# TEFRON LTD

## CONSOLIDATED FINANCIAL STATEMENTS
## AS OF DECEMBER 31, 2023

## IN DOLLARS THOUSANDS

# TEFRON LTD.

## Consolidated Financial Statements as of December 31, 2023

## In Dollars Thousands

### TABLE OF CONTENTS

Date: March 14, 2024

To: The Management of Tefron Ltd.

**Report of Factual Findings in Connection with the translated Financial Information as of December 31, 2023**

As auditors of Tefron Ltd. (hereinafter – "the Company"), we have performed the procedures agreed with you and enumerated below with respect to the accompanying translation of the consolidated statement of financial position as of December 31, 2023 and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows each of the three years in the period ended December 31, 2023 (Hereinafter – the "Financial Information" – attached and stamped for identification purposes only).

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

The procedure was performed solely in connection with the reconciliation of the financial items in the accompanying translated Financial Information with the financial information that was included in the Consolidated Financial Statements of **Tefron Ltd.** as of December 31, 2023 and of the three years in the period ended December 31, 2023 that was published in Hebrew language, on which we have issued an audit report on March 14, 2024.

We have performed the reconciliation mentioned in the preceding paragraph and we report our findings below:

The financial items in the Financial Information (attached and stamped for identification purposes only) reconcile to the corresponding financial information that was included in the Consolidated Financial Statements of Tefron Ltd. as of December 31, 2023.

Because the aforementioned procedure does not constitute either an audit or a review made in accordance with International Standards applicable to audit or to review engagements, or Israeli national standards on audit or to review engagements, we do not provide any assurance or express an opinion on this Financial Information.

**Brightman Almagor Zohar & Co.**
**Certified Public Accountants**
**A Firm in the Deloitte Global Network**



**Tel Aviv - Main Office**
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 Tel: +972 (3) 608 5555 | info@deloitte.co.il

**Jerusalem**
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 914510
Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

**Haifa**
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502
Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

**Eilat**
The City Center
P.O.B. 583
Eilat, 8810402
Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

**Nazareth**
9 Marj Ibn Amer St.
Nazareth, 16100
Tel: +972 (73) 399 4455
Fax: +972 (73) 399 4455
info-nazareth@deloitte.co.il

**Beit Shemesh**
Yigal Alon 1 St.
Beit Shemesh, 9906201

# Tefron Ltd.

## Consolidated Balance Sheets

| | Note | As of December 31 2023 | 2022 |
|---|---|---|---|
| | | US Dollars in thousands | |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash | | 3,321 | 3,690 |
| Trade receivables, net | 5 | 44,797 | 44,632 |
| Other receivables | 6 | 3,734 | 4,917 |
| Inventory | 7 | 55,523 | 71,117 |
| | | 107,375 | 124,356 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment, net | 8 | 20,744 | 17,058 |
| Right-of-use asset | 9 | 6,317 | 4,360 |
| Intangible assets, net | 10 | 4,575 | 5,483 |
| Long-term receivables | | 342 | - |
| Deferred taxes, net | 18e | 1,491 | 3,981 |
| | | 33,469 | 30,882 |
| | | 140,844 | 155,238 |

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

# Tefron Ltd.

## Consolidated Balance Sheets

| | Note | As of December 31 2023 | 2022 |
|---|---|---|---|
| | | US dollars in thousands | |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Bank credit | 11 | 7,457 | 46,710 |
| Trade payables | 12 | 43,274 | 37,442 |
| Other payables | 13 | 10,829 | 8,666 |
| | | 61,560 | 92,818 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans from banks | 14 | 7,650 | 3,429 |
| Liabilities for benefits to employees, net | 16 | 1,299 | 1,311 |
| Long-term payables | 17 | 7,153 | 5,530 |
| | | 16,102 | 10,270 |
| **EQUITY** | | | |
| **Equity attributed to the Company's shareholders** | 20 | | |
| Share capital | | 35,065 | 34,995 |
| Additional paid-in capital | | 101,201 | 101,035 |
| Capital reserve for remeasurement of defined benefit plans | | (2,299) | (2,257) |
| Accumulated deficit | | (63,986) | (74,919) |
| Treasury shares | | (7,408) | (7,408) |
| Capital reserve for hedging transactions | | - | 95 |
| Other capital reserves | | 609 | 609 |
| **Total equity** | | 63,182 | 52,150 |
| | | 140,844 | 155,238 |

| March 14, 2024 | | | |
|---|---|---|---|
| **Date of approval of the financial statements** | **Yossi Shachak**<br>**Chairman of the Board** | **Ben Lieberman**<br>**CEO** | **Gregory Davidson**<br>**CFO** |

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

# Tefron Ltd.

## Consolidated Statements of Income

| | Note | For the year ended December 31 2023 | 2022 | 2021 |
|---|---|---|---|---|
| | | US dollars in thousands (Excluding data on earnings (per share) | | |
| Sales | | 243,463 | 222,310 | 261,346 |
| Cost of sales | 22a | 188,322 | 173,195 | 207,564 |
| Gross profit | | 55,141 | 49,115 | 53,782 |
| Development expenses | 22b | 5,702 | 5,621 | 5,232 |
| Selling and marketing expenses | 22c | 25,116 | 25,245 | 24,426 |
| General and administrative expenses | 22d | 4,779 | 4,305 | 4,508 |
| Other expenses | 22e | - | - | 739 |
| Operating profit | | 19,544 | 13,944 | 18,877 |
| Financing income | 22f | 337 | 295 | 197 |
| Financing expenses | 22f | (5,425) | (4,434) | (4,145) |
| Financing expenses, net | | (5,088) | (4,139) | (3,948) |
| Income before taxes on income | | 14,456 | 9,805 | 14,929 |
| Taxes on income | 18 | (3,523) | (2,358) | (577) |
| Net income | | 10,933 | 7,447 | 14,352 |
| Income per share attributable to equity shareholders of the Company | 23 | | | |
| Basic earnings per share | | 0.89 | 0.60 | 1.18 |
| Diluted earnings per share | | 0.85 | 0.57 | 1.11 |

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

# Tefron Ltd.

## Consolidated Statements of Comprehensive Income

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Net income | 10,933 | 7,447 | 14,352 |
| Other comprehensive loss (after the effect of the tax): | | | |
| Amounts that will not be reclassified subsequently to the statements of income: | | | |
| Income (loss) for remeasurement of defined benefit plans | (42) | 83 | (80) |
| Subtotal of items that will not be reclassified subsequently to the statements of income | (42) | 83 | (80) |
| Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met: | | | |
| Realized gain on cash flows hedge transaction | - | - | (54) |
| Unrealized gain due to interest rate transaction (Swap) | - | 341 | 189 |
| Realized gain due to interest rate transaction (Swap) | (95) | - | - |
| Subtotal of items that will be reclassified or are reclassified to the statements of income | (95) | 341 | 135 |
| Total other comprehensive income (loss) | (137) | 424 | 55 |
| Total comprehensive income attributable to the Company's shareholders | 10,796 | 7,871 | 14,407 |

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

# Tefron Ltd.

## 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, 2023** | 34,995 | 101,035 | (2,257) | (74,919) | (7,408) | 95 | 609 | 52,150 |
| Net income | - | - | - | 10,933 | - | - | - | 10,933 |
| Total other comprehensive loss | - | - | (42) | - | - | (95) | - | (137) |
| Issue of shares from the exercise of options | 70 | (70) | - | - | - | - | - | - |
| Share based payment to employees and consultants | - | 236 | - | - | - | - | - | 236 |
| **Balance as of December 31, 2023** | 35,065 | 101,201 | (2,299) | (63,986) | (7,408) | - | 609 | 63,182 |

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

# Tefron Ltd.

## 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 |
| Issue of shares from the exercise of options | 593 | (593) | - | - | - | - | - | - |
| Share based payment to employees and consultants | - | 276 | - | - | - | - | - | 276 |
| **Balance as of December 31, 2022** | 34,995 | 101,035 | (2,257) | (74,919) | (7,408) | 95 | 609 | 52,150 |

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

# Tefron Ltd.

## Consolidated Statements of Changes in Shareholders' Equity

| | Attributable to the Company's shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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, 2021** | 33,617 | 99,967 | (2,260) | (96,718) | (7,408) | (381) | 572 | 27,389 |
| Net income | - | - | - | 14,352 | - | - | - | 14,352 |
| Total other comprehensive income (loss) | - | - | (80) | - | - | 135 | - | 55 |
| Issue of shares from the exercise of options | 785 | 954 | - | - | - | - | - | 1,739 |
| Share based payment to employees and consultants | - | 431 | - | - | - | - | - | 431 |
| Benefit from a controlling shareholder | - | - | - | - | - | - | 37 | 37 |
| **Balance as of December 31, 2021** | 34,402 | 101,352 | (2,340) | (82,366) | (7,408) | (246) | 609 | 44,003 |

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

# Tefron Ltd.

## Consolidated Statements of Cash Flows

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| **Cash flows from operating activities** | | | |
| Net income | 10,933 | 7,447 | 14,352 |
| Adjustments required to present cash flows from operating activities: | | | |
| Adjustments to the statement of income items: | | | |
| **Depreciation and amortization:** | | | |
| Depreciation and amortization | 6,896 | 6,070 | 4,236 |
| Capital loss on sale of fixed assets | - | - | 31 |
| Benefit from a controlling shareholder | - | - | 37 |
| Impairment of fixed assets | - | - | 708 |
| Cost of share-based payments | 292 | 189 | 518 |
| Loss due to impairment of slow inventory | 1,389 | 1,227 | 569 |
| | 8,577 | 7,486 | 6,099 |
| Change in deferred taxes, net | 2,490 | 1,667 | (2,597) |
| Change in liabilities for benefits to employees, net | (54) | 93 | (147) |
| Recorded lease interest | 422 | 484 | 297 |
| Change in fair value for bank options | - | - | 1,571 |
| Taxes on income | 448 | 2,532 | 2,205 |
| Financing expenses, net | 4,174 | 3,012 | 1,658 |
| | 7,480 | 7,788 | 2,987 |
| **Changes in assets and liabilities items:** | | | |
| Increase in trade receivables | (165) | (1,610) | (1,258) |
| Decrease (increase) in other receivables | 1,088 | 22 | (1,273) |
| Decrease (increase) in inventory | 15,445 | (1,381) | (37,773) |
| Increase (decrease) in trade payables | 5,415 | (15,384) | 15,895 |
| Increase (decrease) in other payables | 2,225 | (2,819) | 1,665 |
| | 24,008 | (21,172) | (22,744) |
| **Cash paid and received during the year for:** | | | |
| Interest paid | (4,174) | (3,012) | (1,658) |
| Taxes paid | (1,262) | (2,532) | (2,288) |
| Taxes received | 814 | - | 83 |
| | (4,622) | (5,544) | (3,863) |
| Net cash provided from (used for) operating activities | 46,376 | (3,995) | (3,169) |

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

# Tefron Ltd.

## Consolidated Statements of Cash Flows

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | (4,377) | (2,328) | (3,490) |
| Purchase of intangible assets | (248) | (491) | (853) |
| Acquisition of operations (Appendix b) | (2,047) | - | - |
| Long-term deposits | (342) | - | - |
| Proceeds from sale of fixed assets | - | - | 939 |
| Net cash used for investing activities | (7,014) | (2,819) | (3,404) |
| **Cash flows from financing activities** | | | |
| Short-term bank credit, net | (38,996) | 12,525 | 8,215 |
| Receipt of a long-term loan | 10,200 | - | - |
| Repayment of long-term loans | (6,236) | (1,714) | (1,715) |
| Repayment of loans from a controlling shareholder | - | - | (2,000) |
| Repayment of long-term credit for fixed assets | (1,301) | (960) | (812) |
| Repayment of a lease liability | (3,398) | (2,848) | (1,893) |
| Net cash provided from (used for) financing activities | (39,731) | 7,003 | 1,795 |
| **Increase (decrease) in cash and cash equivalents** | (369) | 189 | (4,778) |
| **Balance of cash and cash equivalents at beginning of year** | 3,690 | 3,501 | 8,279 |
| **Balance of cash and cash equivalents at end of year** | 3,321 | 3,690 | 3,501 |

**Appendix a – Significant non-cash transactions**

| | | | |
|---|---|---|---|
| Purchase of fixed assets on credit | - | 2,132 | 599 |

**Appendix b – Acquisition of operations (see Note 26b)**

| | | | |
|---|---|---|---|
| Inventory | 1,240 | - | - |
| Fixed assets | 1,793 | - | - |
| Intangible assets | 982 | - | - |
| Other payable | (944) | - | - |
| Long-term payables | (1,024) | - | - |
| Total cash paid, net | 2,047 | - | - |

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

## Note 1 - General

**a.** Tefron Ltd. (hereinafter: "the Company") is a company registered in Israel. The Company's production operations are carried out through subcontractors as well as by a self-production process in plants located in the Far East, Israel, Jordan and Romania. The Company and its subsidiaries focus on the development, production, marketing and sale of intimate apparel and activewear, which are sold throughout the world to companies with leading brands. The Company operates in two operating business segments – brands and retail. For details regarding the business segments and operating markets, see Note 24 below.

The Company's shares are traded on the Tel Aviv Stock Exchange. For additional details, see also Note 20.

The Company's head offices are located in the industrial area of "Misgav", Israel.

