

TEFRON LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2023

(UNAUDITED)

TEFRON LTD.

**Condensed Consolidated Financial Statements
as of September 30, 2023**

(Unaudited)

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Tefron Ltd.



**Review Report of the Auditor to the Shareholders of
Tefron Ltd.**

Introduction

We have reviewed the accompanying financial information of **Tefron Ltd.** and its subsidiaries (hereinafter - "the Company"), which includes the condensed consolidated statement of financial position as of September 30, 2023, and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the periods of nine and three months ended on that date. The Board of directors and Management are responsible for the preparation and presentation of the financial information in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements 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, November 14, 2023

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Tefron Ltd.

Condensed Consolidated Balance Sheets

	<u>As of September 30,</u>		<u>As of</u>
	<u>2023</u>	<u>2022</u>	<u>December 31,</u>
	<u>(Unaudited)</u>		<u>2022</u>
	<u>Audited</u>		
	<u>US dollars in thousands</u>		
ASSETS			
CURRENT ASSETS			
Cash	7,683	5,123	3,690
Trade receivables, net	37,475	29,399	44,632
Other receivables	4,640	5,662	4,917
Inventory	56,763	82,336	71,117
Total current assets	<u>106,561</u>	<u>122,520</u>	<u>124,356</u>
NON-CURRENT ASSETS			
Property, plant and equipment, net	20,736	16,774	17,058
Right-of-use asset	6,181	4,714	4,360
Intangible assets, net	2,915	3,358	2,999
Software, net	2,149	2,382	2,484
Long-term receivables	339	-	-
Deferred taxes, net	2,553	4,407	3,981
Total non-current assets	<u>34,873</u>	<u>31,635</u>	<u>30,882</u>
Total Assets	<u>141,434</u>	<u>154,155</u>	<u>155,238</u>

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

Tefron Ltd.

Condensed Consolidated Balance Sheets

	<u>As of September 30,</u>		<u>As of</u>
	<u>2023</u>	<u>2022</u>	<u>December 31,</u>
	<u>(Unaudited)</u>		<u>2022</u>
	<u>Audited</u>		
	<u>US dollars in thousands</u>		
LIABILITIES			
CURRENT LIABILITIES			
Bank credit	13,457	53,042	46,710
Trade payables	40,218	31,345	37,442
Other payables	10,629	8,421	8,666
Total current liabilities	<u>64,304</u>	<u>92,808</u>	<u>92,818</u>
NON-CURRENT LIABILITIES			
Loans from banks	8,014	3,429	3,429
Liabilities for benefits to employees, net	1,087	1,050	1,311
Long-term payables	7,692	6,997	5,530
Total non-current liabilities	<u>16,793</u>	<u>11,476</u>	<u>10,270</u>
EQUITY			
Share capital	35,048	34,995	34,995
Additional paid-in capital	101,078	100,978	101,035
Reserve for remeasurement of defined benefit plan	(2,257)	(2,340)	(2,257)
Accumulated deficit	(66,733)	(77,008)	(74,919)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	-	45	95
Other capital reserves	609	609	609
Total equity	<u>60,337</u>	<u>49,871</u>	<u>52,150</u>
Total liabilities and equity	<u>141,434</u>	<u>154,155</u>	<u>155,238</u>

