# TEFRON LTD.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## AS OF JUNE 30, 2023

**(UNAUDITED)**

# TEFRON LTD.

## Condensed Consolidated Financial Statements
## as of June 30, 2023

**(Unaudited)**

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**Review Report of the Auditor to the Shareholders of**

# Tefron Ltd.

**Preface**

We have reviewed the attached financial information of **Tefron Ltd.** and its subsidiaries (hereinafter - "the Company"), which includes the condensed consolidated balance sheet as of June 30, 2023, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period 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.

**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**

**Haifa, August 15, 2023**

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# TEFRON LTD.

## Condensed Consolidated Balance Sheets

| | As of June 30, | | As of December 31, |
|---|---|---|---|
| | 2023 | 2022 | 2022 |
| | (Unaudited) | | Audited |
| | US dollars in thousands | | |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | 8,913 | 2,054 | 3,690 |
| Trade receivables, net | 40,317 | 33,915 | 44,632 |
| Other receivables | 8,681 | 6,360 | 4,917 |
| Inventory | 55,342 | 88,900 | 71,117 |
| **Total current assets** | 113,253 | 131,229 | 124,356 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment, net | 18,045 | 16,749 | 17,058 |
| Right-of-use asset | 5,707 | 5,204 | 4,360 |
| Goodwill and intangible assets, net | 2,279 | 3,719 | 2,999 |
| Software, net | 2,286 | 2,464 | 2,484 |
| Long-term receivables | 435 | - | - |
| Deferred taxes, net | 3,044 | 4,647 | 3,981 |
| **Total non-current assets** | 31,796 | 32,783 | 30,882 |
| **Total Assets** | 145,049 | 164,012 | 155,238 |

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

## TEFRON LTD.

### Condensed Consolidated Balance Sheets

| | As of June 30, | | As of December 31, |
|---|---|---|---|
| | 2023 | 2022 | 2022 |
| | (Unaudited) | | Audited |
| | US dollars in thousands | | |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Bank credit | 24,294 | 50,400 | 46,710 |
| Trade payables | 39,512 | 42,584 | 37,442 |
| Other payables | 8,612 | 9,088 | 8,666 |
| **Total current liabilities** | 72,418 | 102,072 | 92,818 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans from banks | 8,379 | 3,429 | 3,429 |
| Liabilities for benefits to employees, net | 1,238 | 1,111 | 1,311 |
| Long-term payables | 6,039 | 7,751 | 5,530 |
| **Total non-current liabilities** | 15,656 | 12,291 | 10,270 |
| **EQUITY** | | | |
| Share capital | 35,039 | 34,995 | 34,995 |
| Additional paid-in capital | 101,065 | 100,921 | 101,035 |
| Reserve for remeasurement of a defined benefit plan | (2,257) | (2,340) | (2,257) |
| Accumulated deficit | (70,073) | (77,091) | (74,919) |
| Treasury shares | (7,408) | (7,408) | (7,408) |
| Capital reserve for hedging transactions | - | (37) | 95 |
| Other capital reserves | 609 | 609 | 609 |
| **Total equity** | 56,975 | 49,649 | 52,150 |
| **Total liabilities and equity** | 145,049 | 164,012 | 155,238 |

| August 15, 2023 | | | |
|---|---|---|---|
| **Date of approval of the financial statements** | **Yossi Shachak** **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

| | For the six-month period ended June 30, | | For the three-month period ended June 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | | | |
| | US dollars in thousands (excluding data on income per share) | | | | |
| Sales | 120,404 | 111,606 | 65,443 | 58,585 | 222,310 |
| Cost of sales | 93,436 | 86,077 | 51,486 | 45,294 | 173,195 |
| Gross profit | 26,968 | 25,529 | 13,957 | 13,291 | 49,115 |
| Development expenses, net | 2,804 | 2,946 | 1,390 | 1,404 | 5,621 |
| Selling and marketing expenses | 12,589 | 12,427 | 6,289 | 6,677 | 25,245 |
| General and administrative expenses | 2,195 | 2,079 | 1,071 | 1,017 | 4,305 |
| Operating profit | 9,380 | 8,077 | 5,207 | 4,193 | 13,944 |
| Financing income | 126 | 286 | 44 | 184 | 295 |
| Financing expenses | (2,657) | (1,554) | (1,165) | (917) | (4,434) |
| Financing expenses, net | (2,531) | (1,268) | (1,121) | (733) | (4,139) |
| Income before taxes on income | 6,849 | 6,809 | 4,086 | 3,460 | 9,805 |
| Tax income | (2,003) | (1,534) | (1,103) | (1,345) | (2,358) |
| Net income | 4,846 | 5,275 | 2,983 | 2,115 | 7,447 |
| Income per share (in dollars) | | | | | |
| Basic income per share | 0.39 | 0.43 | 0.24 | 0.17 | 0.60 |
| Diluted income per share | 0.38 | 0.40 | 0.23 | 0.16 | 0.57 |

