

**TEFRON LTD**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2024**

**IN DOLLARS THOUSANDS**

**TEFRON LTD.**

**Consolidated Financial Statements as of December 31, 2024**

**In Dollars Thousands**

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Date: March 20, 2025

To: The Management of Tefron Ltd.

## Report of Factual Findings in Connection with the translated Financial Information as of December 31, 2024

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, 2024 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, 2024 (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, 2024, and of the three years in the period ended December 31, 2024 that was published in Hebrew language, on which we have issued an audit report on March 20, 2025.

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, 2024.

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

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**Tefron Ltd.**  
**Consolidated Balance Sheets**

|                                    | <u>Note</u> | <u>As of December 31</u>       |                |
|------------------------------------|-------------|--------------------------------|----------------|
|                                    |             | <u>2024</u>                    | <u>2023</u>    |
|                                    |             | <u>US Dollars in thousands</u> |                |
| <b>ASSETS</b>                      |             |                                |                |
| <b>CURRENT ASSETS</b>              |             |                                |                |
| Cash                               |             | 6,216                          | 3,321          |
| Trade receivables, net             | 5           | 49,582                         | 44,797         |
| Other receivables                  | 6           | 4,237                          | 3,734          |
| Inventory                          | 7           | 48,476                         | 55,523         |
|                                    |             | <u>108,511</u>                 | <u>107,375</u> |
| <b>NON-CURRENT ASSETS</b>          |             |                                |                |
| Property, plant and equipment, net | 8           | 25,781                         | 20,744         |
| Right-of-use asset                 | 9           | 6,781                          | 6,317          |
| Intangible assets, net             | 10          | 8,375                          | 4,575          |
| Long-term receivables              |             | 339                            | 342            |
| Deferred taxes, net                | 18d         | -                              | 1,491          |
|                                    |             | <u>41,276</u>                  | <u>33,469</u>  |
|                                    |             | <u>149,787</u>                 | <u>140,844</u> |

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

**Tefron Ltd.**  
**Consolidated Balance Sheets**

|   | <u>Note</u> | <u>As of December 31</u>       |                |
|---|-------------|--------------------------------|----------------|
|   |             | <u>2024</u>                    | <u>2023</u>    |
|   |             | <u>US dollars in thousands</u> |                |
| <b>LIABILITIES</b>  |             |                                |                |
| <b>CURRENT LIABILITIES</b>                                    |             |                                |                |
| Bank credit   | 11          | 5,000                          | 7,457          |
| Trade payables  | 12          | 44,726                         | 43,274         |
| Other payables  | 13          | 10,571                         | 8,182          |
| Current maturities of lease liabilities                       |             | 2,141                          | 2,647          |
|   |             | <u>62,438</u>                  | <u>61,560</u>  |
| <b>NON-CURRENT LIABILITIES</b>                                |             |                                |                |
| Loans from banks  | 14          | -                              | 7,650          |
| Liabilities for benefits to employees, net                    | 16          | 1,203                          | 1,299          |
| Long-term payables  | 17          | 4,095                          | 3,121          |
| Lease liabilities   |             | 4,950                          | 4,032          |
| Deferred taxes, net   | 18d         | 309                            | -              |
|   |             | <u>10,557</u>                  | <u>16,102</u>  |
| <b>EQUITY</b>   |             |                                |                |
| <b><u>Equity attributed to the Company's shareholders</u></b> | 20          |                                |                |
| Share capital   |             | 35,753                         | 35,065         |
| Additional paid-in capital                                    |             | 101,401                        | 101,201        |
| Capital reserve for remeasurement of defined benefit plans    |             | (2,314)                        | (2,299)        |
| Accumulated deficit   |             | (50,869)                       | (63,986)       |
| Treasury shares   |             | (7,408)                        | (7,408)        |
| Other capital reserves  |             | 229                            | 609            |
|   |             | <u>76,792</u>                  | <u>63,182</u>  |
| <b><u>Total equity</u></b>                                    |             | <u>149,787</u>                 | <u>140,844</u> |

|  |  |                      |                         |
|--|--|----------------------|-------------------------|
|  | <b>March 20, 2025</b>                  |                      |                         |
| 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**

