

**TEFRON LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF MARCH 31, 2023**

**(UNAUDITED)**

**TEFRON LTD.**

**Condensed Consolidated Financial Statements**  
**as of March 31, 2023**

**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 of March 31, 2023, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period, in accordance with International Accounting Standard IAS 34 - "Financial Reporting for Interim Periods" and are also responsible for the preparation of financial information for this interim period 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 this interim period 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 that 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: May 24, 2023**

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# Tefron Ltd.

## Condensed Consolidated Balance Sheets

	<u>As of</u>		<u>As of</u>
	<u>2023</u>	<u>2022</u>	<u>December</u>
	<u>Unaudited</u>		<u>31,</u>
	<u>2022</u>		
	<u>Audited</u>		
	<u>US dollars in thousands</u>		
<b><u>Current assets</u></b>			
Cash	9,776	7,431	3,690
Trade receivables, net	33,108	32,455	44,632
Other receivables	5,970	7,124	4,917
Inventory	63,152	93,841	71,117
<b>Total current assets</b>	<b>112,006</b>	<b>140,851</b>	<b>124,356</b>
<b><u>Non-current assets</u></b>			
Property, plant and equipment, net	17,117	14,585	17,058
Right-of-use asset	3,947	5,805	4,360
Goodwill and intangible assets, net	2,639	4,065	2,999
Software, net	2,397	2,538	2,484
Long-term receivables	470	-	-
Deferred taxes, net	3,674	5,648	3,981
<b>Total non-current assets</b>	<b>30,244</b>	<b>32,641</b>	<b>30,882</b>
<b>Total assets</b>	<b>142,250</b>	<b>173,492</b>	<b>155,238</b>

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

# Tefron Ltd.

## Condensed Consolidated Balance Sheets

	<b>As of March 31,</b>		<b>As of December 31,</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>US dollars in thousands</b>		
<b><u>Current Liabilities</u></b>			
Credit from banking corporations	30,500	40,289	46,710
Trade payables	34,312	61,158	37,442
Other payables	8,541	10,855	8,666
<b>Total current liabilities</b>	<b>73,353</b>	<b>112,302</b>	<b>92,818</b>
<b><u>Non-current liabilities</u></b>			
Loans from banking corporations	8,743	5,143	3,429
Liabilities for benefits to employees, net	1,243	1,270	1,311
Long-term payables	4,861	7,333	5,530
<b>Total non-current liabilities</b>	<b>14,847</b>	<b>13,746</b>	<b>10,270</b>
<b><u>Equity</u></b>			
Share capital	34,995	34,995	34,995
Additional paid-in capital	101,086	101,865	101,035
Capital reserve for remeasurement of defined benefit plan	(2,257)	(2,340)	(2,257)
Accumulated deficit	(73,056)	(79,206)	(74,919)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	81	(71)	95
Other capital reserves	609	609	609
<b>Total equity</b>	<b>54,050</b>	<b>47,444</b>	<b>52,150</b>
<b>Total liabilities and equity</b>	<b>142,250</b>	<b>173,492</b>	<b>155,238</b>

May 24, 2023

Date of approval of  
the financial statements

Yossi Shachak  
Chairman of the Board

Ben Lieberman  
CEO

Gregory Davidson  
CFO

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

# **Tefron Ltd.**

## **Condensed Consolidated Statements of Income**

	<b>For the three months ended March 31,</b>		<b>For the year ended December 31</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>US dollars in thousands (excluding data on earnings per share)</b>		
Sales	54,961	53,021	222,310
Cost of sales	41,950	40,783	173,195
Gross profit	13,011	12,238	49,115
Development expenses	1,414	1,542	5,621
Selling and marketing expenses	6,300	5,750	25,245
General and administrative expenses	1,124	1,062	4,305
Operating profit	4,173	3,884	13,944
Financing income	82	102	295
Financing expenses	(1,492)	(637)	(4,434)
Financing expenses, net	(1,410)	(535)	(4,139)
Income before taxes on income	2,763	3,349	9,805
Taxes on income	(900)	(189)	(2,358)
Net income	1,863	3,160	7,447
 <u>Income per share (in dollars)</u>			
Basic earnings per share	0.15	0.26	0.60
Diluted earnings per share	0.15	0.24	0.57