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

## TEFRON LTD.

### Condensed Consolidated Statements of Comprehensive Income

| | For the six-month period ended June 30, | | For the three-month period ended June 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | (Unaudited) | | Audited |
| | US dollars in thousands | | | | |
| Net income | 4,846 | 5,275 | 2,983 | 2,115 | 7,447 |
| Other comprehensive income (loss) (after the effect of the tax): | | | | | |
| Amounts that will not be reclassified thereafter to the statements of income: | | | | | |
| Gain from remeasurement of defined benefit plans | - | - | - | - | 83 |
| Subtotal of items that will not be reclassified thereafter to the statements of income | - | - | - | - | 83 |
| Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met: | | | | | |
| Unrealized gain on cash flows hedge transaction | - | (24) | - | (24) | - |
| Realized gain on cash flows hedge transaction | - | - | - | (19) | - |
| Realized gain due to interest rate swap transaction | (95) | - | (81) | - | - |
| Unrealized gain due to interest rate swap transaction | - | 233 | - | 77 | 341 |
| Total items that shall be reclassified or are reclassified to the statements of income | (95) | 209 | (81) | 34 | 341 |
| Total other comprehensive income (loss) | (95) | 209 | (81) | 34 | 424 |
| Total comprehensive income attributed to the Company's shareholders | 4,751 | 5,484 | 2,902 | 2,149 | 7,871 |

**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 | Accumulated deficit | Treasury shares | Capital reserve for hedging transactions | Other capital reserves | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | | | |
| **Balance as of January 1, 2023** | 34,995 | 101,035 | (2,257) | (74,919) | (7,408) | 95 | 609 | 52,150 |
| Net income | - | - | - | 4,846 | - | - | - | 4,846 |
| Total other comprehensive loss | - | - | - | - | - | (95) | - | (95) |
| Share based payment to employees and consultants | - | 74 | - | - | - | - | - | 74 |
| Issue of shares from warrants exercised | 44 | (44) | - | - | - | - | - | - |
| **Balance as of June 30, 2023 (Unaudited)** | 35,039 | 101,065 | (2,257) | (70,073) | (7,408) | - | 609 | 56,975 |

| | Share capital | Additional paid in capital | Reserve for actuarial losses | Accumulated deficit | Treasury shares | Capital reserve for hedging transactions | Other capital reserves | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | | | |
| **Balance as of January 1, 2022** | 34,402 | 101,352 | (2,340) | (82,366) | (7,408) | (246) | 609 | 44,003 |
| Net income | - | - | - | 5,275 | - | - | - | 5,275 |
| Total other comprehensive income | - | - | - | - | - | 209 | - | 209 |
| Share based payment to employees and consultants | - | 162 | - | - | - | - | - | 162 |
| Issue of shares from warrants exercised | 593 | (593) | - | - | - | - | - | - |
| **Balance as of June 30, 2022 (Unaudited)** | 34,995 | 100,921 | (2,340) | (77,091) | (7,408) | (37) | 609 | 49,649 |

**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 | Accumulated deficit | Treasury shares | Capital reserve for hedging transactions | Other capital reserves | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | | | |
| **Balance as of April 1, 2023 (Unaudited)** | 34,995 | 101,086 | (2,257) | (73,056) | (7,408) | 81 | 609 | 54,050 |
| Net income | - | - | - | 2,983 | - | - | - | 2,983 |
| Total other comprehensive income | - | - | - | - | - | (81) | - | (81) |
| Share based payment to employees and consultants | - | 23 | - | - | - | - | - | 23 |
| Issue of shares from warrants exercised | 44 | (44) | - | - | - | - | - | - |
| **Balance as of June 30, 2023 (Unaudited)** | 35,039 | 101,065 | (2,257) | (70,073) | (7,408) | - | 609 | 56,975 |

| | Share capital | Additional paid in capital | Reserve for actuarial losses | Accumulated deficit | Treasury shares | Capital reserve for hedging transactions | Other capital reserves | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | | | |
| **Balance as of April 1, 2022 (Unaudited)** | 34,995 | 100,865 | (2,340) | (79,206) | (7,408) | (71) | 609 | 47,444 |
| Net income | - | - | - | 2,115 | - | - | - | 2,115 |
| Total other comprehensive income | - | - | - | - | - | 34 | - | 34 |
| Share based payment to employees and consultants | - | 56 | - | - | - | - | - | 56 |
| **Balance as of June 30, 2022 (Unaudited)** | 34,995 | 100,921 | (2,340) | (77,091) | (7,408) | (37) | 609 | 49,649 |