November 14, 2023

**Date of approval of
the financial statements**

Yossi Shachak
Chairman of the Board

Ben Lieberman
CEO

Gregory Davidson
CFO

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>2022</u>	<u>2023</u>	<u>2023</u>	<u>2022</u>	<u>2022</u>
	<u>(Unaudited)</u>		<u>(Unaudited)</u>		<u>(Audited)</u>
<u>US dollars in thousands (Excluding data on earnings per share)</u>					
Sales	181,634	159,667	61,230	48,061	222,310
Cost of sales	140,199	124,465	46,763	38,388	173,195
Gross profit	41,435	35,202	14,467	9,673	49,115
Development expenses, net	4,172	4,242	1,368	1,296	5,621
Selling and marketing expenses	18,817	18,608	6,228	6,181	25,245
General and administrative expenses	3,343	2,760	1,148	681	4,305
Operating profit	15,103	9,592	5,723	1,515	13,944
Financing income	187	286	61	-	295
Financing expenses	(4,005)	(2,641)	(1,348)	(1,087)	(4,434)
Financing expenses, net	(3,818)	(2,355)	(1,287)	(1,087)	(4,139)
Income before taxes on income	11,285	7,237	4,436	428	9,805
Tax on income	(3,099)	(1,879)	(1,096)	(345)	(2,358)
Net income	8,186	5,358	3,340	83	7,447
<u>Earnings per share (in dollars)</u>					
Basic earnings per share	0.66	0.44	0.27	0.01	0.60
Diluted earnings per share	0.64	0.41	0.26	0.01	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 nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2023	2022	2023	2022	2022
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
Net income	8,186	5,358	3,340	83	7,447
Other comprehensive income (loss) (after the effect of the tax):					
<u>Amounts that will not be reclassified subsequently to the statements of income:</u>					
Gain from remeasurement of defined benefit plans	-	-	-	-	83
Subtotal of items that will not be reclassified subsequently 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 flows hedge transaction	-	(31)	-	(20)	-
Realized gain on cash flows hedge transaction	-	-	-	13	-
Realized gain due to interest rate swap transaction	(95)	-	-	-	-
Unrealized gain due to interest rate swap transaction	-	322	-	89	341
Total items that shall be reclassified or are reclassified to the statements of income	(95)	291	-	82	341
Total comprehensive income (loss)	(95)	291	-	82	424
Total comprehensive income attributed to the Company's shareholders	8,091	5,649	3,340	165	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								
<u>Balance as of January 1, 2023</u>	34,995	101,035	(2,257)	(74,919)	(7,408)	95	609	52,150
Net income	-	-	-	8,186	-	-	-	8,186
Other comprehensive loss	-	-	-	-	-	(95)	-	(95)
Share-based payment to employees and consultants	-	96	-	-	-	-	-	96
Issue of shares from options exercised	53	(53)	-	-	-	-	-	-
<u>Balance as of September 30, 2023, (Unaudited)</u>	<u>35,048</u>	<u>101,078</u>	<u>(2,257)</u>	<u>(66,733)</u>	<u>(7,408)</u>	<u>-</u>	<u>609</u>	<u>60,337</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
US dollars in thousands								
<u>Balance as of January 1, 2022</u>	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003
Net income	-	-	-	5,358	-	-	-	5,358
Other comprehensive income	-	-	-	-	-	291	-	291
Share-based payment to employees and consultants	-	219	-	-	-	-	-	219
Issue of shares from options exercised	593	(593)	-	-	-	-	-	-
<u>Balance as of September 30, 2022 (Unaudited)</u>	<u>34,995</u>	<u>100,978</u>	<u>(2,340)</u>	<u>(77,008)</u>	<u>(7,408)</u>	<u>45</u>	<u>609</u>	<u>49,871</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
US dollars in thousands								
<u>Balance as of July 1, 2023</u> <u>(Unaudited)</u>	35,039	101,065	(2,257)	(70,073)	(7,408)	-	609	56,975
Net income	-	-	-	3,340	-	-	-	3,340
Share-based payment to employees and consultants	-	22	-	-	-	-	-	22
Issue of shares from options exercised	9	(9)	-	-	-	-	-	-
<u>Balance as of September 30, 2023 (Unaudited)</u>	<u>35,048</u>	<u>101,078</u>	<u>(2,257)</u>	<u>(66,733)</u>	<u>(7,408)</u>	<u>-</u>	<u>609</u>	<u>60,337</u>
	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								
<u>Balance as of July 1, 2022</u> <u>(Unaudited)</u>	34,995	100,921	(2,340)	(77,091)	(7,408)	(37)	609	49,649
Net income	-	-	-	83	-	-	-	83
Other comprehensive income	-	-	-	-	-	82	-	82
Share-based payment to employees and consultants	-	57	-	-	-	-	-	57
<u>Balance as of September 30, 2022 (Unaudited)</u>	<u>34,995</u>	<u>100,978</u>	<u>(2,340)</u>	<u>(77,008)</u>	<u>(7,408)</u>	<u>45</u>	<u>609</u>	<u>49,871</u>