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

## Tefron Ltd.

### Condensed Consolidated Statements of Comprehensive Income

	<b>For the three months ended March 31</b>		<b>For the year ended December 31</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>US dollars in thousands</b>		
Net income	1,863	3,160	7,447
Other comprehensive income (loss) (after the effect of the tax):			
<u>Amounts that will not be reclassified thereafter to the statements of income:</u>			
Loss from remeasurement of a defined benefit plan	-	-	83
Subtotal of items that will not be reclassified thereafter to the statements of income	-	-	83
<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 flow hedges	-	19	-
Unrealized gain (loss) due to interest rate swap transaction	(14)	156	341
Total items that shall be reclassified or are reclassified to the statements of income	(14)	175	341
Total other comprehensive income (loss)	(14)	175	424
Total comprehensive income attributable to the Company's shareholders	1,849	3,335	7,871

**The notes to the 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	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
<u>Unaudited</u>								
<u>US dollars in thousands</u>								
<b><u>Balance as of January 1, 2023 (audited)</u></b>	34,995	101,035	(2,257)	(74,919)	(7,408)	95	609	52,150
Net income	-	-	-	1,863	-	-	-	1,863
Total other comprehensive loss	-	-	-	-	-	(14)	-	(14)
Share based payment to employees and consultants	-	51	-	-	-	-	-	51
<b><u>Balance as of March 31, 2023</u></b>	<u>34,995</u>	<u>101,086</u>	<u>(2,257)</u>	<u>(73,056)</u>	<u>(7,408)</u>	<u>81</u>	<u>609</u>	<u>54,050</u>

	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
<u>Unaudited</u>								
<u>US dollars in thousands</u>								
<b><u>Balance as of January 1, 2022 (audited)</u></b>	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003
Net income	-	-	-	3,160	-	-	-	3,160
Total other comprehensive income	-	-	-	-	-	175	-	175
Issue of shares	593	(593)	-	-	-	-	-	-
Share based payment to employees and consultants	-	106	-	-	-	-	-	106
<b><u>Balance as of March 31, 2022</u></b>	<u>34,995</u>	<u>100,865</u>	<u>(2,340)</u>	<u>(79,206)</u>	<u>(7,408)</u>	<u>(71)</u>	<u>609</u>	<u>47,444</u>

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



## Tefron Ltd.

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

	Attributable to the Company's shareholders							
	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	US dollars in thousands							
<b><u>Balance as of January 1, 2022</u></b>	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003
Net income	-	-	-	7,447	-	-	-	7,447
Total other comprehensive income	-	-	83	-	-	341	-	424
Issue of shares	593	(593)	-	-	-	-	-	-
Share based payment to employees and consultants	-	276	-	-	-	-	-	276
<b><u>Balance as of December 31, 2022</u></b>	<b>34,995</b>	<b>101,035</b>	<b>(2,257)</b>	<b>(74,919)</b>	<b>(7,408)</b>	<b>95</b>	<b>609</b>	<b>52,150</b>

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

## Tefron Ltd.

### Condensed Consolidated Statements of Cash Flows

	<b>For the three months ended March 31,</b>		<b>For the year ended December 31</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>US dollars in thousands</b>		
<b><u>Cash flows from operating activities:</u></b>			
Net income	1,863	3,160	7,447
<b>Adjustments required to present cash flows from operating activities:</b>			
<b>Adjustments to statement of income items:</b>			
Depreciation and amortization of fixed assets and intangible assets	1,558	1,473	6,070
Cost of share-based payment	51	65	189
Loss due to impairment of slow inventory	306	264	1,227
	1,915	1,802	7,486
Change in deferred taxes, net	307	-	1,667
Change in liabilities for benefits to employees, net	(68)	(31)	93
Interest on lease liability	96	129	484
Taxes on income paid in cash	478	250	2,532
Interest expenses paid in cash	1,413	454	3,012
	2,226	802	7,788
<b>Changes in assets and liabilities items:</b>			
Decrease (increase) in trade receivables	11,524	10,567	(1,610)
Decrease (increase) in other receivables	(1,067)	(2,260)	22
Decrease (increase) in inventory	7,659	(23,142)	(1,381)
Increase (decrease) in trade payables	(3,103)	9,100	(15,384)
Decrease in other payables	(2)	(354)	(2,819)
	15,011	(6,089)	(21,172)
<b>Cash paid and received during the period for:</b>			
Interest paid	(1,413)	(454)	(3,012)
Taxes paid	(478)	(250)	(2,532)
	(1,891)	(704)	(5,544)
Net cash provided from (used for) operating activities	19,124	(1,029)	(3,995)