**The notes to the condensed 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 | | | | | | | |
| **Balance as of January 1, 2022** | 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 |
| Share based payment to employees and consultants | - | 276 | - | - | - | - | - | 276 |
| Issue of shares from warrants exercised | 593 | (593) | - | - | - | - | - | - |
| **Balance as of December 31, 2022** | 34,995 | 101,035 | (2,257) | (74,919) | (7,408) | 95 | 609 | 52,150 |

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

# TEFRON LTD.

## Condensed Consolidated Statements of Cash Flows

| | For the six-month period ended June 30, | | For the three-month period ended June 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | (Unaudited) | | Audited |
| | US dollars in thousands | | | | |
| **Cash flows from operating activities** | | | | | |
| Net income | 4,846 | 5,275 | 2,983 | 2,115 | 7,447 |
| 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 | 3,118 | 2,975 | 1,560 | 1,502 | 6,070 |
| Cost of share-based payment | 74 | 103 | 23 | 38 | 189 |
| Loss due to impairment of slow inventory | 733 | 330 | 427 | 66 | 1,227 |
| | 3,925 | 3,408 | 2,010 | 1,606 | 7,486 |
| Change in deferred taxes, net | 937 | 1,001 | 630 | 1,001 | 1,667 |
| Change in liabilities for benefits to employees, net | (73) | (190) | (5) | (159) | 93 |
| Recorded lease interest | 196 | 267 | 100 | 138 | 484 |
| Taxes on income | 1,152 | 1,095 | 674 | 845 | 2,532 |
| Financing expenses, net | 2,382 | 947 | 969 | 493 | 3,012 |
| | 4,594 | 3,120 | 2,368 | 2,318 | 7,788 |
| **Changes in asset and liability items:** | | | | | |
| Decrease (increase) in trade receivables | 4,315 | 9,107 | (7,209) | (1,460) | (1,610) |
| Decrease (increase) in other receivables | (3,859) | (1,539) | (2,792) | 721 | 22 |
| Decrease (increase) in inventory | 15,042 | (18,267) | 7,383 | 4,875 | (1,381) |
| Increase (decrease) in trade payables | 2,356 | (10,126) | 5,459 | (19,226) | (15,384) |
| Decrease in other payables | (232) | (1,853) | (230) | (1,499) | (2,819) |
| | 17,622 | (22,678) | 2,611 | (16,589) | (21,172) |
| **Cash paid and received during the period for:** | | | | | |
| Interest paid | (2,382) | (947) | (969) | (493) | (3,012) |
| Taxes paid | (1,152) | (1,095) | (674) | (845) | (2,532) |
| | (3,534) | (2,042) | (1,643) | (1,338) | (5,544) |
| Net cash (used for) provided from operating activities | 27,453 | (12,917) | 8,329 | (11,888) | (3,995) |

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

# TEFRON LTD.

## Condensed Consolidated Statements of Cash Flows

| | For the six-month period ended June 30, | | For the three-month period ended June 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | | (Unaudited) | | Audited |
| | US dollars in thousands | | | | |
| **Cash flows from investing activities** | | | | | |
| Purchase of fixed assets and intangible assets | (2,082) | (1,225) | (1,479) | (847) | (2,345) |
| Purchase of software | (116) | (143) | (45) | (74) | (474) |
| Advance payment for acquisition of operations | (109) | - | - | - | - |
| Long-term deposits | (326) | - | 35 | - | - |
| Net cash used for investing activities | (2,633) | (1,368) | (1,489) | (921) | (2,819) |
| **Cash flows from financing activities** | | | | | |
| Short-term bank credit, net | (22,158) | 16,216 | (6,206) | 10,111 | 12,525 |
| Recipt of a long-term loan | 10,200 | - | - | - | - |
| Repayment of long-term loans | (5,507) | (1,714) | (364) | (1,714) | (1,714) |
| Repayment of long-term credit for fixed assets | (647) | (364) | (411) | (216) | (960) |
| Repayment of a lease liability | (1,485) | (1,300) | (722) | (749) | (2,848) |
| Net cash (used for) provided from financing activities | (19,597) | 12,838 | (7,703) | 7,432 | 7,003 |
| **Increase (decrease) in cash and cash equivalents** | 5,223 | (1,447) | (863) | (5,377) | 189 |
| **Balance of cash and cash equivalents at beginning of period** | 3,690 | 3,501 | 9,776 | 7,431 | 3,501 |
| **Balance of cash and cash equivalents at end of period** | 8,913 | 2,054 | 8,913 | 2,054 | 3,690 |
| **Appendix a – Significant non-cash transactions** | | | | | |
| Purchase of fixed assets on credit | - | 2,243 | - | 1,843 | 2,132 |

**The notes to the condensed 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 format as of June 30, 2023, 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 of December 31, 2022, 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 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 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 concerning the classification of liabilities as current or non-current (hereinafter: Amendment 2020) was published. 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 .

