TEFRON LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013

IN U.S. DOLLARES THOUSANDS

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Consolidated Financial Statements as of December 31, 2013

In U.S. Dollars Thousands

CONTENTS

Kost Forer Gabbay & Ka

2 Pal-Yam Ave.
Haifa 33095, Israel

Auditor's Report
To the Shareholders and Board of Directors of Tefron Ltd.

We have audited the accompanying consolidated balance sheets of Tefron Ltd. (hereinafter -"the Company") as of December 31, 2013 and 2012 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years of the period ended December 31, 2013. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations, changes in shareholders' equity and cash flows for each of the three years of the period ended December 31, 2013, in conformity with the International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Without qualifying our above opinion, we draw attention to Note 1c of the financial statements regarding the Company's operations and their outcomes, as well as to the Management's estimations regarding meeting the financial covenants with the banks, and its plans in that regard

Haifa, Israel
March 27, 2014

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Consolidated balance sheets

	Note	As of December 31 2013	As of December 31 2012
		Dollars thousands	
Current assets			
Cash		6,697	5,586
Investments in securities available for sale		420	323
Trade receivables, net	5	13,691	18,356
Other receivables	6	2,711	2,986
Inventory	7	12,622	15,024
		36,141	42,275
Non-current assets			
Property, plant and equipment, net	8	27,984	29,556
Inactive assets	8	2,555	2,750
Goodwill and intangible assets, net	9	742	1,177
Computer programs, net	9	329	284
Deferred taxes, net	17	2,825	2,659
		34,435	36,426
		70,576	78,701

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

Consolidated balance sheets

	Note	As of December 31 2013	2012
		Dollars thousands	
Current liabilities			
Bank credit	10	9,938	9,504
Trade payables	11	11,250	12,487
Other payables	12	3,058	4,387
		24,246	26,378
Non-current liabilities			
Long-term loans from banks and vendors	13	16,342	20,200
Liabilities for bank options	15	67	318
Liabilities for benefits to employees, net	16	689	596
Long-term payables		1,478	-
Deferred taxes	17	-	310
		18,576	21,424
Equity attributed to the Company's shareholders	19		
Share capital		19,995	19,818
Additional paid-in capital		107,444	107,321
Capital reserve for actuarial losses		(928)	(810) (*)
Accumulated deficit		(91,772)	(88,339)
Treasury shares		(7,408)	(7,408)
Capital reserve for financial assets available for sale		(44)	(118)
Capital reserve for hedging transactions		-	55
Other capital reserves		467	380
Total equity		27,754	30,899
		70,576	78,701

(*) Restated. See Note 16, as follows.

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

March 27, 2014			
Date of approval of the financial statements	Arnon Tieberg Chairman of the Board	Gil Shimon CEO	Eliezer Parnafes CFO

Consolidated statements of income

	Note	2013	2012 (*)	2011 (*)
		For the year ended December 31		
		Dollars thousands (excluding data on loss per share)		
Sales		82,912	98,963	100,895
Cost of sales	21a	68,086	81,93	87,550
Gross profit		14,826	17,031	13,345
Development expenses, net	21b	4,446	3,52	3,628
Selling and marketing expenses	21c	8,962	8,262	10,107
General and administrative expenses	21d	3,660	3,180	3,093
Other expenses (income)	21e	(189)	35	(404)
Operating profit (loss)		(2,053)	2,028	(3,079)
Financing income	21f	377	83	715
Financing expenses	21f	(2,125)	(1,708)	(1,640)
Financing expenses, net		(1,748)	(1,625)	(925)
Profit (loss) before taxes on income		(3,801)	403	(4,004)
Tax benefit	17	639	2,233	8
Income (loss) from continuing operations		(3,162)	2,636	(3,996)
Loss from discontinued operations, net		(271)	(3,094)	(258)
Loss		(3,433)	(458)	(4,254)
Net loss per share attributable to equity shareholders of the Company (in $)	22			
Basic and diluted earnings (losses) per share from continued operations		(0.48)	0.40	(0.61)
Basic and diluted losses per share from discontinued operations		(0.04)	(0.47)	(0.04)
Basic and diluted loss per share		(0.52)	(0.07)	(0.65)

(*) Restated due to discontinued operations, see Note 4, as follows.

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

Consolidated statements of comprehensive income

	For the year ended December 31		
	2013	**2012**	**2011**
	Dollars thousands		
Loss	(3,433)	(458)	(4,254)
Other comprehensive loss (after the effect of the tax):			
Amounts that will not be restated thereafter to the statements of income:			
Actuarial loss from defined benefit plan	(118)	(262)	(372)
Subtotal of items that will not be restated thereafter to the statements of income	(118)	(262)	(372)
Subtotal of items that will be restated or are restated to the statements of income provided that specific terms are met:			
Income not yet realized – for net cash flow hedging transactions	-	55	-
Income (loss) not yet realized for investments in securities available for sale	74	30	(69)
Realized income for cash flow hedging transactions	(55)	-	-
Loss realized for investments in securities available for sale	-	-	12
Subtotal of items that will be restated or are restated to the statements of income	19	85	(57)
Total other comprehensive income (loss)	(99)	(177)	(429)
Total comprehensive loss relating to the Company’s shareholders	(3,532)	(635)	(4,683)

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders								
	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total equity
		Dollars thousands							
Balance as at January 1, 2013	19,818	107,321	(810)	(88,339)	(7,408)	(118)	55	380	30,899
Loss	-	-	-	(3,433)	-	-	-	-	(3,433)
Total other comprehensive income (loss)	-	-	(118)	-	-	74	(55)	-	(99)
Share-based payment for employees and directors	-	90	-	-	-	-	-	-	90
Allocation of shares for the consultant	177	33	-	-	-	-	-	(210)	-
Share-based payment for consultant	-	-	-	-	-	-	-	297	297
Balance as at December 31, 2013	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	22,754

	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total equity
		Dollars thousands							
Balance as at January 1, 2012	19,818	107,198	(548)	(87,881)	(7,408)	(148)	-	190	31,221
Loss	-	-	-	(458)	-	-	-	-	(458)
Total other comprehensive income (loss)	-	-	(262)	-	-	30	55	-	(177)
Share-based payment for employees and directors	-	123	-	-	-	-	-	-	123
Share-based payment for the consultant	-	-	-	-	-	-	-	190	190
Balance as at December 31, 2012	19,818	107,321	(810)	(88,339)	(7,408)	(118)	55	380	30,899

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders							
	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for financial assets available for sale	Other capital reserves	Total equity
	Dollars thousands							
Balance as at January 1, 2011	19,818	107,204	(176)	(83,627)	(7,408)	(91)	190	35,910
Loss	-	-	-	(4,254)	-	-	-	(4,254)
Total other comprehensive loss	-	-	(372)	-	-	(57)	-	(429)
Share-based payment for employees and directors	-	204	-	-	-	-	-	204
Classification of bank options for liabilities	-	(210)	-	-	-	-	-	(210)
Balance as at December 31, 2011	19,818	107,198	(548)	(87,881)	(7,408)	(148)	190	31,221

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

Consolidated statements of cash flows

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Cash flows from operating activities			
Loss	(3,433)	(458)	(4,254)
Reconciliations required to present cash flows from operating activities:			
Adjustments to the statement of income items:			
Depreciation and amortization:			
Depreciation and amortization of fixed and intangible assets	5,158	4,999	6,105
Increase (decrease) in provision for impairment of fixed assets, non-current assets held for sale and intangible assets	294	33	(433)
Loss (gain) on disposal of fixed assets	(78)	2	29
Cost of share based payments	527	197	204
	5,901	5,231	5,905
Loss from impairment of inventory	1,177	864	607
Loss from impairment of securities available for sale	-	-	80
Change in deferred taxes, net	(499)	(992)	(392)
Change in liabilities for benefits to employees, net	(25)	(270)	(238)
Change in the fair value of liabilities for bank options	(251)	64	(366)
Taxes on income	114	112	173
Financing expenses, net	1,209	1,334	1,457
	1,725	1,112	1,321
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	4,665	(4,665)	(4,352)
Decrease (increase) in other receivables	80	(610)	(324)
Decrease (increase) in inventory	1,225	2,892	(2,723)
Increase (decrease) in trade payables	(2,315)	196	1,120
Decrease in other payables	(854)	(117)	(3,844)
	2,801	(2,304)	(10,123)
Cash paid and received during the year for:			
Interest paid	(1,104)	(1,201)	(1,324)
Interest received	20	18	25
Taxes paid	(126)	(112)	(173)
Taxes received	12	-	-
	(1,198)	(1,295)	(1,472)
Net cash provided from (used in) operating activities	5,796	2,286	(8,623)

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

Consolidated statements of cash flows

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Cash flows from investing activities			
Acquisition of fixed assets	(1,375)	(454)	(353)
Acquisition of intangible assets	(134)	(100)	(125)
Proceeds from disposal of fixed assets	373	21	237
Proceeds from disposal of tradable securities	-	-	260
Net cash provided by (used for) investing activities	(1,136)	(533)	19
Cash flows from financing activities			
Short-term bank credit, net	466	2,491	(1,616)
Repayment of long-term loans	(4,015)	(1,264)	(335)
Receipt of long-term loans	-	-	3,800
Net cash provided by (used for) financing activities	(3,549)	1,227	1,849
Increase (decrease) in cash and cash equivalents	1,111	2,980	(6,755)
Balance of cash and cash equivalents at beginning of year	5,586	2,606	9,361
Balance of cash and cash equivalents at end of year	6,697	5,586	2,606

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

Consolidated statements of cash flows

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
(A) **Significant transactions not in cash**			
Acquisition of fixed assets on credit (See Note 8g, as follows)	2,081	-	-
Acquisition of assets through an exchange	-	1,777	228
Disposal of assets through an exchange	-	2,005	-

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

Note 1 – General

a. Tefron Ltd. (hereinafter - "the Company") is a company registered in Israel. The Company's production operations are carried out in plants located in Israel, Jordan, and the Far East. The Company focuses on the development, production, marketing and sale of intimate apparel and activewear which are sold throughout the world to companies with leading brands such as: Victoria's Secret, Calvin Klein, Adidas, T.J. Maxx, Marks & Spencer, Wal-Mart, Hanes Brands Industries, and other brands well known in the US and Europe. The Company's products include activewear, yogawear, bras, undershirts, underwear, shirts, bodysuits, shapewear and sleepwear. Until the discontinuation of the operations of the subsidiary Macro Clothing Ltd., on March 3, 2013, as detailed in Note 4, as follows, the Company had developed, manufactured, through subcontractors, and marketed swimwear and beachwear. The Company's operations are divided into two fields of operation: the Seamless field and a field that is defined as "Other" which is not reportable. For additional details see Note 23a, as follows.

The Company's shares are traded on the Tel Aviv Stock Exchange. For additional details, also see Note 19.

The Company's head offices are located in the industrial area of "Misgav".

b. **Definitions**

In these Financial Statements:

The Company	-	Tefron Ltd.
The Group	-	Tefron Ltd. and its subsidiaries as detailed in the attached list:
Subsidiaries	-	Companies in which the Company has control of (as defined in IAS 27 (2008)) and their statements are consolidated with those of the Company.
Related Parties	-	As defined in IAS 24.
Interested parties and controlling shareholder	-	As defined in the Securities Regulations (Annual Financial Statements) – 2010.

c. The Company has recorded losses of 3,433 thousand dollars and 458 thousand dollars during the years ended December 31, 2013 and 2012, respectively.

During the reporting period there was a decline in the Company's sales in comparison with the same previous period, and that due to weak sales in the Company's Mass Markets cliental in the U.S. Furthermore, there was an increase in the sewing costs in Jordan and in the Company's dyeing costs as well as a devaluation of the dollar against the shekel that has led to the increase in the shekel costs, primarily in regards with the wages in Israel. All of the aforementioned have damaged the Company's profitability during the reporting period in comparison with the same period in the previous year.

Furthermore, as of December 31, 2013, the Company meets all the financial covenants as

Note 1 – General (cont.)

they were determined in the financing agreement according to the Letters of Waiver the Company has received from the banks in regards with December 31, 2013.

On March 27, 2014, the Company and the banks signed on the amendment to the financing agreement, in the framework of which the financial covenants the Company is obligated to meeting, were amended (see Note 25b, as follows).

The Company's management estimates that as of the date of signing this report, the chance of the Company meeting the amended financial covenants as aforementioned and its obligations in the coming year, is greater than 50%, however, there is no certainty of that, since the latter is subjected to events occurring in the future.

The management's plans to advance the Company's business situation include, amongst else: expanding its customer base, developing new products, making the production floor and headquarters more efficient and expanding operations with factors of production in the Far East. All of the aforementioned whilst focusing on the core of the Company's operations, the Seamless technology.

On March 3, 2013, the Board of Directors decided on leaving the field of manufacturing and marketing of swimwear and beachwear. For further details see Note 4, as follows.

On November 14, 2013, the Company sold the swimwear and beachwear operations to Gottex Swimwear Brands Ltd. for a total sum of US 280 thousand dollars. For further details see Note 4, as follows.

Note 2 – Significant accounting principles

The accounting principles as detailed as follows were used consistently throughout the financial statements, during all the periods presented, unless it is noted otherwise.

a. Basis of presentation of the financial statements

The financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS").

Furthermore, the financial statements are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements are prepared on the basis of cost, excluding derivatives and financial assets available for sale which are measured according to their fair value and excluding liabilities for employee benefits.

The Company chose to present the statement of income by a method which characterizes its operations.

b. The key considerations, estimates and assumptions in the preparation of the financial statements

During the process of implementing the accounting policy throughout the financial statements, the group has used discretion and has considered numerous considerations in regards to the following subjects, which have a significant effect on the amounts that were recognized in the financial statements:

a. The considerations:

- Impairment of financial assets available for sale

On each balance sheet date, the Group assesses whether there is any objective evidence

Note 2 – Significant accounting principles (cont.)

b. The key considerations, estimates and assumptions in the preparation of the financial statements (cont.)

a. The considerations (cont.):

whether the value of the asset is impaired. For the purpose of evaluating the impairment, as aforementioned, the Group uses discretion regarding indications that point to an objective evidence which relate to the rate of the decline in the fair value in percentage, as well as to the duration of the decline in the fair value.

b. Estimates and assumptions

At the time of the preparation of the financial statements, the management is required to be assisted by estimates and assumptions which affect the implementation of the accounting policy and the amounts reported on assets, liabilities, revenues and expenses. Changes in accounting estimates are recorded during the period in which the change in estimate is made.

The following are the key assumptions made in the financial statements concerning uncertainties on the balance sheet date, and the critical estimates computed by the Group and that a significant adjustment in the estimates and assumptions is likely to change the value of the assets and liabilities in the financial statements in the consecutive reporting year:

- Legal claims

When evaluating the chances of the legal claims filed against the Company and its subsidiaries, the Company relied on the opinion of its legal advisors. These opinions of the Company's legal advisors are based on the best of their professional judgment, taking into account the stage of the proceedings and the legal experience accumulated on these numerous subjects. Since the outcomes of any legal claims will be determined in the courts, actual outcomes could differ from these evaluations.

- Provision for impairment of fixed assets

A provision for impairment of fixed assets is recorded up to the asset's recoverable amount if the recoverable amount is less than the asset's carrying amount in the Company's financial statements. The recoverable amount is the higher between its net realizable value less selling costs and the net value of use based on discounted cash flows. A provision for impairment of fixed assets is determined for every cash-generating unit separately. In order to determine the recoverable amount of its fixed assets, the Company has been assisted by a qualified independent valuator that has based his evaluation on predictions and assessments.

- Impairment of goodwill

The Group reviews the impairment of goodwill at least once a year. The review obligates the management to estimate the future cash flows which are expected from the continued usage of a cash-generating unit (or a group of cash-generating units) to which the goodwill was allocated. Furthermore the management is required to estimate the appropriate deduction rate for these cash flows.

Note 2 – Significant accounting principles (cont.)

b. The key considerations, estimates and assumptions in the preparation of the financial statements (cont.)

b. Estimates and assumptions (cont.)

