TEFRON LTD.

Interim Consolidated Financial Statements as at June 30, 2016

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Unaudited

Contents

119385

Review Report of the Auditors 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 sheet as at June 30, 2016, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of six 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 June 30, 2015 and for the period of six months and three months then ended, were audited by other auditors whose review report, dated August 17, 2015, included an unqualified opinion.

Scope of the review

We have 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, 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 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: August 31, 2016

Tefron Ltd.

Consolidated Balance Sheet

	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current assets			
Cash	1,035	3,527	764
Trade receivables, net	17,992	18,303	16,845
Other receivables	2,590	3,756	3,038
Inventory	22,469	15,314	18,822
	44,086	40,900	39,469
Non-current assets			
Property, plant and equipment, net	26,272	26,577	27,718
Inactive assets	-	2,260	-
Goodwill and intangible assets, net	234	401	304
Software, net	1,340	805	1,271
Deferred taxes, net	2,775	3,230	3,230
	30,621	33,273	32,523
	74,707	74,173	71,992

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

Tefron Ltd.

Consolidated Balance Sheet

	As at June 30, 2016	As at June 30, 2015	As at December 31, 2015
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current liabilities			
Bank credit	11,492	9,086	11,400
Trade payables	18,840	15,310	14,469
Other payables	1,839	2,049	2,312
	32,171	26,445	28,181
Non-current liabilities			
Long-term loans from banks and vendors	11,632	12,936	12,441
Liabilities for bank options	92	66	104
Liabilities for benefits to employees, net	771	718	762
Long-term payables	1,611	2,888	2,173
	14,106	16,608	15,480
Equity attributed to the Company's shareholders			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,682	99,611	99,627
Reserve for remeasurement of defined benefit plan	(1,232)	(1,109)	(1,232)
Accumulated deficit	(96,419)	(93,871)	(96,510)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	-	43	-
Other capital reserves	190	237	237
	28,430	31,120	28,331
Total equity	74,707	74,173	71,992

August 31, 2016			
Date of approval of the financial statements	**Arnon Tieberg Chairman of the Board**	**Gil Shimon CEO**	**Eliezer Parnafes CFO**

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

Tefron Ltd.

Consolidated statements of income

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	Dollars thousands (excluding data on income (loss) per share)				
Sales	65,490	47,432	38,883	22,763	93,086
Cost of sales	52,654	38,251	30,736	18,545	74,582
Gross profit	12,836	9,181	8,147	4,218	18,504
Development expenses, net	1,958	1,864	916	917	3,694
Selling and marketing expenses	6,743	5,955	3,948	3,085	12,760
General and administrative expenses	1,623	1,581	816	679	2,914
Other expenses	603	-	251	-	817
Operating profit (loss)	1909	(219)	2,216	(463)	(1,681)
Financial income	35	294	35	12	471
Financial expenses	(1,353)	(1,374)	(659)	(586)	(2,728)
Financial expenses, net	(1,318)	(1,080)	(624)	(574)	(2,257)
Income (loss) before taxes on income	591	(1,299)	1,592	(1,037)	(3,938)
Tax expenses	(500)	-	(317)	-	-
Net income (loss)	91	(1,299)	1,275	(1,037)	(3,938)
Income (loss) per share attributable to equity shareholders of the Company (in dollars)					
Basic and diluted income (loss) per share	0.01	(0.17)	0.11	(0.12)	(0.41)

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

Tefron Ltd.

Consolidated statements of comprehensive income

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	Dollars thousands				
Net income (loss)	91	(1299)	1,275	(1,037)	(3,938)
Other comprehensive income (loss) (after the effect of the tax):					
Amounts that will not be reclassified subsequently to the statements of income:					
Loss from remeasurement of defined benefit plan	-	-	-	-	(123)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(123)
Subtotal of items that will be reclassified or are reclassified to the statements of income provided that specific terms are met:					
Income not yet realized from cash flow hedging transactions	-	43	-	43	-
Loss not yet realized from investments in securities available for sale	-	30	-	-	30
Transfer to the statement of income on disposal of investments in securities available for sale	-	97	-	-	97
Subtotal of items that will be reclassified or are reclassified to the statements of income	-	170	-	43	127
Total other comprehensive income	-	170	-	43	4
Total comprehensive income (loss) attributed to the Company's shareholders	91	(1,129)	1,275	(994)	(3,934)