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

## Tefron Ltd.

### Condensed Consolidated Statements of Cash Flows

	<b>For the three months ended March 31,</b>		<b>For the year ended December 31</b>
	<b>2023</b>	<b>2022</b>	<b>2022</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>US dollars in thousands</b>		
<b><u>Cash flows from investing activities</u></b>			
Purchase of property, plant and equipment and intangible assets	(603)	(378)	(2,345)
Purchase of software	(71)	(69)	(474)
Advance payment for acquisition of operations	(109)	-	-
Long-term deposits	(361)	-	-
Net cash used for investing activities	(1,144)	(447)	(2,819)
<b><u>Cash flows from financing activities:</u></b>			
Short-term bank credit, net	(15,952)	6,105	12,525
Receipt of a long-term loan	10,200	-	-
Repayment of long-term loans	(5,143)	-	(1,714)
Repayment of long-term credit for fixed assets	(236)	(148)	(960)
Repayment of a lease liability	(763)	(551)	(2,848)
Net cash provided from (used for) financing activities	(11,894)	5,406	7,003
<b>Increase in cash and cash equivalents</b>	6,086	3,930	189
<b>Cash and cash equivalents at beginning of period</b>	3,690	3,501	3,501
<b>Cash and cash equivalents at end of period</b>	9,776	7,431	3,690
<b><u>Appendix a – Significant non-cash transactions</u></b>			
Purchase of fixed assets on credit	-	400	2,132

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

**Tefron Ltd.**

**Notes to the Condensed Consolidated Financial Statements**

**Note 1 - General**

- a. These financial statements were prepared in a condensed form as of March 31, 2023, and for the three months period then ended (hereinafter - "interim consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter: "the Company") annual financial statements as of December 31, 2022, and for the year then ended, and the notes accompanying them (hereinafter: "annual financial statements").
- b. The Company did not include separate financial information in the financial statements in accordance with the provisions of Regulation 5D(6) and Regulation 9C(c) of the Securities Regulations ("Periodic and Immediate Reports"), 1970, since it is a "small corporation", as well as due to the fact the Company believes that the inclusion of such information shall not constitute as additional material information to the investor.

**Note 2 - Significant accounting principles**

**a. Basis for the preparation of the 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.

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 of December 31, 2022, 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.

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 financial reporting standards**

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

In 2020 an amendment to IAS1 was published concerning the classification of liabilities as current or non-current (hereinafter: Amendment 2020). The amendment clarified that the classification of liabilities as current or non-current is based on the existing rights at the end of the reporting period and is not affected by the entity's estimation concerning the exercise of this right.

The amendment removed the reference to the existence of an unconditional right and clarified 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 .

In addition, as part of the amendment, a definition has been added to the term "disposal" in order to clarify that disposal can be a transfer of cash, goods and services, or equity instruments of the entity

**Tefron Ltd.**

**Notes to the Condensed Consolidated Financial Statements**

**Note 3 – Amendments to financial reporting standards (Cont.)**

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

itself to the opposite party. 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 entity'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 only affects the classification of liabilities as current or non-current in the balance sheet and not on the amount or timing of the recognition of those liabilities or the income and expenses related thereto.

An additional amendment regarding the classification of obligations with financial covenants was published in October 2022 (hereafter: Amendment 2022), which clarified that only financial covenants which the entity is required to meet before or at the end of the reporting period, affect the entity's right to defer the settlement of an obligation for at least 12 months after the reporting period, even if the examination of whether the covenants are met, is done after the reporting period. Amendment 2022 states that if the entity's right to defer the settlement of the obligation is subject to the entity meeting financial covenants within 12 months after the reporting period, the entity is required to provide a disclosure that will allow the readers of the financial statements to understand the risk inherent in this.