|  |             | <b>For the year ended<br/>December 31</b>                                   |                |                |
|--|-------------|---|----------------|----------------|
|  |             | <b>2024</b>   | <b>2023</b>    | <b>2022</b>    |
|  |             | <b>US dollars in thousands<br/>(Excluding data on earnings (per share))</b> |                |                |
|  | <b>Note</b> |   |                |                |
| Sales  |             | 293,863   | 243,463        | 222,310        |
| Cost of sales  | 22a         | <u>227,383</u>  | <u>188,322</u> | <u>173,195</u> |
| Gross profit   |             | 66,480  | 55,141         | 49,115         |
| Development expenses   | 22b         | 7,091   | 5,702          | 5,621          |
| Selling and marketing expenses   | 22c         | 29,684  | 25,116         | 25,245         |
| General and administrative expenses  | 22d         | <u>5,961</u>  | <u>4,779</u>   | <u>4,305</u>   |
| Operating profit   |             | <u>23,744</u>   | <u>19,544</u>  | <u>13,944</u>  |
| Financing income   | 22e         | 167   | 337            | 295            |
| Financing expenses   | 22e         | <u>(4,352)</u>  | <u>(5,425)</u> | <u>(4,434)</u> |
| Financing expenses, net  |             | <u>(4,185)</u>  | <u>(5,088)</u> | <u>(4,139)</u> |
| Income before taxes on income  |             | 19,559  | 14,456         | 9,805          |
| Taxes on income  | 18f         | <u>(4,447)</u>  | <u>(3,523)</u> | <u>(2,358)</u> |
| Net income   |             | <u>15,112</u>   | <u>10,933</u>  | <u>7,447</u>   |
| <u>Income per share attributable to equity shareholders of the Company</u> | 23          |   |                |                |
| Basic earnings per share   |             | <u>1.20</u>   | <u>0.89</u>    | <u>0.60</u>    |
| Diluted earnings per share   |             | <u>1.13</u>   | <u>0.85</u>    | <u>0.57</u>    |

**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                    |        |       |
|  | 2024                           | 2023   | 2022  |
|  | <u>US dollars in thousands</u> |        |       |
| Net income   | 15,112                         | 10,933 | 7,447 |
| Other comprehensive income (loss):   |                                |        |       |
| <u>Amounts that will not be reclassified subsequently to the statements of income (net of tax):</u>                            |                                |        |       |
| Income (loss) for remeasurement of defined benefit plans   | (15)                           | (42)   | 83    |
| Subtotal of items that will not be reclassified subsequently to the statements of income                                       | (15)                           | (42)   | 83    |
| <u>Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:</u> |                                |        |       |
| Foreign currency translation in respect of foreign operations  | (380)                          | -      | -     |
| Unrealized gain due to interest rate transaction (Swap)  | -                              | -      | 341   |
| Realized gain due to interest rate transaction (Swap)  | -                              | (95)   | -     |
| Subtotal of items that will be reclassified or are reclassified to the statements of income                                    | (380)                          | (95)   | 341   |
| Total other comprehensive income (loss)  | (395)                          | (137)  | 424   |
| Total comprehensive income attributable to the Company's shareholders  | 14,717                         | 10,796 | 7,871 |

**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<br>capital | Additional<br>paid in<br>capital | Reserve for the<br>remeasurement<br>of defined<br>benefit plans | Accum.<br>deficit | Treasury<br>shares | Other<br>capital<br>reserves | Total<br>Equity |
|--|------------------|----------------------------------|---|-------------------|--------------------|------------------------------|-----------------|
| US dollars in thousands                          |                  |                                  |   |                   |                    |                              |                 |
| <b><u>Balance as of January 1, 2024</u></b>      | 35,065           | 101,201                          | (2,299)   | (63,986)          | (7,408)            | 609                          | 63,182          |
| Net income                                       | -                | -                                | -   | 15,112            | -                  | -                            | 15,112          |
| Total other comprehensive loss                   | -                | -                                | (15)  | -                 | -                  | (380)                        | (395)           |
| Issue of shares from the exercise of options     | 688              | (688)                            | -   | -                 | -                  | -                            | -               |
| Share based payment to employees and consultants | -                | 888                              | -   | -                 | -                  | -                            | 888             |
| Dividend paid                                    | -                | -                                | -   | (1,995)           | -                  | -                            | (1,995)         |
| <b><u>Balance as of December 31, 2024</u></b>    | <u>35,753</u>    | <u>101,401</u>                   | <u>(2,314)</u>  | <u>(50,869)</u>   | <u>(7,408)</u>     | <u>229</u>                   | <u>76,792</u>   |