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	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at January 1, 2016 (audited)	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Net income	-	-	-	91	-	-	91
Share-based payment to employees and directors	-	8	-	-	-	-	8
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
Balance as at June 30, 2016	33,617	99,682	(1,232)	(96,419)	(7,408)	190	28,430

	Relating to the Company's shareholders								
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total equity
	Unaudited								
	Dollars thousands								
Balance as at January 1, 2015 (audited)	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804
Loss	-	-	-	(1,299)	-	-	-	-	(1,299)
Total other comprehensive income	-	-	-	-	-	97	73	-	170
Share-based payment to employees and directors	-	20	-	-	-	-	-	-	20
Expiry of rights to shares of the consultant	-	35	-	-	-	-	-	(35)	-
Private placement (less issue expenses of 100 thousand dollars)	13,336	(7,911)	-	-	-	-	-	-	5,425
Balance as at June 30, 2015	33,617	99,611	(1,109)	(93,871)	(7,408)	-	43	237	31,120

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

Tefron Ltd.

Consolidated statements of changes in shareholders' equity

	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Relating to the Company's shareholders						
	Unaudited						
	Dollars thousands						
Balance as at April 1, 2016	33,617	99,678	(1,232)	(97,694)	(7,408)	190	27,151
Net income	-	-	-	1,275	-	-	1,275
Share-based payment to employees and directors	-	4	-	-	-	-	4
Balance as at June 30, 2016	33,617	99,682	(1,232)	(96,419)	(7,408)	190	28,430

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	Relating to the Company's shareholders							
	Unaudited							
	Dollars thousands							
Balance as at April 1, 2015	20,281	107,513	(1,109)	(92,834)	(7,408)	-	237	26,680
Loss	-	-	-	(1,037)	-	-	-	(1,037)
Total other comprehensive income	-	-	-	-	-	43	-	43
Share-based payment to employees and directors	-	9	-	-	-	-	-	9
Private placement (less issue expenses of 100 thousand dollars)	13,336	(7,911)	-	-	-	-	-	5,425
Balance as at June 30, 2015	33,617	99,611	(1,109)	(93,871)	(7,408)	43	237	31,120

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	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	Audited								
	Dollars thousands								
Balance as at January 1, 2015	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 the 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 six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2016	2015	2016	2015	2015
	Unaudited				Audited
	Dollars thousands				
Cash flows from operating activities					
Net income (loss)	91	(1,299)	1,275	(1,037)	(3,938)
Adjustments required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization of fixed assets and intangible assets	2,683	2,440	1,328	1,311	4,898
Cost of share-based payment	8	20	4	9	36
Loss from impairment of slow inventory	223	230	101	107	433
Loss from disposal of securities available for sale	-	169	-	-	169
	2,914	2,859	1,433	1,427	5,536
Change in deferred taxes, net	455	-	272	-	-
Change in liabilities for benefits to employees, net	9	(65)	(23)	(6)	(144)
Change in fair value liabilities for bank options	(12)	46	(35)	-	84
Taxes on income	145	146	73	75	291
Financial expenses, net	937	875	556	405	1,565
	1,534	1,002	843	474	1,796
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	(1,147)	(280)	(2,796)	(4,155)	1,178
Decrease (increase) in other receivables	448	(1,147)	(34)	(1,101)	(502)
Decrease (increase) in inventory	(3,870)	(197)	5,562	(166)	(3,908)
Increase (decrease) in trade payables	4,218	375	(5,391)	(1,501)	(867)
Decrease in other payables	(473)	(361)	(731)	(282)	(78)
	(824)	(1,610)	(3,390)	(4,203)	(4,177)
Cash paid and received during the period for:					
Interest paid	(921)	(855)	(548)	(393)	(1,524)
Interest received	-	2	-	-	2
Taxes paid	(145)	(146)	(73)	(75)	(291)
	(1,066)	(999)	(621)	(468)	(1,813)
Net cash provided from (used for) operating activities	2,649	(47)	(460)	(3,807)	(2,596)

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

Tefron Ltd.

