

**TEFRON LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2020**

**TEFRON LTD.**

**Condensed Consolidated Financial Statements as at September 30, 2020**

**(Unaudited)**

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## **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 September 30, 2020, 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.

### **Scope of the Review**

We have performed our review in accordance with Review Standard (ISRE) 2410 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**  
**A Firm in the Deloitte Global Network**

**Date: November 23, 2020**

# **Tefron Ltd.**

## **Condensed Consolidated Balance Sheets**

	<u>As at September 30,</u>		<u>As at</u>
	<u>2020</u>	<u>2019</u>	<u>December 31,</u>
	<u>(Unaudited)</u>		<u>2019</u>
	<u>US dollars in thousands</u>		
<b><u>Current assets</u></b>			
Cash	4,221	5,306	3,854
Trade receivables, net	44,631	19,151	29,841
Other receivables	11,123	4,759	4,164
Inventory	19,845	34,564	29,968
	<u>79,820</u>	<u>63,780</u>	<u>67,827</u>
<b><u>Non-current assets</u></b>			
Property, plant and equipment, net	15,181	16,858	16,578
Goodwill and intangible assets, net	123	125	121
Software, net	2,117	2,057	2,033
Deferred taxes, net	2,545	2,890	2,754
	<u>19,966</u>	<u>21,930</u>	<u>21,486</u>
	<u>99,786</u>	<u>85,710</u>	<u>89,313</u>

The notes to the condensed consolidated financial statements are an integral part thereof

# Tefron Ltd.

## Condensed Consolidated Balance Sheets

	<u>As at September 30,</u>		<u>As at</u>
	<u>2020</u>	<u>2019</u>	<u>December 31,</u>
	<u>(Unaudited)</u>		<u>2019</u>
	<u>US dollars in thousands</u>		
<b><u>Current liabilities</u></b>			
Bank credit	28,004	25,638	22,122
A loan from the controlling shareholders	2,000	2,000	2,000
Trade payables	32,223	22,551	28,469
Other payables	4,822	3,513	4,008
	67,049	53,702	56,599
<b><u>Non-current liabilities</u></b>			
Loans from banks	5,028	6,272	6,509
Liabilities for bank options	28	89	28
Liabilities for benefits to employees, net	992	1,297	1,188
Long-term payables	1,417	1,588	2,068
	7,465	9,246	9,793
<b><u>Equity</u></b>			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,944	99,806	99,866
Reserve for remeasurement of defined benefit plan	(2,080)	(2,072)	(2,080)
Accumulated deficit	(98,804)	(101,275)	(101,278)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	(550)	(384)	(293)
Other capital reserves	553	478	497
<b>Total equity</b>	<b>25,272</b>	<b>22,762</b>	<b>22,921</b>
<b>Total liabilities and equity</b>	<b>99,786</b>	<b>85,710</b>	<b>89,313</b>

November 23, 2020

Date of approval of  
the financial statements

Arnon Tiberg  
Chairman of the Board

Ben Lieberman  
CEO

Gregory Davidson  
CFO

The notes to the condensed consolidated financial statements are an integral part thereof

# Tefron Ltd.

## Condensed Consolidated Statements of Income

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>For the year ended December 31,</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2019</u>
	<u>(Unaudited)</u>				
	US dollars in thousands				
	<u>(excluding data on income (loss) per share)</u>				
Sales	125,008	109,102	49,537	31,424	155,383
Cost of sales	<u>102,548</u>	<u>89,973</u>	<u>40,262</u>	<u>26,941</u>	<u>128,174</u>
Gross profit	22,460	19,129	9,275	4,483	27,209
Development expenses, net	1,647	2,486	594	823	3,290
Selling and marketing expenses	12,675	12,136	4,970	3,911	17,493
General and administrative expenses	3,367	2,421	1,618	698	3,408
Other expenses (income)	<u>(13)</u>	<u>1,629</u>	<u>-</u>	<u>219</u>	<u>1,854</u>
Operating profit (loss)	<u>4,784</u>	<u>457</u>	<u>2,093</u>	<u>(1,168)</u>	<u>1,164</u>
Financing income	380	182	118	-	436
Financing expenses	<u>(1,804)</u>	<u>(2,458)</u>	<u>(556)</u>	<u>(755)</u>	<u>(3,219)</u>
Financing expenses, net	<u>(1,424)</u>	<u>(2,276)</u>	<u>(438)</u>	<u>(755)</u>	<u>(2,783)</u>
Income (loss) before taxes on income	3,360	(1,819)	1,655	(1,923)	(1,619)
Tax income (expenses)	<u>(886)</u>	<u>112</u>	<u>(301)</u>	<u>155</u>	<u>(91)</u>
Net income (loss)	<u>2,474</u>	<u>(1,707)</u>	<u>1,354</u>	<u>(1,768)</u>	<u>(1,710)</u>
<u>Income (loss) per share attributable to the Company's shareholders (in dollars)</u>					
Basic and diluted income (loss) per share	<u>0.21</u>	<u>(0.14)</u>	<u>0.12</u>	<u>(0.15)</u>	<u>(0.14)</u>