- Deferred tax assets

Deferred tax assets are recognized for carry forward tax losses and deductible temporary differences not yet utilized to the extent that it is probable that future taxable income will be available against which the losses could be utilized. Management's careful consideration is required to determine the amount of deferred tax assets that can be recognized, based upon the timing, the amount of future taxable income expected, its origin and the tax planning strategies. For further information, see Note 17, as follows.

- Pension and other post-employment benefits

The liability in respect of defined post-employment benefit plans is determined using actuarial valuation techniques. Calculating the liability consists of making assumptions, *inter alia,* regarding the discount rates, future salary increases and employee turnover. The balance of the liability may be affected significantly by changes in these estimates.

- Determining the fair value of an unlisted financial asset

The fair value of an unlisted financial asset classified within level 3 of the fair value hierarchy, is determined in accordance with estimation methods, usually according to an assessment of future cash flows discounted according to the current discount rates for items with similar terms and risk characteristic. Changes in the estimation of future cash flows and estimated discount rate while taking into consideration the risk assessment such as liquidity risk, credit risk and volatility, may affect the fair value of these assets.

- Slow-moving inventory

The Company reviews periodically the state and age of inventories and records a provision for slow-moving inventories accordingly. In assessing the ability of future usage of this inventory, the Company relies on technical data and on assumptions with regards to anticipated order backlog - see Note 7, as follows.

- Evaluating the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined using the options costing model. The model's assumptions include the price of the share, its realization price, expected fluctuations, expected lifespan, expected dividends, and the zero risk rate of interest.

c. Consolidated financial statements:

The consolidated financial statements include the statements of companies controlled by the Company (wholly-owned subsidiaries). Control exists when the Company has influence on the investee entity, exposure or rights to variable returns as a result from its involvement in the investee entity, as well as the ability to use its power to influence the sum of returns that shall derive from the investee entity. While assessing control, one takes into account the influence of the potential voting rights, only if they are substantive. The consolidation of the financial statements commences as of the date on which control is obtained and ends when such control

Note 2 – Significant accounting principles (cont.)

c. Consolidated financial statements (cont.):

ceases.

The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The Company's accounting policy in the financial statements of its subsidiaries was implemented uniformly and consistently with those implemented in the Company's own financial statements. Intra-group balances, gains and losses resulting from intra-group transactions were eliminated in full in the consolidated financial statements.

d. Functional, presentation and foreign currency

1. Functional and presentation currencies

The presentation currency of the financial statements is the US dollar.

The functional currency which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is determined separately for each entity in the Group, and by this functional currency its financial position and operating results are measured. The functional currency of the Company is the US dollar.
The Group determines the functional currency of the Company for each entity of the Group.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in a foreign currency (a currency other than the functional currency) are recorded initially at the exchange rate on the date of the transaction. After the initial recognition, monetary assets and liabilities that are denominated in foreign currency are translated on each balance sheet date into the functional currency, at the exchange rate on that date. Exchange rate differences, other than those that are discounted to qualifying assets or are recognized in equity in hedging transactions, are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and presented by cost are retranslated according to the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency, in accordance with the rates of exchange on the date on which the fair value is determined.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is determined specifically in respect of trade receivables whose collection, in the opinion of the Company's management, is doubtful. Impaired trade receivables will be withdrawn once they are assessed as uncollectible.

f. Inventory

Inventory is measured at the lower of cost or net realizable value. The cost of inventory includes the expenses for purchasing the inventory as well as other costs incurred to bring it to its current location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventory and records a provision for slow-moving inventory accordingly.

The cost of inventories is determined as follows:

Raw materials	-	Based on cost by the weighted average method.
Work in progress and finished goods	-	on average cost including material, labor and other direct and indirect manufacturing costs.

Note 2 – Significant accounting principles (cont.)

g. Revenue recognition

Revenues are recognized in the statement of income when they can be measured in a reliable fashion, it is expected that the economic benefits associated with the transaction will flow to the Company, as well as the costs incurred or to be incurred in respect of the transaction and can be measured reliably. The revenues are measured at the fair value of the consideration received in the transaction less any trade discounts, volume rebates and returns.
The specific criteria regarding revenue recognition which are required to be fulfilled prior to the revenue recognition are as follows:

Revenues from the sale of goods

Revenues from the sale of goods are recognized once the significant risks and rewards derived from the ownership of the goods have been transferred to the buyer, and the seller no longer retains any continued managerial involvement. Usually the date of the delivery is the date in which the ownership was transferred.

Discounts to customers

Discounts given to customers at the end of the year, for which the customer is not required to meet certain targets, are included in the financial statements upon reaching the proportional sales which entitle the customer to these discounts and are deducted from the sales item.

h. Government grants

Government grants from the Office of the Chief Scientist in Israel for supporting development activities do not include the payment of royalties to the State, and therefore have been reduced from the cost of the development. The grants are recognized when there is reasonable assurance that the grants will be received and the Company would meet all the relevant conditions.
Government grants relating to assets such as fixed assets have been recorded as a reduction in the carrying amount of the fixed asset for which the grants were received.

i. Taxes on income

Taxes on income in the statement of income include deferred taxes. The tax results in respect of deferred taxes are recorded to the statement of income except to the extent that the tax arises from items which are recognized directly to shareholders' equity. In such cases, the tax effect is also recorded to the relevant item in shareholders' equity.

Deferred taxes

Deferred taxes are computed for temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, excluding a limited number of exceptions. Deferred taxes related to items recorded directly to shareholders' equity are also recorded to the relative item in shareholders' equity.

Deferred tax balances are measured at the tax rate that is expected to apply once the asset is realized or the liability is settled, these taxes shall be recorded to the statement of income or to shareholders' equity, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

The amount of the deferred taxes in the statement of income represents the changes in these balances during the period of report, excluding changes attributable to items recorded directly to shareholders' equity.

Note 2 – Significant accounting principles (cont.)

i. Taxes on income (cont.)

Deferred taxes (cont.)

Deferred tax assets are reviewed on each balance sheet date and reduced to the extent that it is not probable that they will be utilized. Simultaneously, temporary differences (such as losses transferred for tax purposes) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable. Any resulting reduction and recognition, as aforementioned, are recognized in the taxes on income item.

When calculating deferred taxes, taxes that would have applied in the event of the sale of investments in subsidiaries have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments in subsidiaries is not expected in the foreseeable future. Moreover, deferred taxes that would have applied in the event of distribution of earnings by investee companies as dividends have not been taken into account in computing the deferred taxes, since it is the Company's policy not to initiate distribution of dividends by a subsidiary.
Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and non-current liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same tax authority.

j. Discontinued operations

Discontinued operations is a component of the Company which constitutes operation that was realized or classified as held for sale, the outcomes of the operations relating to the discontinued operations are presented separately in the statement of income, less the tax effect.

k. Leasing

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and they are reviewed at the inception of the lease in accordance with the principles below as set out in IAS 17:

The Group as a lessee

Operating lease

Assets that are not actually transferred, all risks and benefits inherent in the ownership of the leased asset are classified as operating lease. The lease fees are recognized as an expense in the statement of income on a straight-line basis continuously over the lease period.

The Group as Lessor

Operating lease

The Group has lease agreements in which all risks and benefits inherent in the ownership of the leased asset are not actually transferred and therefore they are classified as operating lease. The lease fees are recognized as an expense in the statement of income on a straight-line basis over the lease period.

l. Fixed assets

Items of fixed assets are measured at cost plus direct acquisition costs less any accumulated depreciation, less accumulated impairment losses and less related investment grants and

Note 2 – Significant accounting principles (cont.)

l. Fixed assets (cont.)

excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with machinery and equipment.

	%
Buildings	2
Machinery and equipment (mainly 5%)	5-15
Motor vehicles	10-15
Office furniture and equipment (mainly 10%)	6-10
Leasehold improvements	see below

Leasehold improvements are depreciated using the straight line method over the lease period or over the expected useful life of the improvement, whichever is shorter.

The useful life, depreciation method and residual value of an asset are reviewed at least at the end of each year and the changes are accounted for as a change in accounting estimate in way of prospective application. As for testing the impairment of fixed assets, see Clause o, as follows.

The depreciation of assets is discontinued on the earlier of the date that the asset is classified as held for sale and the date on which the asset is withdrawn.

m. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.
Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The period of amortization and method of amortization of an intangible asset is examined at least at the end of each year.

The useful lifespan of intangible assets is as follows:

	Years
Computer software	4
Customer relations	8
Brand license	2.75
Order backlog	Period of orders' delivery

Goodwill is not amortized methodically and is subject to consideration of its loss of impairment on a yearly basis, as well as any time there is an indication that there might be a loss from impairment (see also Note 9, as follows).

Software

The Group's assets include computer systems comprising software and licenses. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed in it, is classified as fixed assets. In contrast, stand-alone software license that add additional functionality to the hardware is classified as an intangible asset.

Note 2 – Significant accounting principles (cont.)

m. Intangible assets (cont.)

Gains or losses from the withdrawal of an intangible asset are measured by the difference between the proceeds from the realizing, net and the cost of the asset, and are recorded to the statements of income.

n. Impairment of non-financial assets

The Company examines the need to record an impairment of the carrying amount of non-financial assets whenever there are indications resulting from events or changes in circumstances which indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount of non-financial assets in the financial statements exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the fair value less costs for sale and the value of its use. In evaluating the use, the expected cash flows are discounted according to the discounting rate before tax, which reflects the specific risks of every asset. For an asset that does not create independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recorded to the statement of income in accordance with the nature of the item whose value declines.

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 date in which the impairment loss was recognized. Reversal of an impairment loss, as aforementioned, is limited to the lower of the amount of impairment recognized in the past (less depreciation or amortization) or its recoverable amount. A reversal of that impairment loss, as aforementioned, is recognized in the statement of income in the same section in which the impairment was recognized. See Note 8b, as follows.

The following unique criteria are applied in assessing impairment of the goodwill:

Goodwill in respect of subsidiaries

The Company reviews goodwill for impairment once a year on December 31, or more frequently if events or changes in circumstances indicate that an impairment can be recognized. Impairment is recognized for goodwill by comparing the recoverable amount of the cash-generating unit (or a group of cash-generating units) to which the goodwill has been allocated. When the recoverable amount of the cash-generating unit (or a group of cash-generating units) is lower than the carrying amount in the financial statements of the cash-generating unit (or a group of cash-generating units), to which the goodwill has been allocated, it is recognized as a loss from an impairment first relating to goodwill. Losses recognized for goodwill cannot be reversed in consecutive periods.

o. Financial instruments

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, excluding financial assets which are measured at fair value through the statement of income, for which the transaction costs are recorded in the statement of income.

After the initial recognition, the accounting treatment of investments in financial assets is based on their classification as detailed as follows:

Note 2 – Significant accounting principles (cont.)

o. Financial instruments (cont.)

1. Financial assets (cont.)

a. Financial assets available for sale

Financial assets available for sale are financial assets (non-derivative) that have been designated as available for sale or that have not been classified to one of the three following groups as detailed as follows. After the initial recognition, available for sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except the ones resulted due to interest differences, are usually recognized in other comprehensive income. When the investment is reduced or in case of an impairment, the accumulated other comprehensive gain (loss) is carried out to statements of income

b. Loans and receivables

Short-term loans and receivables are presented according to their terms generally at their nominal value.

2. Financial liabilities

The liabilities are initially recognized at fair value. Other loans and receivables which are measured at amortized cost are presented less the direct transaction costs.
After the initial recognition, the accounting treatment of the financial liabilities is based on their classification as detailed as follows:

Financial liabilities measured at amortized cost

After initial recognition, other loans and liabilities are presented in accordance with their terms according to the cost less direct transaction costs using the effective interest method.

Financial liabilities measured at fair value through the statement of income

Financial liabilities measured at fair value through the statement of income include bank options which can be exercised to an unknown number of shares (such as cashless options) and are handled as a financial derivative. On the date of initial recognition and on every reporting date, the options are measured according to their fair value, and the changes in fair value are recorded on a current basis to the statement of income in the financing item.

3. Withdrawal of financial instruments

a. Financial assets

A financial asset is withdrawn when the contractual rights to the cash flows from the financial asset expire or when the Company has transferred its contractual rights to receive cash flows from the financial asset or has assumed an obligation to pay the received cash flows in full without significant delay to a third party and in fact has transferred substantially all the risks and rewards related to the asset, or has neither transferred nor retained substantially all the risks and rewards related to the asset, but has transferred the control of the asset.

A factoring transaction and credit vouchers of customers is handled as a withdrawal when the above conditions exist.

When the Company transferred its rights to receive cash flows from an asset and did not substantially

Note 2 – Significant accounting principles (cont.)

o. Financial instruments (cont.)

3. Withdrawal of financial assets (cont.)

a. Financial assets (cont.)

transfer or retain the risks and benefits connected with the asset, and did not even transfer control of the asset, this is recognized as a new asset according to the extent of the Company's continuing involvement in the asset. Involvement usually continues by way of a guarantee for the asset transferred and is measured at the lower of the original balance in the financial statements of the asset, and the maximum amount of the consideration that the Company is likely to be required to pay in return.

b. Financial liabilities

A financial liability is withdrawn when it is settled, hence, when the obligation is discharged, cancelled or expired. A financial liability is withdrawn when the debtor:

- Pays the liability by paying in cash, other financial assets, goods or services; or
- Is legally released from the liability.

4. Impairment of financial assets

On each balance sheet date, the Group assesses whether there is any objective evidence that the following financial asset or group of financial assets are impaired:

a. Financial assets presented at amortized cost

Objective evidence of impairment includes one or more events that have had a negative impact on the estimated future cash flows of the asset since the recognition of the asset. The amount of the loss which is recognized in the statements of income, is measured as the difference between the balance of the asset in the financial statements and the current value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. If the financial assets bears a variable interest rate, the process of discount is carried out in accordance with the rate of the current effective interest rate. In consecutive periods, the amount of the impairment loss is reversed when the returned value of the asset can be related objectively to an event occurring after the impairment was recognized. Such a reversal amount is recorded to the statement of income up to the amount of the loss recognized.

b. Financial assets available for sale

For debt instruments classified as financial assets available for sale, evidence of impairment includes one or more events that have a negative impact on the estimated future cash flows of the asset since the recognition of the asset. When evidence of impairment is detected, the cumulative loss carried to other comprehensive loss, is recognized as an impairment loss in the statement of income. In subsequent periods, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. Such a reversal amount is credited to the statement of income up to the amount of the loss recognized.

p. Derivative Financial Instruments for Hedging Purposes (Hedging)

The Group often carries out engagements in derivative financial instruments such as forward contracts, for foreign currency in order to hedge itself against the risks connected with fluctuations in the rates of exchange of foreign currency. These financial derivatives are first

Note 2 – Significant accounting principles (cont.)

p. Derivative Financial Instruments for Hedging Purposes (Hedging) (cont.)

recognized at fair value. After the initial recognition, the financial derivatives are measured at fair value. Derivatives are recognized in the consolidated balance sheets as assets when their fair value is positive and as liabilities when their fair value is negative.

Profits or losses resulting from changes in the fair value of derivatives which are not used for hedging purposes are immediately recorded to the statement of income.

Hedging transactions which meet the criteria of hedging transaction (hedging) are treated as follows:

Hedging fair value

A change in the fair value of the derivative (the hedging item) and the hedged item is recognized in the statements of income. In the events of hedging fair value which relates to the hedged item presented at amortized cost, the adjustments to the carrying amount in the financial statements are recognized in the statements of income over the remaining period until repayment. Adjustments to financial instruments hedged presented using the effective interest method, are recognized in the statement of income. When the hedged item is withdrawn, the balance of the adjustments of fair value not yet amortized is recognized in the statement of income at that time.

Hedging cash flows

The effective part of a profit or a loss from the hedging instrument is recognized in equity as other comprehensive income (loss) while the ineffective part is immediately recognized in the statement of income.

Other comprehensive income (loss) is transferred to the statement of income when the results of the hedging transaction are recorded to the statement of income; e.g. when the hedged revenue or expense is recognized in the statement of income or when a forecasted transaction occurs. When the hedged item is the cost of a non- financial asset or liability, this cost includes also the amount of the other relative comprehensive income (loss) which is transferred from shareholders' equity on the date of recognizing the asset or liability.