The other amendments that were published as part of the 2020 Amendment have not changed. The effective date of the 2020 Amendment and the 2022 Amendment is set for annual reporting periods beginning on or after January 1, 2024. Early application is possible, provided that it is carried out at the same time for both amendments.

**Amendment IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (Concerning Definition of Accounting Estimates)**

The definition of "change in an accounting estimate" has been replaced by the definition of "accounting estimates". Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendment clarifies that a change in an accounting estimate resulting from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or measurement technique used to develop an accounting estimate constitute a change in accounting estimates if those changes do not result from the correction of errors in a prior period.

The amendment will be applied by way of prospective application for annual reporting periods beginning on or after January 1, 2023. Early application is possible.

**Tefron Ltd.**

**Notes to the Condensed Consolidated Financial Statements**

**Note 3 – Amendments to financial reporting standards (Cont.)**

**Amendment IAS 1 "Presentation of Financial Statements" (concerning disclosures of accounting policies)**

The amendment replaces the term "significant accounting policy" with "material information concerning accounting policy". Information concerning accounting policies is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

In addition, the amendment clarifies that information regarding accounting policy that refers to transactions, events, or other conditions that are not material, is not material and does not need to be disclosed. Information concerning an accounting policy may be material because of the nature of the transactions, events, or other conditions related to it, even if the amounts are immaterial. However, not all information regarding the accounting policies relating to material transactions, events, or other conditions is in itself material.

The amendment will be applied retrospectively for annual reporting periods beginning on or after January 1, 2023. Early application is possible.

**Tefron Ltd.**

**Notes to the Condensed Consolidated Financial Statements**

**Note 4 – Meeting the financial covenants**

As of March 31, 2023, the Company met the financial covenants set forth in the financing agreement with the Company's financing bank, HSBC Canada (hereinafter: ("**the financing agreement**" and "**the bank**"), respectively), as detailed as follows:

Debt service cover ratio of at least 1.20 times, was 1.80.

Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 1.55.

In continuation to the amendment of the financing agreement, as of July 6, 2022, in the framework of which the parties agreed on the possibility of receiving an additional long-term loan in the principal amount of US 5 million dollars (hereinafter: "the additional loan"), on March 15, 2023, an additional loan agreement with the bank was signed, and the principal balance of the long-term loan in the amount of US 5.2 million dollars was added to it, while the balance of the entire principal of the new loan (consisting of the balance of the long-term loan and the principal of the additional loan) in the sum of US 10.2 million dollars will be repaid according to one clearing schedule in 5 years, and in quarterly payments in the sum of US 364 thousand dollars each when the last quarterly payment shall be in the sum of US 3,279 thousand dollars. For each such payment, a quarterly interest payment will be added at the rate of SOFR + 2.35% in respect of the outstanding balance of the loan.

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

**a. Appointing a new chairman of the Board of Directors for the Company and approving the management agreement with him**

On January 17, 2023 the director, Mr. Yossi Shachak was appointed to serve as chairman of the Company's Board of Directors (hereinafter: "Mr. Shachak").

Subsequent to the date of the report, on April 23, 2023, the terms of the management agreement between the Company and Mr. Shachak were approved at an extraordinary general meeting of the shareholders.

**b. Acquisition of operations in Romania**

On March 21, 2023, a wholly owned and wholly controlled subsidiary of the Company, TEFRON EUROPE S.R.L. ("**the purchaser**"), which was established in Romania for the purposes of the transaction described as follows, engaged with ADESGO S.A. (hereinafter: "**Adesgo**"), a subsidiary controlled by Rotex (1980) Ltd. (hereinafter: "**Rotex**". **Adesgo** and **Rotex**, hereinafter referred to jointly as: "**the sellers**"), a public company whose shares are listed on the Tel Aviv Stock Exchange Ltd., in an agreement for the acquisition of the operations of Adesgo which is located in Romania by the purchaser in the field of manufacturing, marketing, and sale of seamless clothing products ("**the acquired operations**" and "**the agreement**", respectively), the main points of which will be detailed below:

1. In the framework of transferring the acquired operations, Adesgo will sell and assign to the purchaser, among other things: (a) equipment which is used in the operations, including 125 used Santoni knitting machines ("**the equipment**"); (b) the entire orders for the purchase of

**Tefron Ltd.**

**Notes to the Condensed Consolidated Financial Statements**

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

**b. Acquisition of operations in Romania (Cont.)**

goods<sup>1</sup> that Adesgo will receive on the completion date; (c) inventory<sup>2</sup>; (d) list of customers and suppliers; (e) intellectual property related to the acquired operations; and (f) employees related to the acquired operations ("**the transferred employees**"), all in accordance with and subject to the provisions of the agreement. In addition, the purchaser undertook to return to Adesgo the amounts realized (if realized) from documentary letters of credit given by the sellers and relating to orders from suppliers that will be transferred to the purchaser as part of the acquired operations.

