TEFRON LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2024

(UNAUDITED)

TEFRON LTD.

Condensed Consolidated Financial Statements
as of June 30, 2024

(Unaudited)

Contents

	Page
Review Report of the Auditor	3
Condensed consolidated balance sheets	4-5
Condensed consolidated statements of income	6
Condensed Consolidated statements of comprehensive income	7
Condensed consolidated statements of changes in shareholders' equity	8-10
Condensed consolidated statements of cash flows	11-12
Notes to the condensed consolidated financial statements	13-21

A Review Report of the Auditor to the Shareholders of

Tefron Ltd.

Introduction

We have reviewed the accompanying financial information of **Tefron Ltd.** and and consolidated companies (hereafter- “the Company”) which includes the condensed consolidated statement of financial position as of June 30, 2024 and the the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the periods of six and three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the interim financial informationin accordance with IAS 34 “Interim Financial Reporting” and they are also responsible for the preparation of this interim financial information in accordance with Chapter D of Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

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

Haifa, August 11, 2024

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	Haifa	Eilat	Nazareth	Beit Shemesh
3 Kiryat Ha'Mada Har Hotzvim Tower Jerusalem, 914510	5 Ma'aleh Hashichrur P.O.B. 5648 Haifa, 3105502	The City Center P.O.B. 583 Eilat, 8810402	9 Marj Ibn Amer St. Nazareth, 16100	Yigal Alon 1 St. Beit Shemesh, 9906201
Tel: +972 (2) 501 8888 Fax: +972 (2) 537 4173 info-jer@deloitte.co.il	Tel: +972 (4) 860 7333 Fax: +972 (4) 867 2528 info-haifa@deloitte.co.il	Tel: +972 (8) 637 5676 Fax: +972 (8) 637 1628 info-eilat@deloitte.co.il	Tel: +972 (73) 399 4455 Fax: +972 (73) 399 4455 info-nazareth@deloitte.co.il	

TEFRON LTD.

Condensed Consolidated Balance Sheets

	As of June 30,		As of December 31,
	2024	2023	2023
	(Unaudited)		Audited
	US dollars in thousands		
ASSETS			
CURRENT ASSETS			
Cash	8,848	8,913	3,321
Trade receivables, net	50,034	40,317	44,797
Other receivables	6,897	8,681	3,734
Inventory	49,955	55,342	55,523
Total current assets	115,734	113,253	107,375
NON-CURRENT ASSETS			
Property, plant and equipment, net	22,687	18,045	20,744
Right-of-use asset, net	4,851	5,707	6,317
Intangible assets, net	9,322	4,565	4,575
Long-term receivables	330	435	342
Deferred taxes, net	-	3,044	1,491
Total non-current assets	37,190	31,796	33,469
Total Assets	152,924	145,049	140,844

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

TEFRON LTD.

Condensed Consolidated Balance Sheets

	As of June 30,		As of December 31,
	2024	2023	2023
	(Unaudited)		Audited
	US dollars in thousands		
LIABILITIES			
CURRENT LIABILITIES			
Bank credit	7,000	24,294	7,457
Trade payables	52,565	39,512	43,274
Other payables	13,680	8,612	10,829
Total current liabilities	73,245	72,418	61,560
NON-CURRENT LIABILITIES			
Loans from banks	-	8,379	7,650
Liabilities for benefits to employees, net	1,158	1,238	1,299
Long-term payables	8,188	6,039	7,153
Deferred taxes, net	93	-	-
Total non-current liabilities	9,439	15,656	16,102
EQUITY			
Share capital	35,601	35,039	35,065
Additional paid-in capital	101,111	101,065	101,201
Reserve for remeasurement of a defined benefit plan	(2,299)	(2,257)	(2,299)
Accumulated deficit	(57,159)	(70,073)	(63,986)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	394	609	609
Total equity	70,240	56,975	63,182
Total liabilities and equity	152,924	145,049	140,844

August 11, 2024			
Date of approval of the financial statements	**Yossi Shachak Chairman of the Board**	**Ben Lieberman CEO**	**Gregory Davidson CFO**

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

TEFRON LTD.