Consolidated statements of cash flows

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2016	2015	2016	2015	2015
	Unaudited				Audited
	Dollars thousands				
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,137)	(236)	(322)	(148)	(1,235)
Purchase of software	(145)	(327)	(60)	(153)	(887)
Proceeds from disposal of securities available for sale	-	310	-	-	310
Net cash used for investing activities	(1,282)	(253)	(382)	(301)	(1,812)
Cash flows from financial activities					
Short-term bank credit, net	517	51	836	(545)	2,265
Repayment of long-term loans	(1,250)	(1,507)	(298)	(347)	(1,923)
Repayment of long-term credit for property, plant and equipment	(363)	(337)	(113)	(40)	(626)
Debt settlement costs	-	(129)	-	(129)	(193)
Proceeds from a private placement (less issue expenses)	-	5,525	-	5,525	5,425
Net cash provided from (used for) financial activities	(1,096)	3,603	425	4,464	4,948
Increase (decrease) in cash	271	3,303	(416)	356	540
Balance of cash at beginning of period	764	224	1,451	3,171	224
Balance of cash at end of period	1,035	3,527	1,035	3,527	764

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2016	2015	2016	2015	2015
	Unaudited				Audited
	Dollars thousands				
Appendix A - non-cash significant transactions					
Acquisitions of fixed assets on credit	163	2,573	-	195	2,750
Unpaid issue expenses and debt settlement costs	-	(164)	-	(164)	-
Acquisitions of assets through an exchange	-	-	-	-	128

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

Note 1 - General

a. These financial statements were prepared in a condensed format, as at June 30, 2016 and for the periods of six months and three months then ended (hereinafter – “interim consolidated financial statements”). These statements should be read together with 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 -"annual consolidated financial statements").

b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations (“Periodic and Immediate Reports”), 1970, since the Company believes that the inclusion of such information shall not constitute as additional significant information to the investor.

c. On May 18, 2015, the Company and the banks signed on an additional appendix to the amendment to the financing agreement, in the framework of which, amongst else, the financial covenants the Company is obligated to meeting, were amended. In accordance with the aforementioned appendix, according to the interim consolidated financial statements’ data as at March 31, 2016, the Company’s short-term credit line in the banks decreased during the second quarter of 2016 in the amount of half a million dollars. According to the interim consolidated financial statements’ data as at June 30, 2016, and in accordance with the aforementioned agreement with the banks, the Company’s short-term credit line in the banks is expected to increase by 3.5 million dollars.

As at June 30, 2016, the Company meets all the financial covenants that were determined in the amendment to the financial agreement as aforementioned.

Note 2 – Significant accounting principles

Form of preparation of the interim consolidated financial statements

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - "Financial Reporting for Interim Periods", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) -1970.

The accounting policy used in preparing the interim consolidated financial statements is consistent with the one used in preparing the annual consolidated financial statements.

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

a. IFRS 15 – “Recognizing Revenue from Contracts with Customers”

The new standard sets out a comprehensive mechanism that regulates the accounting treatment of revenues arising from contracts with customers. The standard supersedes IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the commentaries thereto. The core principle of the standard is that the recognition of revenue shall reflect the transfer of goods or services to customers in an amount that represents the economic benefits that the entity expects to receive in exchange for them. For this purpose, the standard stipulates that the revenue recognition shall take place when the entity transfers to the customer the goods and/or services listed in its contract in such a manner that the customer obtains control of those goods or services.

The standard sets out a five-stage model for implementing this principal:

1. Identifying the contract (or contracts) with the customer.
2. Identifying the performance obligations in the contract.

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

3. Determining the transaction price.
4. Allocation of the transaction price to the performance obligation.
5. Recognizing revenue when the entity completes a performance obligation.

The Implementation of the model depends on the specific facts and circumstances of the contract and requires, occasionally, the exercise of extensive discretion.

In addition, the standard stipulates extensive disclosure requirements regarding contracts with customers, the significant estimates and changes therein which were used when applying the provisions of the standard, and this in order to allow the users of the financial statements to understand the nature, quantity, timing and reliability of the revenue and the cash flows arising from contracts with customers.

The standard shall take effect for annual reporting periods beginning on January 1, 2018 or thereafter. Early adoption is permitted. In general, the standard will be applied retrospectively; however, entities will be allowed to choose certain adjustments in the framework of the transitional provisions of the standard with regard to the implementation thereof for previous reporting periods.