2. In exchange for the acquired operations, except in relation to the purchase of the inventory, which will be detailed in section 3 as follows, the purchaser will pay Adesgo a total amount of € 2,000,000, as follows: (a) € 100,000 were paid at the time of signing the agreement; (b) € 700,000 will be paid on the completion date; (c) the remaining balance of the consideration will be paid in eight equal quarterly payments starting on September 30, 2023 and ending on June 30, 2025.
3. On the completion date, the purchaser will purchase from Adesgo the inventory it requires in accordance with her sole discretion, under the following conditions: (a) half of the standard cost of the inventory, as it is presented in Adesgo's books, will be paid on the completion date; (b) the balance of the payment for the inventory will be paid at the end of three months as of the completion date, according to the actual cost of the inventory as calculated subsequent to the completion date.
4. In addition, the agreement includes guarantees given by Rotex and the Company, as applicable, for the parties' compliance with their obligations for payments stipulated in the agreement, as well as other provisions customary in such agreements, such as indemnification mechanisms as a result of a breach of representations and obligations, additional interest for late payment and an obligation to maintain confidentiality and non-competition.
5. Completion of the transaction, the subject of the agreement, was conditional upon the existence of conditions precedent, including the accuracy of the parties' representations for the completion date; the approvals of the authorized bodies of the parties (as of the date of signing the financial statements, this condition has been fulfilled); obtaining the approval of the Romanian Foreign Investment Promotion Agency as well as the required authorizations in accordance with the immigration laws in Romania in relation to some of the transferred employees; obtaining the consent of three key employees employed by Rotex to the aforementioned transition and the terms of their employment with the purchaser; the purchaser's entering into a lease agreement with respect to its new plant in Romania (as of the date of signing the financial statements, this condition has been fulfilled) and receiving all the necessary permits for the purpose of carrying out the acquired operations therein (hereafter jointly: "**the conditions precedent**").
6. The date of completion of the transaction is set for 7 business days after the fulfillment of all the conditions precedent, but in any case, no later than June 30, 2023 (hereinafter: "**the completion date**"). Insofar as the conditions precedent are not met by the completion date or

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<sup>1</sup> Provided that all the said orders reflect an average gross profit of at least 10%.

<sup>2</sup> Raw materials, work in progress, finished goods and spare parts related to the acquired operations that are available to Adesgo on the completion date.



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**Notes to the Condensed Consolidated Financial Statements**

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

**b. Acquisition of operations in Romania (Cont.)**

by a later date, as agreed between the parties ("**the completion deadline**"), the agreement will be void. In the event that the completion date does not occur for reasons that depend on the purchaser, the purchaser has committed to purchase the equipment within 30 days of the completion deadline ("**the completion date of the equipment transaction**"), in exchange for a total amount of € 1,500,000 plus VAT as required by law, out of which € 500,000 will be paid on the completion date of the equipment transaction and the remaining balance will be paid in eight equal quarterly payments starting on September 30, 2023 and ending on June 30, 2025.

Simultaneously with the signing of the agreement, two additional agreements were signed, whose entry into force depends on the completion of the aforementioned agreement, the main points of which will be detailed as follows:

1. Agreement to sell the customer list of Rotex

Rotex engaged with the purchaser in an agreement for the sale of Rotex's customer list in the field of the acquired operations (in addition to Adesgo's customers as mentioned in clause 1 above), as well as the entire order for the purchase of goods<sup>3</sup> that shall belong to Rotex on the completion date and the documentary credit received in relation to them and the intellectual property related to the products that Rotex sells to the aforementioned customers. In return, the purchaser will pay Rotex a quarterly payment in an amount equal to a rate of 2.76% of the aggregate amount of sales in the relevant quarter for all of the purchaser's customers (including customers transferred to the purchaser by Rotex and Adesgo ("**the transferred customers**"), and this during 48 months as of the completion date ("**the eligibility period**") and in a total amount which will not exceed € 1,500,000 ("**the consideration cap**") and all subject to and in accordance with the conditions stipulated in this agreement and as stated below.