Condensed Consolidated Statements of Income

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2024	2023	2024	2023	2023
	(Unaudited)				
	US dollars in thousands (excluding data on income per share)				
Sales	154,049	120,404	78,469	65,443	243,463
Cost of sales	119,044	93,436	61,373	51,486	188,322
Gross profit	35,005	26,968	17,096	13,957	55,141
Development expenses, net	3,579	2,804	1,766	1,390	5,702
Selling and marketing expenses	14,536	12,589	7,112	6,289	25,116
General and administrative expenses	2,763	2,195	1,442	1,071	4,779
Operating profit	14,127	9,380	6,776	5,207	19,544
Financing income	95	126	58	44	337
Financing expenses	(2,336)	(2,657)	(1,138)	(1,165)	(5,425)
Financing expenses, net	(2,241)	(2,531)	(1,080)	(1,121)	(5,088)
Income before taxes on income	11,886	6,849	5,696	4,086	14,456
Tax income	(3,064)	(2,003)	(1,180)	(1,103)	(3,523)
Net income	8,822	4,846	4,516	2,983	10,933
Income per share (in dollars)					
Basic income per share	0.70	0.39	0.35	0.24	0.89
Diluted income per share	0.66	0.38	0.33	0.23	0.85

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

TEFRON LTD.

Condensed Consolidated Statements of Comprehensive Income

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2024	2023	2024	2023	2023
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
Net income	8,822	4,846	4,516	2,983	10,933
Other comprehensive income (loss) (after the effect of the tax):					
Amounts that will not be reclassified thereafter to the statements of income:					
Loss from remeasurement of defined benefit plans	-	-	-	-	(42)
Subtotal of items that will not be reclassified thereafter to the statements of income	-	-	-	-	(42)
Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:					
Realized gain due to interest rate swap transaction	-	(95)	-	(81)	(95)
Foreign currency translation differences in respect of foreign operations	(215)	-	(215)	-	-
Total items that shall be reclassified or are reclassified to the statements of income	(215)	(95)	(215)	(81)	(95)
Total other comprehensive loss	(215)	(95)	(215)	(81)	(137)
Total comprehensive income attributed to the Company's shareholders	8,607	4,751	4,301	2,902	10,796

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

TEFRON LTD.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Other capital reserves	Total Equity
	US dollars in thousands						
Balance as of January 1, 2024	35,065	101,201	(2,299)	(63,986)	(7,408)	609	63,182
Net income	-	-	-	8,822	-	-	8,822
Total other comprehensive loss	-	-	-	-	-	(215)	(215)
Share based payment to employees and consultants	-	446	-	-	-	-	446
Issue of shares from the exercise of options	536	(536)	-	-	-	-	-
Dividend paid	-	-	-	(1,995)	-	-	(1,995)
Balance as of June 30, 2024 (Unaudited)	35,601	101,111	(2,299)	(57,159)	(7,408)	394	70,240

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

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

TEFRON LTD.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Other capital reserves	Total Equity
	US dollars in thousands						
Balance as of April 1, 2024 (Unaudited)	35,153	101,345	(2,299)	(61,675)	(7,408)	609	65,725
Net income	-	-	-	4,516	-	-	4,516
Total other comprehensive loss	-	-	-	-	-	(215)	(215)
Share based payment to employees and consultants	-	214	-	-	-	-	214
Issue of shares from the exercise of options	448	(448)	-	-	-	-	-
Balance as of June 30, 2024 (Unaudited)	35,601	101,111	(2,299)	(57,159)	(7,408)	394	70,240

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

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

TEFRON LTD.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	US dollars in thousands							
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)
Share based payment to employees and consultants	-	236	-	-	-	-	-	236
Issue of shares from the exercise of options	70	(70)	-	-	-	-	-	-
Balance as of December 31, 2023	35,065	101,201	(2,299)	(63,986)	(7,408)	-	609	63,182

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

TEFRON LTD.

Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2024	2023	2024	2023	2023
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
Cash flows from operating activities					
Net income	8,822	4,846	4,516	2,983	10,933
Adjustments required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization	3,986	3,118	2,045	1,560	6,896
Cost of share-based payment	631	74	252	23	292
Loss due to impairment of slow inventory	445	733	349	427	1,389
	5,062	3,925	2,646	2,010	8,577
Change in deferred taxes, net	1,584	937	575	630	2,490
Change in liabilities for benefits to employees, net	(141)	(73)	(157)	(5)	(54)
Non-cash financing expenses	258	196	130	100	422
Taxes on income paid in cash, net	55	1,152	117	674	448
Interest expenses paid in cash	2,101	2,382	821	969	4,174
	3,857	4,594	1,486	2,368	7,480
Changes in asset and liability items:					
Decrease (increase) in trade receivables	(5,289)	4,315	(3,209)	(7,209)	(165)
Decrease (increase) in other receivables	(3,135)	(3,859)	(2,082)	(2,792)	1,088
Decrease (increase) in inventory	5,075	15,042	(1,098)	7,383	15,445
Increase in trade payables	9,245	2,356	7,142	5,459	5,415
Increase (decrease) in other payables	1,080	(232)	766	(230)	2,225
	6,976	17,622	1,519	2,611	24,008
Cash paid and received during the period for:					
Interest paid	(2,101)	(2,382)	(821)	(969)	(4,174)
Taxes paid	(121)	(1,152)	(117)	(674)	(1,262)
Taxes received	66	-	-	-	814
	(2,156)	(3,534)	(938)	(1,643)	(4,622)
Net cash provided from operating activities	22,561	27,453	9,229	8,329	46,376

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

TEFRON LTD.

Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2024	2023	2024	2023	2023
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
Cash flows from investing activities					
Purchase of fixed assets	(3,553)	(2,082)	(1,905)	(1,479)	(4,377)
Purchase of intangible assets	(301)	(116)	(198)	(45)	(248)
Acquisition of operations (Appendix a)	-	-	-	-	(2,047)
Advance payment for acquisition of operations	-	(109)	-	-	-
Long-term deposits	-	(326)	-	35	(342)
Net cash used for investing activities	(3,854)	(2,633)	(2,103)	(1,489)	(7,014)
Cash flows from financing activities					
Short-term bank credit, net	1,000	(22,158)	7,000	(6,206)	(38,996)
Receipt of a long-term loan	-	10,200	-	-	10,200
Repayment of long-term loans	(9,107)	(5,507)	(8,743)	(364)	(6,236)
Repayment of a lability for the acquisition of operations	(494)	-	(235)	-	-
Repayment of long-term credit for fixed assets	(416)	(647)	(183)	(411)	(1,301)
Payment of dividend	(1,995)	-	(1,995)	-	-
Repayment of a lease liability	(1,442)	(1,102)	(709)	(549)	(2,422)
Repayment of royalties' liability	(780)	(383)	(254)	(173)	(976)
Net cash used for financing activities	(13,234)	(19,597)	(5,119)	(7,703)	(39,731)
Exchange rate volatility	54	-	54	-	-
Increase (decrease) in cash and cash equivalents	5,527	5,223	2,061	(863)	(369)
Balance of cash and cash equivalents at beginning of period	3,321	3,690	6,787	9,776	3,690
Balance of cash and cash equivalents at end of period	8,848	8,913	8,848	8,913	3,321

Appendix a – Acquisition of operations

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 condensed consolidated financial statements are an integral part thereof

Note 1 – General

a. These financial statements were prepared in a condensed format as of June 30, 2024, and for the periods of six months and three months then ended (hereinafter – "interim consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter - "the Company") annual financial statements as of December 31, 2023, and for the year then ended, and the notes accompanying them (hereinafter - the "annual consolidated financial statements").

b. The Company did not include separate financial information in the financial statements in accordance with Regulation 5D(6) and Regulation 9C(c) of the Securities Regulations ("Periodic and Immediate Reports"), 1970 since it is a "small corporation", as well as due to the fact the Company believes that the inclusion of such information shall not constitute as additional material information to the investor.

Note 2 – Significant accounting principles

a. Basis for the preparation of the financial statements:

The consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - "Financial Reporting for Interim Periods", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) -1970.