In those cases where a forecasted transaction or a firm commitment are no longer expected to occur, the amounts recognized in shareholder' equity in the past, are transferred to the statements of income. Once the hedging instrument expired or was sold, settled or realized, or when its object as a hedging instrument was cancelled, the amounts recognized in shareholders' equity in the past, remain in shareholders' equity until the date in which the forecasted transaction or the firm commitment occur.

q. Fair value measurement

Fair value is the price that would have been received for selling an asset or the price that would have been paid to transfer liabilities in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumptions that the transaction is taken place in the principal market of the asset or liability, or in the absence of a principal market, the most advantageous market.

Note 2 – Significant accounting principles (cont.)

q. Fair value measurement (cont.)

The fair value of an asset or a liability is measured while using the assumptions that market participants would use while pricing the asset or liability, assuming that market participants operate for the benefit of their own economic interests.

Fair value measurement for a non-financial asset takes into account the ability of the market participant to produce economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances, and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All of the assets and liabilities are measured at fair value or that a disclosure related to their fair value was provided, are categorized within the fair value hierarchy, based on the lowest source of input significant to the measurement of the fair value as a whole:

Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 - Data other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Data that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

r. Treasury shares

The shares of the Company are held by a subsidiary, measured at their acquisition cost and are presented as a deduction in shareholders' equity. Any gain or loss resulting from the acquisition, sell, issue or cancellation of treasury shares is recorded directly in shareholders' equity.

s. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or implied) as a result of a past event and it is probable that economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense shall be recognized in the statements of income less the reimbursement of the expense.

The Company has included in the financial statements provisions related to legal claims.

t. Liabilities for benefits to employees

The Group has several employee benefits:

1. Short-term employee benefits:

Short-term employee benefits are benefits which are expected to be fully paid up to 12 months after the end of the annual reporting period during which the employees provide the relating services. These benefits include salaries, leave pay, paid sick leave, paid annual leave and social security contributions and are recognized as expenses as the services are

Note 2 – Significant accounting principles (cont.)

t. Liabilities for benefits to employees (cont.)

1. Short-term employee benefits (cont.)

rendered. Liability for a cash grant is recognized when the Group has a legal or implied obligation to pay the aforesaid amount for a service that was provided by the employee in the past and the amount can be estimated in a reliable fashion.

2. Post-employment benefits

The plans are usually fund by contributions to insurance companies and they are classified as define contribution plans and defined benefit plans.

The Group in Israel has defined contribution plans pursuant to Section 14 of the Israeli Severance Pay Law under which the Group pays fixed contributions and without having legal or implied obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions in the defined contribution plan in respect of severance pay or compensation are recognized as an expense when contributed to the plan simultaneously with receiving the employee's services.

In addition, the Group also has a defined benefit plan with regard to severance pay pursuant to the Israeli Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability in regards with termination of employment is determined using the actuarial value of the projected unit entitlement method. The actuarial calculation takes into account future salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate on government bonds with maturity dates that are close to the liability period of the severance pay.

The Company makes current deposits in respect of its liabilities to pay severance pay to certain of its employees regularly in pension funds and insurance companies (hereinafter- "the plan’s assets"). The plan’s assets consist of assets held in eligible insurance policies. The plan’s assets are not available to the Group's own creditors and cannot be paid directly to the Group.

The liability for employee benefits presented in the balance sheet represents the present value of the defined contribution plan less the fair value of the plan’s assets.

Re-measurements of the liabilities net are recorded as other comprehensive income in the period in which they occur.

u. Share-based payment transactions

The Company's employees, directors and service providers are entitled to remuneration in the form of share-based payment transactions settled with equity instruments (hereinafter- “transactions settled with equity instruments").

Note 2 – Significant accounting principles (cont.)

u. Share-based payment transactions (cont.)

Transactions settled with equity instruments

The cost of transactions settled with equity instruments with employees, directors and service providers is measured at the fair value of the equity instruments granted on the granting date. Fair value is determined using an accepted pricing model, for additional details; see Note 20, as follows.

The cost of transactions to service providers is measured at the fair value on the date of granting, and thereafter, at the date of providing the service; it is revalued to fair value with the changes being recorded to the statement of income.

The cost of transactions settled with equity instruments is recognized in the statement of income, together with a corresponding increase in equity, during the period in which the performance conditions exist, and end on the date on which the relevant employees and directors become entitled to the benefit (hereinafter- "the vesting period"). The cumulative expense recognized for transactions settled with equity instruments on each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of income represents the movement in cumulative expense recognized at the beginning and end of that reported period.

No expense is recognized for benefits that do not ultimately vest, except for benefits where vesting is conditional on market conditions, which are treated as benefits which vested irrespective of whether the market conditions are met, provided that all other vesting conditions (service and/or performance) were fulfilled.

When the Company modifies the conditions on which equity instruments were granted, the additional expense is recognized in addition to the original expense that was calculated for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee or director according to the fair value on the modification date.

Cancellation of the granting settled with an equity instrument is handled as if it vested on the date of the cancellation and the expense not yet recognized for the granting is immediately recognized. Nevertheless, if the granting cancelled is replaced by a new granting which is intended as an alternative granting on the date on which it is granted, the cancelled granting and the new granting will both be handled as a change in the original granting as described above.

v. Earnings (loss) per share

Earnings (loss) per share are calculated by dividing the net income (loss) attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.
Potential ordinary shares are included in the computation of diluted earnings per share only if their effect is dilutive earnings per share from continued operations. Potential ordinary shares that have been converted during the period are included in diluted earnings per share only until the conversion date and from that date they are included in basic earnings per share.

Note 3 – Disclosure to new IFRS during the period prior to their implementation

Amendments to IAS 32 - financial instruments: presentation, in regards with financial assets and liabilities offsetting

The IASB published amendments to IAS 32 (hereinafter –"the amendments to IAS 32") on the subject of offsetting financial assets and financial liabilities. The amendments to IAS 32 clarify, *inter alia*, the meaning of the term "currently existing in a legal right which can be enforced for a set off" (hereinafter – "the right of set-off"). The amendments to IAS 32 stipulate, *inter alia,* that the right set-off must be legally enforced not only in the normal course of business of the parties to the contract but also in the event of bankruptcy or solvency by one of the parties. In addition, the amendments to IAS 32 stipulate that in order for the right to set off to exist immediately, it must not be dependent on a future event or that there will be periods of times in which it will not apply, or there will be events which will cause its expiry. The amendments to IAS 32 will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2014 or thereafter. Early adoption is possible. The Company estimates, the amendments to IAS 32 are not expected to have a significant effect on the financial statements.

IFRS 9 – financial instruments

1. The IASB published the first stage of phase 1 of IFRS 9 - financial instruments, as part of the project to replace IAS 39- financial instruments: Recognition and Measurement. IFRS 9 (hereinafter – "the standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.
   The IASB hasn't set a mandatory implementation date to the standard. An early adoption is possible. The initial adoption will be done retrospectively while providing the necessary disclosure or restatement of the comparative figures, pursuant to the exemptions detailed in the standard.

2. Amendments to the standard on the subject of withdrawals and the subject of financial liabilities (phase 2) were published. According to the amendments, the Company must continue to implement the provisions of IAS 39 regarding a withdrawal and regarding financial liabilities for which the fair value alternative was not chosen (the designation of fair value through the statement of income). Hence, the provisions of classification and measurement of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at reduced cost.

3. In November 2013, the IASB published the third phase (phase 3) of the IFRS 9 (hereinafter-"the third phase of IFRS 9"), as part of the complete version of IFRS 9. The third phase of IFRS 9 includes new requirements in regards of hedge accounting and related amendments to IFRS 9, IFRS 7 and IFRS 39.

   The IASB hasn't set a mandatory implementation date to the third phase of IFRS 9; however companies can choose an early adoption and this only to the extent that the other requirements of IFRS 9 are implemented at the same time.

   According to the amendments included in the third phase of IFRS 9, it is possible to adopt the provisions of phase 2 in regards of measuring financial liabilities at fair value while recording the changes of fair vale resulting from self-credit risk to other comprehensive income, and this without the adoption of the other provisions of the standard.

   In the Company's opinion, the standard (all phases included) is not expected to have a significant effect on the financial statements.

Note 3 – Disclosure to new IFRS during the period prior to their implementation (cont.)

Amendments to IAS 36 - impairment of assets

In May 2013 the IASB published amendments to IAS 36- impairment of assets (hereinafter- “the amendments”) which address the disclosure requirements relating to fair value less costs of disposal of assets. The amendments include additional disclosure requirements in regards with the recoverable amount and the fair value. The additional disclosure shall include a disclosure in regards with the fair value hierarchy, the valuation techniques and changes therein, the discount rates and to the principal assumptions underlying the valuation.

The amendments shall become effective as of the annual periods beginning January 1, 2014 or thereafter. Early adoption is possible.
The appropriate disclosures shall be included in the Company’s financial statements upon the initial adoption of the amendments.

An amendment to IAS 39 financial instruments: Recognition and Measurement, in regards with the replacement of hedging transactions and the continuation of the implementation of hedge accounting

The amendment to IAS 39 (hereinafter: “the amendment”) addresses the exception to the standard’s requirement of discontinuing the implementation of hedge accounting. The amendment has added conditions that must be met in order for a replacement or a rollover of a hedging instrument with another hedging instrument shall not constitute an expiration or termination.

The amendment shall take effect as of the annual periods beginning January 1, 2014, or thereafter. Early adoption is possible.

An amendment to IAS 19 regarding the accounting of employee contributions in respect of service

The IASB has published an amendment to the current requirements within IAS 19 in regards of contributions made by employees or third parties related to the service.

According to the amendment, if the amount of the contributions is independent of the number of years of service (as in such cases where the contributions are calculated as a fixed percentage of the employee’s salary, the contributions are a fixed amount throughout the period of service or the contributions are determined according to the employee’s age), it is possible to recognize such contributions as a reduction of the service cost, in the period in which the related service is rendered, rather than attributing them to the periods of service.

When the contributions are dependent on the number of years of service in which the service was rendered, those contributions should be attributed to the periods of service while using the same attribution method required by IAS 19, paragraph 70, in regards of attribution of a benefit to the periods of service.

The amendments to IAS 19 would be implemented retrospectively as of the financial statements for annual periods beginning July 1, 2014 or thereafter. Early adoption is possible.

The Company estimates that the standard is not expected to have a significant effect on the financial statements.

Note 4 – Discontinued operations

On March 3, 2013, the Board of Directors decided on leaving the field of manufacturing and marketing of swimwear and beachwear. On March 20, 2013, the Company and Macro Clothing Ltd. (hereinafter – "the seller"), a subsidiary of the Company, signed on an agreement with Gottex Swimwear Brands Ltd. (hereinafter – "the purchaser"), in the framework of which the seller would sell the purchaser its operations in the field of developing, manufacturing and marketing of swimwear and beachwear, including the intellectual property and goodwill of the seller in regards to the aforementioned operations, the clients and suppliers list, and all of the seller's rights in the incorporated companies in Hong Kong and China (hereinafter: "the agreement" or "the transaction" and "the operation", respectively).
Furthermore, the agreement includes clauses regarding non-competition by the seller or any of the companies related to it in the field of swimwear, for a limited period of time, as well as clauses regarding indemnity the purchaser would be entitled to from the seller for damages that might be caused to it due to false presentations, and/or legal claims, and/or demands by any third party, and all of the above as detailed in the agreement.
On November 14, 2013, the seller completed its engagement in the agreement, in return for the sum of US 280 thousand dollars.
The completion of the engagement in an agreement was made possible with the fulfilment of all of the preconditions in the agreement, including, a completion of a *due diligence* and the approval of the Company's lending bank.
It should be noted that the proceeds resulting from the agreement, were used on November 18, 2013, for an early repayment of the Company's credit at the Company's financing banks (Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd. and Israel Discount Bank Ltd.), respectively to the share of each bank as was determined in the agreement of re-organization of credit terms which was signed between the Company and its financing banks on March 2, 2010 (and as it was amended occasionally).

Furthermore, on September 30, 2013, and October 1, 2013, the seller repaid US 513 thousand dollars and US 487 thousand dollars respectively, as part of its obligations to the lending banks, according to which upon the completion of the transaction of selling the operations, the seller shall repay a total sum of one million dollars at the expense of long term credit.

The following are the details regarding the operations' results relating to the discontinued operations:

	For the year ended December 31,		
	2013	**2012**	**2011**
	Dollars thousand		
Sales	8,190	14,527	17,523
Cost of sales	6,207	11,224	12,746
Gross profit	1,983	3,303	4,777
Selling and marketing expenses	1,508	4,801	5,314
General and administrative expenses	292	(11)	(144)
Other expenses	218	-	-
Operating loss	(35)	(1,487)	(393)
Financing expenses, net	(215)	(367)	(211)
Tax benefit (taxes on income)	(21)	(1,240)	346
Net loss relating to discontinued operations	(271)	(3,094)	(258)

Note 4 – Discontinued operations (cont.)

The following is the data regarding the cash flows, net, relating to the discontinued operations, and originated from (used for) the discontinued operations:

	For the year ended December 31,		
	2013	2012	2011
	Dollars thousand		
Operating	(17)	(2,828)	168
Investing	280	(14)	(125)

The following is the data regarding the balances of other comprehensive loss, net, attributed to the Company's shareholders, which were recorded to the Shareholders' equity, relating to the discontinued operations:

	For the year ended December 31,		
	2013	2012	2011
	Dollars thousand		
Actuarial loss from defined benefit plan	(73)	(73)	(57)

Note 5 - Trade receivables, net

	As of December 31,	
	2013	2012
	Dollars thousands	
Open receivables	13,347	18,248
Checks for collection	624	222
	13,971	18,470
With deduction of provision for doubtful debts	(280)	(114)
Trade receivables, net	13,691	18,356

Trade receivables whose collection is in doubt are accounted for through recording a provision for doubtful debts.

Note 5 - Trade receivables, net (cont.)

The movement in the provision for doubtful accounts is as follows:

	Dollars thousands
Balance as of January 1, 2012	469
Provisions during the year	270
Cancellation for doubtful debts collected	(306)
Recognition of doubtful debts deleted	(319)
Balance as of December 31, 2012	114
Provision during the year	166
Balance as of December 31, 2013	280

The following is the analysis of the balances of trade receivables for whom no impairment was recorded (provisions for doubtful debts), trade receivables net, according to the period of delay in collection in relation to the reporting date:

	Trade receivables whose debts have not yet fallen due (no delay in collection)	Past due trade receivables and the delay in their collection is					
		Under 30 days	30 – 60 days	60 – 90 days	90 – 120 days	Over 120 days	Total
	Dollars thousands						
December 31, 2013	12,734	428	326	71	87	45	13,691
December 31, 2012	17,102	729	288	44	160	33	18,356

Note 6 - Other receivables

	As of December 31,	
	2013	2012
	Dollars thousands	
Prepaid expenses	510	541
Advances to vendors	777	1,011
Institutions	839	967
Derivatives for forward transactions	67	221
Revenues receivable	46	41
Other receivables	472	205
	2,711	2,986

Note 7 - Inventories

	As of December 31, 2013	2012
	Dollars thousands	
Raw Materials	2,463	3,742
Work in process	5,747	6,150
Finished goods	4,412	5,132
	12,622	15,024

***)** An impairment in the value of inventory of 1,177 thousand dollars (2012 – 864 thousand dollars, 2011 – 607 thousand dollars) was recorded to the cost of sales.

Note 8 – Fixed assets

a. Composition and movement:

The year of 2013:

	Land and buildings	Machinery and equipment (*)	Vehic-les	Office furniture and equipment	Leasehold improve-ments	Total
	Dollars thousands					
Cost						
Balance as at January 1, 2013	3,863	89,343	221	2,923	11,147	107,497
Additions during the year	-	3,102	-	112	241	3,455
Withdrawals – realizations	-	(513)	(27)	(613)	(661)	(1,814)
Withdrawals- amortization of assets	-	(170)	-	(4)	-	(174)
Balance as at December 31, 2013	3,863	91,762	194	2,418	10,727	108,964
Accumulated depreciation						
Balance as at January 1, 2013	1,493	65,409	220	2,277	4,951	74,350
Addition during the year	79	4,019	1	126	888	5,113
Withdrawals – realizations	-	(310)	(27)	(572)	(514)	(1,423)
Withdrawals – amortization of assets	-	(82)	-	(2)	-	(84)
Balance as at December 31, 2013	1,572	69,036	194	1,829	5,325	77,956
Provision for impairment						
Balance as at January 1, 2013	470	2,997	-	124	-	3,591
Provision's adjustment according to the recoverable amount	-	-	-	-	187	187
Withdrawals – realizations	-	-	-	-	(187)	(187)
Amortization during the year	-	(567)	-	-	-	(567)
Balance as at December 31, 2013	470	2,430	-	124	-	3,024
Balance of amortized cost as at December 31, 2013	1,821	20,296	-	465	5,402	27,984

(*) The balance is recorded after the deduction of the investment grants on the sum of 24,959 thousand dollars which their amortized cost as at December 31, 2013, is 1,395 thousand dollars.

