# TEFRON LTD.

## Interim Consolidated Financial Statements
## as at September 2016

**TEFRON LTD.**

**Interim Consolidated Financial Statements as at September 30, 2016**

**Unaudited**

**Contents**

Deloitte

## Auditors' Review Report to the Shareholders of Tefron Ltd.

**Preface**

We have reviewed the attached financial information of Tefron Ltd. and its subsidiaries (hereinafter - "the Group"), which includes the condensed consolidated balance sheets as at September 30, 2016, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of nine months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

The financial statements of the Group as at September 30, 2015 and for the period of nine months and three months then ended, were audited by other auditors whose review report, dated November 30, 2015, included an unqualified conclusion.

**Scope of the review**

We performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods prepared by the Entity's Auditor." A review of financial information for interim periods consists of making inquiries, primarily with persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all significant matters which might have been identified in an audit. Consequently, and consequently we are not expressing an opinion of an audit.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to the aforesaid in the previous paragraph, based on our review, nothing has come to our attention which would cause us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

**Brightman Almagor Zohar & Co.**
**Certified Public Accountants**
**Member of Deloitte Touche Tohmatsu Limited**

**Date: November 17, 2016**

**TEFRON LTD.**

**Consolidated Balance Sheets**

| | As at September 30 | | As at December 31 |
|---|---|---|---|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| | Dollars thousands | | |
| **Current assets** | | | |
| Cash | 1,290 | 3,242 | 764 |
| Trade receivables, net | 13,117 | 14,784 | 16,845 |
| Other account receivable | 3,909 | 3,379 | 3,038 |
| Inventory | 22,012 | 15,536 | 18,822 |
| | 40,328 | 36,941 | 39,469 |
| **Non-current assets** | | | |
| Fixed assets, net | 25,199 | 28,384 | 27,718 |
| Goodwill and intangible assets, net | 199 | 353 | 304 |
| Computer software, net | 1,468 | 1,045 | 1,271 |
| Deferred taxes, net | 2,775 | 3,230 | 3,230 |
| | 29,641 | 33,012 | 32,524 |
| | 69,969 | 69,953 | 71,992 |

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

**TEFRON LTD.**

**Consolidated Balance Sheets**

| | As at September 30 | | As at December 31 |
|---|---|---|---|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| | Dollars thousands | | |
| **Current liabilities** | | | |
| Credit from banks | 11,745 | 11,888 | 11,400 |
| Trade payables | 14,590 | 10,492 | 14,469 |
| Other accounts payable | 2,331 | 1,859 | 2,312 |
| | 28,666 | 24,239 | 28,181 |
| **Non-current liabilities** | | | |
| Loans from banks and suppliers | 11,223 | 12,887 | 12,441 |
| Liability for options to banks | 91 | 60 | 104 |
| Liabilities for employmee benefits, net | 760 | 656 | 762 |
| Long-term payables | 1,005 | 2,241 | 2,173 |
| | 13,079 | 15,844 | 15,480 |
| **Capital relating to the Company's shareholders** | | | |
| Share capital | 33,617 | 33,617 | 33,617 |
| Premium on shares | 99,686 | 99,620 | 99,627 |
| Reserve for remeasurement of defined benefit plan | (1,232) | (1,109) | (1,232) |
| Balance of loss | (96,629) | (95,087) | (95,510) |
| Treasury shares | (7,408) | (7,408) | (7,408) |
| Other capital reserves | 190 | 237 | 237 |
| **Total capital** | 28,224 | 29,870 | 28,331 |
| | 69,969 | 69,953 | 71,992 |

| November 17, 2016 | | | |
|---|---|---|---|
| **Date of approval of financial statements** | **Arnon Tieberg**<br>**Chairman of the Board** | **Gil Shimon**<br>**CEO** | **Eliezer Parnafes**<br>**CFO** |