During the preparation of these interim financial statements, the Group implemented accounting policies, presentation rules, and calculation methods identical to those applied in its financial statements as of December 31, 2023, and for the year then ended.

b. Taxes on income in interim financial reports:

The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes. Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year, are deducted.

Note 3 – Amendments to financial reporting standards

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

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

The amendment removed the reference to the existence of an unconditional right and clarified that if the right to defer the settlement is contingent on financial covenants, the right exists if the entity meets the criteria set at the end of the reporting period, even if the examination of whether the covenants are met, is done by the lender at a later date .

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

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

In addition, as part of the amendment, a definition has been added to the term "disposal" in order to clarify that disposal can be a transfer of cash, goods and services, or equity instruments of the entity itself to the opposite party. In this context, it has been clarified that if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the entity's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 "Financial Instruments: Presentation", the aforementioned terms would not affect the classification of the liability as current or non-current.
The amendment only affects the classification of liabilities as current or non-current in the balance sheet and not on the amount or timing of the recognition of those liabilities or the income and expenses related thereto.

An additional amendment regarding the classification of obligations with financial covenants was published in October 2022 (hereafter: Amendment 2022), which clarified that only financial covenants 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 2020 Amendment and the 2022 Amendment have entered into force for annual reporting periods beginning on or after January 1, 2024.

The aforesaid amendment has had no material effect on the Company's interim consolidated financial statements.

International Financial Reporting Standard 18 "Presentation and Disclosure in Financial Statements" ("IFRS 18")

On April 9, 2024, the IASB published IFRS 18, which replaces IAS 1 "Presentation of Financial Statements" (IAS 1). IFRS 18 aims to improve how information is communicated by entities in their financial statements.

IFRS 18 focuses on the following topics:

1. Statement of Profit or Loss structure - presentation of new defined subtotals and classification of income and expenses into specified categories.
2. Improvements to the aggregation and disaggregation of information in both the primary financial statements and the accompanying notes.

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

International Financial Reporting Standard 18 "Presentation and Disclosure in Financial Statements" ("IFRS 18") (Cont.)

3. Disclosing information on management-defined performance measures (MPMs) which are non-GAAP measures in the notes to the financial statements.

Furthermore, amendments to other IFRS standards become effective when an applying IFRS 18, including changes to IAS 7 "Statement of Cash Flows", which will enhance comparability between entities. The amendments mainly include: using the operating profit subtotal as the starting point for the indirect method of reporting cash flows from operating activities, and removing the presentation alternatives for cash flows related to interest and dividends paid and received. Consequently, except in specific cases, interest and dividends received will be classified as cash flows from investing activities, while interest and dividends paid will be classified as cash flows from financing activities.

The standard will be applied for annual reporting periods beginning on or after January 1, 2027 and will be applied retrospectively with specific transition requirements. Earlier application is permitted; however, according to Israel Securities Authority's decision, earlier application is allowed for reporting periods beginning on January 1, 2025 (Q1 2025 interim financial reporting).

The Company is currently assessing the impact of adopting IFRS 18, including the impact of amendments to additional IFRS standards impacted by the adoption of IFRS 18, on the financial statements.

Note 4 – Meeting the financial covenants

As of June 30, 2024, the Company met the financial covenants set forth in the financing agreement with the bank, which has financed the Company's operations as of the reporting date, RBC CANADA.

Note 5 - Significant events during the period of the report and thereafter

a. A statement of claim against the Company:

On February 18, 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. Based on its legal advisors, the Company estimates that at this stage, it is impossible to assess the claim's chances. However, at first glance, it seems that the Company has good defense arguments against the claim.

b. Exercising employee and consultant options:

During the reporting period, 247,093 of the Company's employee and consultant options allocated by the Company were exercised into 200,189 ordinary shares of the Company. In addition, 53,334 employee and consultant options allocated by the Company expired during the reporting period.