At this stage, the Company examines the impact of the provisions of the standard on its contracts with its customers and the manner of recognition of revenue arising from them. This examination has not been completed yet.

b. <u>IFRS 9 – Financial Instruments</u>

The IFRS 9 (2014) "Financial Instruments" (hereinafter: the "standard") is the final standard of the financial instruments project. The standard supersedes the previous versions of IFRS 9 which were published in 2009, 2010 and 2013. The final standard includes provisions for the classification and measurement of financial assets that have been modified in relation to those published in the first version in 2009, and it also includes the provisions for the classification and measurement of financial liabilities as published in the second version in 2010; the standard offers an updated model which is based on principals in respect of hedge accounting and it presents a new model for the examination of expected loss impairment. In addition, the standard supersedes the interpretation of IFRIC 9 "Reassessment of Embedded Derivatives".

The standard shall take effect for annual reporting periods beginning on January 1, 2018 or thereafter. Early adoption is permitted.

In general, the provisions of the standard concerning assets and financial liabilities will be applied retrospectively, except for certain exceptions prescribed in the transitional provisions of the standard. It was also determined that despite the retrospective application, companies implementing the standard for the first time will not be obligated to restate their comparative figures for previous periods. Moreover, restatement of the comparative figures shall be permitted only when such restatement does not involve the usage of hindsight. Provisions relating to hedging shall be implemented, as a rule, using a prospective application, with a limited retrospective application.

At this stage the management of the Company is not able to assess the impact of the implementation of the standard on its financial position and results of operations.

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

c. IFRS 16 – Leases

The new standard which was issued in January 2016 replaces IAS 17 “leases” and the related interpretations thereto, and sets out the principles for the recognition, measurement, presentation and disclosure of leases in relation to both parties of a transaction, meaning the customer (‘lessee’) and the supplier (‘lessor’).

The new standard eliminates the existing distinction regarding lessee, between finance leases and operating leases and provides a uniform accounting model in relation to all types of leases. In accordance with the new model, for every leased asset, the lessee is required to recognize the asset for right-of-use on the one hand, and for the financial liability for the lease fees on the other hand.

The requirements for recognizing the asset and liability, as aforementioned, shall not apply in respect of assets leased only for a period of up to 12 months and in relation to leases of low-value assets (for example, personal computers).

The standard does not change the current accounting treatment of the books of the lessor.

The standard shall take effect regarding annual reporting periods beginning on January 1, 2019 or thereafter. Early adoption is permitted, provided that IFRS 15 "Revenue from Contracts with Customers" is also applied. In general, the standard will be applied retrospectively; however entities will be allowed to choose certain adjustments in the framework of the transitional provisions of the standard with regard to the implementation thereof for previous reporting periods.

The Company has not evaluated yet the impact of the provisions of the standard on leasing contracts in respect of assets in its possession.

d. Amendment to IAS 12 “Income Taxes” (Recognition of Deferred Tax Assets for Unrealized Losses)

The amendment clarifies that unrealized losses related to debt instruments that are measured in the financial statements at fair value and for tax purposes at cost, can give rise to deductible temporary differences, whether the entity that holds the debt instrument expects to recover the carrying amount of the debt instrument by holding it to maturity or by selling it.

In addition, the amendment clarifies that:

- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences; and
- In circumstances in which tax laws restrict the utilization of tax losses in such a way that they may be deducted only against income of a specified type, one should assess whether a deferred tax asset can be recognized in combination with deferred taxes resulting from deductible temporary differences of the same type.

The amendment shall take effect regarding annual reporting periods beginning on January 1, 2017 or thereafter. Early adoption is permitted. Upon the first application of the amendment, it is allowed to recognize the change in opening equity of the earliest comparative period presented in opening retained earnings without the need to allocate the change between opening retained earnings and other components of equity, while providing disclosure for the application of this relief.

The Company estimates that the amendment to IAS 12 is not expected to have a material impact on the financial statements.

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

e. Amendment to IAS 7 concerning "Statement of Cash Flows" (Disclosure of Changes in Liabilities Arising from Financing Activities)

The amendment states that it is required to provide disclosure of information that enables the users of the financial statements to evaluate the changes in liabilities arising from financing activities, whether changes relating to cash flows or changes not relating to cash flows.

The amendment shall be applied by way of prospective application for annual reporting periods beginning on January 1, 2017 or thereafter. Early adoption is permitted. On the initial application of the amendment it is not required to present comparative information.

The Company estimates that the amendment to IAS 7 is not expected to have a material impact on the financial statements.