Note 8 – Fixed assets (cont.)

a. Composition and movement (cont.):

The year of 2012:

	Land and buildings	Machinery and equipment (*)	Vehic-les	Office furniture and equipment	Leasehold improve-ments	Total
	Dollars thousands					
Cost						
Balance as at January 1, 2012	3,857	88,647	221	3,896	10,903	107,524
Additions during the year	6	1,836	-	136	244	2,222
Withdrawals – realizations	-	(1,140)	-	(1,109)	-	(2,249)
Balance as at December 31, 2012	3,863	89,343	221	2,923	11,147	107,497
Accumulated depreciation						
Balance as at January 1, 2012	1,423	62,576	219	3,196	3,998	71,412
Additions during the year	70	3,950	1	190	953	5,164
Withdrawals – realizations	-	(1,171)	-	(1,109)	-	(2,226)
Balance as at December 31, 2012	1,493	65,409	220	2,277	4,951	74,350
Provision for impairment						
Balance as at January 1, 2012	490	3,692	-	242	(28)	4,396
Amortization during the year	(20)	(695)	-	(118)	28	(805)
Balance as at December 31, 2012	470	2,997	-	124	-	3,591
Balance of amortized cost as at December 31, 2012	1,900	20,937	1	522	6,196	29,556

(*) The balance is recorded after the deduction of the investment grants on the sum of 24,959 thousand dollars which their amortized cost as at December 31, 2012, is 4,154 thousand dollars.

b. Impairment of fixed assets

The Company has four cash-generating units:

- Cut & Sew – including design, production and marketing of intimate apparel and activewear by the Cut & Sew method

- Seamless Israel – including design, production and marketing of intimate apparel and activewear by the Seamless method. The products in this cash-generating unit are manufactured in Israel and Jordan.

- Seamless Off-Shore – including design, production and marketing of intimate apparel and activewear by the Seamless methods that are manufactured by sub-contractors in the Far east.

- An Office Building in the United States – the Company has cash flows from rent of offices in the United States. This building produces independent cash flows.

Note 8 – Fixed assets (cont.)

b. Impairment of fixed assets (cont.)

- The Company has a cash-generating unit the operations of which were sold in 2013 (for additional details see Note 4, above):

In 2011 the Company carried out an additional revaluation, through an external evaluator. As a result of the revaluation the Company decreased by 433 thousand dollars the provision for the impairment recorded in 2010 and aggregated to 6,333 thousand dollars that year. This decrease in the provision is the net result of a decrease in the provision of 849 thousand dollars in the Seamless Israel segment and an increase in the provision of 416 thousand dollars in the Cut & Sew segment.

A provision for the impairment of inactive assets was recorded in 2012, as detailed in Note 8f, as follows.
In 2013 no provision for impairment was recorded.

c. Change in the estimated lifespan of the sewing machines

In June 2012 the Company engaged with an independent qualified evaluator who was required to determine the balance of the lifespan of the Company's operating sewing machines. Regarding part of the sewing machines, the evaluator determined the remaining lifespan is 6-7 additional years as of June 30, 2012. The balance of the sewing machines' average lifespan prior to the evaluator's work was approximately two and a half years. Accordingly, the balance of the lifespan of these machines was amended to six years as of the third quarter of 2012. The effect of the change in estimation aforementioned was a decrease in quarterly depreciation expenses by approximately 120 thousand dollars.

d. Change in the estimated lifespan of the knitting machines

In June 2011 the Company engaged with an independent qualified evaluator who was required to determine the balance of the lifespan of the Company's operating knitting machines. Regarding part of the knitting machines, the evaluator determined the remaining lifespan is at least 5 additional years as of June 29, 2011. Accordingly, the balance of the lifespan of these machines was amended to five years as of the third quarter of 2011. The effect of the change in estimation aforementioned was a decrease in quarterly depreciation expenses by approximately 90 thousand dollars.

e. Regarding liens see Note 18c.

Note 8 – Fixed assets (cont.)

f. Inactive assets

The year of 2013

	Machinery and equipment (*)
	Dollars thousands
cost	
Balance as at January 1 and December 31, 2013	45,050
Accumulated depreciation	
Balance as at January 1, 2013	41,031
Amortization recognized during the year	688
Balance as at December 31, 2013	41,719
Provision for impairment	
Balance as at January 1, 2013	1,269
Amortization during the year	(493)
Balance as at December 31, 2013	776
Balance of amortized cost as at December 31, 2013	2,555

(*) The balance is recorded after the deduction of the investment grants on the sum of 4,315 thousand dollars which their amortized cost as at December 31, 2013, is 266 thousand dollars.

On March 3, 2011 the Company decided to discontinue the production in the Cut & Sew field in Israel. This decision was due to the decline in the levels of production in Israel of this field until reaching minor production at the end of 2010. The decline in production in Israel was due to the transfer of production lines abroad and also due to the discontinuation of production of losing products. The Company took a decision to realize the production assets and started a process of locating a potential buyer. Accordingly the Company reclassified the machines used in these operations from the fixed assets item to current assets held for sale item. Since a long period of time has passed and the Company was successful in a partial realization of those assets, the Company reclassified in 2012 the rest of the assets that were yet to be realized, to the non-current assets held for sale item. This was done based on an evaluation of an independent qualified evaluator who evaluated the value of the equipment as of that day. As of the first quarter of 2013 the equipment is treated as inactive fixed assets and is amortized on a regular basis.

g. Purchase of fixed assets on credit

During the year ended December 31, 2013, the Company has purchased fixed assets on credit on the sum of 2,270 thousand dollars. The cost of purchase on the sum of 2,081 thousand dollars hasn't been paid till the reporting date.

Note 9 - Goodwill and intangible assets

a. Composition and movement:

The year of 2013

	Computer software	List of customers and brand license	Goodwill	Total
	Dollars thousands			
Cost				
Balance as at January 1, 2013	1,939	3,330	49	5,318
Additions during the year	134	-	-	134
Withdrawals - realization	(172)	(1,293)	-	(1,465)
Balance as at December 31, 2013	1,901	2,037	49	3,987
Accumulated amortization				
Balance as at January 1, 2013	1,655	2,202	-	3,857
Amortization recognized during the year	89	328	-	417
Withdrawals - realization	(172)	(1,186)	-	(1,358)
Balance as at December 31, 2013	1,572	1,344	-	2,916
Provision for impairment				
Balance as at January 1, 2013	-	-	-	-
Additions during the year	-	107	-	107
Withdrawals - realization	-	(107)	-	(107)
Balance as at December 31, 2013	-	-	-	-
Amortized balance as at December 31, 2013	329	693	49	1,071

The year of 2012

	Computer software	List of customers and brand license	Goodwill	Total
	Dollars thousands			
Cost				
Balance as at January 1, 2012	1,840	3,330	49	5,219
Additions during the year	99	-	-	99
Balance as at December 31, 2012	1,939	3,330	49	5,318
Accumulated amortization				
Balance as at January 1, 2012	1,536	1,708	-	3,271
Amortization recognized during the year	92	494	-	586
Balance as at December 31, 2012	1,655	2,202	-	3,857
Amortized balance as at December 31, 2012	284	1,128	49	1,461

Note 9 - Goodwill and intangible assets (cont.)

a. Composition and movement (cont.)

The list of customers, brand license for production and marketing and goodwill were bought through business combinations. Customers' relationships are amortized over a period of 8 years and brand license for production and marketing was amortized over a period of 2.75 years, until the date of September 30, 2013.

b. Amortization expenses

Amortization expenses of intangible assets are classified in the statement of income as follows:

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Cost of sales	90	92	128
Selling and marketing expenses	327	494	832
	417	586	960

Note 10 - Credit from banks

a. Composition

	In NIS	Unlinked	Total
	Dollars thousands		
December 31, 2013			
Short-term credit from banks	502	7,001	7,503
Current maturities of long-term loans	-	2,435	2,435
	502	9,436	9,938
December 31, 2012			
Short-term credit from banks	471	6,598	7,069
Current maturities of long-term loans	-	2,435	2,435
	471	9,033	9,504

b. Regarding collateral and liens see Note 18c, as follows.

Note 11 - Trade payables

	December 31 2013	December 31 2012
	Dollars thousands	
Open accounts	7,100	9,741
Notes payable	4,150	2,746
	11,250	12,487

Note 12 - Other payables

	December 31 2013	December 31 2012
	Dollars thousands	
Liability to employees and other liabilities for wages and salaries	2,186	2,411
Accrued expenses	678	804
Institutions	192	1,101
Other payables	2	71
	3,058	4,387

Note 13 - Long-term loans from banks and vendors

a. Composition:

As at December 31, 2013

	Nominal rate of interest	Balance	Balance less current maturities
	%	Dollars thousands	
Loans from banks	Libor + 3.85-2.15	18,273	15,838
Loans from trade payables	Libor + 4.4	756	504
		19,029	16,342

As at December 31, 2012

	Nominal rate of interest	Balance	Balance less current maturities
	%	Dollars thousands	
Loans from banks	Libor + 3.2-2.15	21,919	19,484
Loans from trade payables	Libor + 4.4	935	716
		22,854	20,200

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines.

On March 2, 2010, the Company signed a final agreement with the banks which includes a reorganization of credit financing that the banks provide to the Company. The Company has adopted the provisions of IAS 39 (while examining the quantitative and qualitative criteria) and handled the new arrangement as an insignificant change in conditions.
The following is a summary of the main provisions of the signed agreement:

The long term credit line provided to the Company was divided into two loans as follows:

1. Loan A

The principal of Loan A of a total of 15 million dollars was provided by the banks for a period of 10 years. The interest on Loan A will be paid quarterly. The principal of Loan A will be paid in three equal annual installments of 1.25 million dollars each, as from the end of the seventh year, from the date of providing Loan A.
The balance for a total amount of 11.25 million dollars will be repaid at the end of the tenth year after the date of providing Loan A.

2. Loan B

The principal of Loan B of a total amount of 5 million dollars was provided by the banks for a period of six years. The interest will be paid quarterly and the principal will be paid in four equal annual installments of 1.25 million dollars each, as from the end of the third year, after the date of providing Loan B by the banks.

On December 24, 2010, the Company signed on a Letter of Amendment to the agreement with the banks that included providing additional credit for long term and short term in favor of the Company. The long term credit included a loan of 3.8 million dollars for a period of three years that will be paid in 36 equal installments as from a year from the date of signing the Letter of Amendment. The loan carries an annual interest that is paid by the Company in consequent monthly installments as from the date of the provision of the loan.

On March 27, 2014, the Company signed on an additional Letter of Amendment to the agreement with the banks. For additional details see Note 25b, as follows.

Financial covenants

The financial covenants determined in the original agreement were cancelled, and as their replacement the following financial covenants were determined as defined in the Letter of Amendment to the agreement with the banks as of December 24, 2010:

1. The rate of tangible shareholders' equity to the total balance sheet will not be less Than 30%; but in any case, the tangible shareholders' equity defined in the agreement will not be less at any time than the amounts stated below:

a) In 2010 – US 28 million dollars.
b) In 2011 – US 29 million and five hundred thousand dollars.
c) In 2012 – US 32 million dollars.
d) As from 2013 and thereafter – US 35 million dollars.

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

2. The trade receivables (less balances of trade receivables which have been factored by the Company) of the Company will not be less at any time from the following amounts:

   a) In 2010 – US 9 million dollars.
   b) In 2011 – US 12 million and five hundred thousand dollars.
   c) As from 2012 and thereafter – US 14 million dollars.

   A deviation of up to 5% of the amounts stated in trade receivables balances for 2011 and thereafter will not be a violation of the Company's undertakings regarding the trade receivables balances, as mentioned above.

3. Up to December 31, 2012, the Company will be entitled to carry out factoring transactions (factoring transactions and/or sale of customers' notes in favor of third parties to provide financing), subject that the consideration from the transaction will be at least a rate of 80% of the amount of the note or the invoice, which will serve to finance working capital needs; and that the total amount for which factoring transactions will be carried out will not exceed at any time US 5 million dollars.

4. The total amount of the balances of the Company's cash, inventory and trade receivables will not be less at any time than US 33 million dollars excluding relating to the financial statements of the third quarter of every calendar year, where the total amount of the balance of the Company's cash, inventory and receivables will not be less than 29 million dollars.

5. The ratio between the Company's total debts and liabilities to the banks and other financial organizations and the Company's annual EBITDA according to the consolidated annual statements:

   a) In 2011 – will not exceed 9.5.
   b) In 2012 – will not exceed 8.5.
   c) In 2013 – will not exceed 7.5.
   d) In 2014 – will not exceed 6.5.
   e) As from 2015 and thereafter – will not exceed 5.5.

   The breach of each of the undertakings to maintain the financial ratios detailed above (hereinafter - "the financial ratios"), will be considered a breach of the financial ratios.

   The banks may inform of a change in the financial covenants in the event of a change in accounting standards, and this without requiring the Company's consent.

   Receipt of a Letter of Waiver from the lending banks

   During the years 2012 and 2013 the Company received a Letter of Waiver from the three lending banks. In the framework of the Letter of Waiver the landing banks informed the Company that the agreed upon financial ratios in the financial statements of the Company for 2013, including each of the quarters of 2013, will be as follows:

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

(1) The tangible shareholders equity that is defined in the agreement with the banks will not be less than 27.5 million dollars instead of 32 million dollars as defined in the Letter of Amendment to the agreement with the banks as of December 24, 2010.

(2) The balance of the Company's trade receivables (less the trade receivables' balances for which the Company carried out factoring transactions) will not be less than 13 million dollars instead of 14 million dollars as defined in the Letter of Amendment to the agreement with the banks as of December 24, 2010.

On December 31, 2013, the Company received an approval for an additional Letters of Amendment from the banks regarding the fourth quarter of 2013 as detailed as follows:

(1) The tangible shareholders equity that is defined in the agreement with the banks will not be less than 26.5 million dollars instead of 27.5 million dollars as defined in the original Letters of Amendment.

(2) The balance of the Company's trade receivables (less the trade receivables' balances for which the Company carried out factoring transactions) will not be less than 13 million dollars as defined in the original Letters of Amendment.

As of December 31, 2013, the Company met all the financial covenants as stated in the Letter of Amendment to the agreement with the banks.

Note 14 - Financial instruments

a. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the balance sheet are classified by groups of financial instruments pursuant to IAS 39, as follows:

	December 31,	
	2013	2012
	Dollars thousands	
Financial assets:		
Financial assets at fair value through other comprehensive income:		
Derivatives for cash flow hedge transactions	-	55
Investment in securities available for sale	420	323
Total financial assets at fair value through the statements of income	420	378
Financial assets measured at amortized cost:		
Loans and receivables	1,872	2,119
Financial assets at fair value through the statements of income:		
Derivatives for fair value hedge transactions	-	166
Derivatives for hedging transactions	67	-
Total financial assets at fair value through the statements of income	67	166
Total current financial assets	2,359	2,663
Financial liabilities		
Financial liabilities measured at amortized cost:		
Loans from banks	25,776	28,988
Trade payables	12,757	13,203
Payables	2,432	1,944
Total financial liabilities measured at amortized cost	40,965	44,135
Financial liabilities at fair value through statements of income:		
Liabilities for bank options	67	318
Total financial liabilities	41,032	44,453
Total current financial liabilities	23,620	23,935
Total non-current financial liabilities	17,412	20,518

b. Financial risks factors

The Group's activities expose it to various financial risks such as market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible negative effects on the Group's financial performance. The Group utilizes derivative financial instruments in order to hedge certain exposures to risks.