**b. Definitions**

In these financial statements:

| | | |
|---|---|---|
| **The Company** | - | Tefron Ltd. |
| **The Group** | - | Tefron Ltd. and its consolidated subsidiaries as detailed in the attached list. |
| **Consolidated subsidiaries** | - | Companies in which the Company has control of (as defined in IFRS 10) and whose statements are consolidated with those of the Company. |
| **Related parties** | - | As defined in IAS 24. |
| **Interested parties and controlling shareholder** | - | As defined in the Securities Regulations (Annual Financial Statements), 2010. |

## Note 2 - Significant accounting principles

The accounting principles, as detailed as follows, were used consistently throughout the financial statements and all the periods presented unless noted otherwise.

**a. Basis of presentation of the financial statements**

The financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS").
Furthermore, the financial statements are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements are prepared on the basis of cost, excluding derivatives and financial assets available for sale; financial assets and liabilities (including derivative instruments) which are presented at fair value through profit and loss, which are measured according to their fair value and excluding liabilities for employee benefits.
The Company has chosen to present profit or loss items according to the nature-of-expense method.

**Note 2 - Significant accounting principles (Cont.)**

**b. Functional, presentation and foreign currency:**

**Functional and presentation currency:**

The presentation currency of the financial statements is the US dollar.

The functional currency, which best reflects the economic environment in which the Company operates and conducts its transactions, is determined separately for each entity in the Group. According to this currency, the company's financial position and operating results are measured.
The Group determines for each entity of the Group what is the functional currency of each company.
The functional currency of the Company is the US dollar.

**c. Exclusion of separate financial information in the framework of the periodic reports**

In the framework of the periodic reports for 2023, the Company, which is a "small corporation", did not include separate financial information in accordance with the provisions of Regulation 5D(6) of the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the reporting regulations"). In addition, in accordance with Regulation 9C(c) of the reporting regulations, the Company believes that the separate financial data of the Company is negligible from a qualitative standpoint, despite its quantitative scope, the reason for which is mainly due to the fact that as stated in Note 14(2), the Group's credit agreement with the lending bank refers to Tefron Group as a whole with cross-guarantees between the entities of the Group and providing information regarding separate financial statements will not carry with it any additional material information to the reasonable investor (shareholder) or to the creditors regarding the liquidity risk of the parent company, that is not already included in the framework of the consolidated financial statements of the Company.

**d. Inventory:**

Inventory is measured at the lower of cost or net realizable value. The cost of inventory includes the expenses for purchasing the inventory as well as other costs incurred in bringing it to its current location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to carry out the sale.

**Note 2 - Significant accounting principles (Cont.)**

**d. Inventory (Cont.)**

The cost of inventory is determined as follows:

| | | |
|---|---|---|
| **Raw and auxiliary materials** | - | Based on cost by the weighted average method. The Company periodically evaluates the condition and age of inventory and records provisions for slow-moving inventory accordingly. |
| **Work in progress** | - | Based on average cost which includes material, labor and other direct and indirect manufacturing costs. |
| **Finished goods** | | Self-produced finished goods are valued based on average cost which includes material, labor and other direct and indirect manufacturing costs based on normal capacity. This inventory is intended for specific orders from customers and therefore, there is no reduction in respect thereof.<br>Inventory of finished goods that are purchased by the Company is measured by the lower of cost or net realizable value. The cost is determined according to the moving average method including the direct costs and the shipping costs. This inventory mostly includes basic products that can be sold during all seasons of the year and therefore no reduction is made in respect of it. If the market price less selling costs is lower than the cost, it is reduced to the market price. |

**Classification of costs:**

The Company classifies all the costs it bears until the delivery of the inventory to the warehouses as part of the sales costs because these are costs involved in bringing the inventory to the point of sale.
Expenses incurred after the inventory is delivered to the warehouses are sales and marketing costs.

**e. Revenue recognition:**

The revenues of the Group derive from selling intimate apparel and activewear products to customers in the brands and retail segments worldwide.

Revenue measurement:
The Group’s revenues are measured according to the amount of consideration the Group expects to be entitled to in exchange for the transfer of goods promised to the customer, excluding amounts collected for third parties, such as certain sales taxes. Revenues are presented net of VAT and after eliminating revenues between the Group’s companies.

Date of revenue recognition:
Revenue is recognized when the Group has delivered the goods to the customer, when the customer has full discretion regarding the sales channel and the sales price of the goods, and there is no unfulfilled obligation that could affect the customer's receipt of the goods. Delivery of the goods does not occur until the goods have been sent to a specific location, the risks of obsolescence and loss have been transferred to the customer, and the customer has received the goods in accordance with the sales contract, the terms of acceptance have expired, or the Group has objective evidence that all acceptance criteria have been met.

### Note 2 - Significant accounting principles (Cont.)

**f. Leases:**

The Group mainly leases real estate assets that are mainly used for offices and plants. The lease agreements are for a period of between one and five years but may include extension options.

The lease period is the non-cancellable period for which the lessee has the right to use the leased property, together with periods covered by an option to extend the lease if it is reasonably certain that the lessee will exercise this option, and periods covered by an option to terminate the lease if it is reasonably certain that the lessee will not exercise this option. The likelihood of exercising the extension options is examined while taking into account, *inter alia*, lease fees during the extension periods in relation to market prices, significant leasehold improvements carried out by the Company, which are expected to have a significant economic benefit to the Company during the extension period, costs relating to the lease termination (carrying out negotiation, evacuating the existing property and finding an alternative property), the importance of the property to the Company's operations, the location of the leased property and the availability of suitable alternatives.

In respect of these leases, the Group recognizes a right of use asset on the one hand and a lease liability.

The lease liability is initially measured according to the existing interest rate of the lease payments that are not paid on the commencement date, discounted while using its incremental borrowing rate since the discounted rate implicit in the lease cannot be readily determined. A lease liability is then measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by decreasing the carrying amount to reflect the lease payments made.

The lease liability is presented under other payables and long-term payables in the balance sheet statements.

The cost of the right-of-use asset consists of the initial measurement amount of the lease liability, any lease payments made on or before the effective date, and initial direct costs. Subsequently, a right-of-use asset is measured at cost less accumulated depreciation and impairment losses.

The right-of-use asset is measured at cost and depreciated on a straight line over the shorter period of the lease term and the useful life of the underlying asset. Depreciation of the asset is recorded as depreciation expenses and begins from the commencement date of the lease, which is the date when the lessor makes the underlying asset available for use by the lessee.

The right-of-use asset is presented as a separate item in the balance sheets.

**Note 2 - Significant accounting principles (Cont.)**

**f. Leases (Cont.)**

The useful lifespan of the underlying assets:

| | % |
|---|---|
| Vehicles | 33 |
| Land and buildings | 20-25 |

**g. Fixed assets:**

Items of fixed assets are presented at cost plus direct acquisition costs less any accumulated depreciation and accumulated impairment losses. Depreciation on assets is calculated according to the straight-line method over their estimated useful lives as follows:

| | % |
|---|---|
| Machinery and equipment (mainly 6.67%) | 5-15 |
| Office furniture and equipment (mainly 10%) | 6-10 |
| Leasehold improvements | 20 |
| Vehicles | 10 |

Leasehold improvements are depreciated using the straight-line method over the lease period or over the expected useful life of the improvements, whichever is shorter.

**h. Intangible assets:**

Separately acquired intangible assets are measured on initial recognition at cost, with additional costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method of amortization of an intangible asset are examined at least at the end of each year.

The useful life used in the amortization of intangible assets with a defined useful life is as follows:

| | **%** |
|---|---|
| Customer lists | 20 |
| Franchise assets | 33 |
| Patent | 33 |
| Computer software | 25-33 |
| ERP system | 10 |

**Note 2 - Significant accounting principles (Cont.)**

**h. Intangible assets (Cont.)**

A customer list acquired as part of the acquisition of operations is recognized at its fair value at the time of acquisition. The customer list has a defined useful life and is presented at cost less accumulated depreciation. Depreciation is calculated based on the straight-line method over the expected useful life of the customer list.

Franchise assets are rights to use trademarks. They are recorded at the discounted sum of the liability for minimum royalty payments and are amortized over their contract period (3 years) or their estimated period of use, whichever is shorter.

Computer software and an ERP system are presented based on the costs accrued for purchasing the computer software and bringing it into use. These costs are amortized over the estimated useful life of the software. Costs related to the maintenance of the computer software are recognized as an expense as incurred.

**i. Financial assets:**

**a. Classification of financial assets**

The Group classifies its financial assets in the following measurement categories: “Assets that are measured at amortized cost” and “Assets that are measured at fair value through profit or loss”. The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at amortized cost
Financial assets at amortized cost are financial assets held within the framework of a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual terms provide entitlement on defined dates to cash flows that are only principal and interest payments.

The financial assets at a reduced cost of the Group are included in the items: cash, trade receivables, other receivables and long-term receivables that appear in the balance sheet statements.

**b. Recognition and measurement:**

Financial assets are recognized in the balance sheet statement when the Group becomes a party to the contractual terms of the instrument. Financial assets at amortized cost are initially recognized at fair value plus transaction costs and are measured in subsequent periods at amortized cost based on the effective interest method. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to the statements of income. Financial assets at fair value through profit or loss are presented in subsequent periods at fair value. Any gain or loss arising from changes in fair value is recognized in profit or loss in the period in which the change occurs.

**Note 2 - Significant accounting principles (Cont.)**

**i. Financial assets (Cont.)**

Impairment of financial assets and allowance for doubtful debts

The allowance for doubtful accounts is determined specifically with respect to trade receivables whose collection, in the opinion of the Company's management, is doubtful. Impaired trade receivables will be withdrawn when they are assessed as uncollectible. The Company does not conduct any further review at the level of the customer groups for those for which no allowance for impairment has been made separately, as aforementioned, since it believes that it has no material impact on the financial statements.

**j. Financial liabilities and equity instruments:**

**a. Classification as a financial liability or an equity instrument:**

Liabilities and equity instruments issued by the Group are classified as financial liabilities or as equity instruments in accordance with the nature of the contractual arrangements and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received net of costs directly related to the issuance of these instruments.

**b. Recognition and measurement:**

Financial liabilities are presented and measured in accordance with the following classification:

**Financial liabilities at amortized cost:**

Financial liabilities at amortized cost are recognized initially at fair value after deducting transaction costs. After the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The financial liabilities at amortized cost of the Group are included in the items: bank credit, trade payables, other payables, and long-term payables that appear in the balance sheet statements.

**Financial liabilities at fair value through profit or loss:**

Financial liabilities at fair value through profit and loss are presented at fair value with any gains or losses arising from changes in fair value recognized in profit or loss.
The financial liability at fair value, which is presented on the Company’s balance sheets: liability in respect of share-based payment that is presented under the long-term payable item.

**Note 2 - Significant accounting principles (Cont.)**

**k. Liabilities for benefits to employees:**

The Group has several employee benefits:

**1. Short-term employee benefits:**

Short-term employee benefits are benefits that are expected to be fully paid up to 12 months after the end of the annual reporting period during which the employees provide the related services. These benefits include salaries, leave pay, paid sick leave, paid annual leave, and social security contributions, which are recognized as expenses as the services are rendered. Liability for a cash grant is recognized when the Group has a legal or implied obligation to pay the aforesaid amount for a service that was provided by the employee in the past, and the amount can be estimated in a reliable fashion.

**2. Post-employment benefits:**

The plans are usually funded by contributions to insurance companies, and they are classified as defined contribution plans and defined benefit plans.

The Group in Israel has defined contribution plans pursuant to Section 14 of the Israeli Severance Pay Law, under which the Group pays fixed contributions without having a legal or implied obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to the employee’s service in the current period and prior periods.

**l. Share-based payment transactions:**

The Company's Board of Directors approves the granting of options to the Company's employees and consultants from time to time in accordance with the Company's option plan. See Note 21 as follows.

**Transactions settled with equity instruments:**

The cost of transactions settled with equity instruments with employees and consultants is measured at the fair value of the equity instruments on the granting date. Fair value is determined using an appropriate pricing model; for additional details, see Note 21, as follows.

The cost of transactions settled with equity instruments is recognized in profit and loss, together with a corresponding increase in equity, over the period in which the performance conditions exist and ends on the date on which the relevant employees and directors become entitled to the benefit (hereinafter – “the vesting period"). The cumulative expense recognized for transactions settled with equity instruments at the end of each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit and loss represents the change in cumulative expense recognized at the beginning and end of that reporting period.

No expense is recognized for grants that do not ultimately vest, except for grants where vesting is dependent on market conditions, which are treated as grants that vested irrespective of whether the market conditions are met, provided that all other vesting conditions (service and/or performance) were fulfilled.

**Note 2 - Significant accounting principles (Cont.)**

**l. Share-based payment transactions (Cont.)**

When the Company modifies the conditions of a grant settled with equity instruments, the additional expense is recognized in addition to the original expense that was calculated for any modification that increases the total fair value of the benefit granted or is otherwise beneficial to the employee or director according to the fair value on the modification date.

Cancellation of the grant settled with an equity instrument is handled as if it was vested on the date of the cancellation, and the expense not yet recognized for the grant is immediately recognized. Nevertheless, if the grant that was canceled is replaced by a new grant, which is designated as an alternative grant on the date on which it is granted, the canceled grant and the new grant will both be handled as a change in the original grant as described above.