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<br>capital | Additional<br>paid in<br>capital | Reserve for the<br>remeasurement<br>of defined<br>benefit plans | Accum.<br>deficit | Treasury<br>shares | Capital<br>reserve for<br>hedging<br>transactions | Other<br>capital<br>reserves | Total<br>Equity |
|--|------------------|----------------------------------|---|-------------------|--------------------|---|------------------------------|-----------------|
| US dollars in thousands                          |                  |                                  |   |                   |                    |   |                              |                 |
| <b><u>Balance as of January 1, 2023</u></b>      | 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             |
| <b><u>Balance as of December 31, 2023</u></b>    | <u>35,065</u>    | <u>101,201</u>                   | <u>(2,299)</u>  | <u>(63,986)</u>   | <u>(7,408)</u>     | <u>-</u>  | <u>609</u>                   | <u>63,182</u>   |

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

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

**Tefron Ltd.**  
**Consolidated Statements of Cash Flows**

|   | <b>For the year ended</b>      |                |                 |
|---|--------------------------------|----------------|-----------------|
|   | <b>December 31</b>             |                |                 |
|   | <b>2024</b>                    | <b>2023</b>    | <b>2022</b>     |
|   | <b>US dollars in thousands</b> |                |                 |
| <b><u>Cash flows from operating activities</u></b>                    |                                |                |                 |
| Net income  | 15,112                         | 10,933         | 7,447           |
| Adjustments required to present cash flows from operating activities: |                                |                |                 |
| Adjustments to the statement of income items:                         |                                |                |                 |
| <b>Depreciation and amortization:</b>                                 |                                |                |                 |
| Depreciation and amortization   | 8,108                          | 6,896          | 6,070           |
| Cost of share-based payments  | 1,370                          | 292            | 189             |
| Loss due to impairment of slow inventory                              | 965                            | 1,389          | 1,227           |
|   | <u>10,443</u>                  | <u>8,577</u>   | <u>7,486</u>    |
| Change in deferred taxes, net   | 1,800                          | 2,490          | 1,667           |
| Change in liabilities for benefits to employees, net                  | (111)                          | (54)           | 93              |
| Recorded lease interest   | 300                            | 274            | 270             |
| Recorded royalties' interest  | 280                            | 148            | 214             |
| Taxes on income paid in cash, net                                     | 495                            | 448            | 2,532           |
| Interest expenses paid in cash  | 3,253                          | 4,174          | 3,012           |
|   | <u>6,017</u>                   | <u>7,480</u>   | <u>7,788</u>    |
| <b>Changes in assets and liabilities items:</b>                       |                                |                |                 |
| Increase in trade receivables   | (4,875)                        | (165)          | (1,610)         |
| Decrease (increase) in other receivables                              | (569)                          | 1,088          | 22              |
| Decrease (increase) in inventory                                      | 6,000                          | 15,445         | (1,381)         |
| Increase (decrease) in trade payables                                 | 1,831                          | 5,415          | (15,384)        |
| Increase (decrease) in other payables                                 | 699                            | 2,225          | (2,819)         |
|   | <u>3,086</u>                   | <u>24,008</u>  | <u>(21,172)</u> |
| <b>Cash paid and received during the year for:</b>                    |                                |                |                 |
| Interest paid   | (3,253)                        | (4,174)        | (3,012)         |
| Taxes paid  | (758)                          | (1,262)        | (2,532)         |
| Taxes received  | 263                            | 814            | -               |
|   | <u>(3,748)</u>                 | <u>(4,622)</u> | <u>(5,544)</u>  |
| Net cash provided from (used for) operating activities                | <u>30,910</u>                  | <u>46,376</u>  | <u>(3,995)</u>  |