Note 14 - Financial instruments (cont.)

b. Financial risks factors (cont.)

The Board discussed the principles of the comprehensive risk management activities as well as specific policies with respect to certain exposures to risks such as currency risk, interest rate risk, credit risk, liquidity risk and the use of derivative financial instruments and non-derivative financial instruments.

1. Foreign currency risk:

The Group operates in a large number of countries and is exposed to foreign currency risk resulting from the exposure to different currencies, mainly the NIS. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in a different currency from the functional and the reporting currency (US Dollars). The finance department is responsible for managing the net position of each foreign currency by the use of forward exchange contracts, according to the Company's hedging policy. Management's policy is to hedge forecasted payroll expenses denominated in NIS, and payments to vendors in NIS. The hedging level is examined each period, according to market conditions.

2. Credit risk:

The Group has no significant concentrations of credit risk. The Group has a policy to ensure collection through sales of its products to customers with an appropriate credit history

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will likely be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the level of their financial strength.

Terms of sale to customers

The Company makes provisions for doubtful debts based on factors which affect the credit risk of certain customers, past experience and other information.

The Company's revenues are mainly from customers in the USA and Europe. The Group follows trade receivables on a regular basis, and the financial statements include provisions for doubtful debts which properly reflect, in the Company's opinion, the loss inherent in the debts whose collection is in doubt

3. Interest risk

The Group is exposed to the risk of change in market interest rates on short-term and long-term loans from banks which bear adjustable interest rates (the long-term loans are linked to the Libor and Prime base interest rate).

Note 14 - Financial instruments (cont.)

b. Financial risks factors (cont.)

4. Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay its financial liabilities on due dates. The responsibility for managing liquidity risk is handled by the Company's management which manages a plan of managing financial and liquidity risks for the short, medium and long terms according to the Company's needs. The Company manages the liquidity risk by preparing updated financial forecasts.

The Company holds cash and other financial instruments with various financial institutions in Israel and in additional countries in which the Group operates. The Group's policy is to spread its investments between various institutions.

As at December 31, 2013 cash balance aggregated an amount of 6,697 thousand dollars.

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

As of December 31, 2013

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	Dollars thousands						
Loans from banks	9,938	1,400	1,250	1,244	1,244	10,700	25,776
Trade payables	11,250	694	540	273	-	-	12,757
Other payable	2,432	-	-	-	-	-	2,432
	23,620	2,094	1,790	1,517	1,244	10,700	40,965

As of December 31, 2012

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	Dollars thousands						
Loans from banks	9,504	2,435	1,400	1,250	1,244	13,155	28,988
Trade payables	12,487	229	239	248	-	-	13,203
Other payables	1,944	-	-	-	-	-	1,944
	23,935	2,664	1,639	1,498	1,244	13,155	44,135

c. Fair Value

The carrying amount of cash, trade receivables, other receivables, banks' credit, trade payables and other payables matches or approximates their fair value.

d. Classification of financial instruments by fair value levels:

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Note 14 - Financial instruments (cont.)

d. Classification of financial instruments by fair value levels (cont.):

Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 - Data other than quoted prices included within Level 1 that is observable either directly or indirectly.

Level 3 - Data that is not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

December 31, 2013

	Level 2	Level 3
	Dollars thousand	
Investment in securities available for sale	-	420
Liabilities for bank options	(67)	-
Derivatives for hedging transactions	67	-
Total	-	420

December 31, 2012

	Level 2	Level 3
	Dollars thousand	
Investment in securities available for sale	-	323
Liabilities for bank options	(318)	-
Derivatives for hedging transactions	221	-
Total	(97)	323

e. Derivatives and cash flow hedging

The Group in Israel is exposed mainly to foreign currency risks.
For the months of December 31, 2013 and 2012, the Group held options and forward contracts in foreign currency that were designated as a hedging for foreseen expenses in NIS for wages payments and vendors payments. The Company also held forward contracts in Euros that were designated as a hedging for foreseen future sales for customers in Europe for which the Company has high probable foreseen transactions. The options and the forward contracts in foreign currency are used for hedging the risk of the currency of firm liabilities

	December 31	
	2013	2012
	Asset (liability)	Asset (liability)
	Dollars thousand	
Fair value of forward transactions	67	221

f. Sensitivity analyses relating to changes in market factors

Changes in interest rates for financial liabilities as of December 31 would have increased (decreased) shareholders' equity and profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

Note 14 - Financial instruments (cont.)

f. Sensitivity analyses relating to changes in market factors (cont.)

	Sensitivity analyses to changes in interest rates	
	Profit (loss) from change	
	10% increase in interest	10% decrease in interest
	Dollars thousands	
2013	(31)	31
2012	(54)	54

Changes in dollar - NIS exchange rates as at December 31 would have increased (decreased) shareholders' equity and profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Sensitivity analyses to changes in exchange rates	
	Profit (loss) from change	
	10% increase in exchange rate	10% decrease in exchange rate
	Dollars thousands	
2013	667	(667)
2012	720	(720)

Changes in dollar - NIS exchange rates as at December 31 would have increased (decreased) shareholders' equity and profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Profit (loss) from change	
	10% increase in market factor	10% decrease in market factor
Foreign currency	Dollars thousands	
US dollar		
2013- for forward transactions and options	(164)	385
2012- for forward transactions and options	(300)	300

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on the management's estimates as to reasonable possible changes in these risk variables.

Note 14 - Financial instruments (cont.)

f. Sensitivity analyses relating to changes in market factors (cont.)

Sensitivity tests and principal work assumptions (cont.):

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or reported financial condition. The sensitivity tests present the profit or loss and/or change in shareholders' equity (before tax), in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the operating currency and assuming that all the other variables are constant.

The sensitivity test for long-term loans with variable interest was only performed on the variable component of interest.

Note 15 - Liability for options to banks

The Company allotted to the lending banks 100,000 and 200,000 cash-less option warrants in March 2010 and December 2010, respectively, which can be exercised to 300,000 shares as part of the agreement for the reorganization of the Company's credit lines and the amendments of the latter, as detailed in Note 13b aforementioned. The value of the benefits inherent in granting these options aggregated 620 thousand dollars and was recorded as a liability for options to banks, against discounting long-term loans. This liability is measured periodically, according to the option evaluation model. In 2013, the Company recorded financing expenses of 251 thousand dollars as a result of the revaluation of the liability for the banks' options (2012- expense on the sum of 63 thousand dollars). On March 1, 2014 the first series of 100,000 expired.

Note 16 - Assets and liabilities for employee benefits

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits

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

The post-employment employee benefits are normally financed by contributions classified as defined contribution plans or as defined benefit plans, as detailed below.

1. Defined contribution plans

Section 14 of the Severance Pay Law, 1963, in Israel applies to part of the severance pay payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies, release the Group from any additional liability to employees for whom such contributions were made as follows. These contributions as well as contributions for compensation represent defined contribution plans.

Note 16 - Assets and liabilities for employee benefits (cont.)

a. Post-employment benefits (cont.)

1. Defined contribution plans (cont.)

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Expenses in respect of defined contribution plans	654	695	789

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions to defined contribution plans, as aforementioned, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group contributes amounts in central severance pay funds and in qualifying insurance policies.

Note 16 - Assets and liabilities for employee benefits (cont.)

a. Post-employment benefits (cont.)

2. Defined benefit plans (cont.)

a. Changes in the defined benefit plan's liabilities and in the fair value of the plan's assets

The year of 2013

		Expenses recorded in the statements of income					Gain (loss) due to re-measurement in other comprehensive income						
	Balance as 0f January 1, 2013	Cost of current service	Interest expenses net	Past service costs and clearing cost	Total expenses recognized in statements of income in the period	Payments from the plan	Return on plan's assets (excluding amounts recognized in interest expenses, net)	Actuarial gain due to changes in financial assumptions	Actuarial gain due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the rate exchange of foreign currency	Consideration deposited by the employer	Balance as of December 31, 2013
Liabilities for defined benefit	1,208	89	40	71	200	610	-	77	58	135	79	-	1,012
Fair value of plan's assets	(612)	-	(13)	47	34	(337)	(17)	-	-	(17)	(32)	(33)	(323)
Liabilities (asset) net due to defined benefit	596	89	27	118	234	273	(17)	77	58	118	47	(33)	689

The year of 2012

		Expenses recorded in the statements of income					Gain (loss) due to re-measurement in other comprehensive income						
	Balance as of January 1, 2012	Cost of current service	Interest expenses net	Past service costs and clearing cost	Total expenses recognized in statements of income in the period	Payments from the plan	Return on plan's assets (excluding amounts recognized in interest expenses, net)	Actuarial gain due to changes in financial assumptions	Actuarial gain due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the rate exchange of foreign currency	Consideration deposited by the employer	Balance as of December 31, 2012
Liabilities for defined benefit	1,243	80	47	(15)	112	444	-	45	225	270	27	-	1,208
Fair value of plan's assets	(639)	-	(17)	-	(17)	(114)	(8)	-	-	(8)	(14)	(48)	(612)
Liabilities (asset) net due to defined benefit	604	80	30	(15)	95	330	(8)	45	225	262	13	(48)	596

Note 16 - Assets and liabilities for employee benefits (cont.)

a. Post-employment benefits (cont.)

2. Defined benefit plans (cont.)

b. Principal assumptions used in determining the defined benefit plan

	2013	2012
	%	%
Discount rate	4.3%	4.4%
Expected salary increase rate	1%	0%

c. Amounts, timing and uncertainties of future cash flows

The following are possible changes which are considered reasonable for the end of the reporting period, for each actuarial assumption, assuming that the remaining actuarial assumptions remained unchanged:

	The change in the defined benefit obligation
	Dollars thousand
As of December 31, 2013:	
Sensitivity analyses to changes in expected salary increase rate	
The change as a result of:	
Salary increase of 1%	274
Sensitivity analyses to changes in the discount rate of the plan's liabilities and assets	
The change as a result of:	
1% increase of the discount rate	(228)
1% decrease of the discount rate	268

The Group's estimation for the expected contributions in 2014 is on the sum of 24 thousand dollars.

Note 17 - Taxes on income

a. Tax laws applicable to Group companies

The Company is subject to provisions of Income Tax Regulations (Rules for Bookkeeping by Foreign Investment Companies and Certain Partnerships and Determination of Taxable Income), 1986. In accordance with the aforementioned regulations, the Company files its income tax returns in US dollars.

The Law for the Encouragement of Capital Investments, 1959 (hereinafter- "the Law")

The Company's enterprises received the status of "approved enterprises" under the Law for the Encouragement of Capital Investment, 1959. According to the aforesaid Law, income from the approved enterprises, during the seven years from the first year the approved enterprise earns taxable income provided that 14 years have not passed since the approval was granted or 12 years have not passed since the enterprise began operating, whichever is

Note 17 - Taxes on income (cont.)

a. Tax laws applicable to Group companies (cont.)

The Law for the Encouragement of Capital Investments, 1959 (hereinafter- “the Law”) (cont.)

earlier (hereinafter- "the benefit period"), will be taxed at reduced tax rate of between 10% and 25% (in accordance with the rate of foreign investments in the company).

A company, in which foreign investments rate exceed 25%, is entitled to an additional 3-year benefit period (10 years all together). Approval letters of the plans that shall be approved as of January 1997 or later are entitled to a tax exemption for the first two years of the benefit period.

Shareholders are taxed at a 15% tax rate (withheld) on dividends distributed from revenues from the approved operations, and at a 25% tax rate on dividends distributed from revenues from other sources, unless otherwise stipulated by tax treaties.

Tefron - Tefron has 9 approved plans under the grant track. The benefit period of all 9 approved plans of the Company has ended, and as such, income derived from these investments is taxable at the regular corporate tax rate in Israel.

Amendment to the Law for the Encouragement of Capital Investments – 1959

In December 2010, the Knesset passed the Law for the Economic Policy for the Years 2011 and 2012 (Legislative Amendment) – 2011, which sets forth, *inter alia*, amendments to the Law for the Encouragement of Capital Investments – 1959 (hereinafter: "the Law"). The implementation of the amendment is as of January 1, 2011. The amendment changes the benefit tracks in the Law and applies a uniform tax rate on all of the Company's preferred income which will be considered as a beneficiary enterprise with a beneficiary plant. As of the 2011 tax year, the Company is entitled to choose, (without the possibility to change its choice), whether to have the amendment apply to it, and as of that tax year for which the choice was made, the amended tax rate will apply. According to the amendment to the Law, the tax rate of the companies whose plants are located in development area A are: in 2011 and 2012 – 10%, in 2013 and 2014 - 7%, and in 2015 and thereafter 6%.

Hi-Tex – In 2013 Hi-Tex has chosen to apply the amendments to the Law of Encouragement as stipulated as of amendment 68 (“a beneficiary enterprise”).

Macro – Macro has chosen the year of 2005 as the elective year under the alternative track, pursuant to the Directives of Section 51d of the Law for the Encouragement of Capital Investments – 1959. The Company informed the Assessing Officer of its choice in its letter dated December 27, 2006.

The Law for the Encouragement of Industry (Taxes), 1969

Hi-Tex (a subsidiary) operates in Israel as “an industrial company” in conformity with the aforementioned Law. By virtue of the above status and the regulations that were published, it is entitled to claim increased rates of depreciation for equipment used during industrial operations, as was determined in the regulations of the Adjustments Law. Furthermore, the Company is entitled for a reduction for a patent or a right to use a patent or knowledge, which is used for the plant’s development or promotion, and for a deduction of expenses for issue of shares listed on the Stock Exchange.

Note 17 - Taxes on income (cont.)

b. Tax rates applicable to the Group:

The rate of corporate tax in Israel in 2011 was 24%, and in 2012 and 2013 it was 25%.

On December 5, 2011, the Knesset passed the Law for a Change in the Tax Burden (Legislative Amendments) – 2011 (hereinafter – the Law). In the framework of the Law, as of 2012 the outline for reducing the rate of corporate tax was cancelled. In the framework of the Law the corporate tax was also increased to a rate of 25% as of 2012. In view of the increase in the rate of corporate tax to 25% as mentioned above, the rate of tax on real capital gains and the rate of tax on real betterment were raised respectively.

On August 5, 2013, the Law for the Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (the Budget Law) was published, which contains, *inter alia*, fiscal changes whose main purpose is to deepen the collection of taxes for the aforesaid years. The aforementioned changes consist of, *inter alia*, raising the corporate tax from 25% to 26.5%, cancellation of the reduced tax rates for beneficiary enterprise (Development Area A – 9% and for other Development Areas – 16%), and in certain cases raising the tax rates on dividends regarding the Law for Encouragement of Capital Investments to 20%, and this as of January 1, 2014.

On July 30, 2013, the economic plan for the years of 2013 and 2014 was approved by the Knesset on the second and third reading (the Budget Law), which includes, *inter alia*, fiscal changes which main purpose is to deepen the collection of taxes for the aforesaid years.

The aforementioned changes consist of, *inter alia*, raising the corporate tax from 25% to 26.5%, cancellation of the reduced tax rates for beneficiary enterprise (Development Area A – 9% and for other Development Areas – 16%), and in certain cases raising the tax rates on dividends regarding the Law for Encouragement of Capital Investments to 20%, and this as of January 1, 2014.

The balance of the deferred taxes which are included in the financial statements as of December 31, 2013, are calculated according to the new tax rates, whose issuing was completed in effect at the date of the balance sheet, and therefore do not take into account the aforementioned changes, as they are relevant to the Company.

The effect of the aforementioned change resulted in a decrease in the loss for the year 2013 on the sum of 154 thousand dollars, which was recorded in the tax on income item.

The tax rate on a subsidiary in the United States is 34%.

El-Marisra is incorporated in the Free Trade Zone in Jordan, and is taxed according to tax laws applicable in Jordan; the statutory tax rate in the Free Trade Zone in Jordan, for the industry in which the Group is engaged is 0%.

c. Final tax assessments

The Company and its subsidiary Hi-Tex, which operate in Israel, have final tax assessments up to and including 2010. The subsidiary Macro has final tax assessments up to and including 2008. The main subsidiary operating outside Israel have final tax assessments until 2009.