The notes to the condensed consolidated financial statements are an integral part thereof

## Tefron Ltd.

### Condensed Consolidated Statements of Comprehensive Income

	<b>For the nine months ended September 30,</b>		<b>For the three months ended September 30,</b>		<b>For the year ended December 31,</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
	<b>(Unaudited)</b>				
	<b>US dollars in thousands</b>				
Net income (loss)	2,474	(1,707)	1,354	(1,768)	(1,710)
Other comprehensive income (loss) (after the effect of the tax):					
<u>Amounts that will not be reclassified subsequently to the statements of income:</u>					
Loss from remeasurement of defined benefit plans	-	-	-	-	(8)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(8)
<u>Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:</u>					
Unrealized gain on cash flows hedge transaction	5	-	-	-	-
Realized gain on cash flows hedge transaction	-	-	(36)	-	-
Unrealized loss due to interest rate swap transaction	(262)	(240)	-	(21)	(149)
Total items that shall be reclassified or are reclassified to the statements of income	(257)	(240)	(36)	(21)	(149)
Total other comprehensive loss	(257)	(240)	(36)	(21)	(157)
Total comprehensive income (loss)	2,217	(1,947)	1,318	(1,789)	(1,867)

**The notes to the condensed consolidated financial statements are an integral part thereof**

## Tefron Ltd.

### Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
<b>US dollars in thousands</b>								
<b><u>Balance as at January 1, 2020</u></b> <b><u>(Audited)</u></b>	33,617	99,866	(2,080)	(101,278)	(7,408)	(293)	497	22,921
Net income	-	-	-	2,474	-	-	-	2,474
Total other comprehensive loss	-	-	-	-	-	(257)	-	(257)
Share based payment to employees and consultants	-	78	-	-	-	-	-	78
A benefit from a controlling shareholder	-	-	-	-	-	-	56	56
<b><u>Balance as at September 30, 2020</u></b> <b><u>(Unaudited)</u></b>	<u>33,617</u>	<u>99,944</u>	<u>(2,080)</u>	<u>(98,804)</u>	<u>(7,408)</u>	<u>(550)</u>	<u>553</u>	<u>25,272</u>
<b>US dollars in thousands</b>								
	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
<b><u>Balance as at January 1, 2019</u></b> <b><u>(Audited)</u></b>	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533
Loss	-	-	-	(1,707)	-	-	-	(1,707)
Total other comprehensive loss	-	-	-	-	-	(240)	-	(240)
Share based payment to employees and consultants	-	120	-	-	-	-	-	120
A benefit from a controlling shareholder	-	-	-	-	-	-	56	56
<b><u>Balance as at September 30, 2019</u></b> <b><u>(Unaudited)</u></b>	<u>33,617</u>	<u>99,806</u>	<u>(2,072)</u>	<u>(101,275)</u>	<u>(7,408)</u>	<u>(384)</u>	<u>478</u>	<u>22,762</u>

The notes to the condensed consolidated financial statements are an integral part thereof



## Tefron Ltd.

### Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share Capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury Shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
Unaudited								
US dollars in thousands								
<b><u>Balance as at July 1, 2020</u></b>	33,617	99,921	(2,080)	(100,158)	(7,408)	(514)	534	23,912
Net income	-	-	-	1,354	-	-	-	1,354
Total other comprehensive loss	-	-	-	-	-	(36)	-	(36)
Share based payment to employees and consultants	-	23	-	-	-	-	-	23
A benefit from a controlling shareholder	-	-	-	-	-	-	19	19
<b><u>Balance as at September 30, 2020</u></b>	<u>33,617</u>	<u>99,944</u>	<u>(2,080)</u>	<u>(98,804)</u>	<u>(7,408)</u>	<u>(550)</u>	<u>553</u>	<u>25,272</u>