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

**TEFRON LTD.**

**Consolidated Statements of Income**

| | For the 9 months ended September 30 | | For the 3 months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| | Dollar thousands (Excluding data on earnings (loss) per share) | | | | |
| Revenues from sales | 90,273 | 68,229 | 24,783 | 20,797 | 93,086 |
| Cost of sales | 72,087 | 54,875 | 19,433 | 16,624 | 74,582 |
| Gross profits | 18,186 | 13,354 | 5,350 | 4,173 | 18,504 |
| Development expenses, net | 2,943 | 2,830 | 985 | 966 | 3,694 |
| Selling and marketing expenses | 9,903 | 9,081 | 3,160 | 3,126 | 12,760 |
| General and administrative expenses | 2,355 | 2,260 | 732 | 679 | 2,914 |
| Other expenses | 768 | - | 165 | - | 817 |
| Operating income (loss) | 2,217 | (817) | 308 | (598) | (1,681) |
| Financing income | 28 | 375 | (7) | 99 | 471 |
| Financing expenses | (1,819) | (2,073) | (466) | (717) | (2,728) |
| Financing expenses, net | (1,791) | (1,698) | (473) | (618) | (2,257) |
| Income (loss) before taxes on income | 426 | (2,515) | (165) | (1,216) | (3,938) |
| Tax expenses | (545) | - | (45) | - | - |
| Net income (loss) | (119) | (2,515) | (210) | (1,216) | (3,938) |
| Earnings (loss) per share relating to the Company's shareholders (in dollars) | | | | | |
| Basic and diluted earnings (loss) per share | (0.01) | (0.28) | (0.02) | (0.10) | (0.41) |

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

# TEFRON LTD.

## Consolidated Statements of Comprehensive Income

| | For the 9 months ended September 30 | | For the 3 months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| | Dollars thousands (Excluding data on earnings (loss) per share) | | | | |
| Net income (loss) | (119) | (2,515) | (210) | (1,216) | (3,938) |
| Other comprehensive income (loss) (after tax effect): | | | | | |
| Amounts not reclassified thereafter to the statement of income: | | | | | |
| Loss from remeasurement of defined benefit plans | - | - | - | - | (123) |
| Total components not reclassified thereafter to the statement of income | - | - | - | - | (123) |
| Amounts classified or reclassified to the statement of income on meeting specific conditions: | | | | | |
| Profit not yet realized for cash flows hedging transactions | - | - | - | (43) | - |
| Loss realized for cash flows hedging transactions | - | 30 | - | - | 30 |
| Transfer to the statement of income from realizing investments in securities available for sale | - | 97 | - | - | 97 |
| Total components classified or reclassified to the statement of income | - | 127 | - | (43) | 127 |
| Total other comprehensive income | - | 127 | - | (43) | 4 |
| Total comprehensive income (loss) related to the Company's shareholders | (119) | (2,388) | (210) | (1,259) | (3,924) |

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

## TEFRON LTD.

## Consolidated Statements of Changes in Capital

| | Share capital | Premium on shares | Reserve for actuarial losses | Balance of loss | Treasury shares | Other capital reserves | Total capital |
|---|---|---|---|---|---|---|---|
| | Relating to the Company's Shareholders | | | | | | |
| | Unaudited | | | | | | |
| | Dollar thousands | | | | | | |
| **Balance as at January 1, 2016 (audited)** | 33,617 | 99,627 | (1,232) | (96,510) | (7,408) | 237 | 28,331 |
| Loss | - | - | - | (119) | - | - | (119) |
| Share based payment to employees and directors | - | 12 | - | - | - | - | 12 |
| Expiry of share rights of a consultant | - | 47 | - | - | - | (47) | - |
| **Balance as at September 30, 2016** | 33,617 | 99,686 | (1,232) | (96,629) | (7,408) | 190 | 28,224 |