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

## Tefron Ltd.

### Consolidated Statements of Cash Flows

|  | <b>For the year ended</b>      |                            |                            |
|--|--------------------------------|----------------------------|----------------------------|
|  | <b>December 31</b>             |                            |                            |
|  | <b>2024</b>                    | <b>2023</b>                | <b>2022</b>                |
|  | <b>US dollars in thousands</b> |                            |                            |
| <b><u>Cash flows from investing activities</u></b>                               |                                |                            |                            |
| Purchase of fixed assets   | (8,362)                        | (4,377)                    | (2,328)                    |
| Purchase of intangible assets  | (663)                          | (248)                      | (491)                      |
| Acquisition of operations (Appendix b)   | -                              | (2,047)                    | -                          |
| Long-term deposits   | -                              | (342)                      | -                          |
| Net cash used for investing activities   | <u>(9,025)</u>                 | <u>(7,014)</u>             | <u>(2,819)</u>             |
| <b><u>Cash flows from financing activities</u></b>                               |                                |                            |                            |
| Short-term bank credit, net  | (1,000)                        | (38,996)                   | 12,525                     |
| Receipt of a long-term loan  | -                              | 10,200                     | -                          |
| Repayment of long-term loans   | (9,107)                        | (6,236)                    | (1,714)                    |
| Repayment of a liability for the acquisition of operations                       | (987)                          | -                          | -                          |
| Repayment of long-term credit for fixed assets                                   | (836)                          | (1,301)                    | (960)                      |
| Payment of dividend  | (1,995)                        | -                          | -                          |
| Repayment of a lease liability   | (2,747)                        | (2,422)                    | (2,187)                    |
| Repayment of royalties' liability  | (2,214)                        | (976)                      | (661)                      |
| Net cash provided from (used for) financing activities                           | <u>(18,886)</u>                | <u>(39,731)</u>            | <u>7,003</u>               |
| Exchange rate volatility   | (104)                          | -                          | -                          |
| <b><u>Increase (decrease) in cash and cash equivalents</u></b>                   | <b>2,895</b>                   | <b>(369)</b>               | <b>189</b>                 |
| <b><u>Balance of cash and cash equivalents at beginning of year</u></b>          | <b><u>3,321</u></b>            | <b><u>3,690</u></b>        | <b><u>3,501</u></b>        |
| <b><u>Balance of cash and cash equivalents at end of year</u></b>                | <b><u><u>6,216</u></u></b>     | <b><u><u>3,321</u></u></b> | <b><u><u>3,690</u></u></b> |
| <b><u>Appendix a – Significant non-cash transactions</u></b>                     |                                |                            |                            |
| Purchase of fixed assets on credit   | <u>-</u>                       | <u>-</u>                   | <u>2,132</u>               |
| Recognition of right-of-use assets against lease liabilities                     | <u>3,065</u>                   | <u>4,253</u>               | <u>567</u>                 |
| Recognition of franchise assets against a liability for minimum royalty payments | <u>5,684</u>                   | <u>-</u>                   | <u>4,292</u>               |
| <b><u>Appendix b – Acquisition of operations</u></b>                             |                                |                            |                            |
| Inventory  | -                              | 1,240                      | -                          |
| Fixed assets   | -                              | 1,793                      | -                          |
| Intangible assets  | -                              | 982                        | -                          |
| Other payable  | -                              | (944)                      | -                          |
| Long-term payables   | <u>-</u>                       | <u>(1,024)</u>             | <u>-</u>                   |
| Total cash paid, net   | <u>-</u>                       | <u>2,047</u>               | <u>-</u>                   |

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

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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 in the Far East 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 seamless products in the field of intimate apparel and activewear, which are sold throughout the world to companies with leading brands. The Company operates in two 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 Industrial Park", Israel.

#### **b. Definitions**

In these financial statements:

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

### **Note 2 - Significant accounting principles**

#### **a. A Statement regarding the application of International Financial Reporting Standards (IFRS® Accounting Standards)**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS Accounting Standards") and the interpretations thereto issued by the International Accounting Standards Board (IASB®). The principal accounting policies set out below have been applied consistently throughout all reporting periods presented in these financial statements, except for changes in accounting policies resulting from the application of standards, amendments to standards, and interpretations thereto that are effective at the date of the financial statements as detailed in Note 3 as follows.