At the end of 2010 the Company submitted an amended tax return for the 2006 and 2008 tax years as a result of which there was a reduction in the reported tax liability compared to the present tax liability in accordance with the original tax report which was submitted. On August 5, 2013, the Company engaged with a tax assessor for large enterprises in an

Note 17 - Taxes on income (cont.)

c. Final tax assessments (cont.)

agreement for the regulation of the tax assessments for the aforementioned years (hereinafter: "the agreement").

According to the agreement the Company would pay a total sum of NIS 3 million in 24 payments as of September 1, 2013 as a final repayment of the outstanding balance for the submitted tax reports. It should be noted that notwithstanding the aforementioned agreement, the parties have agreed that the deployment of the payment would be made in 36 equal installments beginning October 1, 2013.
As a result of the agreement, the Company decreased the tax provision for 2013 against the income tax of previous years on a total sum of 120 thousand dollars.

d. Carry- forward losses for tax purposes and other temporary differences

Tefron and Hi-Tex have carry-forward losses for tax purposes as of December 31, 2013 amounting to 40,299 thousand dollars, which may be used over an unlimited period. In respect of these balances and other deductible temporary differences, the Company recorded in its financial statements deferred tax assets amounting to 4,885 thousand dollars (due to their expected utilization as a result of a reserve for deferred taxes of 2,060 thousand dollars, mainly for fixed assets, and due to the expectation of realizing them against taxable income). The Company has carry-forward losses for tax purposes of two subsidiaries amounting to 18,008 thousand dollars, for which no deferred taxes have been accumulated, in the absence of any expected utilization of them in the foreseeable future.

e. Deferred taxes

Composition:

	Balance sheets		Statements of income		
	December 31		For the year ended December 31		
	2013	2012	2013	2012	2011
	Dollars thousands				
Deferred tax liabilities					
Fixed assets	(2,060)	(1,532)	(528)	6,173	(636)
Cost surplus from operations acquisition	-	(293)	293	134	(310)
	(2,060)	(1,825)			
Deferred tax assets					
Losses transferred for tax purposes	4,704	3,996	708	(5,021)	1,384
Provision for doubtful accounts	25	7	18	(89)	(100)
Employee benefits	135	128	7	(204)	38
Profit not yet realized- from securities available for sale	21	39			
Hedging of cash flow	-	4			
	4,885	4,174			
Deferred tax income			498	993	376
Deferred tax income (expenses) from discontinued operations			(21)	(1,240)	346
Deferred tax income from continuing operations			519	2,233	30
Deferred tax assets, net	2,825	2,349			

Note 17 - Taxes on income (cont.)

e. Deferred taxes (cont.)

Deferred taxes are presented in the balance sheet as follows:

	December 31	
	2013	2012
	Dollars thousands	
Non-current assets	2,825	2,659
Non-current liabilities	-	310
	2,825	2,349

The deferred taxes are computed at the average tax rate of 12.0% (2012- 12.7%) based on the tax rates that are expected to apply upon reversal.

Taxes on income relating to capital items:

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Loss from investment in securities available for sale	21	39	-
Actuarial gain (loss) from a defined benefit plan	-	-	30
Gain from cash flow hedging transactions	-	4	-
	21	43	30

f. Taxes on income (tax benefit) included in statements of income

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Deferred taxes	(519)	(2,233)	(30)
Taxes in respect of previous years	(120)	-	22
	(639)	(2,233)	(8)

The Company does not intend to distribute dividends resulted from its industrial plant in a manner which would create an additional tax liability.

Note 17 - Taxes on income (cont.)

g. Theoretical tax

The reconciliation between the tax expense assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate, and the taxes on income recorded in the statement of income, is as follows:

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Gain (loss) before taxes on income	(3,801)	403	(4,004)
Statutory tax rate	25%	25%	24%
Tax benefit computed at the statutory tax rate	(950)	101	(961)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses for tax purposes	175	277	70
Losses for which no deferred taxes were recorded	175	35	530
Income subject to special tax rates	178	-	-
Utilization of losses for tax purposes from previous years, for which no deferred taxes were recognized in the past	-	(2,814)	-
Update of deferred tax balances due to changes in tax rates	(60)	218	462
Taxes in respect of previous years	(120)	-	22
Others	(37)	(50)	(131)
Tax benefit	(639)	(2,233)	(8)
Average effective tax rate	16.8%	-	0.2%

Note 18 - Contingent liabilities, commitments and liens

a. Contingent liabilities

1. According to the Law for the Encouragement of Capital Investments - 1959, the Company and its subsidiaries received grants according to their investments in enterprises. The receiving of the grants is conditional on implementing all of the conditions in the application for a pre-ruling and furthermore that at least 30% of the investments will be financed by outstanding share capital. Lack of implementing the conditions in the application for a pre-ruling will result in the return of the grants with an addition of interest and linkage differences as of the date of their granting. In the opinion of the Company's management and its subsidiaries, they meet the conditions regarding receiving the grant.

   In order to fulfill the conditions related to receiving the investment grants, the Company and its subsidiaries recorded floating liens on all their assets, in favor of the State of Israel.

2. Legal proceedings

   a. Two legal claims were filed against the Company by two former employees. The total amount of the claims amounted to 381 thousand dollars. The claims were filed due to allegations regarding the termination of working relations. One claim

Note 18 - Contingent liabilities, commitments and liens (cont.)

a. Contingent liabilities (cont.)

2. Legal proceedings (cont.)

is discussed with an arbitrator that submitted his decision on March 2, 2014. The arbitrator rejected the majority of the former employee's claims and awarded him compensation due to a flaw in his dismissal procedure. Whereas the Company made a provision in its financial reports for the claim in 2009, the settlement agreement does not have any significant effect on the Company's financial reports in 2013. The other employee's claim is in preliminary stages.

In the opinion of the Company's management, based on the opinion of its legal counselors, the provisions included in its financial statements are sufficient to cover potential damage caused to it, if any, from the claim which has yet to be settled. These provisions were presented under the general and administrative expenses item in the statements of income.

b. A claim has been filed in at courthouse in the state of New York against the Company and the subsidiary Tefron USA Inc., by a former employee who had been employed by the subsidiary, in regards with the employee's termination of work (hereinafter: "the statement of claim"). It is noted that the plaintiff hasn't stated in her claim the requested amount; however, according to the estimation of the company's legal advisors, the total amount of the claim might amount to US 500 thousand dollars.

On December 31, 2013, the parties signed a settlement agreement, according to which the Company and the subsidiary shall pay the plaintiff an insubstantial amount. Upon signing the settlement agreement, the plaintiff filed the court a motion to dismiss the statement of claim.

c. A claim has been filed against the Company by a former supplier for 270 thousand dollars due to the Company's debts for work performed by the former supplier. In February 2014, a preliminary hearing was held at court in the framework of which it was recommended, inter alia, that the parties would discuss the matter for the purpose of reaching a settlement. Due to the aforementioned, the parties have decided to engage in a negotiation process which resulted in a settlement. The aforementioned settlement is subjected to the signing of both parties on the settlement agreement and to the approval of the court. The provisions included in the Company's financial statements are sufficient to cover possible expenses that may be caused to it, in the event that the settlement which both parties have agreed upon would be approved by the court. These provisions were recorded under the general and administrative item in the statement of income.

d. In September 2010, a Statement of Claim for 711 thousand dollars was filed in the Magistrates Court in Petach Tikva by a former supplier of the Company (hereinafter: "the plaintiff") against the Company and a subsidiary of the Company. The claim alleges that the Company and the subsidiary (hereinafter: "the defendants") have withdrawn from undertakings, presentations, and agreements in connection with the opening of a shop at the Gold Shopping Mall in Rishon Le'Zion through the plaintiff, as part of the Company's "chain of shops". The dispute between the parties was discussed in the framework of mediation proceedings and in its framework the parties have reached a settlement agreement which was granted on December 9, 2013, a valid and binding force by the court order of the

Note 18 - Contingent liabilities, commitments and liens (cont.)

a. Contingent liabilities (cont.)

2. Legal proceedings (cont.)

Magistrates Court in Petach Tikva (hereinafter: "the settlement agreement"). In the framework of the settlement agreement it was agreed that the defendants shall pay the plaintiff a sum of 185 thousand dollars. It is noted that whereas the Company made a provision in its financial reports for the claim in 2010, the settlement agreement does not have any significant effect on the Company's financial reports in 2013.

e. The Company has a third party insurance policy, according to which the Company has to pay an excess of US 1,000 dollars per claim. Any changes in the deductible are recorded as an expense in the Company's books upon submission of a demand from the insurance company at the end of the claim.

b. Commitments

1. Engagement in a manufacturing and distribution agreement with *X-technology Swiss Research & Development*

On September 27, 2012, the Board of Directors approved the Company's engagement in an agreement with X-technology Swiss Research & Development GmbH (hereinafter -"XTS") regarding a business cooperation in the framework of which the Company would provide exclusive manufacturing and distribution services to XTS (hereinafter - "the agreement with XTS" or "the agreement"), as detailed as follows:

Providing manufacturing services to XTS

According to the terms of the agreement, XTS has appointed the Company to be the sole manufacturer of clothing in the field of activewear and socks for which XTS is the right-holder (hereinafter - "the products") which will be distributed across the American continent. In the framework of the agreement, XTS will grant the Company a limited license to use its intellectual property for the purpose of manufacturing the products, and the Company will provide manufacturing, packaging, designing, labeling and delivery services of the products to XTS.

Providing distribution services to XTS

According to the terms of the agreement, XTS appointed the Company to be the sole distributer of the products in the United States and Canada (as well as in additional regions that might be agreed upon in the future) during the distribution period, as well as granted the Company a limited license to use its intellectual property for this purpose.

2. Cancellation of the manufacturing and distribution agreement with *X-technology Swiss research & development*

On December 17, 2013 both parties agreed on the cancellation of the manufacturing and distribution agreement, and this subject to the approval of the Board and to the amendment of the consultation and development agreement, as detailed in Note 18b(3) as follows. Therefore, on January 20, 2014, the manufacturing and distribution agreement was cancelled, and this after the fulfillment of the preconditions, receiving of the Company's board approval and the completion of the granting of the shares.

Note 18 - Contingent liabilities, commitments and liens (cont.)

b. Commitments (cont.)

3. Engagement in consultation and development agreement with Professor Bodo W. Lambertz (hereinafter: "the consultant"), and an essential private offer for the consultant

On September 27, 2012, the Company's Board of Directors approved the engagement of the Company with Professor Bodo W. Lambertz, an expert in developing textile products and their promotion in the market, especially in the activewear field (hereinafter "the consultant" or "the offeree"). In the framework of this agreement the consultant would provide the Company with professional and business consulting services, as well as granting it a license to his developments in the field of textile and apparel (hereinafter "the agreement"). In the framework of this agreement, *inter alia*, the Company would allot the consultant up to 400,000 of the Company's ordinary shares of NIS 10 per value each.

The consultant assumed responsibility for the development of up to 4 fashion-concepts for the Company every year (hereinafter "the concept"), according to the Company's demands that would include design and specification of activewear and apparel in the sports field. The Company would examine the proposed concepts and would be entitled to purchase from the consultant a license for the concept that has been developed by him.

The terms of the license that the company will receive from the consultant of the concept or the products, that were determined in the agreement between the parties are as follows: an exclusive license, unlimited by any time period (subjected to exceptions that were determined in the agreement), and that is non-transferable (with the exception of Out-License under the terms that were agreed upon in the agreement) in regard of all the rights of the intellectual property and the knowledge for manufacturing, marketing, distributing and selling the products, at least for the region of North America. For this license the Company would pay the consultant royalties at the rate that has been determined in the agreement, during the period in which the Company would manufacture, distribute or sell the products. In the event the Company would manufacture and distribute products that are protected by a XTS patent, the Company would pay royalties for the period during which it would distribute the products and up to 20 years at the most.
Additionally, the Company would pay the consultant for every concept a total sum that would be determined in negotiations between both parties.

For every concept, the consultant would provide the Company support in the development of the product until the stage of creating an independent brand, as well as additional consulting services regarding the product's marketing and such, at the cost that has been agreed upon in the agreement.

In addition to the aforementioned payment and royalties, in respect to the license and to the period of use by the Company, and subjected to receiving the listing approval of the Tel Aviv Stock Exchange Ltd., the Company would allot the consultant the offered shares according to the following milestones:

1) An initial series of 65,000 shares once the Company's Board of directors' approval of the agreement is received, which was allotted to the consultant on May 21, 2013.

Note 18 - Contingent liabilities, commitments and liens

b. Commitments (cont.)

3. Engagement in consultation and development agreement with Professor Bodo W. Lambertz (hereinafter: “the consultant”), and an essential private offer for the consultant (cont.)

2) A second series of 100,000 shares once reaching the Net Sales Objective of licensed products on the sum of 2.0 million dollars within 18 months as of the day of signing the agreement, which was allotted to the consultant on January 20, 2014, as part of the amendment to the terms of allotting the second series.

3) A third series of 100,000 shares once reaching the Net Sales Objective of licensed products on the sum of 4.0 million dollars within 30 months as of the day of signing the agreement.

4) A fourth series of 135,000 shares once reaching the Net Sales Objective of licensed products on the sum of 6.0 million dollars within 42 months as of the day of signing the agreement.

The agreement is for an unlimited period of time, but can be cancelled with a notice of 30 days; nevertheless the consultant is obligated for a minimal period of a year that ends on September 30, 2013. Furthermore, additional common causes for cancelling the agreement were determined in the agreement.

On December 17, 2013, the parties agreed to amend the consultation and development agreement so the second series shall not be subject to meeting the net sales objective of licensed products, and shall be executed no later than 18 months as of the date of signing the consulting and development agreement (hence, until March 20, 2014). Therefore, on January 20, 2014, and upon receiving the approval of the Company’s Board for the agreement’s amendment, 100,000 additional shares were allotted to the consultant out of the rights to the shares.

4. Commitment to pay rent

The Company's plants and installations and those of most of its subsidiaries are located in buildings leased for various terms ending between 2014 and 2019.

The future minimum rent commitments under non-cancelable leases as of December 31 are as follows:

	2013	2012
	Dollars thousands	
Year 1	2,046	1,914
Year 2	1,838	1,706
Year 3	1,838	1,706
Year 4	1,838	1,706
Years 5 and thereafter	3,676	4,563
	11,236	11,595

c. Liens

1. All liabilities to banks are secured by a floating charge on the existing and future assets of the Company's and its subsidiaries in both present and future, which permits the Company to dispose assets in the normal course of business.

Note 18 - Contingent liabilities, commitments and liens

c. Liens (cont.)

2. To secure compliance with conditions of the "approved enterprise" status granted to the Company and its subsidiaries pursuant to the Law for the Encouragement of Capital Investments - 1959, the Company and its subsidiaries have pledged floating liens for an unlimited amount on all their assets in favor of the State of Israel.

Note 19 - Capital

a. Allotment of shares in the framework of the consultation and development agreement with Professor Bodo W. Lambertz

On September 27, 2012, the Company's Board of Directors approved the engagement of the Company with Professor Bodo W. Lambertz, an expert in developing textile products and their promotion in the market, especially in the activewear field (hereinafter "the consultant" or "the offeree"). In the framework of this agreement the consultant would provide the Company with professional and business consulting services, as well as granting it a license to his developments in the field of textile and apparel (hereinafter "the agreement"). In the framework of this agreement, *inter alia*, the Company would allot the consultant up to 400,000 ordinary shares of NIS 10 per value each in four series: an initial series of 65,000 shares upon the date of signing the agreement and the other series in accordance with meeting the net sales objective. On May 21, 2013, the Company allotted the consultant the initial series of 65,000 shares, as aforementioned. On January 20, 2014, the Company allotted the consultant the second series of 100,000 shares, see Note 18b(3), above.

On the date of signing the agreement the Company recorded a capital reserve for the initial series of shares. Upon issuing the shares, the amount was sorted into share capital. The minimal period of the agreement is one year, therefore once a quarter a quarter of the shares were revaluated according to the average market value of the share in that period, which presumably represents the value of service that was given during that period of time. Furthermore, on every accounting period the Company has examined if the estimated amount meets the definition of an intangible asset, in order to reclassify this amount from the future expanses item to the intangible asset item. Throughout the year of 2013, the Company has believed that the terms for acknowledging future development as an intangible asset, have yet to be met. Accordingly, the Company recorded the estimated value of the shares to the development expenses item.