| | Share capital | Premium on shares | Reserve for actuarial losses | Balance of loss | Treasury shares | Capital reserve for financial assets available for sate | Capital reserve for hedging transactions | Other capital reserves | Total capital |
|---|---|---|---|---|---|---|---|---|---|
| | Relating to the Company's Shareholders | | | | | | | | |
| | Unaudited | | | | | | | | |
| | Dollar thousands | | | | | | | | |
| **Balance as at January 1, 2015 (audited)** | 20,281 | 107,467 | (1,109) | (92,572) | (7,408) | (97) | (30) | 272 | 26,804 |
| Loss | - | - | - | (2,515) | - | - | - | - | (2,515) |
| Total other comprehensive income | - | - | - | - | - | 97 | 30 | - | 127 |
| Share based payment to employees and directors | - | 29 | - | - | - | - | - | - | 29 |
| Expiry of rights to shares of a consultant | - | 35 | - | - | - | - | - | (35) | - |
| Private placement (less issue expenses of 100 thousand dollars) | 13,336 | (7,911) | - | - | - | - | - | - | 5,425 |
| **Balance as at September 30, 2015** | 33,617 | 99,620 | (1,109) | (95,087) | (7,408) | - | - | 237 | 29,870 |

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

## TEFRON LTD.

## Consolidated Statements of Changes in Capital

| | Share capital | Premium on shares | Reserve for actuarial losses | Balance of loss | Treasury shares | Other capital reserves | Total capital |
|---|---|---|---|---|---|---|---|
| | Relating to the Company's Shareholders | | | | | | |
| | Unaudited | | | | | | |
| | Dollar thousands | | | | | | |
| **Balance as at July 1, 2016** | 33,617 | 99,682 | (1,232) | (96,419) | (7,408) | 190 | 28,430 |
| Loss | - | - | - | (210) | - | - | (210) |
| Share based payment to employees and directors | - | 4 | - | - | - | - | 4 |
| **Balance as at September 30, 2016** | 33,617 | 99,686 | (1,232) | (96,929) | (7,408) | 190 | 28,224 |

| | Share capital | Premium on shares | Capital reserve for actuarial losses | Balance of loss | Treasury shares | Capital reserve for hedging transactions | Other capital reserves | Total capital |
|---|---|---|---|---|---|---|---|---|
| | Relating to the Company's Shareholders | | | | | | | |
| | Unaudited | | | | | | | |
| | Dollar thousands | | | | | | | |
| **Balance as at July 1, 2015 (audited)** | 33,617 | 99,611 | (1,109) | (93,871) | (7,408) | 43 | 237 | 31,120 |
| Loss | - | - | - | (1,216) | - | - | - | (1,216) |
| Total other comprehensive loss | - | - | - | - | - | (43) | - | (43) |
| Share based payment to employees and directors | - | 9 | - | - | - | - | - | 9 |
| **Balance as at September 30, 2015** | 33,617 | 99,620 | (1,109) | (95,087) | (7,408) | - | 237 | 29,870 |

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

## TEFRON LTD.

## Consolidated Statements of Changes in Capital

| | Relating to the Company's Shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Premium on shares | Capital Reserve for actuarial losses | Balance of loss | Treasury shares | Capital reserve for financial assets available for sate | Capital reserve for hedging transactions | Other capital reserves | Total capital |
| | Audited | | | | | | | | |
| | Dollar thousands | | | | | | | | |
| **Balance as at January 1, 2015 (audited)** | 20,281 | 107,467 | (1,109) | (92,572) | (7,408) | (97) | (30) | 272 | 26,804 |
| Loss | - | - | - | (3,938) | - | - | - | - | (3,938) |
| Total other comprehensive income (loss) | - | - | (123) | - | - | 97 | 30 | - | 4 |
| Share based payment to employees and directors | - | 36 | - | - | - | - | - | - | 36 |
| Expiry of rights to shares of a consultant | - | 35 | - | - | - | - | - | (35) | - |
| Private placement (less issue expenses of 100 thousand dollars) | 13,336 | (7,911) | - | - | - | - | - | - | 5,425 |
| **Balance as at December 31, 2015** | 33,617 | 99,627 | (1,232) | (96,510) | (7,408) | - | - | 237 | 28,331 |