The notes to the condensed consolidated financial statements are an integral part thereof

## Tefron Ltd.

### Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Addition al paid- in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transacti- -ons	Other capital reserves	Total equity
Unaudited								
US dollars in thousands								
<b><u>Balance as at July 1, 2019</u></b>	33,617	99,746	(2,072)	(99,507)	(7,408)	(363)	460	24,473
Loss	-	-	-	(1,768)	-	-	-	(1,768)
Total other comprehensive loss	-	-	-	-	-	(21)	-	(21)
Share based payment to employees and consultants	-	60	-	-	-	-	-	60
A benefit from a controlling shareholder	-	-	-	-	-	-	18	18
<b><u>Balance as at September 30, 2019</u></b>	<u>33,617</u>	<u>99,806</u>	<u>(2,072)</u>	<u>(101,275)</u>	<u>(7,408)</u>	<u>(384)</u>	<u>478</u>	<u>22,762</u>

	Share capital	Addition al paid- in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transacti- -ons	Other capital reserves	Total equity
Audited								
US dollars in thousands								
<b><u>Balance as at January 1, 2019</u></b>	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533
Loss	-	-	-	(1,710)	-	-	-	(1,710)
Total other comprehensive loss	-	-	(8)	-	-	(149)	-	(157)
Share based payment to employees and consultants	-	180	-	-	-	-	-	180
A benefit from controlling shareholders	-	-	-	-	-	-	75	75
<b><u>Balance as at December 31, 2019</u></b>	<u>33,617</u>	<u>99,866</u>	<u>(2,080)</u>	<u>(101,278)</u>	<u>(7,408)</u>	<u>(293)</u>	<u>497</u>	<u>22,921</u>

The notes to the condensed consolidated financial statements are an integral part thereof

# Tefron Ltd.

## Condensed Consolidated Statements of Cash Flows

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>For the year ended December 31</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2019</u>
	<u>(Unaudited)</u>				
<u>US dollars in thousands</u>					
<b><u>Cash flows from operating activities</u></b>					
Net income (loss)	2,474	(1,707)	1,354	(1,768)	(1,710)
Adjustments required to present cash flows from operating activities:					
<b>Adjustments to the statement of income items:</b>					
Depreciation and amortization of fixed assets and intangible assets	3,483	4,422	1,302	1,480	6,001
Capital gain on sale of fixed assets	(13)	-	-	-	(24)
Cost of share-based payment	78	120	23	60	180
A benefit from a controlling shareholder	56	56	19	18	75
Loss from impairment of slow inventory	490	323	248	81	472
	<u>4,094</u>	<u>4,921</u>	<u>1,592</u>	<u>1,639</u>	<u>6,704</u>
Change in deferred taxes, net	209	-	-	-	136
Change in liabilities for benefits to employees, net	(196)	1	(26)	50	(116)
Change in fair value liabilities for bank options	-	52	-	(32)	(9)
Taxes on income	80	(91)	222	(153)	(89)
Financing expenses, net	1,105	1,993	333	567	2,459
	<u>1,198</u>	<u>1,955</u>	<u>529</u>	<u>432</u>	<u>2,381</u>
<b>Changes in assets and liabilities items:</b>					
Decrease (increase) in trade receivables	(14,790)	1,764	(10,247)	6,897	(8,926)
Increase in other receivables	(6,954)	(932)	(752)	(560)	(337)
Decrease (increase) in inventory	9,633	(5,402)	600	(2,204)	(955)
Increase (decrease) in trade payables	3,681	118	2,393	(1,290)	6,163
Increase in other payables	598	89	314	166	563
	<u>(7,832)</u>	<u>(4,363)</u>	<u>(7,692)</u>	<u>3,009</u>	<u>(3,492)</u>
<b><u>Cash paid and received during the period for:</u></b>					
Interest paid	(1,041)	(1,933)	(314)	(544)	(2,356)
Taxes paid	(233)	(64)	(222)	(2)	(66)
Taxes received	153	155	-	155	155
	<u>(1,121)</u>	<u>(1,842)</u>	<u>(536)</u>	<u>(391)</u>	<u>(2,267)</u>
Net cash provided from (used for) operating activities	<u>(1,187)</u>	<u>(1,036)</u>	<u>(4,753)</u>	<u>2,921</u>	<u>1,616</u>

