>13,505</u> |
| Financial expenses: | | |
| Bank fees and management fees | 605 | 1,071 |
| Loss from financial assets held for trading | 14,229 | - |
| Net foreign exchange loss | 61 | 4,026 |
| Other | - | - |
| Total financial expenses recognized in profit or loss | <u>14,895</u> | <u>5,097</u> |

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 22 - TAX ON INCOME****A. Deferred tax balances:**

Composition of deferred tax assets (liabilities) are detailed below:

| | Balance – January 1, 2018 | Recognized in profit or loss | Balance - December 31, 2018 |
|--|--|---|--|
| | NIS in thousands | | |
| Temporary differences: | | | |
| Property, plant and equipment | (1,527) | 32 | (1,495) |
| Intangible assets | (4,521) | 1,380 | (3,141) |
| Financial assets at fair value through profit or loss | (775) | 2,776 | 2,001 |
| Provisions for employee benefits | 386 | (59) | 327 |
| Doubtful accounts | 548 | (3) | 545 |
| Total | (5,889) | 4,126 | (1,763) |
| | | | |
| Tax losses | 345 | (333) | 12 |
| Total | (5,544) | 3,793 | (1,751) |
| | | | |
| | Balance – January 1, 2017 | Recognized in profit or loss | Balance - December 31, 2017 |
| | NIS in thousands | | |
| Temporary differences: | | | |
| Property, plant and equipment | (1,798) | 271 | (1,527) |
| Intangible assets | (6,361) | 1,840 | (4,521) |
| Financial assets at fair value through profit or loss | 168 | (943) | (775) |
| Provisions for employee benefits | 343 | 43 | 386 |
| Doubtful accounts | 516 | 32 | 548 |
| Total | (7,132) | 1,243 | (5,889) |
| | | | |
| Tax losses | 1,537 | (1,192) | 345 |
| Total | (5,595) | 51 | (5,544) |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - TAX ON INCOME (Cont.)

B. Income tax expenses recognised in the statement of profit or loss:

| | Year ended December 31, | |
|--|------------------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Current taxes: | | |
| In respect to the current year | 10,069 | 3,922 |
| In respect to prior years | 160 | 346 |
| | <u>10,229</u> | <u>4,268</u> |
| | | |
| Deferred tax income in respect of creation and reversal of temporary differences | <u>(3,793)</u> | <u>(51)</u> |
| | | |
| Total tax expenses | <u>6,436</u> | <u>4,217</u> |

C. Israeli income tax rates:

- (1) The tax rate applicable to the Company are as follows: in 2016 – 25%; 2017 – 24%; 2018 – 23%.
- (2) The Economic Efficiency Law (Legislative Amendments for the Achievement of Budgetary Goals for 2017 and 2018), 2016, which was published in the official gazette in December 2016, stipulated that the corporate tax rate will be reduced by 1% in 2017 and by 2% as from 2018 and thereafter, such that the tax rate in 2017 will be 24% and as from 2018 the tax rate will be 23%, instead of 25% in 2016.

D. Unrecognised taxable temporary differences associated with investments:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence.

The Company does not recognize deferred taxes for temporary differences associated with its investments as it is probable that taxable profit will not be available against which the temporary difference can be utilised, and it is probable that the temporary difference will not reverse in the foreseeable future.

| | Year ended 31 December | |
|--|-----------------------------------|----------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Taxable temporary differences in relation to investments in subsidiaries for which deferred tax assets have not been recognised are attributable to the following: | | |
| | | |
| Domestic subsidiaries | 66,321 | 86,100 |
| Foreign subsidiaries | 14,429 | 15,713 |
| | <u>80,750</u> | <u>101,813</u> |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - TAX ON INCOME (Cont.)

E. Final tax assessment:

The Company and the consolidated companies have not yet been issued final tax assessments as of the date of their establishment. In accordance with the provisions of Section 145 of the Income Tax Ordinance, assessments up through and including 2014 are considered final, subject to certain restrictions.

F. Losses and deductions carried forward for tax purposes:

As of 31 December 2018, carry forward operating losses and temporary differences of the Company total approximately NIS 472 million and capital tax losses approximately NIS 332 million.

The Company did not record a tax benefit in respect of the carry forward losses due to the uncertainty of their utilisation.

G. Reconciliation of the theoretical tax expense to the actual tax expense:

| | Year ended December 31, | |
|--|------------------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Income (loss) before tax | 26,965 | 10,715 |
| Statutory tax expenses | 23% | 24% |
| Tax expenses calculated | <u>6,202</u> | <u>2,572</u> |
| Effect of income that is exempt from taxation | (419) | (343) |
| Effect of expenses that are not deductible in determining taxable profit | 33 | 93 |
| Loss of securities without creating deferred tax | (263) | 366 |
| Effect on deferred tax balances due to change in income tax rate | - | (631) |
| Effect of deductible temporary differences | - | (75) |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | 823 | 1,795 |
| Other | <u>(102)</u> | <u>94</u> |
| | 6,274 | 3,871 |
| Adjustments recognised in the current year in relation to the current tax of prior years | <u>162</u> | <u>346</u> |
| Tax expenses recognised in profit or loss | 6,436 | 4,217 |