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

**TEFRON LTD.**

**Consolidated Statements of Cash Flows**

| | For the 9 months ended September 30 | | For the 3 months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2015** |
| | **Unaudited** | | **Unaudited** | | **Audited** |
| | **Dollars thousands** | | | | |
| **Cash flows from operating activities** | | | | | |
| Loss | (119) | (2,515) | (210) | (1,216) | (3,938) |
| Reconciliations required to present cash flows from operating activities: | | | | | |
| **Adjustments to items of the statement of income:** | | | | | |
| Depreciation and amortization of fixed assets and intangible assets | (4,006) | 3,616 | 1,323 | 1,176 | 4,898 |
| Cost of share based payment | 12 | 29 | 4 | 9 | 36 |
| Loss from an impairment in value of slow moving inventory | 133 | 345 | (90) | 115 | 443 |
| Loss from realizing securities available for sale | - | 169 | - | - | 169 |
| | 4,151 | 4,159 | 1,237 | 1,300 | 5,536 |
| Change in deferred taxes, net | 455 | - | - | - | - |
| Change in liabilities for employee benefits, net | (2) | (127) | (11) | (62) | (144) |
| Change in fair value of liability for options to banks | (13) | 40 | (1) | (6) | 84 |
| Taxes on income | 221 | 218 | 76 | 72 | 291 |
| Financing expenses, net | 1,444 | 1,244 | 507 | 369 | 1,565 |
| | 2,105 | 1,375 | 571 | 373 | 1,796 |
| **Changes in items of assets and liabilities** | | | | | |
| Decrease (increase) in trade receivables | 3,728 | 3,239 | 4,875 | 3,519 | 1,178 |
| Decrease (increase) in other accounts receivable | (871) | (843) | (1,319) | 304 | (502) |
| Decrease (increase) in inventory | (3,323) | (534) | 547 | (337 | (3,908) |
| Increase (decrease) in trade payables | 36 | (4,690) | (4,182) | (5,065) | (867) |
| Decrease in other accounts payable | 19 | (531) | 492 | (170) | (78) |
| | (411) | (3,359) | 413 | ((1,749) | (4,177) |
| **Cash paid and received during the period for:** | | | | | |
| Interest paid | (1,421) | (1,212) | (500) | (357) | (1,524) |
| Interest received | 2 | 2 | - | - | 2 |
| Taxes paid | (221) | (218) | (76) | (72) | (291) |
| | (1,640) | (1,428) | (576) | (429) | (1,813) |
| Net cash provided by (used for) operating activities | 4,086 | (1,768) | 1,435 | 1,721) | (2,596) |

**TEFRON LTD.**

**Consolidated Statements of Cash flows**

| | For the 9 months ended September 30 | | For the 3 months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| | Dollars thousands | | | | |
| **Cash flows from investing activities** | | | | | |
| Acquisition of fixed assets | (1,471) | (839) | (334) | (603) | (1,235) |
| Acquisition of software | (317) | (605) | (172) | (278) | (887) |
| Proceeds from the sale of securities available for sale | - | 310 | - | - | 310 |
| Net cash used for investing activities | (1,788) | (1,134) | (506) | (881) | (1,812) |
| **Cash flows from financing activities** | | | | | |
| Short-term credit from banks, net | 357 | 2,853 | (158) | 2,802 | 2,265 |
| Repayment of long-term loans | (1,255) | (1,568) | (5) | (61) | (1,923) |
| Repayment of long-term credit for fixed assets | (874) | (597) | (511) | (260) | (626) |
| Costs relating to debt arrangement | - | (193) | - | (64) | (193) |
| Proceeds from private placement (less issue expenses) | - | 5,425 | - | (100) | 5,425 |
| Net cash provided by financing activities | (1,772) | 5,920 | (674) | 2,317 | 4,948 |
| **Increase (decrease) in cash** | 526 | 3,018 | 255 | (285) | 540 |
| Balance of cash at beginning of period | 764 | 224 | 1,035 | 3,527 | 224 |
| **Balance of cash at end of period** | 1,290 | 3,242 | 1,290 | 3,242 | 764 |