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

c. Dividend distribution:

On March 17, 2024, the Company announced, after receiving approval by the Board of Directors, the distribution of a cash dividend to the Company's shareholders in an aggregate amount of USD 2 million (USD 0.16 per share). The dividend was paid on April 9, 2024.

d. “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, as a result, 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 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 during the first half of 2024 until their price was 3-4 times higher 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 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 despite the fact some time has passed since this decision was published, as of the date of publication of this report, there is still no certainty regarding the long-term impact of the decision to downgrade the rating on the Israeli economy. Nevertheless, the Company estimates, especially considering the fact the Company does not work with the Israeli banking system, that the effect of said downgrade will not be material to the Company.

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

e. A new financing agreement for the Company's operations with CITIBANK CANADIAN BRANCH

Subsequent to the date of the report, on July 4, 2024, the Company and CITIBANK CANADIAN BRANCH signed a new financing agreement to finance the Company's operations (hereinafter in this clause: "the agreement" and "the bank", respectively), which replaced the Company's financing with the bank that financed its operations during the past six years, HSBC CANADA (hereinafter in this clause: "HSBC" and "HSBC financing"). It should be noted that recently, the acquisition of HSBC by the ROYAL BANK OF CANADA was completed (following which HSBC financing was carried out through this bank), and in order to continue financing the Company's international activity through an international bank, the Company chose to replace the financing, as aforesaid.
It should be noted that, in general, the principles of the agreement are similar to the principles of the Company's financing agreement with HSBC.
The total financing with the bank is in a total sum of up to USD 64,425,000. The parties to the agreement are, on the one hand, the Company, TEFRON CANADA INC (a wholly owned Canadian subsidiary of the Company) (hereinafter: "Tefron Canada"), and TEFRON USA INC (a wholly owned American subsidiary of the Company) (hereinafter: "Tefron USA"), all three of them as borrowers and as guarantors, and on the other hand, the bank as the lender.

1. The financing, generally speaking, is divided as follows:

1.1 A credit line for Tefron Canada and Tefron USA (jointly) in a total amount of up to USD 50 million, which will be provided based on the amount of collateral, which will be reviewed on a monthly basis (hereinafter: the "credit line's limit").
The eligibility for withdrawals from the credit line's limit will be based on eligibility amounts as follows:
   a. Cumulative debt amounts of the trade receivables of Tefron Canada and 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 (with a cap of USD 3,000,000 for inventory in transit); and (2) USD 25 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.

1.2 A credit line for the Company in a total amount of USD 3 million.
1.3 A long-term loan to the Company in the amount of USD 10 million to be repaid in 84 equal monthly payments starting one month after the completion of the agreement.
1.4 A letter of credit in the amount of USD 1,000,000 to the Company.
1.5 A Credit line for credit cards in the amount of USD 425,000.

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

e. A new financing agreement for the Company's operations with CITIBANK CANADIAN BRANCH (Cont.)

The interest on the financing will be variable interest, which will include a margin above the base interest rate, such as SOFR and/or ABR or Canadian Prime rate on Canadian dollar loans, as detailed below:

SOFR loans and CORRA loans	ABR rate loans and Canadian prime rate loans	Total net debt to EBITDA ratio	Level
1.25%	0.50%	<1.50:1	1
1.50%	0.75%	≥1.50:1 to <2.0:1	2
1.75%	1.00%	≥2.0:1 and <3.0:1	3
2.00%	1.25%	≥ 3.0	4

"ABR rate loans" means loans bearing an ABR rate, which is the higher of (I) the prime rate (as published by the bank in New York); and (II) the effective interest rate of the federal funds (the relevant interest rate published by the FEDERAL RESERVE (the Central Bank of the United States) as defined in the agreement) from time to time (provided that it is not lower than zero at any given time) plus 0.5%;
"SOFR loans" means loans bearing a SOFR rate that has replaced the LIBOR rate.
"CORRA loans" means loans bearing interest related to the rate published by the BANK OF CANADA (the Central Bank of Canada), all as defined in the agreement.

2. **The collateral for the financing will be as follows:**
    - 2.1 First ranking charge in Canada and the United States by Tefron Canada and Tefron USA, respectively, on all of their assets;
    - 2.2 Floating and fixed charge first in rank in Israel on all assets of the Company;
    - 2.3 First ranking charge on all the shares held by the Company in Tefron Canada and Tefron USA and in Lamour Hosiery (a wholly-owned subsidiary of Tefron USA).
    - 2.4 The guarantee of the Company and its material subsidiaries (as defined in the agreement) to the debts to the bank.