**Transactions settled in cash:**

The fair value of share-based payment grants to employees, in respect of share appreciation rights, which are settled in cash, is recognized as an expense against a corresponding increase in liability over the period in which unconditional entitlement to payment is achieved. The liability is remeasured at fair value at each reporting date until the settlement date, and the change is recognized as an expense in profit and loss. The fair value of the liability is measured by using the binomial model.

**m. Business combination:**

During the reporting period, the Company acquired, through a wholly owned and controlled subsidiary, an operation in Romania in the field of production, marketing and sale of seamless clothing products. See Note 26b as follows.

The acquisition of operation that constitutes a business is measured using the acquisition method. The cost of the business combination is measured at the acquisition date at the aggregate fair value of assets transferred and liabilities incurred in exchange for obtaining control of the acquiree.

Transaction costs directly related to the business combination are credited to profit or loss as incurred.

## 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" to defer the settlement of an obligation for at least 12 months after the reporting period, and clarified that if the right to defer the settlement, as aforesaid, 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 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 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. On the other hand, financial covenants that an entity is required to meet at a later date than the end of the reporting period do not affect the existence of the aforementioned right at the end of the reporting period.

In addition, Amendment 2022 states that if the entity's right to defer the settlement of the obligation for at least 12 months after the reporting period 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.

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

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

**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 was applied by the Group by way of prospective application as part of these consolidated financial statements, starting on January 1, 2023, and as a result, the information given regarding its accounting policy in relation to previous reports was more concise and focused.

**Amendment IAS 7 "Statements of Cash Flows " and IFRS 7 "Financial Instruments: Disclosures" (concerning Supplier Financing Arrangement):**

The amendment to IAS 7 states that an entity is required to provide disclosure regarding its supplier financing arrangements, which will allow the users of the reports to assess the effects of those arrangements on the entity's liabilities and cash flows and the entity's exposure to liquidity risk.

In order to comply with the disclosure requirement as aforementioned, an entity is required to provide disclosure regarding the terms and conditions of the financing arrangements of its suppliers, the opening balances, and the closing balances of the items in the balance sheet statements related to supplier financing arrangements and how many of these balances have already been paid to suppliers by the credit provider, the range of payment dates compared to similar suppliers of the entity that are not part of the supplier financing arrangements, as well as a breakdown of non-cash changes in items related to the arrangement.

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

**Amendment IAS 7 “Statements of Cash Flows “ and IFRS 7 "Financial Instruments: Disclosures" (concerning Supplier Financing Arrangement) (Cont.)**

The amendment to IFRS 7 requires an entity to specify as part of its liquidity risk management whether it enters into supplier financing arrangements or has the ability to enter into such arrangements. In addition, the amendment clarifies that supplier financing arrangements may lead to liquidity risk management risk or market risk as a result of the entity concentrating part of its financial liabilities with the credit providers, which originally had different providers.

The amendment to IAS 7 will be applied to annual reporting periods beginning on or after January 1, 2024. Early application is possible if disclosure is provided regarding this detail. The amendment to IFRS 7 will be implemented at the time of the amendment to IAS 7.

### Note 4 – Considerations in applying accounting policies and key factors of uncertainty in an estimate

While implementing the Group's accounting policies, as described in Note 2 above, the Company’s management is required, in some cases, to exercise comprehensive accounting discretion concerning the accounting estimates and assumptions regarding the carrying amounts of assets and liabilities that are not necessarily available from other sources. The related estimates and assumptions are based on past experience and other factors deemed as relevant. Actual results may differ from these estimates.

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

The following are the key assumptions made in the financial statements concerning uncertainties on the balance sheet date, and the critical estimates computed by the Group and that a significant adjustment in the estimates and assumptions is likely to change the value of the assets and liabilities in the financial statements in the consecutive reporting year:

**Calculation of inventory value**

In assessing the value of raw material inventory, management is required to make an estimate to determine the inventory’s lifespan and the ability to utilize it after a certain period of time. In accordance with Company policy and the likelihood of using the inventory, the company depreciates slow-moving inventory on a current basis.

Inventory of work-in-process and self-produced finished goods includes materials, labor and other direct and indirect production expenses based on normal capacity. The Company examines its allocation model of the direct and indirect production expenses every quarter and the need to update it according to the actual metrics.

### Note 5 - Trade receivables, net

| | As of December 31, 2023 | As of December 31, 2022 |
|---|---|---|
| | Dollars thousands | |
| Open receivables | 44,827 | 44,632 |
| Less provision for doubtful debts | (30) | - |
| Trade receivables, net | 44,797 | 44,632 |

Out of the total balance of trade receivables as of December 31, 2023, US$ 3.5 million (2022: US$ 7.1 million) is in respect of a debt of customer A.

The following is the analysis of the balance of trade receivables for which no impairment was recorded (provision for doubtful debts), trade receivables net, according to the period of delay in collection in relation to the reporting date:

| | Trade receivables whose debts have not yet fallen due (no delay in collection) | Past due trade receivables and the delay in their collection is | | | | | |
|---|---|---|---|---|---|---|---|
| | | Under 30 days | 30 – 60 days | 60 – 90 days | 90 – 120 days | Over 120 days | Total |
| | US dollars in thousands | | | | | | |
| December 31, 2023 | 41,351 | 3,045 | 401 | - | - | - | 44,797 |
| December 31, 2022 | 41,452 | 3,044 | 136 | - | - | - | 44,632 |

### Note 6 - Other receivables

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| | US dollars in thousands | |
| Prepaid expenses | 1,054 | 689 |
| Advances to suppliers | 749 | 753 |
| Customs deposits | 376 | 1,966 |
| Institutions | 1,326 | 1,179 |
| Derivative financial instrument | - | 94 |
| Other receivables | 229 | 236 |
| | 3,734 | 4,917 |

## Note 7 – Inventories

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| | US dollars in thousands | |
| Raw and auxiliary materials | 5,855 | 5,679 |
| Work in process | 6,391 | 1,469 |
| Finished goods | 43,277 | 63,969 |
| | 55,523 | 71,117 |

**(*)** An impairment of slow-moving inventory recognized as part of the cost of sales amounted to US$ 1,389 thousand (2022 – US$ 1,227 thousand).

## Note 8 – Fixed assets

**a. Composition and movement of assets used by the Group:**

**Year of 2023:**

| | Machinery and equipment (*) | Office furniture and equipment | Vehicles | Leasehold improve-ments | Total |
|---|---|---|---|---|---|
| | US dollars in thousands | | | | |
| **Cost** | | | | | |
| **Balance as of January 1, 2023** | 131,555 | 4,542 | 132 | 9,546 | 145,775 |
| Additions during the year | 4,494 | 395 | 20 | 1,244 | 6,153 |
| Disposals during the year | - | - | - | - | - |
| **Balance as of December 31, 2023** | 136,049 | 4,937 | 152 | 10,790 | 151,928 |
| **Accumulated depreciation** | | | | | |
| **Balance as of January 1, 2023** | 116,617 | 3,930 | 10 | 8,160 | 128,717 |
| Additions during the year | 1,903 | 219 | 14 | 331 | 2,467 |
| Disposals during the year | - | - | - | - | - |
| **Balance as of December 31, 2023** | 118,520 | 4,149 | 24 | 8,491 | 131,184 |
| **Balance of depreciated cost as of December 31, 2023** | 17,529 | 788 | 128 | 2,299 | 20,744 |

## Note 8 – Fixed assets (Cont.)

### a. Composition and movement of assets used by the Group (Cont.)

**Year of 2022:**

| | Machinery and equipment | Office furniture and equipment | Vehicles | Leasehold improve-ments | Total |
|---|---|---|---|---|---|
| | US dollars in thousands | | | | |
| **Cost** | | | | | |
| **Balance as of January 1, 2022** | 127,728 | 4,205 | 49 | 8,959 | 140,941 |
| Additions during the year | 3,827 | 337 | 83 | 587 | 4,834 |
| Disposals during the year | - | - | - | - | - |
| **Balance as of December 31, 2022** | 131,555 | 4,542 | 132 | 9,546 | 145,775 |
| **Accumulated depreciation** | | | | | |
| **Balance as of January 1, 2022** | 115,077 | 3,695 | 2 | 7,884 | 126,658 |
| Additions during the year | 1,540 | 235 | 8 | 276 | 2,059 |
| Disposals during the year | - | - | - | - | - |
| **Balance as of December 31, 2022** | 116,617 | 3,930 | 10 | 8,160 | 128,717 |
| **Balance of depreciated cost as of December 31, 2022** | 14,938 | 612 | 122 | 1,386 | 17,058 |

Regarding liens, see Note 19c.

### b. Purchase of fixed assets on credit

As of December 31, 2023, and December 31, 2022, the balance of fixed assets in supplier credit amounted to US$ 1,406 and US$ 2,559 thousand, respectively. The said balances will be repaid by September 20, 2025, plus interest for this credit.

### Note 9 - Right-of-use asset

**Composition and movement of the leased assets:**

**Year of 2023:**

| | Land and buildings | Vehicles | Total |
|---|---|---|---|
| | US dollars in thousands | | |
| **Cost** | | | |
| **Balance as of January 1, 2023** | 8,149 | 730 | 8,879 |
| Additions during the year | 4,170 | 83 | 4,253 |
| Disposals during the year | - | - | - |
| **Balance as of December 31, 2023** | 12,319 | 813 | 13,132 |
| **Accumulated depreciation** | | | |
| **Balance as of January 1, 2023** | 4,070 | 449 | 4,519 |
| Additions during the year | 2,150 | 146 | 2,296 |
| Disposals during the year | - | - | - |
| **Balance as of December 31, 2023** | 6,220 | 595 | 6,815 |
| **Balance of depreciated cost as of December 31, 2023** | 6,099 | 218 | 6,317 |
| **Balance of depreciated cost as of December 31, 2022** | 4,079 | 281 | 4,360 |

**Note 10 - Intangible assets**

**Year of 2023:**

| | Franchise assets | List of customers | Patents | Computer software | Goodwill | Total |
|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | |
| **Balance as of January 1, 2023** | 4,292 | 2,037 | 125 | 6,966 | 49 | 13,469 |
| Additions during the year | - | 982 | 14 | 229 | - | 1,225 |
| Disposals during the year | - | (2,037) | - | - | - | (2,037) |
| **Balance as of December 31, 2023** | 4,292 | 982 | 139 | 7,195 | 49 | 12,657 |
| **Accumulated amortization** | | | | | | |
| **Balance as of January 1, 2023** | 1,429 | 2,037 | 38 | 4,482 | - | 7,986 |
| Amortization recognized during the year | 1,431 | 80 | 12 | 610 | - | 2,133 |
| Disposals recognized during the year | - | (2,037) | - | - | - | (2,037) |
| **Balance as of December 31, 2023** | 2,860 | 80 | 50 | 5,092 | - | 8,082 |
| **Amortized balance as of December 31, 2023** | 1,432 | 902 | 89 | 2,103 | 49 | 4,575 |

**Year of 2022:**

| | Franchise assets | List of customers | Patents | Computer software | Goodwill | Total |
|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | |
| **Balance as of January 1, 2022** | - | 2,037 | 108 | 6,492 | 49 | 8,686 |
| Additions during the year | 4,292 | - | 17 | 474 | - | 4,783 |
| **Balance as of December 31, 2022** | 4,292 | 2,037 | 125 | 6,966 | 49 | 13,469 |
| **Accumulated amortization** | | | | | | |
| **Balance as of January 1, 2022** | - | 2,037 | 30 | 3,869 | - | 5,936 |
| Amortization recognized during the year | 1,429 | - | 8 | 613 | - | 2,050 |
| **Balance as of December 31, 2022** | 1,429 | 2,037 | 38 | 4,482 | - | 7,986 |
| **Amortized balance as of December 31, 2022** | 2,863 | - | 87 | 2,484 | 49 | 5,483 |

### Note 11 - Credit from banks

**a. Composition:**

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Short-term credit from banks | 6,000 | 44,996 |
| Current maturities of long-term loans | 1,457 | 1,714 |
| | 7,457 | 46,710 |

**b.** Regarding collateral and liens see Note 19c, as follows.

### Note 12 - Trade payables

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Open accounts | 41,703 | 34,403 |
| Notes payable | 1,571 | 3,039 |
| | 43,274 | 37,442 |

### Note 13 - Other payables

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Liability to employees and other liabilities for wages and salaries | 4,827 | 3,101 |
| Accrued expenses | 1,886 | 1,386 |
| Lease liability | 4,116 | 4,179 |
| | 10,829 | 8,666 |

### Note 14 - Loans from banks

**1. Composition:**

**As of December 31, 2023:**

| | Nominal rate of interest | Balance | Balance less current maturities |
|---|---|---|---|
| | % | US dollars in thousands | |
| Loans from banks | SOFR + 2.35 | 9,107 | 7,650 |

**Note 14 - Loans from banks (Cont.)**

**1. Composition (Cont.)**

**As of December 31, 2022:**

| | Nominal rate of interest | Balance | Balance less current maturities |
|---|---|---|---|
| | % | US dollars in thousands | |
| Loans from banks | Libor + 2.35 | 5,143 | 3,429 |

**2. Financing agreement with HSBC:**

On March 29, 2018, the following parties signed a financing agreement: Tefron Canada Inc. a Canadian private subsidiary wholly owned by the Company, as the borrower (hereinafter: "Tefron Canada"), the Company, as the parent company (hereinafter: “Tefron Israel”), and the bank HSBC Canada, as the lender (hereinafter: "the bank"). The agreement was signed to provide alternative financing to the current Israeli bank’s financing that had financed the Company’s operations till that date. The agreement was amended on February 21, 2019, on June 23, 2020, on April 22, 2021, on March 10, 2022, and on July 6, 2022 (hereinafter jointly: "the agreement").