| | For the 9 months ended September 30 | | For the 3 months ended September 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| | Dollars thousands | | | | |
| **Appendix A – Significant transactions not in cash** | | | | | |
| Acquisition of fixed assets on credit | - | 2,607 | - | 34 | 2,750 |
| Acquisition of assets by way of exchange | - | - | - | - | 128 |

## Note 1 - General

**a.** These financial statements were prepared in a condensed form as at September 30, 2016 and for the period of six months and three months then ended (hereinafter – the interim consolidated financial statements). These statements should be studied in conjunction with the Tefron Ltd.'s (hereinafter: "the Company") annual financial statements as at December 31, 2015 and for the year then ended and the Notes accompanying them (hereinafter: "the consolidated annual financial statements").

**b.** The Company did not include in the interim statements separate interim financial statements according to the provisions of Regulation 38d of the Securities Regulations (Periodic and Immediate Reports) – 1970 as, in its opinion, attaching such information would not add any significant information to the investor.

**c.** On May 18, 2015 the Company and the banks signed an additional Appendix to amend the financing agreement, in the framework of which, inter alia, the financial covenants to which the Company is obligated, were changed. According to this Appendix, based on the data in the consolidated interim financial statements as at March 31, 2016, the Company's short-term credit line at the banks declined during the second quarter of 2016 by an amount of about half a million dollars. According to the data in the interim consolidated financial statements at June 30, 2016 and according to the above-mentioned agreement with the banks, the Company's short-term credit line with the banks is increase by about 3.5 million dollars.

Correct as of September 30, 2016 the Company meets the financial covenants stated in the amended financing agreement mentioned above.

## Note 2 - Significant accounting principles

<u>The form of preparation of the interim consolidated financial statements</u>

The interim consolidated financial statements are prepared in accordance with International Accounting Standard IAS 34 – "Financial Statements for Interim Periods", and according to the provisions of the directives under Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.
The accounting policy implemented in the preparation of the consolidated interim financial statements is consistent with that implemented in the preparation of the annual consolidated financial statements.

## Note 3 - Disclosure to new IFRS during the period prior to the implementation

### a. IFRS 15 – "Revenues from contracts with customers"

The new Standard sets forth a comprehensive and uniform mechanism arranging the accounting treatment of revenues resulting from contracts with customers. The Standard cancels International Accounting Standard IAS 18 "Revenues" and International Accounting Standard IAS 11 "Construction contracts" and the interpretations accompanying them. The core principle of the Standard is that the

## Note 3 - Disclosure to new IFRS during the period prior to the implementation (contd.)

### a. IFRS 15 – "Revenues from contracts with customers" (contd.)

recognition of revenues will reflect the transfer of goods or services to customers in an amount representing the economic benefits that the entity expects to receive in consideration for them. For this purpose, the Standard stipulates that the recognition of revenues will take place when the entity transfers the goods and/or services, stated in the contract, to the customer in such a way that the customer achieves control over those goods or services.

The Standard sets forth a model of five stages for implementing this principle"

1. Identifying the contract (or the contracts) with the customer.
2. Identifying obligations for implementing the contract.
3. Determining the transaction price.
4. Allotting a transaction price for performance obligations.
5. Recognition of revenues when the entity completes its performance obligation.

"Implementation of the model is dependent on specific facts and circumstances to the contract and often requires significant discretion.