Notwithstanding the aforementioned, insofar as subsequent to the end of the eligibility period, the purchaser pays Rotex an amount equal to the consideration cap, Rotex will be entitled to continue to receive a quarterly payment in an amount equal to a rate of 2.76% of the aggregate amount of net sales generated only by the transferred customers until the end of the eligibility period, and this only after the amount of sales as determined in the agreement, only in relation to the transferred customers will entitle Rotex to receive the aforementioned quarterly payment in an amount exceeding € 1,500,000.

It should be noted that this agreement also includes a guarantee given by the Company to ensure that the purchaser complies with its obligations for payments stipulated in the agreement, as well as other provisions customary in such agreements, such as indemnification mechanisms as a result of a breach of representations and obligations, additional interest for late payment and an obligation to maintain confidentiality and non-competition<sup>4</sup>.

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<sup>3</sup> Provided that all the said orders reflect an average gross profit of at least 10%.

<sup>4</sup> It should be noted that promotion, marketing and sales operations of seamless textile products in Israel and Romania were excluded from the aforesaid non-competition commitment, except in relation to the customers transferred within the framework of the agreement.

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**Notes to the Condensed Consolidated Financial Statements**

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

**b. Acquisition of operations in Romania (Cont.)**

2. Consulting agreement

The purchaser entered into an agreement with Rotex according to which Rotex will provide consulting services in relation to the purchaser's operations in Romania (“**the consulting services**”), in return to that that as of the completion date until the end of two years as of the completion date, Rotex will provide the purchaser with consulting services equals to 70% of a full-time position, only through Mr. Raanan Sobel, and this in exchange for a monthly consulting fee in the amount of € 24,000 plus VAT as required by law. The purchaser will be entitled to cancel this agreement during the said period, with a written notice of at least 60 days in advance.

It should be emphasized that the completion of the transaction for the sale of the operations as described above is subject to various conditions precedent, including receiving approvals from third parties which are not under the control of the Company, the existence of which is not certain. As of the date of signing the financial statements, all of the conditions precedent have not yet been fulfilled.

**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 regularly 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

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**Notes to the Condensed Consolidated Financial Statements**

**Note 6 - Operating segments (Cont.)**

**a. General (Cont.)**

customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

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

	<b>For the three-month period ended March 31, 2023</b>			<b>For the three-month period ended March 31, 2022</b>		
	<b>Brands</b>	<b>Retail</b>	<b>Total</b>	<b>Brands</b>	<b>Retail</b>	<b>Total</b>
	<b>Unaudited</b>			<b>Unaudited</b>		
	<b>US dollars in thousands</b>			<b>US dollars in thousands</b>		
Total segment revenues	11,515	43,447	54,962	17,743	35,278	53,021
Direct profit	1,249	4,144	5,393	2,490	2,558	5,048
Indirect costs	(330)	(890)	(1,220)	(390)	(774)	(1,164)
Segment results	919	3,254	4,173	2,100	1,784	3,884
Financing expenses, net			(1,410)			(535)
Tax expenses			(900)			(189)
Net income			1,863			3,160

	<b>For the year ended December 30, 2022</b>		
	<b>Brands</b>	<b>Retail</b>	<b>Total</b>
	<b>Audited</b>		
	<b>US dollars in thousands</b>		
Total segment revenues	77,377	144,933	222,310
Direct profit	10,556	8,080	18,636
Indirect costs	(1,725)	(2,967)	(4,692)
Segment results	8,831	5,113	13,944
Financing expenses, net			(4,139)
Tax expenses			(2,358)
Net income			7,447

**c.** Regarding splitting revenue from contracts with customers into groups that detail how the nature of the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors, see the note related to segments above.

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**Notes to the Condensed Consolidated Financial Statements**

**Note 7 - Financial instruments**

**Fair Value**

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