The main terms of the agreement are as follows:

The financing is divided as follows:

1. Credit line to Tefron Canada in the amount of US$ 13.5 million, which supports credit up to US$ 13.2 million, which will be provided to Tefron Israel through HSBC Israel (hereinafter: “the bank in Israel") by means of a bank guarantee on the total loan by HSBC Canada to HSBC Israel, as follows: (a) a long-term loan that was provided in 2018 in the principal amount of US$ 10 million (hereinafter: “the long-term loan”), and that will be repaid in 7 equal annual installments. In addition, an accelerated repayment mechanism was also set according to the free cash flow formula, as well as (b) credit for working capital in the principal amount of US$ 3 million. It should be noted that any repayment of the long-term loan, in whole or in part, as applicable, will reduce the amount of the said credit line of US$ 13 million, respectively;

   On June 23, 2020, it was agreed with the bank to defer the current repayment of a long-term loan fund that was provided by HSBC Israel and which was supposed to be paid in 2020 in one year, in such a way that this payment will be divided between the following five annual payments equally. In addition, the accelerated repayment of the loan that was supposed to be paid in 2020 was canceled.

   On April 22, 2021, the long-term loan repayment acceleration mechanism was canceled entirely.

   On July 6, 2022, the parties agreed on the possibility of receiving an additional long-term loan in the principal amount of US$ 5 million (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 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

**Note 14 - Loans from banks (Cont.)**

**2. Financing agreement with HSBC (Cont.)**

the additional loan) in the sum of US$ 10.2 million will be repaid according to one clearing schedule in 5 years, and in quarterly payments in the sum of US$ 364 thousand each, when the last quarterly payment shall be in the sum of US$ 3,279 thousand. For each such payment, a quarterly interest payment will be added in respect of the outstanding balance of the loan.

2. Credit up to an amount of US$ 25 million that shall be provided to Tefron Canada by the bank on the basis of the volume of collateral, which will be examined monthly (hereinafter: “ the credit line”).

2.1 The eligibility for credit withdrawals will be based on the following eligibility amounts:

a. Cumulative debt amounts of the trade receivables of Tefron Canada and the trade receivables of Tefron Israel's subsidiary, Tefron USA Inc. (hereinafter: "Tefron USA"), all in accordance with the terms of the agreement (with a multiplier of 75% - 90% according to the type of customer); plus;

b. The lower of: (1) 50% of the inventory value of the finished goods of Tefron Canada and Tefron USA, subject to pledges under the agreement; and (2) US$ 10 million; plus;

c. 100% of the value of the cash in the bank accounts of Tefron Canada and Tefron USA; less;.

d. Amounts guaranteed by a pledge that has priority or may have priority over the collateral given to the bank pursuant to the agreement.

On April 22, 2021, it was agreed to increase the credit line to US$ 35 million.

On March 10, 2022, it was agreed to increase the credit line to US$ 50 million.

The amendment also states that increasing the upper limit of the inventory that will be taken into consideration as collateral for the purpose of utilizing the credit line will be calculated so that the inventory value will be the lower of: (1) 50% of the inventory value of the finished goods of Tefron Canada and Tefron USA, and (2) US$ 25 million while out of this amount, the amount of work-in-progress inventory shall not exceed US$ 3 million.

On July 6, 2022, it was agreed to increase the line of credit during the period until December 31, 2022, from an amount of US$ 50 million to an amount of US$ 60 million. Increasing the upper limit of the inventory that will be taken into consideration as collateral for the purpose of utilizing the credit line during the period until December 31, 2022, will be calculated so that the inventory value will be the lower of: (1) 50% of the inventory value of the finished goods of Tefron Canada and Tefron USA, and (2) US$ 35 million (instead of US$ 25 million), while out of this amount, the amount of work-in-progress inventory shall not exceed US$ 3 million.

**Note 14 - Loans from banks (Cont.)**

**2. Financing agreement with HSBC (Cont.)**

The interest on the financing will be variable interest, which will include a margin above the base interest rate, such as LIBOR or the interest that will replace the LIBOR interest. On April 22, 2021, it was agreed to update the interest margin as detailed below:

| When R represents the ratio of debt to EBITDA: | Percentage of margin pursuant to the financing agreement | Percentage of margin pursuant to the amendment |
|---|---|---|
| $R \leq 1.50$ | 1.25% - 2.25% | 0.5%-1.5% |
| $1.50 < R \leq 2.00$ | 1.5% - 2.5% | 0.75%-1.75% |
| $2.00 < R \leq 3.00$ | 1.75% - 2.75% | 1%-2% |
| $R > 3.00$ | 2% - 3% | 1.25%-2.25% |

On March 10, 2022, the financing agreement was adjusted to the SOFR interest rate (and TERM SOFR), which will replace the LIBOR interest rate.

**3. The collateral for the financing will be as follows:**

a. First ranking charge in Canada by Tefron Canada on all of its assets.
b. Floating and fixed charge first in rank in Israel on all assets of the Company.
c. First ranking charge on all shares held by the Company in Tefron Canada Inc. and Tefron US Holdings Inc. (a subsidiary holding Tefron USA).
d. First ranking charge on the bank accounts of the Company and its subsidiaries.
e. The Company’s and its subsidiaries' guarantee to the debts of Tefron Canada to the bank.
f. The guarantee of EDC - Export Development Canada, which assists the Canadian government in financing the export activities of Canadian companies (hereinafter: “EDC”), in an amount equal to 75% of the credit line to HSBC Israel by the bank. On July 6, 2022, it was agreed to reduce EDC's guarantee to a total equal to 50% of the credit line.

**4.** The financing is subject to the fulfillment of the financial covenants, which will be examined quarterly on the basis of the financial statements of Tefron Israel on a consolidated basis, as follows:

a. Debt service cover ratio of at least 1.25 times.
"Debt service cover ratio" means - for the last consecutive twelve months preceding the calculation date, the ratio between the total payments to the bank (principal and interest) and net EBITDA (as defined in the agreement).
On April 22, 2021, the debt service coverage ratio was changed to no less than 1.20 times.

b. Debt to EBITDA ratio that as of the end of 2020 should not exceed 3.50 times any time thereafter.

**Note 14 - Loans from banks (Cont.)**

**2. Financing agreement with HSBC (Cont.)**

**5.** In accordance with the agreement, the Company and its subsidiaries in connection with the financing are subject, *inter alia*, to the following restrictions:

a. A negative pledge by the Company and its subsidiaries (excluding pledges permitted under the agreement);
b. Until full repayment of the provided credits, the Company will continue to hold, directly or indirectly, full ownership of each of its subsidiaries;
c. The Lieberman family will continue to hold control of the Company;
d. The total amount of annual investments of the Group shall not exceed US$ 2 million;
On March 10, 2022, the parties agreed on increasing the annual investment limit to US$ 7 million in 2022 and to a sum of US$ 3.5 million each year thereafter.
e. Taking any loans as defined in the agreement is not permitted;
f. Distribution of dividends is not permitted.

**6.** The agreement determines that the financing is at the bank's full discretion at any time, and accordingly, the bank may demand its repayment at any time. Notwithstanding the aforementioned and additionally, in the framework of the agreement, accepted grounds for immediate repayment were determined, granting the bank the right to call for immediate repayment of Tefron Canada's liabilities to it, including upon the occurrence of a breach of the Company's loan agreements with HSBC Israel and/or a breach by any party of Tefron Group of the agreements or other documents relating to the provision of the credit and/or in an amount exceeding US$ 750 thousand.

**7.** In addition to the credit line mentioned in clauses 1 and 2 above, the bank will, at its discretion, provide additional credit in the amount of US$ 4 million to hedge interest rate risks and additional credit in the amount of US$ 2.3 million to hedge currency exchange risks.

**8.** On November 5, 2018, an additional line of credit was granted by the bank to Tefron Canada (in addition to the credit line specified in clauses 1 and 2 above), as part of the general terms of the financing agreement, which is intended to issue documentary letters of credit up to a total amount of US$ 3 million, when each letter of credit, as aforementioned, is given for a period of up to 12 months (hereinafter: “the additional financing"). The additional financing is secured by a guarantee of EDC and the Company's guarantee of the total amount of the additional financing. During 2022, the Company reduced the credit line intended for the allocation of documentary letters of credit to US$ 1 million.

**9**. On February 21, 2019, an additional line of credit was provided (in addition to the credit line specified in clauses 1 and 2 above and the additional financing) of up to US $5 million to finance advances to be received from the customer Walmart. It should be noted that the Company executes the sales to Walmart through its wholly owned subsidiary Lamour Hosiery Inc. (“Lamour”). Lamour is able to advance payments from Walmart through Walmart’s special program to advance payments to suppliers that is used by Walmart and Wells Fargo Bank (“Wells”). The additional credit line is intended to advance the payments received by Lamour from Wells. On April 27, 2021, this credit line was increased to a sum of up to US$ 7 million.

### Note 14 - Loans from banks (Cont.)

#### 2. Financing agreement with HSBC (Cont.)

As of December 31, 2023, the Company met all of the financial covenants stipulated in the financing agreement, as detailed as follows:

Debt service cover ratio of at least 1.20 times was 2.77.

Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 0.63.

## Note 15 - Financial instruments

### a. Classification of financial assets and financial liabilities:

The financial assets and financial liabilities in the balance sheet are classified by groups of financial assets pursuant to IFRS 9:

| | As of December 31, | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| **Financial assets** | | |
| Financial assets measured at amortized cost: | | |
| Cash | 3,321 | 3,690 |
| Trade receivables | 44,797 | 44,632 |
| Receivables | 2,751 | 3,754 |
| Total financial assets measured at amortized cost | 50,869 | 52,076 |
| Financial assets at fair value through profit or loss: | | |
| Derivative financial asset | - | 94 |
| Total financial assets at fair value through profit or loss | 50,869 | 94 |
| Total financial assets | 50,869 | 52,170 |
| Total current financial assets | 50,527 | 52,170 |
| Total non-current financial assets | 342 | - |
| **Financial liabilities** | | |
| Financial liabilities measured at amortized cost: | | |
| Loans and credit from banks | 15,107 | 50,139 |
| Trade payables | 44,789 | 38,731 |
| Other payables | 15,459 | 11,609 |
| Total financial liabilities measured at amortized cost | 75,355 | 100,479 |
| Financial liabilities at fair value through profit or loss: | | |
| Liabilities in respect of share-based payment | 56 | - |
| Total financial liabilities at fair value through profit or loss | 56 | - |
| Total financial liabilities | 75,411 | 100,479 |
| Total current financial liabilities | 60,609 | 91,520 |
| Total non-current financial liabilities | 14,802 | 8,959 |

**Note 15 - Financial instruments (Cont.)**

**b. Financial risk factors:**

The Group's activities expose it to various financial risks, such as market risks (foreign exchange risk and interest rate risk), credit risk, and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible negative effects on the Group's financial performance. The Group utilizes, from time to time, derivative financial instruments to hedge certain risk exposures.

The Board discusses the overall risk management principles, including the specific policy for certain risks such as foreign exchange, interest rate, credit, and liquidity risks, as well as the use of derivative and non-derivative financial instruments.

**1. Foreign currency risk:**

The Group operates in a large number of countries and is exposed to foreign currency risk resulting from the exposure to different currencies, mainly the NIS and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets, and liabilities denominated in a different currency from the functional and reporting currency of the Company (US Dollar). The finance department is responsible for managing the net position of each foreign currency by the use of forward contracts and currency options, according to the Company's hedging policy. In general, the management's policy is to hedge the forecasted payroll expenses denominated in NIS, payments in NIS to suppliers, and payments in euros to suppliers. For each period, the hedging level is examined according to market conditions and the Company's ability to provide collateral for hedging transactions.

**2. Credit risk:**

The Group has no significant concentrations of credit risk. The Group has a policy to ensure that the sales of its products are carried out to customers with an appropriate credit history.

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will likely be similarly affected by changes in economic or other conditions. Factors that have the potential to create concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations, and the level of their financial strength.

**Terms of sale to customers:**

Customer credit risk management is managed in accordance with the policy, procedures, and controls of the Company with respect to the management of customer credit risk. The evaluation of the credit quality of a customer is based on performance analysis and the credit rating of each customer, according to which credit terms are determined for each specific customer. Outstanding customer balances that have yet to be repaid are reviewed regularly, and shipments to significant customers are usually covered by credit insurance. It should be noted that the sales to a material customer that are carried out through an interested party are not insured.

The Company's revenues are mainly from customers in the USA and Canada. The Group monitors trade receivable debts regularly, and the financial statements include provisions for doubtful debts

**Note 15 - Financial instruments (Cont.)**

**b. Financial risk factors (Cont.)**

**Terms of sale to customers (Cont.)**

that accurately reflect, in the Company's opinion, the loss inherent in the debts whose collection is in doubt.

**3. Interest risk:**

The Group is exposed to the risk of changes in market interest rates resulting from short-term and long-term loans received and bear adjustable interest rates (the loans are linked to the SOFR interest rate).