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

## Tefron Ltd.

### Condensed Consolidated Statements of Cash Flows

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>For the year ended December 31</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2019</u>
	<b>(Unaudited)</b>				
	<b>US dollars in thousands</b>				
<b><u>Cash flows from investing activities</u></b>					
Purchase of fixed assets	(1,898)	(798)	(1,039)	(157)	(1,367)
Purchase of software	(421)	(697)	(157)	(280)	(745)
Proceeds from sale of fixed assets	17	-	-	-	31
Net cash used for investing activities	<u>(2,302)</u>	<u>(1,495)</u>	<u>(1,196)</u>	<u>(437)</u>	<u>(2,081)</u>
<b><u>Cash flows from financing activities</u></b>					
Short-term bank credit, net	4,401	7,723	3,418	(2,467)	4,444
Repayment of long-term loans	-	(1,428)	-	-	(1,428)
Repayment of long-term credit for fixed assets	(75)	-	-	-	-
Repayment of lease liability	(470)	(334)	(151)	(113)	(573)
Net cash provided from (used for) financing activities	<u>3,856</u>	<u>5,961</u>	<u>3,267</u>	<u>(2,580)</u>	<u>2,443</u>
<b><u>Increase (decrease) in cash</u></b>	367	3,430	(2,682)	(96)	1,978
Balance of cash at beginning of period	<u>3,854</u>	<u>1,876</u>	<u>6,903</u>	<u>5,402</u>	<u>1,876</u>
<b><u>Balance of cash at end of period</u></b>	<u>4,221</u>	<u>5,306</u>	<u>4,221</u>	<u>5,306</u>	<u>3,854</u>

	<u>For the nine-month period ended September 30,</u>		<u>For the three-month period ended September 30,</u>		<u>For the year ended December 31</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2019</u>
	<b>(Unaudited)</b>				
	<b>US dollars in thousands</b>				
<b><u>Appendix a – Significant non-cash transactions</u></b>					
Purchase of fixed assets on credit	<u>-</u>	<u>915</u>	<u>-</u>	<u>-</u>	<u>676</u>

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

# **Tefron Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **Note 1 - General**

- a. These financial statements were prepared in a condensed format, as at September 30, 2020 and for the periods of nine months and three months then ended (hereinafter – “consolidated financial statements”). These statements should be read together with Tefron Ltd.'s (hereinafter- “the Company”) annual financial statements as at December 31, 2019 and for the year then ended, and the notes accompanying them (hereinafter – the “annual consolidated financial statements”).
- b. The Company did not include separate financial information in the 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. **The Coronavirus**

In continuation to the aforesaid in Note 1c to the annual financial statements as at December 31, 2019, regarding the impact of the Coronavirus pandemic on the Company, the Company estimates that its sales volumes this year will enable to reach the targets of the original work plan prior to the pandemic, with some changes in the sales volumes in the various segments in which the Company operates.

In addition, the Company also took streamlining measures and reached agreements with the financing bank to defer current and accelerated repayment of the long-term loan principal, reliefs in the financial covenants that allow to increase the credit days provided to the customers as well as obtaining an additional line of credit (as described in Note 5 as follows).

Nevertheless, considering the fact that as at the date of this report, Israel, as many other countries around the world are in the midst of the so-called "second wave" of the pandemic and the uncertainty regarding the future development of the pandemic as well as the uncertainty as to when this crisis shall be resolved, it is not possible to assess the future effects of the crisis on the above assessments of the Company.

### **Note 2 – Significant accounting principles**

#### **a. Basis for the preparation of the financial statements**

The 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.

During the preparation of these interim financial statements, the Group implemented accounting policies, presentation rules and calculation methods identical to those applied in its financial statements as at December 31, 2019, and for the year then ended.

#### **b. Taxes on income in interim financial reports**

The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes.

# **Tefron Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **Note 2 – Significant accounting principles (Cont.)**

#### **b. Taxes on income in interim financial reports (Cont.)**

Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year are deducted.