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 23 - EARNINGS PER SHARE**

| | 31 December | |
|--|-------------------------|--------------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Weighted average number of ordinary shares for the purposes of earning per share | <u>129,340,252</u> | <u>116,440,252</u> |
| Continuing operations: | | |
| Net income (loss) attributable to equity holders of the Company | <u>7,281</u> | <u>(1,866)</u> |
| Basic income (loss) per share to Company's shareholders | <u>0.06</u> | <u>(0.02)</u> |

NOTE 24 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES**A. Balances:****As of 31 December 2018:**

| | Controlling shareholder and related parties | Key management personnel(*) |
|--|--|--|
| | NIS in thousands | |
| Other accounts payable and deferred revenues (*) | 249 | 239 |

As of 31 December 2017:

| | Controlling shareholder and related parties | Key management personnel(*) |
|--|--|--|
| | NIS in thousands | |
| Other receivable and prepaid expenses | 819 | 39 |
| Other accounts payable and deferred revenues (*) | 194 | 48 |

(*) includes Chief Executive Officer and Chief financial officer and directors.

B. Benefits to controlling shareholders and key management personnel:

| | Year ended December 31, | |
|--|------------------------------------|--------------|
| | 2018 | 2017 |
| | NIS in thousands | |
| Management fees and directors fees (1) | 5,778 | 2,415 |
| Short-term benefits | <u>3,109</u> | <u>3,304</u> |
| | <u>8,887</u> | <u>5,719</u> |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

B. Benefits to key management personnel: (Cont.)

- (1) Pursuant to management agreement between the Company and its past controlling company, BGI Investments Ltd, as of 31 December 2017 BGI's debt to the Company was NIS 770 thousands which is the amount that was agreed between the Company and BGI as compromised and should be paid in three monthly payments until 15 March 2018. To the date of this report all payments were paid.

NOTE 25 - OPERATING SEGMENTS

A. General:

Upon the completion of the Acquisition of WFI in May 2014, the Group's main activity and its sole operating segment is import, marketing and distribution of food products to retail chains, supermarkets, wholesalers, and institutions mainly in Israel.

An operating segment is identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance.

B. Reporting segments:

| | Year ended 31 December | |
|--|-------------------------------|----------------|
| | 2018 | 2017 |
| | NIS In thousands | |
| <u>Revenues</u> | | |
| Import marketing and distribution of food products | 338,245 | 312,214 |
| Other | - | 140 |
| | <u>338,245</u> | <u>312,354</u> |
| <u>Segment (loss) income</u> | | |
| Import marketing and distribution of food products | 30,989 | 9,555 |
| Other (*) | (3,167) | (7,248) |
| | <u>27,822</u> | <u>2,307</u> |
| Operating income | | |
| | <u>27,822</u> | <u>2,307</u> |
| Financial (loss) income, net | (857) | 8,408 |
| Income (loss) before taxes | 26,965 | 10,715 |

(*) Other includes mainly unallocated corporate general and administrative expenses.

C. Revenues from major customers that contributed 10% or more to the Group revenues (as a percentage of the total revenue):

| | Year ended 31 December | | Year ended 31 December | |
|------------|-------------------------------|----------|-------------------------------|----------|
| | 2018 | | 2017 | |
| | NIS in thousand | % | NIS in thousand | % |
| Customer A | 50,439 | 15 | 50,053 | 16 |

B.S.D CROWN LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPERATING SEGMENTS (Cont.)

The revenues from the following products contributed 10% or more to the Group revenues (as a percentage of the total segment revenue):

| | <u>Year ended 31 December</u> | | <u>Year ended 31 December</u> | |
|-------------------------------------|----------------------------------|----------|----------------------------------|----------|
| | <u>2018</u> | | <u>2017</u> | |
| | <u>NIS in</u> <u>thousand</u> | <u>%</u> | <u>NIS in</u> <u>thousand</u> | <u>%</u> |
| Canned vegetables | 39,040 | 12 | 38,545 | 13 |
| Canned fish | 52,191 | 15 | 50,684 | 16 |
| Dairy and dairy substitute products | 131,904 | 39 | 118,800 | 39 |

NOTE 26 - EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

- A. On 5 May 2017 a General Meeting of the shareholders of BSD ("GM") was held and pursuant to the GM results (the "Results") all incumbent non- external directors were dismissed from their position and all non- external directors suggested by Mr. Joseph Williger were elected. Since that day the companies controlled by Mr. Williger.
- B. On 15 January 2018 an indictment was filed at the economic department of the Tel Aviv District Court , against the former ultimate controlling shareholders of the Company, Mr. Alexander Granovsky and Mr. Gregory Gurtovoy and against the former Chief Executive Officer of the Company, Mr. Israel Jossef Schneorson (together herein, the "Accused"). According to the indictment the Accused used the deposits of the Company's and its parent company, BGI Investments (1961) Ltd., that were deposited in foreign banks, as collateral for loans taken by private companies related to the Accused, without having received applicable approvals by law. According to the indictment, the total amount of the misappropriated funds by the Accused, is USD 60 million. The amount includes the sum of approximately USD 3 million (approximately NIS 10.4 million) were transferred from WFINT's subsidiary bank account for investment in the bonds of a European company, and which, served as a sort of collateral for a loan made for the needs of the former Company's (ultimate) controlling shareholder or another.