Registration of the shares' capital which their issue depends on meeting the sales objectives was executed according to the probability of meeting the objectives.

For additional details see Note 18b(3) above.

b. Submission of a shelf-prospectus draft

On May 28, 2012, the Company submitted a shelf-prospectus draft according to which the Company will be able to offer stocks, bonds and warrants. At this stage the shelf-prospectus does not include an immediate fundraising.

Note 19 - Capital (cont.)

c. Share capital composition

	December 31 2013		
	Authorized	Issued	Paid-up
	Number of shares		
Ordinary shares of NIS 10 par value each	20,000,000	6,706,476	6,606,736

	December 31 2012		
	Authorized	Issued	Paid-up
	Number of shares		
Ordinary shares of NIS 10 par value each	20,000,000	6,641,476	6,541,736

d. Rights conferred by the shares

Ordinary shares

1. Voting rights at the General Meeting, right to dividends, rights upon liquidation of the Company and the right to appoint directors in the Company.
2. Traded on the Tel Aviv Stock Exchange.

e. Treasury shares

Tefron Holdings (98) Ltd., a wholly-owned subsidiary of the Company, holds 99,740 Company shares, which constitute 1.49% of Company shares and whose cost is 7,408 thousand dollars, as at December 31, 2013 and 2012. The investment in these shares is recorded according to the "treasury shares" method in the equity.

The shares are pledged to a bank to secure a loan that was received.

Capital reserve for hedging transactions

The reserve serves to record profits and losses (less the tax effect) from the effective hedging of cash flows.

In 2013 the capital reserve recorded a profit from hedging cash flows on the amount of 55 thousand dollars which was recorded in 2012.

f. Capital management in the Company

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
2. To ensure adequate return for the shareholders by pricing of products and services adjusted to the level of risk in the Group's business operations.

The Company operates to achieve a return on capital at a level that is customary in the industry, field, and markets in which the Company operates. This return is subject to

Note 19 - Capital (cont.)

f. Capital management in the Company (cont.)

changes depending on market factors in the Company's industry and business environment. The Company is required to have tangible equity as defined in the amendment of the agreement with the banks described in Note 13b above, a minimum of 26.5 million dollars, in the framework of the financial covenants included in the agreements with the banks in connection with providing loans and is not subject to any demands relating to achieving a certain return on capital. In 2013, 2012 and 2011 the Company had a negative return on capital.

Note 20 - Share-based payment transactions

a. Expense recognized in the financial statements

The expense recognized in the Company's financial statements for services rendered by employees, directors and consultants is presented in the following table:

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Share based payment plans settled with financial instruments for employees and directors	90	123	204
Share based payment for the consultant	437	74	-
Total share based payment plans settled with financial instruments	527	197	204

b. Share-based payment plan to Company's employees and managers, directors and service providers

1. Option plan to managers and employees of the Company

The share-based payment transactions the Company provided to its employees are as described as follows. During the years of 2012 and 2011 no changes or cancellations were carried out in the said employee benefit plans. On November 21, 2013, the Company's Board approved the option plan for employees, office holders and consultants. The option warrants shall vest and become exercisable and the offeree's eligibility to those warrants shall expire according to the following:

- One-third of the options (hereinafter: the "First Series") will be exercisable beginning one year from the date of their allocation and until the end of five years from the date on which the options included in the First Series were first exercisable.

- One-third of the options (hereinafter: the "Second Series") will be exercisable from the end of two years from the date of their allocation and until the end of five years from the date on which the options included in the Second Series were first exercisable.

- One-third of the options (hereinafter: the "Third Series") will be exercisable after three years from the date of their allocation and until the end of five years from the date on which the options included in the Third Series were first exercisable (hereinafter: "the 2013 option plan").

Note 20 - Share-based payment transactions (cont.)

b. Share-based payment plan to Company's employees and managers, directors and service providers (cont.)

1. Option plan to managers and employees of the Company (cont.)

This plan replaces the option plan which was approved in September 1997, and was extended once more in March 2008 (hereinafter: "the 1997 option plan").

a. On November 21, 2013, the Company's Board of Directors granted to the Company's CEO 150,000 option warrants exercisable to ordinary shares of the Company of NIS 10 par value each, in accordance with the cashless mechanism. The exercise price per option is US 2.22 dollar, after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of granting the options. Entitlement to realize the options will accrue over a period of 3 years as of the day of the allocation, in accordance with the Company's 2013 option plan.

The value of the benefits included in granting these options according to the share price on the date of trading on the Stock Exchange aggregates 108 thousand dollars.

b. On March 17, 2013, the Company granted an external consultant of the Company who provides services in marketing and development (hereinafter: "the Consultant"), 12,500 options (non-tradable) of the Company exercisable to up to 12,500 ordinary shares of the Company of NIS 10 par value each. The exercise price per option is US 3.8 dollar, after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of granting the options. Entitlement to realize the options will accrue over a period of 3 years as of the date of March 17, 2013. The value of the benefit included in granting these options according to the share price on the date of trading on the Stock Exchange aggregates 21 thousand dollars.

c. On November 22, 2012, the Company's Board of Directors approved in accordance with the 1997 option plan, granting 50,000 option warrants which can be exercised to 50,000 ordinary shares of NIS 10 par value each to the CEO of Operations in Israel, who is not an interested party in the Company and will not become an interested party in the Company upon the granting the options. The exercise price per option will stand at US 3.8 dollar after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of the granting of the options. Entitlement to realize options will accrue over a period of 3 years as of November 22, 2012. The value of the benefit included in granting these options according to the share price on the date of trading on the Stock Exchange aggregates 68 thousand dollars.

d. On November 22, 2012 the Company's Board of Directors approved in accordance with the 1997 option plan, the granting of 45,000 option warrants which can be exercised to 45,000 ordinary shares of NIS 10 par value each to the Company's CFO who is not an interested party in the Company and will not become an interested party in the Company upon the granting. The exercise price per option will stand at US 3.8 dollar after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of the granting of the options. Entitlement to realize options will accrue over a period of 3 years. The value of the benefit included in the granting of these options according to the share price on the date of trading on the Stock Exchange aggregates 31 thousand dollars.

Note 20 - Share-based payment transactions (cont.)

b. Share-based payment plan to Company's employees and managers, directors and service providers (cont.)

2. Options granted to controlling shareholders

On December 31, 2010, the Company granted to two controlling shareholders 450,000 options (225,000 option warrants each) to acquire up to 450,000 ordinary share of the Company. The entitlement to exercise them is over a period of three years as of December 2010, and will expire three years from the date of the granting. The option warrants will vest subject to the Company's meeting its sales targets and EBITDA. The Company made a calculation of the value of the options on the basis of its sales forecasts.
The fair value of the options is estimated on the date of the granting using the Black & Scholes Model in accordance with the terms and data, according to which the share options were granted.
In 2013, 2012 and 2011 the Company did not meet its targets and accordingly the Company did not record expenses for this benefit.

c. Movement during the year

The following table lists the number of share options, the weighted average exercise price of the share options, and modifications in employee option plans which were carries out during the current year:

	As of December 31, 2013		As of December 31, 2012	
	Number of stock options	Weighted average exercise price (dollar)	Number of stock options	Weighted average exercise price (dollar)
Options for shares granted at the beginning of the year	927,773	7.6	938,033	7.7
Options for shares granted during the year	162,500	2.3	65,000	3.8
Options for shares forfeited or expired during the year	(77,668)	4.1	(72,260)	5.1
Options for shares exercised during the year	-	-	-	-
Options for shares at the end of the year	1,012,605	7.0	927,773	7.6
Options for shares which can be exercised at the end of the year	650,105	6.6	581,282	7.1

d. The weighted average of the remaining contractual term of the share options as of December 31, 2013 is 4.1 years (2012 – 4.2 years).

e. The range of exercise prices of the share options as of December 31, 2013 and 2012 stands at 35.0 – 2.1 dollars.

Note 20 - Share-based payment transactions (cont.)

f. Measurement of the fair value of options settled with financial instruments

The Company uses the Black & Scholes model to measure the fair value of options to shares settled with financial instruments. The measurement is carried out on the date of granting the options for shares settled with financial instruments

The following table lists the data used for the fair value measurement of options for shares settled with financial instruments and which were granted in 2013, according to the Black & Scholes option pricing model, for the above plan:

	2013
Dividend yield for the share (%)	0.0
Expected volatility of the share prices (%)	56.4
Risk-free interest rate (%)	1.17
Average life expectancy of share options (years)	4.5
Weighted average share price (dollars)	1.9

Based on the above data, the fair value of the options granted in 2013 was calculated at 129 thousand dollars on the dates of the granting.

The expected life of the share options is based on the Company's historical data which is not necessarily indicative of the future exercise pattern of share options.

The expected volatility of the share price reflects the assumption that the historical volatility of the share price is reasonably indicative of expected future trends.

Note 21 - Supplementary information to the statements of income items

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
a. Cost of sales, net			
Materials	36,851	48,944	57,796
Payroll and benefits	8,161	8,614	10,336
Sub-contracted work	9,168	8,323	7,222
Depreciation	4,430	4,017	4,795
Other manufacturing expenses	8,353	8,233	8,963
	66,963	78,131	89,112
Decrease (increase) in work-in-progress and finished goods inventories	1,123	3,801	(1,562)
	68,086	81,932	87,550
(**) Including provision for inventories write- off	1,177	864	607

Note 21 - Supplementary information to the statements of income items (cont.)

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
b. Development expenses, net			
Payroll and benefits	2,910	2,616	2,590
Manufacturing expenses	732	736	1,148
Depreciation and amortization	240	240	295
Materials	301	224	249
Share-based payment for the consultant	437	74	-
Others	152	120	-
Total	4,772	4,010	4,282
Less: Grant from the Chief Scientist	326	484	654
Development expenses, net	4,446	3,526	3,628
c. Selling and Marketing expenses, net			
Payroll and benefits	3,826	3,184	3,245
Transport, export and distribution	1,443	1,138	1,384
Commissions paid	666	852	2,482
Overseas office maintenance	491	401	909
Overseas excursions	628	664	862
Depreciation and amortization	444	553	885
Others	1,464	1,470	340
	8,962	8,262	10,107
d. General and administrative expenses			
Wages and benefits	1,752	1,692	1,798
Consulting	917	707	1,029
Remuneration and directors’ insurance	364	339	447
Provision for doubtful debts and accounts	92	(134)	(167)
Others	535	576	(14)
	3,660	3,180	3,093
e. Other expenses (income)			
Loss (reversal of loss) from impairment of fixed assets, net (see Note 8 above)	-	33	(433)
Capital loss (gain) from the sale of fixed assets	(2)	2	29
Restitution of mutual fund to employers (1)	(187)	-	-
	(189)	35	(404)

(1) On December 3, 2013, the Company received repayment of participation fees for a total amount of 187 thousand dollars from the mutual fund of employers as a refund for participation fees which were paid by it to the fund.

Note 21 - Supplementary information to the statements of income items (cont.)

f. Financial revenues (expenses)

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Financial revenues			
Interest revenues from bank deposits and securities available for sale	21	18	22
Net gain from change in rates of exchange	-	19	327
Net change in fair value of cash flow hedging transferred from equity	105	46	-
Revaluation of liability for options to banks	251	-	366
	377	83	715
Financial expenses			
Financial expenses from short-term credit and bank loans	747	823	744
Net loss from change in foreign exchange rates	339	-	-
Reduction of discounting of options for banks	123	183	158
Net change in fair value of financial assets available for sale	-	-	68
Revaluation of liability for options to banks	-	64	-
Bank expenses and interest-related expenses for others	916	638	670
	2,125	1,708	1,640

Note 22 - Loss per share

Detail of number of shares and loss used to calculate net loss per share:

	For the year ended December 31,					
	2013		2012		2011	
	Weighted average number of shares	Loss attributed to equity holders of the Company	Weighted average number of shares	Loss attributed to equity holders of the Company	Weighted average number of shares	Loss attributed to equity holders of the Company
	Thousands	Dollars thousands	Thousands	Dollars thousands	Thousands	Dollars thousands
Amounts of shares and loss- from continued operations						
For the purpose of calculating basic loss from continued operations	6,582	(3,162)	6,542	2,636	6,542	(3,996)
Effect of potentially dilutive ordinary shares	-	-	7	-	-	-
For the purpose of calculating diluted net loss from continued operations	6,582	(3,162)	6,549	2,636	6,542	(3,996)
Amounts of shares and loss – from discontinued operations						
For the purpose of calculating basic and diluted loss from discontinued operations	6,582	(271)	6,542	(3,094)	6,542	(258)
Amount of shares and loss For the purpose of calculating basic and diluted net loss	6,582	(3,433)	6,542	(458)	6,542	(4,254)

Note 23 - Operating segments

a. General

Group companies are engaged in two operating business segments:

Seamless apparel ("Seamless")	-	Design, development, production and sale of intimate apparel and activewear by the "seamless" method.
Other	-	Design, development, production and sale of intimate apparel, swimwear and activewear by the "Cut & Sew" method. The design is done mostly in Israel; the production is done mostly in the Far East, while the sale of the finished products is carried out mainly in the USA and Europe.

The Company's two operating segments take place at a number of main geographical regions in the world. In Israel, the Company's place of residence and that of its subsidiaries, Hi-tex founded by Tefron Ltd., and Macro Clothing Ltd., are carried out the processes of design, development and sales operations of the intimate apparel, activewear and swimwear. In light of the decision of the discontinuation of the production in the Cut & Sew field in Israel, and the discontinuation of the swimwear operations, the scope of operations of the Cut & Sew field has diminished significantly, and so it no longer meets the definition of a reportable operating segment. The production process of the Seamless items is carried out in Israel, Jordan and the Far East, while the production process of the Cut & Sew items is carried out mainly in the Far East. The subsidiaries, Tefron USA and Tefron England, carry out the marketing and sales operations.

The information that the Company provides in accordance with the IFRS 8 definitions is based on the available financial information which is reviewed regularly and is used by the Chief Operating Decision Maker (CODM) so as to make decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance. The Chief Operating Decision Maker is the CEO. Based on the criteria in IFRS 8 regarding determining the reportable segment operations, and the available financial information which is reviewed by the Company's CEO, the Company has determined that it operates in one reportable operating segment.

The Group's financing (including financing costs and financing revenues) and taxes on income are managed on a group basis and do not relate to operating segments.

Note 23 - Operating segments (cont.)

b. Main reporting regarding operating segments

	For the year ended December 31, 2013		
	Seamless	Other	Total
	Dollars thousands		
Revenues from external parties	81,536	1,376	82,912
Segment results	(2,024)	(29)	(2,053)
Financial expenses, net			(1,748)
Tax benefit			639
Loss from discontinued operations			(271)
Loss			(3,433)
Segments assets	66,484	4,092	70,576
Segmental liabilities	40,180	2,642	42,822
Capital investments	3,590	-	3,590
Depreciation and amortization	5,072	86	5,158

	For the year ended December 31, 2012		
	Seamless	Other (*)	Total
	Dollars thousands		
Revenues from external parties	96,583	2,380	98,963
Segment results	1,786	242	2,028
Financial expenses, net			(1,625)
Tax benefit			2,233
Loss from discontinued operations			(3,094)
Loss			(458)
Segments assets	74,775	3,926	78,701
Segmental liabilities	34,708	13,094	47,802
Capital investments	2,317	14	2,331
Depreciation and amortization	4,733	266	4,999

Note 23 - Operating segments (cont.)

b. Main reporting regarding operating segments (cont.)

	For the year ended December 31, 2011		
	Seamless	Other (*)	Total
	Dollars thousands		
Revenues from external parties	94,409	6,486	100,895
Segment results	(2,862)	(217)	(3,079)
Financial expenses, net			(925)
Tax benefit			8
Loss from discontinued operations			(258)
Loss			(4,254)
Segment assets	66,010	11,395	77,405
Segment liabilities	38,219	7,965	46,184
Capital investments	581	125	706
Depreciation and amortization	5,684	421	6,105

(*) Restated due to discontinued operations, see Note 4 aforementioned

c. Secondary reporting regarding geographical segments

1. Sales by geographic markets (based on customer location):

	For the year ended December 31		
	2013	2012 (*)	2011 (*)
	Dollars thousands		
North America	81,091	96,747	100,131
Europe	582	1,349	298
Israel	649	815	381
Others	590	52	85
	82,912	98,963	100,895

(*) Restated due to discontinued operations, see Note 4 aforementioned.