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Reserve for actuarial losses</u>	<u>Accumulated deficit</u>	<u>Treasury shares</u>	<u>Capital reserve for hedging transactions</u>	<u>Other capital reserves</u>	<u>Total equity</u>
	<u>US dollars in thousands</u>							
<u>Balance as of January 1, 2022</u>	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 options exercised	593	(593)	-	-	-	-	-	-
<u>Balance as of December 31, 2022</u>	<u>34,995</u>	<u>101,035</u>	<u>(2,257)</u>	<u>(74,919)</u>	<u>(7,408)</u>	<u>95</u>	<u>609</u>	<u>52,150</u>

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

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2023	2022	2023	2022	2022
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
<u>Cash flows from operating activities</u>					
Net income	8,186	5,358	3,340	83	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	4,931	4,512	1,813	1,537	6,070
Cost of share-based payment	96	132	22	29	189
Loss due to impairment of slow inventory	1,138	430	405	100	1,227
	6,165	5,074	2,240	1,666	7,486
Change in deferred taxes, net	1,428	1,241	491	240	1,667
Change in liabilities for benefits to employees, net	(224)	(251)	(151)	(61)	93
Recorded lease interest	314	378	118	111	484
Taxes on income	1,152	1,987	-	892	2,532
Financing expenses, net	3,419	1,649	1,037	702	3,012
	6,089	5,004	1,495	1,884	7,788
Changes in asset and liability items:					
Decrease (increase) in trade receivables	7,157	13,623	2,842	4,516	(1,610)
Decrease (increase) in other receivables	182	(848)	4,041	691	22
Decrease (increase) in inventory	14,456	(11,803)	(586)	6,464	(1,381)
Increase (decrease) in trade payables	1,855	(21,530)	(501)	(11,404)	(15,384)
Increase (decrease) in other payables	1,996	(2,108)	2,228	(255)	(2,819)
	25,646	(22,666)	8,024	12	(21,172)
Cash paid and received during the period for:					
Interest paid	(3,419)	(1,649)	(1,037)	(702)	(3,012)
Taxes paid	(1,152)	(1,987)	-	(892)	(2,532)
	(4,571)	(3,636)	(1,037)	(1,594)	(5,544)
Net cash provided from (used for) operating activities	41,515	(10,866)	14,062	2,051	(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 nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2023	2022	2023	2022	2022
	(Unaudited)		(Unaudited)		Audited
US dollars in thousands					
<u>Cash flows from investing activities</u>					
Purchase of fixed assets and intangible assets	(3,662)	(1,772)	(1,580)	(547)	(2,345)
Purchase of software	(129)	(216)	(13)	(73)	(474)
Acquisition of operations (annex b)	(1,390)	-	(1,281)	-	-
Long-term deposits	(339)	-	(13)	-	-
Net cash used for investing activities	<u>(5,520)</u>	<u>(1,988)</u>	<u>(2,887)</u>	<u>(620)</u>	<u>(2,819)</u>
<u>Cash flows from financing activities</u>					
Short-term bank credit, net	(32,995)	18,858	(10,837)	2,642	12,525
Receipt of a long-term loan	10,200	-	-	-	-
Repayment of long-term loans	(5,872)	(1,714)	(365)	-	(1,714)
Repayment of long-term credit for fixed assets	(882)	(560)	(235)	(196)	(960)
Repayment of a lease liability	(2,453)	(2,108)	(968)	(808)	(2,848)
Net cash provided from (used for) financing activities	<u>(32,002)</u>	<u>14,476</u>	<u>(12,405)</u>	<u>1,638</u>	<u>7,003</u>
Increase (decrease) in cash and cash equivalents	3,993	1,622	(1,230)	3,069	189
Balance of cash and cash equivalents at beginning of period	<u>3,690</u>	<u>3,501</u>	<u>8,913</u>	<u>2,054</u>	<u>3,501</u>
Balance of cash and cash equivalents at end of period	<u>7,683</u>	<u>5,123</u>	<u>7,683</u>	<u>5,123</u>	<u>3,690</u>
<u>Appendix a – Significant non-cash transactions</u>					
Purchase of fixed assets on credit	-	2,056	-	-	2,132
<u>Appendix b – Acquisition of operations (see Note 5b.)</u>					
Inventory	1,240	-	1,240	-	-
Fixed assets	1,793	-	1,793	-	-
Intangible assets	982	-	982	-	-
Advance paid	-	-	(109)	-	-
Other payables	(1,169)	-	(1,169)	-	-
Long-term payables	(1,456)	-	(1,456)	-	-
Total cash paid, net	<u>(1,390)</u>	<u>-</u>	<u>(1,281)</u>	<u>-</u>	<u>-</u>