**4. Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities on due dates. The responsibility for managing liquidity risk is handled by the Company’s management which carries out a plan for managing financial and liquidity risks for the short, medium, and long terms according to the Company's needs. The Company manages the liquidity risk by carrying out current financial forecasts.

The Group holds cash and other financial instruments with various financial institutions in Israel and in additional countries in which the Group operates. The Group’s policy as a borrower of credit is to operate under the limitations of the financing agreement with the banks.

As of December 31, 2023, the cash balance amounted to US$ 3,321 thousand. The Company also had an unutilized line of credit derived from the Company's current volume of collateral in the amount of US$ 42,000 thousand.

The table below presents the maturity profile of the Group's financial liabilities according to the contractual terms:

**As of December 31, 2023:**

| | Up to one year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total |
|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | |
| Loans from banks | 7,457 | 1,457 | 1,457 | 1,457 | 3,279 | 15,107 |
| Trade payables | 43,274 | 1,140 | 150 | 150 | 75 | 44,789 |
| Other payables | 9,878 | 3,329 | 1,051 | 686 | 565 | 15,459 |
| | 60,609 | 5,926 | 2,658 | 2,243 | 3,919 | 75,355 |

**Note 15 - Financial instruments (Cont.)**

**b. Financial risk factors (Cont.)**

**As of December 31, 2022:**

| | Up to one year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Total |
|---|---|---|---|---|---|---|
| | US dollars in thousands | | | | | |
| Loans from banks | 46,710 | 1,714 | 1,715 | - | - | 50,139 |
| Trade payables | 37,442 | 827 | 462 | - | - | 38,731 |
| Other payables | 7,368 | 3,259 | 850 | 132 | - | 11,609 |
| | 91,520 | 5,800 | 3,027 | 132 | - | 100,479 |

**c. Fair value:**

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

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy, which is determined based on the source of input used in measuring the fair value:

Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 - Data other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Data that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

| | As of December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| **Level 2** | | |
| Derivative financial instrument | - | 94 |
| Liability in respect of share-based payment | (56) | - |
| Total financial assets (liabilities) | (56) | 94 |

**Note 15 - Financial instruments (Cont.)**

**d. Change in interest rates:**

A change in the interest rates of the financial liabilities as of December 31 would have increased (decreased) the shareholders' equity and the gain or loss in the amounts presented below. This analysis assumes that all other variables remain constant and ignore tax effects.

| | Sensitivity test to changes in interest rates | |
|---|---|---|
| | Gain (loss) from change | |
| | 10% increase in interest | 10% decrease in interest |
| | US dollars in thousands | |
| 2023 | (81) | 81 |
| 2022 | (214) | 214 |

**e. Foreign currency risk**

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.
As of December 31, 2023, the Company has a surplus of financial liabilities in NIS over financial assets in the amount of US$ 5,075 thousand (as of December 31, 2021 – US$ 7,674 thousand).

Changes in Dollar - NIS exchange rates as of December 31 would have increased (decreased) the shareholders' equity and the gain or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

| | Sensitivity test to changes in NIS exchange rates | |
|---|---|---|
| | Gain (loss) from change | |
| | 10% increase in exchange rate | 10% decrease in exchange rate |
| | US dollars in thousands | |
| 2023 | 507 | (507) |
| 2022 | 767 | (767) |

**Sensitivity tests and principal work assumptions:**

The selected changes in the relevant risk variables were determined based on the management's estimates of reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or reported financial condition. The sensitivity tests present the gain or loss and/or change in shareholders' equity (before tax) with respect to each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial position of each risk with reference to the functional currency and assuming that all the other variables are constant.
The sensitivity test for loans with variable interest was performed on the variable component of interest.

## Note 16 - Assets and liabilities for employee benefits

Employee benefits consist of short-term benefits and post-employment benefits.

**Post-employment benefits:**

According to the Labor Laws and Severance Pay Law in Israel, the Company is required to pay severance pay to an employee upon dismissal or retirement or to make current contributions to defined contribution plans pursuant to Section 14 of the Severance Pay Law, as specified below. The Company's liability for the aforementioned is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is carried out in accordance with a valid employment contract and based on the employee's salary and term of service of employment, which establish the entitlement to receive the severance pay.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below:

1. **Defined contribution plans:**

   The provisions of Section 14 of the Severance Pay Law, 1963, apply to part of the severance pay payments, pursuant to which the current contributions paid by the Group into pension funds and/or policies of insurance companies, release the Group from any additional liability to employees for whom such contributions were made as aforementioned. These contributions, as well as contributions for remuneration, represent defined contribution plans.

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Expenses in respect of defined contribution plans | 468 | 457 | 490 |

2. **Defined benefit plans:**

   The Group accounts for that part of the payment of compensation that is not covered by contributions to defined contribution plans, as aforementioned, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group contributes amounts in central severance pay funds and in qualifying insurance policies.

**Note 16 - Assets and liabilities for employee benefits (Cont.)**

**Post-employment benefits (Cont.)**

2. **Defined benefit plans (Cont.)**

   a. **Changes in the defined benefit plan's liabilities and in the fair value of the plan's assets:**

**Year of 2023**

| | | Expenses recorded to profit or loss | | | | | Loss due to remeasurement in other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2023 | Cost of current service | Interest Expenses, net | Cost of past service and effect of clearing | Total expenses recorded to profit or loss in the period | Payments from the plan | Return on plan's assets (excluding amounts recognized in interest expenses, net) | Actuarial gain due to changes in demographic assumptions | Actuarial loss due to changes in financial assumptions | Actuarial loss due to experience deviations | Total effect on other compreh-ensive income in the period | Effect of changes in the exchange rates of foreign currency | Contributions deposited by the employer | Balance as of December 31, 2023 |
| Liabilities for defined benefit | 1,311 | 92 | 29 | - | 121 | 157 | - | 28 | (27) | 41 | 42 | (18) | - | 1,299 |
| Fair value of plan's assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net liability (asset) for defined benefit | 1,311 | 92 | 29 | - | 121 | 157 | - | 28 | (27) | 41 | 42 | (18) | - | 1,299 |

**Note 16 - Assets and liabilities for employee benefits (Cont.)**

**Post-employment benefits (Cont.)**

**2. Defined benefit plans (Cont.)**

**a. Changes in the defined benefit plan's liabilities and in the fair value of the plan's assets (Cont.)**

**Year of 2022:**

| | | Expenses recorded to profit or loss | | | | | Loss due to remeasurement in other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2022 | Cost of current service | Interest Expenses, net | Cost of past service and effect of clearing | Total expenses recorded to profit or loss in the period | Payments from the plan | Return on plan's assets (excluding amounts recognized in interest expenses, net) | Actuarial gain due to changes in demographic assumptions | Actuarial loss due to changes in financial assumptions | Actuarial loss due to experience deviations | Total effect on other compreh-ensive income in the period | Effect of changes in the exchange rates of foreign currency | Contributions deposited by the employer | Balance as of December 31, 2022 |
| Liabilities for defined benefit | 1,292 | 383 | 23 | - | 406 | 200 | - | - | (149) | 65 | (84) | (103) | - | 1,311 |
| Fair value of plan's assets | 9 | - | - | - | - | 9 | - | - | - | - | - | - | - | - |
| Net liability (asset) for defined benefit | 1,301 | 383 | 23 | - | 406 | 209 | - | - | (149) | 65 | (84) | (103) | - | 1,311 |

**Note 16 - Assets and liabilities for employee benefits (Cont.)**

**Post-employment benefits (Cont.)**

**2. Defined benefit plans (Cont.)**

**b. Principal assumptions used in determining the defined benefit plan:**

| | For the year ended December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | % | % |
| Discount rate (*) | 5.8 | 5.3 |
| Expected salary increase rate | 3 | 3 |

(*) The discount rate is based on index-linked high-quality corporate bonds.

**c. Amounts, timing and uncertainties of future cash flows:**

The following are possible changes that are considered reasonable for the end of the reporting period for each actuarial assumption, assuming that the remaining actuarial assumptions have remained unchanged:

| | The change in the defined benefit obligation |
|---|---|
| | Dollars thousand |
| **As of December 31, 2023:** | |
| Sensitivity test to changes in expected salary increase rate | |
| The change as a result of: | |
| Salary increase of 1% | 50 |
| Salary decrease of 1% | (44) |
| Sensitivity test to changes in the discount rate of the plan's liabilities and assets | |
| The change as a result of: | |
| 1% increase of the discount rate | (42) |
| 1% decrease of the discount rate | 49 |

**Note 17 – Long-Term Payables**

| | For the year ended December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Liability for long-term lease | 5,581 | 4,242 |
| Supplier credit - Purchase of fixed assets (1) | 492 | 1,288 |
| Supplier credit – Acquisition of operation | 1,024 | - |
| Liability for share-based payment (2) | 56 | - |
| | 7,153 | 5,530 |

(1) For additional details see Note 8b above.
(2) For additional details see Note 21b2 as follows.

## Note 18 - Taxes on income

### a. Tax laws applicable to the Group's companies:

The Company is subject to provisions of Income Tax Regulations (Rules for Bookkeeping by Foreign Investment Companies and Certain Partnerships and Determination of Taxable Income), 1986. In accordance with the aforementioned regulations, the Company files its income tax returns in US dollars.

### b. Tax rates applicable to the Group:

The corporate tax rate applicable to the Company in Israel is 23%.
The tax rate on a subsidiary in the US and Canada is 27% (including federal and state taxes).

### c. Final tax assessments:

Final tax assessments were issued to the Company up to and including the tax year 2018. The main subsidiary operating outside Israel has final tax assessments until 2019.

### d. Carry-forward losses for tax purposes and other temporary differences:

The Company has carry-forward losses for tax purposes amounting to, as of December 31, 2023, a sum of US$ 9.0 million, which may be used over an unlimited period of time. In respect of these balances and other deductible temporary differences, the Company recorded in its financial statements deferred tax assets in the sum of US$ 1.5 million (due to the expectation of their utilization as a result of the expected profit forecast in the coming years and the existence of deferred tax reserves in the amount of US$ 1.0 million, mainly in respect of fixed assets, and the expectation of realizing them against taxable income).

### e. Deferred taxes:

**Composition:**

| | Balance sheets | | Statements of income | | |
|---|---|---|---|---|---|
| | December 31 | | The year ended December 31 | | |
| | 2023 | 2022 | 2023 | 2022 | 2021 |
| | US dollars in thousands | | | | |
| **Deferred tax liabilities** | | | | | |
| Fixed assets | (991) | (1,177) | 186 | 267 | 179 |
| | (991) | (1,177) | | | |
| **Deferred tax assets** | | | | | |
| Carry-forward losses for tax purposes | 2,068 | 4,765 | (2,697) | (1,873) | 2,387 |
| Employee benefits | 414 | 393 | 21 | (61) | 31 |
| | 2,603 | 5,158 | | | |
| Deferred tax income (expenses) | | | (2,490) | (1,667) | 2,597 |
| Deferred tax assets, net | 1,491 | 3,981 | | | |

**Note 18 - Taxes on income (Cont.)**

**e. Deferred taxes (Cont.)**

**Deferred taxes are presented in the balance sheet as follows:**

| | December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Non-current assets | 1,491 | 3,981 |

**f. Tax to be paid included in profit and loss:**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Current tax expenses | 1,079 | 1,237 | 3,215 |
| Expenses in respect of taxes from previous years | (46) | (546) | (41) |
| Deferred tax expenses (income) | 2,490 | 1,667 | (2,597) |
| | 3,523 | 2,358 | 577 |

**g. Theoretical tax:**

The reconciliation between the theoretical tax rate that would have applied assuming that all the income and expenses, gains and losses in profit or loss were taxed at the statutory tax rate, and the taxes on income recorded in profit or loss, is as follows:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Income before taxes on income | 14,456 | 9,805 | 14,929 |
| Statutory tax rate | 23% | 23% | 23% |
| Tax expenses computed at the statutory tax rate | 3,325 | 2,255 | 3,434 |
| Increase (decrease) in taxes on income resulting from the following factors: | | | |
| Non-deductible expenses for tax purposes | 72 | 86 | 384 |
| Temporary differences for which no deferred taxes were recorded | 24 | 250 | 413 |
| Losses for tax purposes for which no deferred tax assets were recognized in the past, but were recognized during the reporting period | (270) | - | (4,196) |
| Difference in the tax rate applicable to income in consolidated subsidiaries located in other jurisdictions | 170 | 126 | 233 |
| Adjustments carried out during the year in respect of taxes from previous years | (46) | (546) | (41) |
| Others | 248 | 187 | 350 |
| Tax expenses | 3,523 | 2,358 | 577 |

## Note 19 - Contingent liabilities, commitments and liens

### a. Contingent liabilities:

**Legal proceedings:**

1. On January 10, 2022, the Company reported the submission of a statement of claim against it and against four additional defendants in Haifa District Court by an agent of the Company's machine supplier, Real.Tex Agencies Ltd., and the shareholder thereof, in a total amount of NIS 9 million. The plaintiff claims the defendants allegedly owe him commissions.
   Apparently, the Company's part is insignificant in relation to the entire lawsuit. It also appears the Company has good defense claims against the plaintiff's lawsuit. The management of the Company assesses, based on its legal counsel, that it is not possible to estimate the chances of the lawsuit at this stage.