In addition, the Standard sets forth wide disclosure requirements regarding contracts with customers, the significant estimates and changes in them which served at the time of implementing the provisions of the Standard in order to enable the users of the financial statements to understand the nature, quantity, timing and reliability of the revenues and of the cash flows resulting from the contracts with the customers.

The Standard will come into binding force regarding annual periods of report starting January 1, 2018 or thereafter. Early implementation is possible. As a rule, the Standard will be implemented retrospectively, but entities will be entitled to choose certain adjustments in the framework of the transitory provisions of the Standard regarding its implementation during prior reporting periods.

As this stage the Company is learning the effect of the provisions of the Standard on its contracts with its customers and the method of recognizing revenues from them. This examination has not been completed.

### b. IFRS 9 Financial Instruments

International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments" (hereinafter – "the Standard") is the final Standard of the financial Instruments project. The Standard cancels the previous stages of IFRS 9 published in the years 2009, 2010 and 2013. The final Standard includes directives for classifying and measuring financial assets which were amended regarding those published in the first stage in 2009, and, includes the directives for classifying and measuring financial liabilities as published in the second stage in 2010, it proposes a more updated model and based on principles regarding hedging accounting and presents a new model to examine a forecasted loss from an impairment in value. In addition

## Note 3 - Disclosure to new IFRS during the period prior to the implementation (contd.)

### b. IFRS 9 Financial Instruments (contd.)

the Standard cancels interpretation IFRIC 9 "Reexamination of embedded derivatives".

The Standard will come into binding force regarding annual financial periods starting January 1, 2018 or thereafter. Early implementation is possible.

As a rule, the provisions of this Standard regarding financial assets and liabilities will be implemented retrospectively, excluding certain exceptions which are set forth in the Standard's transitory provisions. It also stipulates that despite early retrospective implementation, companies implementing the Standard for the first time are not obligated to amended their comparative figures for previous periods. Moreover, the comparative figures may be amended only when their amendment does not make use of hindsight information. The provisions relating to hedging will generally be implemented by way of 'from here on' with limited retrospective implementation.

At this stage the Company's Management is unable to estimate the effect of implementing the Standard on its financial position and results of operations.

### c. IFRS 16 – Leasing

The new Standard published in January 2016 cancels IAS 17 "Leasing" and the interpretations accompanying it, and sets forth the rules of recognition, measurement, presentation and disclosure of leasing relating to the two parties to a transaction, i.e., the customer ('Lessee') and the supplier ('Lessor').

The new Standard cancels the distinction existing today regarding a Lessee, whether for financial leasing or operative leasing, and sets forth a uniform accounting method for all types of leasing. According to the new model, for every leased asset, the Lessee is required, on the one hand, to recognize the asset for the right of use, and on the other hand to recognize a financial liability for the leasing fees.

These provisions for recognizing the assets and the liability will not apply to assets leased for periods up to 12 months and regarding leasing of assets with a low value (e.g. laptop computers).

The Standard does not change the existing accounting treatment today in the Lessor's books.

The Standard will come into binding force regarding annual reporting period starting January 1, 2019 or thereafter. Early implementation is possible, but this on condition that IFRS 15 "Revenues from contracts with customers" is also implemented. As a rule, the Standard will be implemented retrospectively, but entities will be entitled to choose certain adjustments in the framework of the transitory provisions of the Standard regarding its implementation for previous reporting periods.

The Company has not yet examined the effect of the provisions of the Standard on asset lease contracts that it holds.