Note 4 – Significant events during the period of the report

a. Granting letters of indemnity to directors

On February 11, 2016, the General Meeting of the shareholders of the Company approved, after obtaining the approval of the Remuneration Committee and the Company's Board of Directors, the granting of letters of indemnity to Messrs. Lieberman in the Company's customary text and form for its officers.

b. Expiry of rights to shares

In continuation of the aforesaid in Note 20b4 to the financial statements as at December 31, 2015, on March 20, 2016, the final 135,000 out of the 335,000 rights to shares granted to Professor Bodo W. Lambertz (hereinafter: the "**consultant**") in the framework of a consulting and development agreement in which the Company engaged with the consultant on September 27, 2012, expired. The rights to the shares have expired due to failure to meet the milestones.

c. Taxes on income

In the beginning of January 2016, the Law for the Amendment of the Israeli Tax Ordinance was published, according to which the corporate income tax rate will be reduced to 25% (instead of 26.5%). The new corporate income tax rate will apply to income that was generated or accrued as of January 1, 2016. The amendment is not relevant to tax rates on income pursuant to the Law for the Encouragement of Capital Investments, 1959, (income from preferred\benefited\approved enterprise).

As a result of the aforesaid legislation a decrease has occurred in the deferred taxes of the Company as at March 31, 2016, on the sum of 183 thousand dollars, which was recorded against tax expenses for the period.

d. Signing the cancellation of a memorandum of understanding with Brandix Lanka Limited (hereinafter: "**Brandix**")

In continuation of the aforesaid in Note 20b3 to the annual financial statements as at December 31, 2015, on April 7, 2016, the Company and Brandix (a company incorporated in Sri Lanka which specializes in the development, production and distribution of apparel products to the best brands around the world) signed the cancellation of the memorandum of understanding that was signed on December 12, 2013.

<u>Note 4 – Significant events during the period of the report (cont.)</u>

e. <u>Abatement of a claim that was served by ILODEL Inc. against the Company and its subsidiary</u>

In continuation of the aforesaid in Note 20a2(a) to the annual financial statements as at December 31, 2015, on April 11, 2016, the claim which had been served on November 20, 2014, on the sum of 1,040 thousand dollars by ILODEL Inc. against the Company and its subsidiary Macro Clothing Ltd., to the Tel Aviv District Court for an alleged claim of breach of contractual agreement, was abated.

<u>Note 5 – Operating segments</u>

a. <u>General</u>

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 Company's CEO who is the Company's chief operating decision maker (CODM), for the purpose of making decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

Based on the criteria in IFRS 8 for determining reportable operating segments, and the available financial information which is reviewed by the Company's CEO, the Company has determined that it operates in two reportable operating segments:

(a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company's plants and through subcontractors and are sold to customers with leading brands.

(b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

Note 5 – Operating segments (cont.)

b. **Reporting in respect of operating segments**

	For the six month period ended June 30, 2016			For the six month period ended June 30, 2015		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	23,141	42,349	65,490	24,063	23,369	47,432
Direct profit (loss)	(2,482)	6,495	4,013	186	1,706	1,892
Indirect costs	(780)	(1,324)	(2,104)	(1,070)	(1,041)	(2,111)
Segment results	(3,262)	5,171	1,909	(884)	665	(219)
Financial expenses, net			(1,318)			(1,080)
Tax expenses			(500)			-
Net income (loss)			91			(1,299)

	For the three month period ended June 30, 2016			For the three month period ended June 30, 2015		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	11,429	27,454	38,883	10,061	12,702	22,763
Direct profit (loss)	(2,269)	5,537	3,268	(561)	1,144	583
Indirect costs	(309)	(743)	(1,052)	(459)	(587)	(1,046)
Segment results	(2,578)	4,794	2,216	(1,020)	557	(463)
Financial expenses, net			(624)			(574)
Tax expenses			(317)			-
Net income (loss)			1,275			(1,037)

Note 5 – Operating segments (cont.)

b. Reporting in respect of operating segments (cont.)

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

Note 6 – Financial instruments

a. Fair value

The carrying amounts in the financial statements of the cash, trade receivables, other receivables, bank credit and long-term loans, trade payables and other payables match or approximate their fair value.

b. Further to the aforesaid in Note 6 to the annual financial statements as at December 31, 2015 in regards with the Company's entering into factoring transactions, as at June 30, 2016, the Company carried out a discount of trade receivables' debts on the total sum US 2.5 million dollars (US 1.5 million dollars as at June 30, 2015). The balance of trade receivables is shown net of the aforementioned amounts.