#### **b. Application of the Securities Regulations:**

The financial statements are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **c. Operating Cycle:**

The operating cycle of the Company is 12 months.

#### **d. The format of analysis of the expenses recognized in the statements of income:**

The Company's expenses in the statement of income and other comprehensive income are presented based on the function of the expense method.

#### **e. Foreign currency**

##### **1. 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 the functional currency of each company is.

The functional currency of the Company is the US dollar.

##### **2. Translation of a foreign currency transaction:**

In the preparation of the financial statements of each of the Group's companies, transactions carried out in currencies other than the functional currency of that company (hereinafter - "foreign currency") are recorded at the exchange rates in effect on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currency are translated at the exchange rates in effect on that date, non-monetary items measured at fair value denominated in foreign currency are translated at the exchange rates in effect on the date on which the fair value was determined, non-monetary items measured at historical cost are translated at the exchange rates in effect on the date of the transaction relating to the non-monetary item.

Exchange rate differences are recognized in profit or loss in the period in which they are incurred and are presented in "Financing expenses, net" except when they are recorded to other comprehensive income as a cash flow hedging.

##### **3. Translation of financial statements of investees whose functional currency is different from the Company's functional currency:**

For the purpose of presenting the consolidated financial statements, the assets and liabilities of foreign operations are presented at the exchange rates in effect at the end of the reporting period. Income and expense items are translated at the average exchange rates during the reporting period unless exchange rates fluctuate significantly during that period.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **e. Foreign currency (Cont.)**

##### **3. Translation of financial statements of investees whose functional currency is different from the Company's functional currency (Cont.)**

In this case, these items are translated at the exchange rates at the date of the transactions. Translation differences are recognized in other comprehensive income under the item of "Exchange differences arising from the translation of foreign operations".

#### **f. Exclusion of separate financial information in the framework of the periodic reports:**

In the framework of the periodic reports for 2024, the Company 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.

#### **g. 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.

The cost of inventory is determined as follows:

|                                    |   |   |
|------------------------------------|---|---|
| <b>Raw and auxiliary materials</b> | - | 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.   |
| <b>Work in progress</b>            | - | Based on average cost which includes material, labor and other direct and indirect manufacturing costs.   |
| <b>Finished goods</b>              |   | 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. 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. |

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **g. Inventory (Cont.)**

##### **Classification of costs:**

The Company classifies all the costs it bears until the inventory is delivered 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.

#### **h. 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.

#### **i. Leases:**

The Group mainly leases real estate assets that are primarily 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.



# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **i. Leases (Cont.)**

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

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 as a separate item 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.

The useful lives of the right-of-use assets:

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

#### **j. 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **k. 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:

|                   | <u>%</u> |
|-------------------|----------|
| Customer lists    | 20       |
| Franchise assets  | 33       |
| Patent            | 33       |
| Computer software | 25-33    |
| ERP system        | 10       |

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.

#### **l. 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **1. Financial assets (Cont.)**

##### **a. Classification of financial assets (Cont.)**

###### 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.

###### Impairment of financial assets and allowance for doubtful debts

The allowance for doubtful debts 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.

##### **m. 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **m. Financial liabilities and equity instruments (Cont.)**

##### **b. Recognition and measurement:**

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

##### **Financial liabilities at amortized cost:**

Financial liabilities at amortized cost are recognized initially at fair value after deducting transaction costs. After the initial recognition, they 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.

#### **o. 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **p. 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.

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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **q. Business combination:**

The acquisition of an 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

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

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

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.

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

#### **Amendment IAS 7 "Statements of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures" (concerning Supplier Finance 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 finance arrangements, as well as a breakdown of non-cash changes in items related to the arrangement.

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

The amendment to IAS 7 will be applied to annual reporting periods beginning on or after January 1, 2024.

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

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **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). The standard aims to improve how information is communicated by entities in their financial statements.

The standard focuses on the following topics:

1. Statement of Income structure - presentation of 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.
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 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 the Israel Securities Authority’s decision, earlier application is allowed for reporting periods beginning on January 1, 2025 (interim financial reporting for Q1 2025).

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.

#### **The Decision of the IFRS IC Regarding Disclosure of Income and Expenses for Reportable Segments**

In July 2024, the IASB approved the International Financial Reporting Interpretations Committee’s (IFRS IC) decision concerning the disclosure of income and expenses for reportable segments (hereinafter: “the decision”).