## Note 3 - Disclosure to new IFRS during the period prior to the implementation (contd.)

### d. Amendment to IAS 12 "Taxes on income" (regarding recognition of deferred tax assets for losses not realized)

The Amendment clarifies that losses not yet realized which were created from debt instruments measured in the financial statement at fair value and for tax purposes on the basis of cost, are likely to create temporary differences which can be deducted, whether the entity holding the debt instrument expects to reclaim its carrying value through holding it to redemption or through its sale.
In addition, the Amendment clarifies that:

- The carrying value of the asset does not restrict the estimated future taxable income;
- When temporary differences which can be deducted are compared with future taxable income, the future taxable income does not include tax deductions resulting from reversing those temporary differences which can be deducted; and
- When the tax laws restrict the utilization of losses so that they can only be deducted against income of a certain type, it should examine whether it can be recognized as deferred tax asset combined with deferred taxes resulting from temporary differences which can be deducted from that type..

The Amendment will be implemented retrospectively for annual reporting periods starting January 1, 2017 or thereafter. Early implementation is possible. At the time of first implementation of the Amendment, the change in the opening balance of the capital for the earliest comparative periods presented against retained earnings, can be recognized without splitting between the other components of capital, while disclosing the use of this exemption.
In the Company's opinion, the Amendment to IAS 12 is not expected to have a significant effect on the financial statements.

### e. Amendment to IAS 7 regarding "Statement of cash flows" (regarding disclosures about changes in liabilities resulting from financing activities)

The Standard stipulates that the entity is required to disclose information which will enable use of the financial statements to evaluate the changes in liabilities resulting from financing activities, both changes connected with cash flows and changes which are not connected with cash flows.
The Amendment will be implemented 'from here on' for annual reporting periods starting January 1, 2017 or thereafter. Early implementation is possible. On the date of first implementing the Amendment the presentation of comparative information is not required.
In the Company's opinion, Amendment IAS 7 is not expected to have a significant effect on the financial statements.

## Note 4 – Significant events during the period of report

### a. Granting a letter of indemnity to Directors

On February 11, 2016 a meeting of the Company's shareholders, after receiving approval of the Company's Compensation Committee and Board of Directors, approved granting a letter of indemnity to Mr. Lieberman in the form customary in the Company.

### b. Expiry of rights in shares

Further to Note 20 b4 to the annual financial statements as at December 31, 2015, on March 20, 2016 the balance of a 135,000 rights out of 335,000 rights for shares granted to Prof. Bodo W. Lambertz (hereinafter – "the Consultant") in the framework of the consulting and development agreement engaged between the Company and the Consultant on September 27, 2012 - expired. The rights to the shares expired due to not meeting certain milestones.

### c. Taxes on income

At the beginning of January 2016 the Law for the Amendment of the Income Tax Ordinance was published which stipulates that rate of company tax will be reduced to a rate of 25% (instead of 26.5%). The new rate of company tax will apply to income produced or accrued as from January 1, 2016. The Amendment is not relevant to the rates of tax imposed on income by virtue of the Law for Encouragement of Capital Investment – 1959 (Income from a Preferred/ Beneficial/ Approved Enterprise). As a result of this legislation, there is a decline in the Company's deferred tax assets as at March 31, 2016 of 183 thousand dollars recorded against tax expenses for the period.

### d. Signature on cancellation of the Memorandum of Understandings with Brandix Lanka Limited (hereinafter – "Brandix")

Further to Note 20 b3 to the annual financial statements as at December 31, 2015, on April 7, 2016 the Company and Brandix (a company incorporated in Sri Lanka specializing in the development, production and distribution of clothing products for the top brands throughout the world) signed a cancellation of the Memorandum of Understanding between them of December 12, 2013.

### e. Withdrawal of a claim filed by Ilodel Inc. against the Company and a subsidiary

Further to Note 20a2(a) to the annual financial statements as at December 31, 2015, on April 11, 2016 the claim submitted on November 17, 2014 for an amount of 1,040 thousand dollars by Ilodel Inc. against the Company and its subsidiary Macro Clothing Ltd. at the Tel Aviv District Court on the allegation of a breach of a contractual engagement, was withdrawn.

### f. A claim filed against the Company in Jordan

On September 7, 2016 a lawsuit was filed against a subsidiary in Jordan by a subcontractor of the Jordanian company in the amount of 235 thousand Dollars. The subcontractor claims that the subsidiary owed him. The Company believes that the chances of prosecution are weak.