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 September 30, 2023, 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 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 5C(6) and Regulation 9C(c) of the Securities Regulations (“Periodic and Immediate Reports”), 1970, since the Company 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.

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.)

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 that 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". Accounting estimates under the new definition 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.

Note 4 – Meeting the financial covenants

As of September 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 2.47

Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 0.74.

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.

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Notes to the Condensed Consolidated Financial Statements

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").

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 are 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 goods¹ that Adesgo will receive on the completion date; (c) inventory²; (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 its 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.

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 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.)

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 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 signing date 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. 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 goods³ 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

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

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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.)

1. Agreement to sell the customer list of Rotex (Cont.)

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 prior 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-competition⁴.

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 exchange for the fact 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.

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.

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.

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

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

c. Renewal of the management agreement with the Company's CEO

On July 5, 2023, an extraordinary general meeting of the Company was held, 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.

d. Exercising options

During the reporting period, 40,000 employee options that were allocated by the Company were exercised into 19,829 ordinary shares of the Company.

e. Approval of the remuneration policy for officers of the Company

Subsequent to the date of the report, on October 11, 2023, an extraordinary general meeting of the Company was held during which it was decided to approve the new remuneration policy for officers of the Company, while making non-essential changes compared to the previous remuneration policy. These changes only reflect an adjustment of the salary ceilings specified in the policy to the increase in the consumer price index as of the date of the approval of the previous remuneration policy until the date of approval of the new remuneration policy at a rate of approximately 10%. This adjustment reflects the previous remuneration policy, the provisions of which established linkage terms for the amounts stated therein.

f. "Swords of Iron" War

Subsequent to the reporting period, on October 7, 2023, a surprise attack by the Hamas organization in Gaza Strip began on the State of Israel, which led to the start of the "Swords of Iron" war, which is still ongoing until the publication date of this report. At this stage of the war, after more than 6 weeks have passed since its beginning, the war has had no material effect on the Company since all the sales and production processes are carried out overseas, with the exception of the development stage which is mostly carried out in Israel and which was also not effected by the military operation. Based on the military operation that has been going on until these days, the Company does not expect the events of the war to have a material impact on the Company. However, there is no certainty that this will indeed be the case if the war escalates or develops into a multi-front war.

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Notes to the Condensed Consolidated Financial Statements

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.

b. Reporting in respect of operating segments:

	For the nine-month period ended September 30, 2023			For the nine-month period ended September 30, 2022		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	US dollars in thousands					
Total segment revenues	44,070	137,564	181,634	52,450	107,217	159,667
Direct profit	6,020	12,736	18,756	6,633	6,010	12,643
Indirect costs	(1,080)	(2,573)	(3,653)	(1,014)	(2,037)	(3,051)
Segment results	4,940	10,163	15,103	5,619	3,973	9,592
Financing expenses, net			(3,818)			(2,355)
Tax expenses			(3,099)			(1,879)
Net income			8,186			5,358

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 6 – Operating segments (Cont.)

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

	For the three-month period ended September 30, 2023			For the three-month period ended September 30, 2022		
	Brands	Retail	Total	Brands	Retail	Total
Unaudited						
US dollars in thousands						
Total segment revenues	15,353	45,877	61,230	12,418	35,643	48,061
Direct profit	2,248	4,723	6,971	429	1,852	2,281
Indirect costs	(354)	(894)	(1,248)	(198)	(568)	(766)
Segment results	1,894	3,829	5,723	231	1,284	1,515
Financing expenses, net			(1,287)			(1,087)
Tax expenses			(1,096)			(345)
Net income			3,340			83

	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 which 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.