2. Subsequent to the date of the report, on February 19, 2024, the Company was presented with a legal claim which was submitted to the District Court in Tel Aviv by REIT 1 Ltd., which leases to the Company the property where the Company is located as a tenant in the Teradion industrial area in Misgav. The claim is in the amount of NIS 3,255,055 (including VAT), in respect of the rent fee differences that REIT 1 Ltd. claims are due to it according to the rental agreement between the parties. At this stage, the Company is studying the claim, but at first glance, it seems that the Company has good defense arguments against the claim. Nevertheless, at this stage, it is impossible to estimate the chances of the lawsuit.

### b. Commitments to pay rent:

The Company's plants and facilities and most of those of its subsidiaries are located in buildings leased for various terms ending during the years 2024-2028.
The expected rents for non-cancellable lease agreements in the coming years, which are calculated according to the rental agreements in effect as of December 31, 2023, are as follows:

| | As od December 31 | |
|---|---|---|
| | 2023 | 2022 |
| | US dollars in thousands | |
| Year 1 | 2,666 | 2,016 |
| Year 2 | 1,417 | 1,571 |
| Year 3 | 931 | 749 |
| Year 4 | 776 | 153 |
| Year 5 | 547 | - |
| | 6,337 | 4,489 |

### c. Liens

All the liabilities to a bank are secured by a fixed and floating charge on the existing and future assets of the Company and its subsidiaries in both the present and the future.

## Note 20 - Capital

### a. Composition of the share capital and the convertible securities:

| | As of December 31, 2023 | As of December 31, 2022 |
|---|---|---|
| | Number of shares | |
| Authorized share capital (ordinary shares of NIS 10 par value each) | 20,000,000 | 20,000,000 |
| Issued share capital (ordinary shares of NIS 10 par value each) | 12,437,934 | 12,411,799 |
| Paid up share capital (ordinary shares of NIS 10 par value each) | 12,338,194 | 12,312,059 |
| Option warrants (non-tradable) for the Company's employees and managers, directors and service providers exercisable into ordinary shares of NIS 10 par value each | 1,586,667 | 1,036,667 |
| Treasury shares held by a subsidiary | 99,740 | 99,740 |

### b. Rights conferred by the shares:

Ordinary shares

Voting rights at the general meeting, right to a dividend, rights upon liquidation of the Company and the right to appoint directors of the Company.

### c. Treasury shares:

Tefron Holdings (98) Ltd., a wholly-owned subsidiary of the Company, holds 99,740 Company shares, which constitute 0.80% of the Company's shares and whose cost is US$ 7,408 thousand, as of December 31, 2023, and 2022. The investment in these shares is recorded according to the "treasury shares" method in shareholders' equity.

### d. Capital management in the Company:

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity, thereby creating a return for the shareholders, investors, and other interested parties.
2. To ensure an adequate return for the shareholders by pricing products and services commensurately with the level of risk in the Group's business operations.

The Company operates to achieve a return on capital at a level that is customary in the industry and markets in which it operates. This return is subject to changes depending on market factors in the Company's industry and business environment. In 2023, 2022, and 2021, the Company achieved a return on capital of 17.3%, 14.3%, and 32.6%, respectively.

### Note 21 - Share-based payment transactions

**a. Expenses recognized in the financial statements:**

The expenses recognized in the Company's financial statements for services rendered by employees, directors and consultants are presented in the following table:

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2023** | **2022** | **2021** |
| | US dollars in thousands | | |
| Share based payment plans settled with equity instruments for employees and consultants | 236 | 276 | 431 |
| Share based payment plans settled in cash for employees and consultants | 56 | (87) | 87 |
| Total share-based payment plans settled with equity instruments and in cash | 292 | 189 | 518 |

**b. Share-based payment plan to the Company's employees and managers, directors and service providers**

**1. Transactions settled with equity instruments:**

On December 30, 2013, the option plan for employees, officers, and consultants was approved. The option warrants shall vest and become exercisable, and the offeree's eligibility to those warrants shall expire according to the following:

- One-third of the options (hereinafter: "the first series") will be exercisable beginning one year from the date of their allocation and until the end of five years as of the date on which the options included in the first series were first exercisable.
- One-third of the options (hereinafter: "the second series") will be exercisable beginning two years from the date of their allocation and until the end of five years as of the date on which the options included in the second series were first exercisable.
- One-third of the options (hereinafter: "the third series") will be exercisable beginning three years from the date of their allocation and until the end of five years as of the date on which the options included in the third series were first exercisable.

The share-based payment transactions granted by the Company to its employees and consultants are detailed as follows:

1. On January 16, 2019, the Company's Board approved, after receiving the approval of the Remuneration Committee, the allocation of 700,000 non-tradeable options to Mr. Michael Goldenblatt, the CEO of Tefron USA, Inc. (or to a corporation fully controlled by him and through which he provides management services to the Company) (hereinafter in this sub-clause: "the options" and "the offeree") exercisable for up to 700,000 ordinary shares of NIS 10 par value each (hereinafter: "the exercise shares"), in accordance with the cashless method. The economic value of each option offered to the offeree (in an average calculation of the three series) is NIS 1.72. On May 22, 2019, these options were allocated to the offeree without consideration as part of his remuneration for his position in the Company. The exercise price of each option, determined by the Company's Board, is NIS 4.18. The offeree will be entitled to exercise the options in 3 series, exercisable for a period of five years each,

**Note 21 - Share-based payment transactions (Cont.)**

**b. Share-based payment plan to the Company's employees and managers, directors and service providers (Cont.)**

1. **Transactions settled with equity instruments (Cont.)**

as of the following dates and in accordance with the principles set out below:

- First series – 233,333 options exercisable for up to 233,333 ordinary shares of the Company of NIS 10 par value each as of February 1, 2020, and until January 31, 2025.
- Second series – 233,333 options exercisable for up to 233,333 ordinary shares of the Company of NIS 10 par value each as of February 1, 2021, and until January 31, 2026.
- Third series – 233,334 options exercisable for up to 233,334 ordinary shares of the Company of NIS 10 par value each as of February 1, 2022, and until January 31, 2027.

As of the publication date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 466,667 options.

2. On March 18, 2021, the Company's Board of Directors decided, after receiving the approval of the Company's Remuneration Committee, to allocate 585,000 non-tradeable options to 20 of the Company's employees (hereinafter in this sub-clause: "the options" and "the offerees"), exercisable for up to 585,000 ordinary shares of NIS 10 par value each in accordance with the cashless method. The economic value of each option offered to the offerees (in an average calculation of the three series) is NIS 4.6. On May 5, 2021, these options were allocated to the offerees without consideration as part of the offerees' remuneration in respect of their position in the Company. The exercise price of each option determined by the Company's Board is NIS 7.07. The offerees will be entitled to exercise the options in 3 series, exercisable for a period of five years each, as of the following dates and in accordance with the principles set out below:

- First series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2022, and until March 16, 2027.
- Second series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2023, and until March 16, 2028.
- Third series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2024, and until March 16, 2029.

As of the publication date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 436,666 options.

3. On November 14, 2023, after receiving the approval of the Company's Remuneration Committee, the Company's Board of Directors decided to allocate 600,000 non-tradeable options to 28 of the Company's employees (hereinafter – "the options" and "the offerees") exercisable for up to 600,000 ordinary shares of NIS 10 par value each of the Company's shares in accordance with the cashless method. The economic value of each option offered to the offerees (in an average calculation of the three series) is approximately NIS 10. On December 4, 2023, these options were allocated to the offerees without consideration as part of the offerees' remuneration in

**Note 21 - Share-based payment transactions (Cont.)**

**b. Share-based payment plan to the Company's employees and managers, directors and service providers (Cont.)**

1. **Transactions settled with equity instruments (Cont.)**

respect of their position in the Company. The exercise price of each option determined by the Company's Board is NIS 16.77. The offerees will be entitled to exercise the options in 3 series, exercisable for a period of five years each, as of the following dates and in accordance with the principles set out below:

- First series – 200,000 options exercisable for up to 200,000 ordinary shares of the Company of NIS 10 par value each as of December 1, 2024, and until November 30, 2029.
- Second series – 200,000 options exercisable for up to 200,000 ordinary shares of the Company of NIS 10 par value each as of December 1, 2025, and until November 30, 2030.
- Third series – 200,000 options exercisable for up to 200,000 ordinary shares of the Company of NIS 10 par value each as of December 1, 2026, and until November 30, 2031.

As of the publication date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 590,000 options.

2. **Transactions settled in cash:**

On July 1, 2021, six employees in the subsidiary who are not officers of the Company were granted 120,000 share appreciation rights, settled in cash, without any consideration as part of the remuneration in respect of their position in the Company. The determined exercise price of each such right is US 5 dollars. The employees will be entitled to exercise the rights in 3 installments, which will be exercisable for a period of three years each (hereinafter: "the exercise period"), as of the following dates, provided that at that date, the employee is still employed by the Company:

- First series – 30,000 rights exercisable as of July 1, 2022.
- Second series – 30,000 rights exercisable as of July 1, 2023.
- Third series – 60,000 rights exercisable as of July 1, 2024.

As of the publication date of this report, the remaining amount of rights that can still be exercised in regard to this allocation is 100,000 rights.

**c. Exercising options:**

During the reporting period, 50,000 of the Company's employee options were exercised into 26,135 ordinary shares of the Company.

Subsequent to the date of the report, 50,000 of the Company's employee options were exercised into 32,575 ordinary shares of the Company.

**Note 21 - Share-based payment transactions (Cont.)**

**d. Movement during the year:**

The following table lists the number of share options, the weighted average exercise price of the share options, and modifications in employee option plans that were carried out during the current year:

| | As of December 31, 2023 | | As of December 31, 2022 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (dollar) | Number of options | Weighted average exercise price (dollar) |
| Options for shares granted at the beginning of the year | 1,036,667 | 1.6 | 1,270,000 | 1.8 |
| Options for shares granted during the year | 600,000 | 4.6 | - | - |
| Options exercised during the year | (50,000) | 1.9 | (233,333) | 1.3 |
| Options for shares at the end of the year | 1,586,667 | 2.7 | 1,036,667 | 1.6 |
| Options for shares which can be exercised at the end of the year | 796,667 | 1.5 | 656,667 | 1.4 |

The weighted average of the remaining contractual term of the share options as of December 31, 2023, is 4.8 years (2022 – 3.7 years).

**e. Measurement of the fair value of the share options settled with equity instruments:**

The Company uses the Black & Scholes model to measure the fair value of options to shares settled with equity instruments that have been granted to employees. The measurement is carried out on the date of granting the options for shares that are settled with equity instruments.

The expected lifespan of the share options is based on the Company's historical data, which is not necessarily indicative of the future exercise pattern of share options.

The expected volatility of the share price reflects the assumption that the historical volatility of the share price is reasonably indicative of expected future trends.

### Note 22 - Supplementary information to the profit and loss items

**a. Cost of sales:**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Finished goods and incidentals (*) | 116,304 | 122,244 | 190,509 |
| Materials | 23,619 | 21,918 | 23,424 |
| Payroll and benefits | 13,657 | 11,962 | 10,705 |
| Sub-contracted work | 5,716 | 6,656 | 9,615 |
| Depreciation | 4,839 | 4,067 | 3,678 |
| Other manufacturing expenses | 8,385 | 5,476 | 7,579 |
| | 172,520 | 172,323 | 245,510 |
| Decrease (increase) in work-in-progress and finished goods inventories | 15,802 | 872 | (37,946) |
| | 188,322 | 173,195 | 207,564 |

(*) Including expenses in respect of purchasing finished goods, customs, and transportation.

**b. Development expenses:**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Payroll and benefits | 3,517 | 3,072 | 3,167 |
| Manufacturing expenses | 1,601 | 1,862 | 1,503 |
| Depreciation and amortization | 404 | 400 | 249 |
| Materials | 66 | 229 | 271 |
| Others | 114 | 58 | 42 |
| | 5,702 | 5,621 | 5,232 |

## Note 22 - Supplementary information to the profit and loss items (Cont.)

### c. Selling and marketing expenses:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Payroll and benefits | 8,743 | 7,925 | 7,891 |
| Export and distribution | 7,338 | 8,544 | 7,249 |
| Commissions to agents and franchisees | 3,084 | 3,072 | 5,883 |
| Overseas office maintenance | 579 | 505 | 646 |
| Overseas excursions | 670 | 527 | 147 |
| Depreciation and amortization | 1,653 | 1,603 | 269 |
| Sales promotion | 1,199 | 1,236 | 1,007 |
| Others | 1,850 | 1,833 | 1,334 |
| | 25,116 | 25,245 | 24,426 |

### d. General and administrative expenses:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Payroll and benefits | 2,066 | 1,757 | 1,898 |
| Consulting | 1,144 | 575 | 765 |
| Remuneration and insurance for directors | 210 | 257 | 267 |
| Others | 1,359 | 1,716 | 1,578 |
| | 4,779 | 4,305 | 4,508 |

### e. Other expenses

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| Capital loss | - | - | 31 |
| Loss from impairment | - | - | 708 |
| | - | - | 739 |

**Note 22 - Supplementary information to the profit and loss items (Cont.)**

**f. Financing income (expenses):**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| **Financing income:** | | | |
| Gain from change in exchange rates | 337 | 295 | 197 |
| | 337 | 295 | 197 |
| **Financing expenses:** | | | |
| Financing expenses in respect of credit and bank loans | 1,952 | 2,115 | 911 |
| Interest expenses for the advancement of payments | 2,146 | 755 | 448 |
| Bank commission | 237 | 224 | 295 |
| Interest on lease | 422 | 484 | 297 |
| Loss from change in foreign exchange rates | - | 186 | 247 |
| Net expenses due to a change in fair value of cash flow | - | 211 | - |
| Revaluation of liability for options to banks | - | - | 1,571 |
| Other expenses | 668 | 459 | 376 |
| | 5,425 | 4,434 | 4,145 |

**Note 23 - Earnings per share**

**Detail of the number of shares and earnings used to calculate the earnings per share:**

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2021 | |
| | Weighted average number of shares | Earnings attributed to sharehold-ers of the Company | Weighted average number of shares | Earnings attributed to sharehold-ers of the Company | Weighted average number of shares | Loss attributed to sharehol-ders of the Company |
| | Thousands | Dollars thousands | Thousands | Dollars thousands | Thousands | Dollars thousands |
| For the purpose of calculating basic earnings | 12,338 | 10,933 | 12,312 | 7,447 | 12,121 | 14,352 |
| For the purpose of calculating diluted earnings | 12,931 | 10,933 | 13,004 | 7,447 | 12,944 | 14,352 |

### Note 24 – 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 to customers in North America and Europe with leading brands such as Under Armour.