2. Carrying amount of assets and long-term capital expenditures by geographical areas (based on asset location)

	Balance of non-current assets (*) as of December 31,		Capital investments for the year ended December 31		
	2013	2012	2013	2012	2011
	Dollars thousands				
Israel	29,426	30,825	3,547	2,306	694
North America	1,780	2,301	18	21	5
Others	404	641	25	4	7
	31,610	33,767	3,590	2,331	706

(*) Excluding deferred taxes, net.

Note 23 - Operating segments (cont.)

d. Major customers

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Turnover with major customers	55,597	67,114	63,619
	Percentage of total sales		
Customer A - Seamless segment	44.3	27.9	27.1
Customer A - Other segment	-	0.3	4.9
Customer B - Seamless segment	12.3	18.3	19.4
Customer B - Other segment	0.4	-	-
Customer C - Seamless segment	10.1	11.1	11.7
Customer D - Seamless segment	-	10.3	-
	67.1	67.9	63.1

Note 24 - Balances and transactions with interested parties and related parties

a. Balances with interested parties and related parties

Composition:

As of December 31, 2013

	Linkage terms	Related parties	Key executives
	Dollars thousands		
Trade receivables	Unlinked	656	-
Liabilities to trade payable		(497)	-
Other payables		(31)	(73)
		128	(73)

As of December 31, 2012

	Linkage terms	Related parties	Key executives
	Dollars thousands		
Trade receivables	Unlinked	1,627	-
Other receivables		-	29
Liabilities to trade payable		(1,123)	-
Other payables		(37)	(91)
		467	(62)

Note 24 - Balances and transactions with interested parties and related parties (cont.)

b. Benefits to interested parties and related parties

	For the year ended December 31		
	2013	2012	2011
	Dollars thousands		
Payroll and benefits for employees in the Company or on its behalf, including the CEO	695	949	1,061
Fees of directors not employed by or on behalf of the Company	319	276	300
Management fees for those not employed by or on behalf of the Company	-	-	882

Number of beneficiaries of salaries and benefits

	2013	2012	2011
Related parties employed by or on behalf of the Company	2	2	2
Directors not employed by the Company	9	9	8
	11	11	10

c. Transactions with related parties and interested parties

For the year ended December 31, 2013

	Related parties	Interested parties	Executive officers
	Dollars thousands		
Sales	159	5,811	-
Cost of sales	-	(6,092)	-
Sales and marketing expenses	-	(509)	-
General and administrative expenses	(30)	(319)	(695)
Financing expenses	-	(58)	-

For the year ended December 31, 2012

	Related parties	Interested parties	Executive officers
	Dollars thousands		
Sales	285	10,998	-
Cost of sales	-	(2,337)	-
Sales and marketing expenses	-	(368)	-
General and administrative expenses	(69)	(276)	(949)
Financing expenses	-	(235)	-

For the year ended December 31, 2011

	Related parties	Interested parties	Executive officers
	Dollars thousands		
Sales	-	7,096	-
Cost of sales	-	(5,797)	-
Sales and marketing expenses	-	(1,641)	-
General and administrative expenses	-	(968)	-
Financing expenses	-	(45)	-

Note 24 - Balances and transactions with interested parties and related parties (cont.)

d. Share based payment to controlling shareholder

On December 31, 2010 the Company granted two controlling shareholders 450,000 options (225,000 warrants each) to purchase 450,000 ordinary shares of the Company. Each warrant shall be exercisable to ordinary shares of the Company in exchange for a payment of three (3) dollars per each warrant, subject to the adjustments. The offerees' entitlement for the warrants shall vest gradually in three installments over a period of three years, subject to the Company's meeting the sales targets which were determined in the option agreement with the controlling shareholders.

The company did not actually meet the aforementioned sales targets and all the warrants were expired.

e. A Pick and Pack service agreement with a related party

On November 13, 2011 and November 22, 2011, the Audit Committee and the Board of Directors of the Company respectively approved the Company's engagement in agreements to provide Pick and Pack services (picking, packing and delivering):

1. To BL Intimates (hereinafter: "BLI"), which is a partnership of Lamour Global Inc. Limited (which is a private company incorporated in Hong Kong and connected with the Lieberman family, who are among the controlling shareholders in the Company) and an additional partner.

2. To companies connected with BLI which are controlled by the Lieberman family, the controlling shareholders in the Company.

The Company provides, as part of its current operations in the US, Pick and Pack services to its customers, as part of the Company's regular business. The service is provided through a subsidiary of Tefron in the US (Tefron U.S.A. Inc.) and is carried out in the Company's Logistic Center in North Carolina.

BLI contacted the Company with a request to receive Pick and Pack Services from it, as mentioned above (through the Tefron subsidiary in the US and the Company's Logistic Center in North Carolina). The level of engagement with BLI and its related companies is an amount of revenues of up to 200,000 thousand dollars when the price per unit, which will be collected from BLI and the related companies, is a fixed price (not dependent on the quantity of services required), which is higher than the price per unit that the Company collects from its customers. The period of engagement which has been approved, is one year from the date of the approval of the engagement.
On May 19, 2013, after receiving the Audit Committee's approval, the Company's Board of Directors decided to approve the renewal of the Company's engagement, occasionally, in non-extraordinary transactions, as this term is defined in the Companies Law, in providing services to BLI, and to an additional shareholder of BLI and to companies connected with BLI which are controlled by the Lieberman family (hereinafter together: "BLI group"), up to an amount of revenues of US 500 thousand dollars, when the price per unit, which will be collected from BLI group, is a fixed price (not dependent on the quantity of services required), which is higher than the price per unit that the Company collects from its customers to whom the Company provides services in similar volumes. The period of engagement which has been approved, is three years from the date of the Company's Board's decision, as aforementioned, or up to the amount of revenues detailed above, whichever is earlier.

Note 24 - Balances and transactions with interested parties and related parties (cont.)

e. A Pick and Pack service agreement with a related party (cont.)

The Audit Committee and the Board of Directors have approved that the engagement in the agreements, as detailed in this clause, does not constitute an extra-ordinary transaction as defined in the Companies Law.

f. A Pick and Pack service agreement with a controlling shareholder

On July 2, 2013, after receiving the Audit Committee's approval, the Company's Board of Directors decided to approve the Company's engagement to provide Pick and Pack services (picking, packing and delivering) with Trimfit Global Inc. (hereinafter: "Trimfit"), which is a private company connected to with the Lieberman family who is amongst the controlling shareholders of the Company, and this for a return of four percent (4%) from the total volume of sales of Trimfit for which the services where rendered.

In spite of the aforementioned, the company has continued the negotiation with Trimfit in order to improve the revenues which shall be collected for the services provided. In continuation of the aforesaid, the parties have reached commercial agreements, according to which the consideration collected from Trimfit shall be five percent (5%) from the total volume of Trimfit's sales for which the services are rendered (plus expenses), and this retroactively as of July 1, 2013 (hereinafter: "the new engagement").

The Company estimates that the consideration, as aforementioned, reflects at least a consideration equal to the consideration the Company collects, as of this date, from its external costumers for which it renders the service in similar volumes. According to the decision of the Company's Board, as aforesaid, the new engagement shall be valid for a period of 3 years beginning July 1, 2013 or until reaching a sum of 1,500 thousand dollars, whichever is earlier.

g. Factoring agreement with a controlling shareholder

On June 23, 2011, the Company engaged in a factoring agreement with Lamour Global Inc. Limited (Lamour), which is a company connected with the Lieberman family who is among the controlling shareholders in the Company. According to the agreement, the Company assigned to Lamour during 2011, according to the Company's financial needs, the debts of its customers (up to an amount of a million dollars at any given moment) and in consideration, Lamour transferred 90% of the assigned debt, handled the collection and on collecting the debt, transferred the Company the balance of the amount less commission of 0.5% and interest of 4.1% per year for the period from the date on which the debt was assigned to Lamour until it was paid by the customer. On November 23, 2011, the Company announced the extension of the factoring agreement of the Company for an additional year and increased the level of factoring transactions that it is entitled to finance with Lamour to up to a sum of 2 million dollars at any given moment.

Note 25 - Events after the balance sheet date

a. Termination of the agreement with Cifra S.P.A

On January 8, 2014, Cifra S.P.A (hereinafter: "Cifra") announced the termination of the engagement with the Company as of April 1, 2014.

Note 25 - Events after the balance sheet date (cont.)

a. Termination of the agreement with Cifra S.P.A (cont.)

To the best of the Company's knowledge, Cifra S.P.A is a world-wide leading manufacturer in the warp knitting field – flat knitting using the Seamless technology, and in January 2012 the Company and Cifra signed a cooperation agreement. In the framework of the cooperation, Cifra and the Company developed and designed together while using the flat knitting technology products in the activewear and apparel field. The termination of the agreement is in accordance with the agreement's terms. It is noted that the actual volume of sales through the agreement is not material and the parties are reviewing the manner in which they might continue their cooperation.

b. The amendment to the agreement with banks.

In continuation of the agreement that was signed between the Company and the banks on March 2, 2010, which included the reorganization of credit financing that the banks had provided to the Company, and was amended on December 24, 2010, the Company signed on March 27, 2014, an additional amendment to the agreement. In the framework of the amendment to the agreement the following changes in the following clauses were noted:

The following are the summery of the material amendment provisions to the financing agreement:

1. Amendment to some of the financial covenants

1.1. Shareholders' equity- The rate of tangible shareholders' equity to the total balance sheet will not be less than 30%; but in any case, the tangible shareholders' equity defined in the agreement will not be less – at any time – than the amounts stated below:

1.1.1 As of the date of signing the amendment to the financial agreement – US 25.5 million dollars.
1.1.2 As of 31.12.2015 - US 26 million dollars.
1.1.3 As of 31.12.2016 – US 26.5 million dollars.
1.1.4 As of 31.12.2017 and thereafter - US 27.5 million dollars.

"Tangible shareholders' equity": The total paid up share capital in addition with the capital reserves and the balance of the retained earnings, as well as the balance of the owners' loans for which subordination was signed to the banks by the Company and its shareholders, in addition of its liabilities for options that were granted and/or shall be granted to the banks, less intangible assets (such as goodwill, copyrights, patents, trademarks and trade names etc.), less the treasury shares and receivables who are interested parties in the Company and/or its subsidiaries and/or related companies (as those are defined in the Securities Law-1968).

1.2. The trade receivables (according to the financial statements) of the Company will not be less than a total sum of US 11 million dollars.

1.3. The Company will be entitled to carry out factoring of a total sum that shall not exceed, at any time, the sum of US 2.5 million dollars.

1.4. The total amount of the balances of the Tefron Group's cash, inventory and trade receivables will not be less at any time than US 30 million dollars.

Note 25 - Events after the balance sheet date (cont.)

b. The amendment to the agreement with banks (cont.)

1. Amendment to some of the financial covenants (cont.)

1.5. The ratio between the Company's debt and EBITDA – as of 2016 and thereafter shall not exceed 5.

1.6. The current ratio (current assets divided by current liabilities) of the Company, according to its annual financial statements or quarterly reports, shall not be less than 1.2.

2. Additional amendments

2.1. Not to execute a change in the control of the Company in regards with the control structure (by Intimess Nouvelle Seamless Inc., Mivtach Shamir Holdings Ltd., Ben Lieberman and Martin Lieberman) as of 1.1.2014, and this without receiving the agreement of the banks in advance and in writing. In spite of the aforementioned, cumulative change whereas the holdings of the controlling shareholders as at 1.1.2014, shall not be less than 38.9% of the paid up share capital of the Company, shall not constitute a violation of this obligation.

2.2. Early repayment:

2.2.1. In any case in which the total cash flows surplus, according to the financial statements, will exceed the determining amount, then, a total comprising 60% (sixty percent) of the total difference between the surplus cash flows and the determining total, will be used as early repayment, according to the determining ratio, on account of the last payment of principal Loan A, as it may be from time to time.

"Surplus cash flows" – the total EBIDA of the aforementioned corporations according to the financial statements, in every calendar year (hereinafter: "calendar year"), less: (a) total repayment of principal loans of the aforementioned corporations in a calendar year; (b) financing expenses in cash, including fees and exchange rate differences according to the financial statements of the calendar year; and (c) repayment on the account of the principal and interest for current debts arrangements.

"The determining amount" – US 4.5 million dollar.

2.2.2 On December 18 of every calendar year, the Tefron Group obligates to repay by an early repayment, at the expense of long term credit, the following sums:

2.2.2.1 On 18.12.2015, an early repayment on the sum of US 300 thousand dollars.

2.2.2.2 On 18.12.2016, an early repayment on the sum of US 400 thousand dollars.

2.2.2.3 On 18.12.2017, and on December 18 of each calendar year thereafter, an early repayment on the sum of US 500 thousand dollars.

2.3. Current investments – The Tefron Group shall not carry out investments in current assets, including in the normal course of business, in an annual aggregate amount, to the whole of Tefron Group, exceeding the sum detailed as follows:

Note 25 - Events after the balance sheet date (cont.)

b. The amendment to the agreement with banks (cont.)

2. Additional amendments (cont.)

2.3.1 On each of the years of 2014 and 2015, a sum of US 3 million dollars, in a cumulative calculation over two years.

2.3.2 On each of the years as of 2016 and thereafter, a sum of US 2 million dollars, in a cumulative calculation over two years.

2.4. In addition to the amendment to the financing agreement, it was agreed upon with the banks on the following: (a) reducing by US 1 million dollars the sums of the short term credit lines in the banks, and it shall stand at US 9.75 million dollars (b) to allocate to the banks (in accordance with the determining ratio), without return, a total sum of 300,000 options, non-negotiable, non-transferable and which can be exercised to shares of NIS 10 par value each of the Company, in accordance with the cashless mechanism, against payment of an exercise price of US 2.5 dollars per share. The options shall be excersiable (fully or partially) until December 31, 2019. The terms of the options shall be as detailed in the acceptable option warrant terms, as it shall be agreed upon between the Company and the banks. It is noted that the allocation of the options is subject to receiving all the appropriate approvals required by law (including the approval of the Stock Exchange to list the shares that shall arise from the exercise of the options in the Stock Exchange). The allocation of the options, as aforesaid, 200,000 options which were allocated to the banks on October 11, 2011, and that have yet to expire, shall expire.

c. Granting options to the banks

On March 27, 2013 the Company's Board of Directors approved the granting of 300,000 options to the banks, as detailed in Note 25b(2.4) above.

d. Granting options to an officer

On March 27, 2014, the Company's Board of Directors approved the granting to the Deputy VP of Business development, who is not an interested party in the Company and will not become an interested party in the Company after the grant, 32,500 option warrants, which can be exercised to shares of NIS 10 par value each of the Company, in accordance with the cashless mechanism. The exercise price for each option will stand at 3.2 dollars. The entitlement to exercise the options vests over a three-year period as of the date of the granting, in accordance with the option plan of the Company. The benefit value inherent in granting these options, in accordance with the price of the share, on the date of trading on the Stock Exchange, aggregated an amount of 8 thousand dollars.

Additional details regarding investments in subsidiaries as at December 31, 2013:

Active subsidiaries wholly-owned and wholly-controlled (100%)	Number of shares the company holds	Shares per value (Dollars thousands)	Book value (Dollars thousands)	Capital notes (Dollars thousands)
Hi-Tex, founded by Tefron Ltd.	162,646	28,339	(17,643)	-
Macro Clothing Ltd	628	150	(11,975)	-
Tefron USA Inc., wholly-owned by Tefron US Holdings, Corp	100	0.0025	4,492	48,000
Tefron UK Ltd., wholly-owned by Macro Clothing Ltd.	0.001	0.001 GBP	3,917	-
El-Masira Textile Co., wholly-owned by Tefron USA Inc.	72	72	4,841	-
Tefron Holdings (98) Ltd.	100	27	-	12,095