## Note 5 - Operating segments

### a. General

The information that the Company reports according to definitions of IFRS 8 is based on available financial information which regularly is reviewed and used by the Company's CEO, who is the Chief Operating Decision Maker (CODM), in order to take decisions regarding resources to be allocated to segments and in order to evaluate the segment's performance.

Based on the criteria of IFRS 8 to determine reportable operating segments, and financial information available and reviewed by the Company's CEO, the Company decided that it operates in two reportable operating segments:

(a) Brands – this segment is engaged in the design, development, production and marketing of seamless underwear and sport and leisure wear produced in the Company's plants and with sub-contractors, and sold to customers which keep leading brands.

(b) Retail – this segment is engaged in the design, development, production and marketing of seamless underwear and sport and leisure wear products, which are sold throughout the world to customers in the retail market, which are characterized by the purchase of large quantities of products which are less complex than those in the brands field.

## Note 5 - Operating segments (contd.)

### b. Reporting regarding operating segments

| | For the period of nine months ended September 30, 2016 | | | For the period of nine months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Brands | Retail | Total | Brands | Retail | Total |
| | Unaudited | | | | | |
| | Dollar thousands | | | | | |
| Total revenues from the segment | 29,697 | 60,575 | 90,272 | 32,380 | 35,849 | 68,229 |
| Direct income (loss) | (4,538) | 9,911 | 5,373 | (1,096) | 3,376 | 2,280 |
| Indirect costs | (1,059) | (2,097) | (3,156) | (1,456) | (1,641) | (3,097) |
| Segment results | (5,597) | 7,814 | 2,217 | (2,552) | 1,735 | (817) |
| Financing expenses, net | | | (1,791) | | | (1,698) |
| Tax expenses | | | (545) | | | - |
| Net income (loss) | | | (119) | | | (2,515) |

| | For the period of three months ended September 30, 2016 | | | For the period of three months ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Brands | Retail | Total | Brands | Retail | Total |
| | Unaudited | | | | | |
| | Dollar thousands | | | | | |
| Total revenues from the segment | 6,556 | 18,226 | 24,782 | 8,317 | 12,480 | 20,797 |
| Direct income (loss) | (2,056) | 3,314 | 1,358 | (1,282) | 1,670 | 388 |
| Indirect costs | (278) | (772) | (1,050) | (349) | (592) | (986) |
| Segment results | (2,334) | 2,642 | 308 | (1,676) | 1,078 | (598) |
| Financing expenses, net | | | (473) | | | (618) |
| Tax expenses | | | (45) | | | - |
| Net income (loss) | | | 210 | | | (1,216) |

## Note 5 - Operating segments (contd.)

### b. Reporting regarding operating segments (contd.)

| | For the year ended December 31, 2015 | | |
|---|---|---|---|
| | Brands | Retail | Total |
| | | Audited | |
| | | Dollar thousands | |
| Total segment revenues | 41,670 | 51,416 | 93,086 |
| Direct income (loss) | (1,669) | 4,185 | 2,516 |
| Indirect costs | (1,879) | (2,318) | (4,197) |
| Segment results | (3,548) | 1,867 | (1,681) |
| Financing expenses, net | | | (2,257) |
| Loss | | | 3,938) |

## Note 6 - Financial instruments

### a. Fair value

The balance in the financial statements of cash, trade receivables, other accounts receivable, credit from banks and long-term loans, trade payables and other accounts payable match or are close to their fair value.

**b.** Further to Note 6 to the annual financial statements as at December 31, 2015 in connection with the Company's engagement in factoring transactions, as at June 30, 2016 the Company withdrew trade receivables for an amount of NIS 2.5 million dollars (1.5 million dollars on June 30, 2015). The balance of trade receivables are presented less these amounts.