### **Note 3 – Amendments to standards which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods**

#### **Amendment IAS 1 "Presentation of Financial Statements" (concerning the classification of liabilities as current or non-current)**

The amendment clarifies the existing requirements for classifying liabilities as current or non-current in the balance sheets statements as follows:

- Clarification has been added to paragraphs 69 and 73 of the Standard which emphasizes that in order for a liability to be classified as non-current, the right to defer the settlement should exist at the end of the reporting period.
- The word "unconditional" was removed from paragraph 69 of the amendment and a new paragraph was added clarifying that if the right to defer the settlement is contingent on financial covenants, the right exists if the entity meets the criteria set at the end of the reporting period, even if the examination of whether the covenants are met, is done by the lender at a later date.
- It has been clarified that the classification of the liability as non-current will be examined with reference to the right the entity has and not according to its expectation whether this right will be exercised.
- A definition has been added to the term "disposal". According to the definition, "for the purpose of classifying a liability as current or non-current, disposal refers to a transfer to a counterparty that results in the extinguishment of the liability". Transfer can be cash, goods and services or equity instruments of the entity itself. In this context, it has been clarified that if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 "Financial Instruments: Presentation", the aforementioned terms would not affect the classification of the liability as current or non-current.

The amendment will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022. Early application is possible.

### **Note 4 – Critical accounting considerations and key sources for uncertainty estimates**

#### **a. General:**

During the implementation of the Group's accounting policies, as described in Note 2 above and Note 2 to the financial report as at December 31, 2019, the Company's management is required, in some cases, to exercise comprehensive accounting discretion

# **Tefron Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **Note 4 – Critical accounting considerations and key sources for uncertainty estimates (Cont.)**

#### **a. General: (Cont.)**

concerning the accounting estimates and assumptions regarding the carrying amounts of assets and liabilities that are not necessarily available from other sources. The related estimates and assumptions are based on past experience as well as on other relevant factors. It should be noted that actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly by the management. Revisions to the accounting estimates are recognized only at the period of time in which a change in the estimate was carried out, provided that the change has an impact only on that period of time or alternatively, are recognized at the aforementioned period of time and in future periods of time, provided that the change has an impact on both the current period and future periods.

In light of the outbreak of the Coronavirus pandemic in Israel, the Company's management examined whether it is necessary to update relevant estimates that may be affected by the outbreak of the virus.

#### **b. Key factors for uncertainty estimates:**

##### **(1) Depreciation of a cash-generating unit**

In continuation of the aforesaid in Note 8c to the annual financial statements, due to the spread of the Coronavirus and its impact on the global economy and the Company (as described in Note 1c above), as at March 31, 2020, the Company through its external appraiser reviewed the underlying assumptions and estimates at the base of the most recent appraisal for the machinery and equipment. It has been found that there is a need to reduce the value of use that was determined during the last appraisal by 10%. However, this aforementioned value is higher by 50% from its carrying amount and therefore, it has been determined that no impairment is required. As at September 30, 2020, no evidence was found that the aforesaid realization value should be changed

##### **(2) Taxes on income**

The Company relies on the management's estimates concerning future earnings forecasts in calculating deferred tax balances for utilizing carryforward losses for income tax purposes and accordingly it presents the tax asset.

##### **(3) Provision for doubtful debts**

In continuation to the aforesaid in Note 2e to the annual financial statements, in light of the spread of the Coronavirus, the Company's management has assessed the debts of customers affected by the spread of the virus, and concluded that the Company is not materially exposed to customers affected by the Coronavirus and therefore the effect on the provision for doubtful debts is immaterial.

## **Tefron Ltd.**

### **Notes to the Condensed Consolidated Financial Statements**

#### **Note 5 – Significant events during the period of the report and thereafter**

- A. On June 23, 2020, an addendum to the financing agreement with the Company's financing bank (HSBC) was signed, the principals thereof are as follows:
- (1) Deferring the current long-term loan principal payments which was provided by the bank HSBC Israel that was scheduled to be paid in 2020, in one year, in such a manner that it would be evenly divided among the following five annual current repayments. Additionally, the accelerated repayment of the loan, which was due in 2020, was also canceled
  - (2) Amending the commitment to comply with the financial covenant of the debt to EBITDA ratio that according to the financing agreement was 3.50 times to a ratio of no more than 4.75 times for the quarters ending on June 30 and September 30, 2020.
  - (3) Amending the commitment to comply with the financial covenant of the debt service cover ratio which was 1.25 times to not less than 1.00 times for the quarters ending on June 30 and September 30, 2020.

As at September 30, 2020, the Company met all of the financial covenants under the original agreement, as detailed above, as follows:

Debt service cover ratio of at least 1.25 times, was 4.72.