The indictment attributes to the Accused to the following infringements: theft by officer, fraudulent conversion, fraud and breach of trust, falsification of corporate documents, breaches of reporting obligations under the Israeli Securities Authority Law, non-compliance with the provisions of the Israel Securities Authority with respect to misleading reasonable investors and offenses under section 4 of the Israeli Money Laundering Law.

On 7 January 2019 Mr. Gurtovoy and Mr. Schneorson were convicted in a plea bargain (the "Plea Bargain") reached under an amended indictment.

Under the Plea Bargain, Mr. Gurtovoy and Mr. Schneorson were convicted of various offenses under the Israeli Securities Law and the Israeli Penal Law as described above.

It has also come to the Company's attention (through public press releases) that the Plea Bargain includes 36 months imprisonment to Mr. Schneorson and 31 months imprisonment to Mr. Gurtovoy as well as a NIS 1.2 million fine. On 7 February 2019, the district court approved the Plea Bargain.

The Company wishes to clarify that the Accused no longer hold any positions in the Company and / or any of its subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 26 - EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS
(Cont.)**

- C.** On 5 June 2018, the former Auditors of the Company, Deloitte, submitted to the Company a letter of resignation. This resignation was in response to the Company's announcement on 28 May 2018, pursuant to which the Board has resolved to submit a motion of claims against the past Auditors as part of the Derivative Claim that was filed by Company's shareholder on 4 July 2016. According to the notice issued by the independent auditor, such a legal dispute undermines the independent auditor's independence. for further information for the claim filed by the Company, see Note 18(A)(4).
- D.** On 23 July 2018, and pursuant to Deloitte resignation, Company's general meeting was held and BDO was nominated as Company's External Auditors after receiving the approval of the Audit Committee and the approval of the Board.
- E. Subsequent events in WFINT**

- 1) On 1 January 2018 Mr. Michael Luboschitz was nominated as CEO of WFI and WFINT.
- 2) On 12 July 2018 WFI's general meeting was held and BDO was nominated as WFI and WFINT external auditors.
- 3) Further to Note 26(B), the investment was made by W.F.D Ltd. (former known as BHWFI Ltd.), a company wholly owned by WFINT ("WFD"), under a letter of undertaking to purchase 300 bonds (debentures) of par value USD 10,000 each (the "Letters of Undertaking"). The bonds bore an annual interest of 6%, paid twice annually. The first payment was dated on June 30 and the second on December 31 of each year, as of the date they were issued and until the date of final payment – December 31, 2018. The issuer had the right to redeem the bonds early, with prior notice of 30 days, without penalty.

On December 30, 2016, WFD and the issuer executed an agreement for early redemption of the bonds (hereinafter: the "Agreement"), in consideration of USD 1.8 million that would be paid by February 15, 2017. Similarly, in the framework of the terms of the agreement, the issuer waived all of its claims against WFD, including an additional supposed undertaking for an additional investment in the bonds, up to the sum of USD 5 million (NIS 17.3 million).

On March 21, 2017 and July 6, 2017, a payment in the sum of USD 200 thousand (NIS 770 thousand) and USD 400 thousand (NIS 1,412 thousand), respectively, was received. In light of the uncertainty of the collection of the balance of the debt, WFD recognized, in its financial statements for 31 December 2016, a loss in the amount of the debt balance that has not yet been paid in the amount of USD 1.6 million. As a result of 2017 payment, WFI recognized it as an income in the profit or loss in the amount that was received. On March 26, 2018, a further payment in the amount of USD 1,145 thousand (approximately NIS 3,970 thousand) was received (hereafter - the "Third Payment"), and therefore, the Group recorded in its financial statements a revenue at an amount equal to the amount of the Third Payment.

B.S.D CROWN LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 27 - SUBSIDIARIES**

Details of the Group's active subsidiaries at the end of the reporting period are as follows:

| <u>Name of subsidiary</u> | <u>Principal activity</u> | <u>Place of incorporation and operation</u> | <u>Proportion of ownership interest and voting power held by the Group</u> | |
|---------------------------------|----------------------------|---|--|-------------------|
| | | | <u>31/12/2018</u> | <u>31/12/2017</u> |
| Willi-Food Investments Ltd. | Food industry | Israel | 61.79% | 61.65% |
| G.Willi Food International Ltd. | Food industry | Israel | 67.76% | 67.76% |
| W.F.D Ltd. | Food industry | Israel | 99% | 99% |
| Tzuktal Ltd. | Food industry | Israel | 100% | 100% |
| Gold Frost Ltd. | Food industry | Israel | 100% | 100% |
| W.Capital Ltd. | Food industry | Israel | 100% | 100% |
| Emblaze Mobility Solutions Ltd. | General commercial company | England | 100% | 100% |