(b) Retail – This segment engages in the design, development, production, and marketing of seamless intimate apparel and activewear and leisurewear, which are characterized by purchasing large quantities of less complex products for private brands as well as brands for which the Company received a franchise to customers in the retail market in North America and Europe such as Walmart.

**b. Information on reportable segments’ sales, income (loss) and assets:**

(a) Measurement of segment sales, income (loss), and assets:

Segment sales, income (loss) and assets are measured according to the same accounting principles as those applied in the consolidated financial statements.
The income (loss) of the segments reflects the profit (loss) from the operations of the segment and do not include net financing expenses and income taxes since these items are not attributed to segments and are not analyzed by the CODM by segment.

(b) The segments' assets include mainly inventory, trade receivables, and other receivables. Assets not attributed to the segments mostly include fixed assets, intangible assets, cash, financial derivatives, and deferred taxes.

**Note 24 – Operating segments (Cont.)**

**c. Primary segment reporting of operating segments:**

| | For the year ended December 31, 2023 | | | |
|---|---|---|---|---|
| | Brands | Retail | Adjustments | Total |
| | US dollars in thousands | | | |
| Total segment revenues from external parties | 66,701 | 176,762 | | 243,463 |
| Direct profit | 11,527 | 13,215 | | |
| Indirect costs | (1,670) | (3,528) | | |
| Segment results | 9,857 | 9,687 | | 19,544 |
| Financing expenses, net | | | | (5,088) |
| Tax expenses | | | | (3,523) |
| Net profit | | | | 10,933 |
| Segment assets | 43,955 | 68,590 | 28,299 | 140,844 |
| Segment liabilities | 20,647 | 41,164 | 15,851 | 77,662 |
| Cost of purchasing long-term assets | - | - | 7,384 | 7,384 |
| Depreciation and amortization | 1,876 | 1,931 | 3,090 | 6,897 |

| | For the year ended December 31, 2022 | | | |
|---|---|---|---|---|
| | Brands | Retail | Adjustments | Total |
| | US dollars in thousands | | | |
| Total segment revenues from external parties | 77,377 | 144,933 | | 222,310 |
| Direct profit | 10,556 | 8,080 | | |
| Indirect costs | (1,725) | (2,967) | | |
| Segment results | 8,831 | 5,113 | | 13,944 |
| Financing expenses, net | | | | (4,139) |
| Tax expenses | | | | (2,358) |
| Net profit | | | | 7,447 |
| Segment assets | 38,700 | 89,325 | 27,213 | 155,238 |
| Segment liabilities | 19,606 | 32,019 | 51,463 | 103,088 |
| Cost of purchasing long-term assets | - | - | 5,325 | 5,325 |
| Depreciation and amortization | 1,707 | 1,683 | 2,680 | 6,070 |

**Note 24 – Operating segments (Cont.)**

**c. Primary segment reporting of operating segments (Cont.)**

| | For the year ended December 31, 2021 | | | |
|---|---|---|---|---|
| | Brands | Retail | Adjustments | Total |
| | US dollars in thousands | | | |
| Total segment revenues from external parties | 70,083 | 191,263 | | 261,346 |
| Direct profit | 7,250 | 17,394 | | |
| Indirect costs | (1,326) | (3,626) | | |
| Segment results | 5,924 | 13,768 | | 19,692 |
| Other expenses | | | | (815) |
| Financing expenses, net | | | | (3,948) |
| Tax expenses | | | | (577) |
| Net profit | | | | 14,352 |
| Segment assets | 30,055 | 88,902 | 31,809 | 150,766 |
| Segment liabilities | 17,679 | 45,682 | 43,402 | 106,763 |
| Cost of purchasing long-term assets | - | - | 4,344 | 4,344 |
| Depreciation and amortization | - | - | 4,236 | 4,236 |

**d. Secondary reporting regarding geographical segments:**

**1. Sales by geographic markets (based on customer location):**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | US dollars in thousands | | |
| North America | 210,875 | 189,030 | 215,768 |
| Europe | 32,578 | 33,276 | 45,559 |
| Israel | 10 | 4 | 19 |
| | 243,463 | 222,310 | 261,346 |

**2. Carrying amount of assets and capital expenditures by geographical areas:**

| | Balance of non-current assets (*) December 31, | | Capital expenditures for the year ended December 31 | | |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2021 |
| | US dollars in thousands | | | | |
| Israel | 17,941 | 17,409 | 2,981 | 3,976 | 3,581 |
| North America | 267 | 291 | 166 | 93 | 121 |
| Others | 5,680 | 1,978 | 3,229 | 1,256 | 642 |
| | 23,888 | 19,678 | 6,376 | 5,325 | 4,344 |

## Note 24 – Operating segments (Cont.)

### d. Secondary reporting regarding geographical segments: (Cont.)

(*) Excluding deferred taxes, net, right-of-use assets and franchise assets.

### e. Major customers

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | Percentage of total sales | | |
| Customer A (part of the retail segment) | 25.8 | 28.5 | 31.8 |
| Customer B (part of the retail segment) | 25.6 | 18.4 | 17.9 |
| Customer C (part of the retail segment) | 10.4 | 8.6 | 11.4 |
| | 61.8 | 55.5 | 61.1 |

## Note 25 - Balances and transactions with interested parties and related parties

### a. Balances with interested parties and related parties

**As of December 31, 2023:**

| | Related and interested parties | Key executives |
|---|---|---|
| | US dollars in thousands | |
| Trade receivables | 64 | - |
| Trade payable | (76) | 8 |
| | (12) | 8 |

**As of December 31, 2022:**

| | Related and interested parties | Key executives |
|---|---|---|
| | US dollars in thousands | |
| Trade receivables | 153 | - |
| Trade payable | (68) | - |
| | 85 | - |

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**b. Benefits to interested parties and related parties:**

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| | Percentage of total sales | | |
| Salaries and benefits for employees of the Company or on its behalf, including the CEO | 439 | 375 | 390 |
| Fees of directors not employed by or on behalf of the Company | 169 | 195 | 209 |
| Number of beneficiaries of salaries and benefits | | | |
| Related and interested parties employed by or on behalf of the Company | 1 | 1 | 1 |
| Directors not employed by the Company | 5 | 6 | 6 |
| | 6 | 7 | 7 |

**c. Transactions with related parties and interested parties**

**For the year ended December 31, 2023:**

| | Related and interested parties | Senior officers in management |
|---|---|---|
| | US dollars in thousands | |
| Sales | 1,063 | - |
| Cost of sales | (2) | - |
| Selling and marketing expenses | (227) | - |
| General and administrative expenses | - | (608) |

**For the year ended December 31, 2022:**

| | Related and interested parties | Senior officers in management |
|---|---|---|
| | US dollars in thousands | |
| Sales | 3,355 | - |
| Cost of sales | (1) | - |
| Selling and marketing expenses | (252) | - |
| General and administrative expenses | - | (571) |

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**c. Transactions with related parties and interested parties (Cont.)**

**For the year ended December 31, 2022**

| | Related and interested parties | Senior officers in management |
|---|---|---|
| | US dollars in thousands | |
| Sales | 3,727 | - |
| Cost of sales | (8) | - |
| Selling and marketing expenses | (213) | - |
| General and administrative expenses | - | (599) |
| Financing expenses | (65) | - |

**d. Commitment by controlling shareholders:**

Nouvelle Intimes Seamless Inc., a private company incorporated in Canada (through which the Lieberman family previously held shares in the Company) ("Nouvelle"), and Messrs. Ben and Martin Lieberman, the controlling shareholders of the Company, signed on December 30, 2010, a non-competition commitment concerning the Company in the field of "seamless" products for a fixed period of 5 years as of the date of signing the letter of commitment for non-competition. In the framework of an agreement for investing in the Company in 2015, it was agreed upon that Litef Holdings Inc.("Litef") (a private Canadian company owned by Messrs. Lieberman, which holds the Company's shares) would join as a party to the non-competition letter of commitment and it will remain in force as long as Nouvelle, Messrs. Ben and Martin Lieberman and Litef, each of them individually, will be amongst the controlling shareholders of the Company.

**e. Lease agreement with a related party:**

On March 28, 2016, the Company's Board decided, after obtaining the approval of the Audit Committee of the Company, to approve the engagement of the Company in a non-extraordinary transaction, as this term is defined in the Companies Law, with a subsidiary of Lamour, for the purpose of sublease of office space in Montreal, Canada, in an area of 540 square meters for a monthly payment of US$ 3,950 (excluding taxes). The approval of the Company’s Board, as stated above, will remain in effect for a period of up to three years. On November 22, 2018, the Company's Board decided, after obtaining the approval of the Company's Audit Committee, to approve the expansion of the lease in Montreal by an additional 240 square meters. On March 18, 2019, the Company's Board approved, after receiving the approval of the Company's Audit Committee on that date, the Company's continued engagement in the said lease agreement for an additional period of three years. On March 14, 2022, the Company's Board decided, after receiving the approval of the Company's Audit Committee on that date, to approve the Company's continuation of the aforementioned lease agreement for a period of an additional year. On March 14, 2023, the Company’s Board approved, after receiving the approval of the Audit Committee as of that date, the continuation of the Company’s engagement in the said lease agreement for an additional year when the rent fees, denominated in Canadian dollar are CA$ 9,400 per month. which constitute approximately US$ 6,970 as of the publication date of this report. On March 14, 2024, the Company's Board approved, after receiving the approval of the Company's Audit

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**e. Lease agreement with a related party (Cont.)**

Committee, as of that date, the continuation of the Company’s engagement in the said lease agreement for an additional year.

**f. Agreement for invoicing services with a related party:**

In February 2012, the Company's Board approved, following the approval of the Audit Committee of the Company, the Company's engagement in a non-extraordinary transaction with Lamour Hosiery Inc. (hereinafter: “Lamour”) a private company incorporated in Delaware state and owned by the Lieberman family, whose members are the controlling shareholders of the Company, which shall serve as a channel for the sale of the Company’s products to Walmart, and this for the reasons described below: Walmart is a significant customer of the Company. In order for the Company to sell products directly to Walmart, it must first complete the process of issuing a manufacturer’s identification number. The Company has not completed the process of issuing the said manufacturer’s identification number due to the difficulty of obtaining it opposite Walmart. In light of the aforesaid, the Company decided to sell its products to Walmart through Lamour, which has already acquired Walmart’s manufacturer’s identification number. According to the agreements between Lamour and the Company, the proceeds from Walmart, which is paid to Lamour, is transferred to the Company upon receiving it and under the same payment terms. On March 22, 2015, and March 29, 2018, the Company's Board of Directors approved the extension of the term of the agreement by an additional three years after receiving the recommendation of the Audit Committee, according to which the extension of the period, as aforesaid, is reasonable under the circumstances. Upon completion of the acquisition of Lamour by the subsidiary Tefron USA Inc., the Group only has sales to Walmart Canada in an insignificant amount to the Company, which are executed through a company owned by the controlling shareholders in Canada as a pipeline transaction. This transaction was approved by the Audit Committee and the Board of Directors of the Company in March 2019 for the reason that a direct sale of the Company to Walmart Canada will be under inferior commercial terms compared to the selling through a pipeline transaction as aforesaid. In March 2021, the Company’s Audit Committee and Board approved once more the said transaction for the same reasons as stated above. During the reporting period, the Company began to sell its products directly to Walmart Canada and the aforementioned transaction came to an end.

**g. Payment of director remuneration to controlling shareholders:**

Pursuant to the appointment of Messrs. Ben Lieberman and Martin Lieberman (hereinafter: “Messrs. Lieberman”), who are amongst the controlling shareholders of the Company, as directors of the Company as of August 12, 2015, on November 30, 2015, the Company’s Board approved, after obtaining the approval of the Company’s Remuneration Committee, the granting of director remuneration to Messrs. Lieberman in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000, as of the date of the commencement of their term of service as directors of the Company, in accordance with the director remuneration paid for the other directors of the Company. As of the date of Mr. Ben Lieberman's appointment as the CEO of the Company, he no longer receives director remuneration from the Company.