Debt to EBITDA ratio of no more than 3.50 times was 2.26.

Additionally, the bank provided an additional line of credit to the Company's Canadian subsidiary, Tefron Canada Inc., according to the Canadian Government's Special Assistance Program due to the Coronavirus pandemic, in the amount of up to CA 5 million dollars (equivalent to US \$ 3,700,000) (hereinafter: "the additional credit line"). The purpose of the additional credit line is to help finance the borrower's business operations as detailed in the additional credit line's documents. This credit line will be set with a guarantee of 80% of the amount provided by the EDC (Export Development Canada), which assists on behalf of the Canadian Government, in financing Canadian companies' export activities. The terms of the additional credit line, are as follows:

- (1) The additional credit line can be utilized once or several times, provided that the first utilization thereof will be made within 60 days of its issuance.
- (2) The repayment thereof can be made at any time however, once an amount has been repaid it will not be set out as credit again.
- (3) The additional credit line will be provided for a period of 12 months and it can be extended at the sole discretion of the bank in 4 additional periods of 12 months each. Nevertheless, the bank may demand immediate repayment of the credit line at its discretion.
- (4) As part of the request for an additional credit line, the Company agreed that as long as the additional credit line is not repaid in full, annual investments will not be made without the approval of the bank, subject to the fact the Group will be able to carry out annual investments for the purpose of maintaining its existing assets, insofar as these investments are included in the budget plan submitted by the Company to the



# **Tefron Ltd.**

## **Notes to the Condensed Consolidated Financial Statements**

### **Note 5 – Significant events during the period of the report and thereafter (Cont.)**

bank, from time to time, in accordance with the terms of the financing agreement and the amendment thereto.

- B. On August 19, 2020, an extraordinary general meeting was held during which it was decided to approve the new remuneration policy for the Company's officers. In addition, during the aforesaid meeting the renewal of the of the management agreement with the Company's CEO was approved.

### **Note 6 – Operating segments**

#### **a. General**

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.

## Tefron Ltd.

### Notes to the Condensed Consolidated Financial Statements

#### Note 6 – Operating segments (Cont.)

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

	For the nine-month period ended September 30, 2020			For the nine-month period ended September 30, 2019		
	Brands	Retail	Total	Brands	Retail	Total
(Unaudited)						
US dollars in thousands						
Total segment revenues	36,872	88,136	125,008	38,574	70,528	109,102
Direct profit (loss)	(104)	8,399	8,295	(3,998)	7,081	3,083
Indirect costs	(1,595)	(1,916)	(3,511)	(927)	(1,699)	(2,626)
Segment results	(1,699)	6,483	4,784	(4,925)	5,382	457
Financing expenses, net			(1,424)			(2,276)
Tax income (expenses)			(886)			112
Net income (loss)			2,474			(1,707)

	For the three-month period ended September 30, 2020			For the three-month period ended September 30, 2019		
	Brands	Retail	Total	Brands	Retail	Total
(Unaudited)						
US dollars in thousands						
Total segment revenues	12,374	37,163	49,537	10,282	21,142	31,424
Direct profit (loss)	(373)	4,084	3,711	(2,022)	1,592	(430)
Indirect costs	(997)	(621)	(1,618)	(241)	(497)	(738)
Segment results	(1,370)	3,463	2,093	(2,263)	1,095	(1,168)
Financing expenses, net			(438)			(755)
Tax income (expenses)			(301)			155
Net income (loss)			1,354			(1,768)

## **Tefron Ltd.**

### **Notes to the Condensed Consolidated Financial Statements**

#### **Note 6 – Operating segments (Cont.)**

##### **b. Reporting in respect of operating segments (Cont.)**

	<b>For the year ended December 31, 2019</b>		
	<b>Brands</b>	<b>Retail</b>	<b>Total</b>
	<b>US dollars in thousands</b>		
Total segment revenues	<u>58,595</u>	<u>96,788</u>	<u>155,383</u>
Direct profit (loss)	(3,471)	8,309	4,838
Indirect costs	(1,385)	(2,289)	(3,674)
Segment results	<u>(4,856)</u>	<u>6,020</u>	<u>1,164</u>
Financing expenses, net			<u>(2,783)</u>
Tax expenses			<u>(91)</u>
Loss			<u>(1,710)</u>

#### **Note 7 – Financial instruments**

##### **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.