3. The financing is subject to the fulfillment of the financial covenants, which will be examined quarterly on the basis of the financial statements of the Company on a consolidated basis, as follows:
    a. Debt service cover ratio of at least 1.20 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).
    b. Debt to EBITDA ratio of no more than 3.5 times

4. In accordance with the agreement, the Company and its material subsidiaries (as defined in the agreement) in connection with the financing are subject, inter alia, to the following restrictions:
    a. A negative pledge by the Company and its material 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;

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

e. A new financing agreement for the Company's operations with CITIBANK CANADIAN BRANCH (Cont.)

c. The Lieberman family will continue to hold control of the Company;
d. The total amount of annual investments of the Company and its subsidiaries that are party to the agreement shall not exceed USD 12 million per year during the first two years after the completion of the agreement, and USD 9 million per year thereafter;
e. Taking any loans as defined in the agreement is not permitted;
f. The total amount of dividends to be distributed by the Company, to the extent that they are distributed, will not cumulatively exceed (i) USD 2,000,000 in 2024, (ii) USD 2,000,000 in 2025, (iii) USD 4,000,000 in 2026, and (iv) Any amount agreed upon annually by the bank for each subsequent year during the term of this agreement, provided that in any case after each distribution of the aforementioned dividend, the debt to EBITDA ratio shall not exceed 3 times.

5. The agreement determines that the financing is at the bank's full discretion, 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 all liabilities to it, including upon the occurrence of a breach of the agreement and/or a breach of agreements or other documents relating to the provision of the credit in an amount exceeding USD 2,000,000.

On July 11, 2024, the provision of the aforementioned alternative financing was completed, and the repayment of the aforementioned HSBC financing was carried out.

Note 6 - Operating segments

a. General

The information that the Company provides in accordance with the IFRS 8 definitions is based on the available financial information, which is reviewed regularly and is used by the Company's CEO, who is the Company's chief operating decision maker (CODM), for the purpose of making decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

Based on the criteria in IFRS 8 for determining reportable operating segments and the available financial information, which is reviewed regularly by the Company's CEO, the Company has determined that it operates in two reportable operating segments:

(a) Brands – This segment engages in the design, development, production, and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company's plants and through subcontractors and are sold to customers with leading brands.

(b) Retail – This segment engages in the design, development, production, and marketing of seamless intimate apparel and activewear and leisurewear, which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

Note 6 - Operating segments (Cont.)

b. Reporting in respect of operating segments

	For the six-month period ended June 30, 2024			For the six-month period ended June 30, 2023		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	38,918	115,131	154,049	28,717	91,687	120,404
Direct profit	6,334	10,831	17,165	3,772	8,013	11,785
Indirect costs	(930)	(2,108)	(3,038)	(726)	(1,679)	(2,405)
Segment results	5,404	8,723	14,127	3,046	6,334	9,380
Financing expenses, net			(2,241)			(2,531)
Tax expenses			(3,064)			(2,003)
Net income			8,822			4,846

	For the three-month period ended June 30, 2024			For the three-month period ended June 30, 2023		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	17,828	60,641	78,469	17,202	48,241	65,443
Direct profit	2,741	5,623	8,364	2,523	3,869	6,392
Indirect costs	(454)	(1,134)	(1,588)	(396)	(789)	(1,185)
Segment results	2,287	4,489	6,776	2,127	3,080	5,207
Financing expenses, net			(1,080)			(1,121)
Tax expenses			(1,180)			(1,103)
Net income			4,516			2,983

	For the year ended December 31, 2023		
	Brands	Retail	Total
	Audited		
	US dollars in thousands		
Total segment revenues	66,701	176,762	243,463
Direct profit	11,527	13,215	24,742
Indirect costs	(1,670)	(3,528)	(5,198)
Segment results	9,857	9,687	19,544
Financing expenses, net			(5,088)
Tax expenses			(3,523)
Net income			10,933

Note 6 - Operating segments (Cont.)

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

Note 7 - Financial instruments

Fair Value:

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