### Note 25 - Balances and transactions with interested parties and related parties (Cont.)

**h. Inclusion of a related party in the director and officer policy of the Company:**

Pursuant to the appointment of Messrs. Lieberman, who are amongst the controlling shareholders of the Company, as directors of the Company as of August 12, 2015, on November 30, 2015, the Company's Board approved, after obtaining the approval of the Remuneration Committee of the Company the inclusion thereof in the director and officer insurance policy of the Company in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000.

**i. Granting a letter of indemnity to controlling shareholders:**

On February 11, 2016, the general meeting of the shareholders of the Company approved, after obtaining the approval of the Remuneration Committee and the Board of Directors of the Company, the granting of letters of indemnity to Messrs. Lieberman in the Company’s customary wording for its officers and on March 6, 2019, the general meeting of the shareholders of the Company approved, after receiving the approval of the Audit Committee and the Company’s Board, the renewal of the said letters of indemnity. On February 21, 2022, the general meeting of the shareholders of the Company approved, after receiving the approval of the Remuneration Committee and the Board of Directors of the Company, the renewal of the validity of the said letter of indemnification to Messrs. Lieberman.

**j. Negligible transactions:**

On March 22, 2015, the Company adopted, after obtaining the approval of the Audit Committee and the Board of the Company, the procedure concerning transactions with interested parties and officers, in the framework of which the Company adopted guidelines and rules for the classification of a Company's transaction with an interested party as negligible.
As part of the procedure, it was determined that in any transaction that is tested for negligibility, all of the criteria relevant to such a transaction would be examined prior to the event, such as the ratio of assets, ratio of liabilities, ratio of shareholders’ equity, ratio of revenues and the ratio of expenses, and in the event that the rate of each of the relevant standards is less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower, the transaction shall be deemed as negligible, subject to the following:

1. In cases where, at the discretion of the Company, the aforementioned criteria are not relevant to the transaction at issue, the Company will determine another criterion provided that the relevant criterion concerning such a transaction is at a rate of less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower.
2. The negligibility of the transaction will be reviewed on an annual basis for the periodic report, the financial statements, and prospectus (including shelf prospectus reports) while including all the transactions of the same type that have been carried out with an interested party or controlling shareholder, as applicable, in the same year.
3. A preliminary condition for examining a transaction, whether it is negligible or not, is that the transaction is carried out under market conditions. Any transaction which is not being carried out under market conditions does not meet the definition of a negligible transaction

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**j. Negligible transactions(Cont.)**

and is considered an extraordinary transaction that requires approval procedures as required by law in relation to an extraordinary transaction.

4. A transaction shall not be considered as negligible when it is not negligible from a qualitative standpoint. (Examination of the qualitative considerations of the interested party's transaction may contradict the transaction's negligibility, as noted above. For example, and for the purpose of example only, a transaction with an interested party will not generally be considered as negligible if it is seen as a significant event by the Company's management and it serves as a basis for managerial decisions or if in the framework of the transaction interested party's transaction, interested parties are expected to receive benefits and it is important to report them to the public).

**k. Approval of the remuneration policy for officers of the Company:**

On October 11, 2023, the extraordinary general meeting of the Company passed a resolution to approve the new remuneration policy for officers of the Company.

**l. The Company's engagement with Mr. Ben Lieberman in an agreement to provide management services to the Company as CEO:**

On June 18, 2017, the Company's Board decided to appoint Mr. Ben Lieberman, a director and controlling shareholder of the Company, as the Company's CEO as of June 19, 2017. On August 3, 2017, the Company's extraordinary general meeting approved the engagement with Mr. Lieberman in an agreement to provide management services to the Company as CEO. On August 19, 2020, an extraordinary general meeting of the Company was convened, during which the renewal of the management agreement with Mr. Lieberman was approved under the same terms of the management agreement. On July 5, 2023, an extraordinary general meeting of the Company was held, during which the renewal of the management agreement with Mr. Lieberman was approved without any change in the terms of the management agreement, except that, *in lieu* of the management fee in the amount of NIS 105 thousand per month plus VAT, Mr. Lieberman is entitled to management fee in the amount of NIS 150 thousand per month plus VAT.

**m. Approval of a transaction between the Company and its controlling shareholders for the purpose of leasing showrooms:**

On August 24, 2017, the Company's Audit Committee and Board of Directors approved a transaction between the Company and its controlling shareholders. The transaction revolves around three companies jointly renting showrooms in Manhattan, New York, which will be used by the three companies (1/3 each) for the purpose of presenting their products. For this purpose, the Company (through a wholly-owned subsidiary) engaged in an agreement with a private company controlled by the controlling shareholders of the Company, Ben Lieberman and Martin Lieberman (hereinafter: "the lessee"), whereby the lessee will lease to the Company, through a back-to-back lease, part of the showrooms' space which the lessee leased in a building in Manhattan, New York, which constitute one-third of the showrooms, which will serve, as aforementioned, the three companies (hereinafter: the "showroom complex"). The three companies are the Company and two other companies, one of which is owned by the said

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**m. Approval of a transaction between the Company and its controlling shareholders for the purpose of leasing showrooms (Cont.)**

controlling shareholders, and the other is a company in which the controlling shareholders own 50%. All three companies operate in the textile sector, while the Company is the only company operating in the field of seamless technology. The holding of a joint showroom complex by a number of companies is acceptable when it serves all of the companies participating in it, which enjoy greater exposure and exploit economies of scale (hereinafter: "the lease agreement").

The terms of the engagement are as follows:

**a.** As aforesaid, the terms of the lease agreement will be back-to-back to the terms of the lease agreement signed between the lessee and the owners of the showroom complex (hereinafter: “the main lease agreement”), when it refers to 1/3 of the showroom complex area. The lease refers to 290 square meters (gross) (3,147 square feet) of the showroom complex area which constitutes one-third of the area of the entire showroom complex. The two additional companies will each bear a third of the lease fees of the showroom complex.

**b.** The lease term - the initial lease term was from July 1, 2017, until December 31, 2021.

**c**. The lease fees - for the sublease, the Company will pay a 1/3 of the lease costs of the showroom complex, on the dates of their payment, as stipulated in the main lease agreement. Accordingly, the cost of the lease fees for the Company will be US$ 11,500 monthly.

**d.** Other joint expenses - In addition to the lease fees, the Company will bear one-third of the additional current expenses of the showroom complex, such as cleaning expenses, maintenance costs, water, electricity, municipal taxes, etc. The cost of the joint expenses for the Company is estimated at US$ 1,150 per month.

**e.** Showroom complex renovation expenses - The renovation and adjustment work were carried out by a third party unrelated to any of the three companies, whereas each of the companies bears a third of the renovation and adjustment costs. The Company's share in this renovation is US$ 154 thousand.

On March 14, 2022, the Audit Committee and the Company’s Board approved the extension of the agreement till December 31, 2025, and the updated lease fees in the sum of US$ 10,700 per month on average over 4 years. The Company intends to terminate this agreement by mutual agreement, upon the relocation to alternative offices.

**n. The Company’s engagement with Mrs. Miriam (Mimi) Lieberman, a relative (daughter) of a controlling shareholder of the Company:**

Mrs. Miriam (Mimi) Lieberman, daughter of Mr. Ben Lieberman who is a controlling shareholder of the Company who serves as the Company's director and CEO, was appointed to serve, subsequent to the date of the report, as of January 1, 2024, as Vice President of Business Development of the American subsidiary of the Company, Tefron USA, Inc. (hereinafter: “Mrs. Lieberman”). On December 27, 2023, the extraordinary general meeting of the Company approved the terms of employment of Mrs. Miriam (Mimi) Lieberman in her position as aforementioned, after receiving also the approval of the Audit Committee and Board of Directors of the Company for these terms.

**Note 25 - Balances and transactions with interested parties and related parties (Cont.)**

**n. The Company’s engagement with Mrs. Miriam (Mimi) Lieberman, a relative (daughter) of a controlling shareholder of the Company (Cont.)**

Mrs. Lieberman’s terms of employment are as follows:

1. A gross monthly salary in the amount of US$ 20,000 per month, together with customary benefits such as car maintenance fees, medical insurance, and a 401k retirement plan, so that the total monthly cost to the Company in respect of her services will be approximately US$ 28,000 per month.
2. Am annual bonus in the amount of up to 3 gross monthly salaries based on meeting the targets, and subject to the approval of the Remuneration Committee and the Company's Board of Directors.
3. Reimbursement of direct expenses incurred by her related to her position at the Company, against the submission of receipts, and in accordance with what is customary at the Company
4. The contract with Mrs. Lieberman will begin on January 1, 2024, and will be for a period of three years, until December 31, 2026, and each party may terminate the contract within the said period, by giving the other party an advance written notice of 30 days

**Note 26 – Additional significant events during the reporting period and thereafter**

**a. Appointing a new chairman for the Company’s Board of Directors 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 Director (hereinafter: “Mr. Shachak”) On April 23, 2023, the terms of the management agreement between the Company and the chairman of the Company’s Board, Mr. Shachak, were approved at an extraordinary general meeting of the shareholders of the Company, after they were also approved by the Audit Committee and Board of Directors of the Company. According to these terms, Mr. Shachak will provide the Company with management services as an active Chairman of the Board. The scope of management services shall be 20% of a full-time position in return for a fixed monthly payment of management fees of NIS 30,000 per month plus VAT, as required by law.

**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. (hereinafter in this sub-clause: “the purchaser"), which was established in Romania for the purposes of the transaction detailed as follows, engaged with ADESGO S.A. (hereinafter: "Adesgo"), a subsidiary controlled by Rotex (1980) Ltd., (hereinafter in this sub-clause: “Rotex”. Adesgo and Rotex will be referred to hereinafter 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 (hereinafter in this sub-clause: "the acquired operations" and "the agreement", respectively), the main points of which are detailed below:

### Note 26 – Additional significant events during the reporting period and thereafter (Cont.)

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

1. In the framework of transferring the acquired operations, Adsego will sell and assign to the purchaser, among other things: (a) equipment that 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 Adsego 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 Adsego 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.
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

[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 26 – Additional significant events during the reporting period and thereafter (Cont.)**

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

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 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 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,

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

**Note 26 – Additional significant events during the reporting period and thereafter (Cont.)**

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

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 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.

**c. "Swords of Iron" War**

On October 7, 2023, the "Swords of Iron" war ("the war") began in Israel following a surprise attack by the Hamas organization from Gaza Strip on the State of Israel. Later, additional fighting also developed along the Northern border. As of the report's publication date, the war is still ongoing.

The Houthi threat to the ships of the shipping companies along the Red Sea sailing routes affected the activity of the port of Aqaba in Jordan, the duration of the arrival of some of the raw materials from the East to Jordan, as well as the delivery of shipments to customers, was extended by approximately 10-14 days. This extension did not materially affect the Company's results. In addition, due to the aforementioned Houthi threat, marine transportation costs gradually increased during the second half of the fourth quarter of 2023 and the first quarter of 2024 until their price

[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 26 – Additional significant events during the reporting period and thereafter (Cont.)

#### c. "Swords of Iron" War (Cont.)

tripled compared to the price before the war. With the exception of the above, there are no additional effects due to the war on the supply chain and the Company's costs.

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 affected 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. Nevertheless, it should be noted that a deterioration into a regional war could affect Israel's relationship with Jordan and the Company's local production in Jordan, something that could have significant effects, particularly in regard to the brands segment.

In the context of the war, it should be noted that subsequent to the date of the report, on February 9, 2024, the international credit rating company Moody's decided to downgrade Israel's credit rating from A1 to A2 with a negative outlook, when other international credit rating companies downgraded Israel's credit rating forecast and/or placed it on review for a downgrade. In addition, on February 13, 2024, Moody's decided to lower the credit rating of the five largest banks in Israel to a rating of A3 with a negative outlook. The aforementioned downgrade may have various consequences for the Israeli economy, including an increase in the cost of raising capital by the state as well as difficulty in raising capital by the state, harming investors' trust in the Israeli market and, as a result, difficulty in attracting foreign investors to invest in the country and in Israeli companies, damage to the reputation of the state in light of the weakness expressed in the downgrade and damage to the credit rating of the banks in Israel.

The Company estimates that in light of the fact that as of the date of publication of this report, there is still uncertainty regarding whether and how the decision to downgrade the rating will affect the Israeli economy, and considering the fact the Company does not work with the Israeli banking system, the effect of said downgrade will not be material to the Group.

Details regarding the investee companies held by the Company as of December 31, 2023:

| Name of company | Country of incorporation and principal place of business activity | % of rights of ownership as of December 31, 2023 % | 2022 % |
|---|---|---|---|
| Tefron USA Inc. | U.S.A. | 100% | 100% |
| Lamour Hosiery, Inc., wholly owned by Tefron USA Inc. | U.S.A. | 100% | 100% |
| Al Masera Textiles Co., wholly owned by Tefron USA, Inc. | Jordan | 100% | 100% |
| C&T For Piece Works Private Shareholding Company Ltd., owned by Al Masera Textiles Co. | Jordan | 100% | 100% |
| Tefron Canada Inc. | Canada | 100% | 100% |
| Tefron Hong Kong Limited | Hong Kong | 100% | 100% |
| Tefron Trading (Shanghai) Company Limited – owned by Tefron Hong Kong | China | 100% | 100% |
| Tefron Europe S.R.L. | Romania | 100% | 100% |
| Al Masera Cyprus Limited | Cyprus | 100% | 100% |
| Tefron Holdings (98) Ltd.. | Israel | 100% | 100% |

* * *