**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.)**

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 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.

**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.

**Note 4 – Meeting the financial covenants**

As of June 30, 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 2.15.
Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 1.14.

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.

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

**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, Adsego 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 goods[1] that Adsego will receive on the completion date; (c) inventory[2]; (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 Adsego 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 its sole discretion, under the following conditions: (a) half of the standard cost of the inventory, as it is presented in Adsego'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.

[1] Provided that all the said orders reflect an average gross profit of at least 10%.
[2] Raw materials, work in progress, finished goods and spare parts related to the acquired operations that are available to Adsego on the completion date.

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

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

5. Completion of the said transaction 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 the publication of this report, 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 signing date of 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 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 was contingent on the completion of the aforementioned agreement, the main points of which will be detailed as follows:

1. <u>Agreement to sell the customer list of Rotex</u>

   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[3] 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

[3] Provided that all the said orders reflect an average gross profit of at least 10%.

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

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

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[4].

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.

On June 30, 2023, the parties to the agreement extended the completion date of the transaction, the subject of the agreement, as detailed in clause 6 above, until July 31, 2023, or any other date agreed upon by the parties in writing.

Subsequent to the date of the report, on July 6, 2023, the approval of the Romanian Foreign Investment Promotion Agency was received for the aforementioned transaction, which constituted one of the conditions precedent to the transaction as detailed in clause 5 above. On July 31, 2023, the transaction specified in this agreement was completed. As part of the completion of the transaction, the parties to the agreement signed an amendment thereto, according to which the payment of the balance of the consideration for the acquired operations in the amount of € 1,200,000 in eight equal quarterly payments every three months, as detailed in clause 2 above, will be postponed by one month, so that it shall begin on 31.10.2023 instead of 30.09.2023, and will end on 31.7.2025 instead of 30.06.2025.

**c. Renewal of the management agreement with the Company’s CEO**

Subsequent to the balance sheet date, an extraordinary general meeting of the Company was held on July 5, 2023, during which the renewal of the Company's engagement with the CEO of the Company, Mr. Ben Lieberman, who is amongst the Company’s controlling shareholders, in an agreement to provide management services to the Company as CEO, for an additional 3-year period, was approved. The management services shall be provided in exchange for management fees in the amount of NIS 150,000 a month plus VAT, according to the law.

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[4] 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.

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

**d. Exercising options**

During the reporting period, 33,333 employee options that were allocated by the Company were exercised into 16,512 ordinary shares of the Company.

**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 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**

| | For the six-month period ended June 30, 2023 | | | For the six-month period ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Brands | Retail | Total | Brands | Retail | Total |
| | Unaudited | | | | | |
| | Dollars thousand | | | | | |
| Total segment revenues | 28,717 | 91,687 | 120,404 | 40,032 | 71,574 | 111,606 |
| Direct profit | 3,772 | 8,013 | 11,785 | 6,204 | 4,158 | 10,362 |
| Indirect costs | (726) | (1,679) | (2,405) | (816) | (1,469) | (2,285) |
| Segment results | 3,046 | 6,334 | 9,380 | 5,388 | 2,689 | 8,077 |
| Financing expenses, net | | | (2,531) | | | (1,268) |
| Tax expenses | | | (2,003) | | | (1,534) |
| Net income | | | 4,846 | | | 5,275 |

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

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

| | For the three-month period ended June 30, 2023 | | | For the three-month period ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Brands | Retail | Total | Brands | Retail | Total |
| | Unaudited | | | | | |
| | Dollars thousand | | | | | |
| Total segment revenues | 17,202 | 48,241 | 65,443 | 22,289 | 36,296 | 58,585 |
| Direct profit | 2,523 | 3,869 | 6,392 | 3,714 | 1,601 | 5,315 |
| Indirect costs | (396) | (789) | (1,185) | (427) | (695) | (1,122) |
| Segment results | 2,127 | 3,080 | 5,207 | 3,287 | 906 | 4,193 |
| Financing expenses, net | | | (1,121) | | | (733) |
| Tax expenses | | | (1,103) | | | (1,345) |
| Net income | | | 2,983 | | | 2,115 |

| | For the year ended December 31, 2022 | | |
|---|---|---|---|
| | Brands | Retail | Total |
| | Audited | | |
| | US dollars in thousands | | |
| 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.

## 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.