The decision elaborated on the application of the disclosure requirements set out in paragraph 23 of IFRS 8 “Operating Segments” and clarified that disclosure is required for “material items of income and expense” if they are included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) even if they are not provided separately to him. In addition, it was also clarified that “material items of income and expense” are not limited to exceptional or non-recurring items.



# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **The Decision of the IFRS IC Regarding Disclosure of Income and Expenses for Reportable Segments (Cont.)**

In addition, the decision clarified that judgment is required in determining the extent of disclosure to be included in segment reporting, taking into account the entity's specific facts and circumstances, the core principle of IFRS 8, and the materiality principles set out in IAS 1 “Presentation of Financial Statements”.

The decision was applied by the Company in these financial statements retrospectively. As a result, the Company added information regarding the cost of goods sold and gross profit in the operating segments disclosure (see Note 24c).

### **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.

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### Note 5 - Trade receivables, net

##### Composition:

|                                   | <u>As of December 31,</u> |               |
|-----------------------------------|---------------------------|---------------|
|                                   | <u>2024</u>               | <u>2023</u>   |
|                                   | <u>Dollars thousands</u>  |               |
| Open receivables                  | 49,582                    | 44,827        |
| Less provision for doubtful debts | -                         | (30)          |
| Trade receivables, net            | <u>49,582</u>             | <u>44,797</u> |

Out of the total balance of trade receivables as of December 31, 2024, US\$ 5 million (2023: US\$ 6 million) is in respect of a debt of customer A, and US\$ 5.6 million (2023: US\$ 3.5 million) is in respect of a debt of customer B.

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:

|                          | <u>Trade receivables<br/>whose debts<br/>have not yet<br/>fallen due<br/>(no delay in<br/>collection)</u> |                         | <u>Past due trade receivables and<br/>the delay in their collection is</u> |                          |                          |            |               | <u>Total</u> |
|--------------------------|---|-------------------------|--|--------------------------|--------------------------|------------|---------------|--------------|
|                          | <u>Under 30<br/>days</u>  | <u>30 – 60<br/>days</u> | <u>60 – 90<br/>days</u>  | <u>90 – 120<br/>days</u> | <u>Over 120<br/>days</u> |            |               |              |
|                          | <u>US dollars in thousands</u>  |                         |  |                          |                          |            |               |              |
| <u>December 31, 2024</u> | <u>42,042</u>   | <u>4,285</u>            | <u>1,699</u>   | <u>483</u>               | <u>420</u>               | <u>653</u> | <u>49,582</u> |              |
| <u>December 31, 2023</u> | <u>41,351</u>   | <u>3,045</u>            | <u>401</u>   | <u>-</u>                 | <u>-</u>                 | <u>-</u>   | <u>44,797</u> |              |

#### Note 6 - Other receivables

##### Composition:

|                       | <u>December 31,</u>            |              |
|-----------------------|--------------------------------|--------------|
|                       | <u>2024</u>                    | <u>2023</u>  |
|                       | <u>US dollars in thousands</u> |              |
| Prepaid expenses      | 1,500                          | 1,054        |
| Advances to suppliers | 1,069                          | 749          |
| Tax deposits          | 588                            | 376          |
| Institutions          | 833                            | 1,326        |
| Other receivables     | <u>247</u>                     | <u>229</u>   |
|                       | <u>4,237</u>                   | <u>3,734</u> |

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### Note 7 – Inventories

##### Composition:

|                             | <u>December 31,</u>            |               |
|-----------------------------|--------------------------------|---------------|
|                             | <u>2024</u>                    | <u>2023</u>   |
|                             | <u>US dollars in thousands</u> |               |
| Raw and auxiliary materials | 6,771                          | 5,855         |
| Work in process             | 2,864                          | 6,391         |
| Finished goods              | 38,841                         | 43,277        |
|                             | <u>48,476</u>                  | <u>55,523</u> |

(\*) An impairment of slow-moving inventory recognized as part of the cost of sales amounted to US\$ 965 thousand (2023 – US\$ 1,389 thousand).

#### Note 8 – Fixed assets

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

##### Year of 2024:

|  | <u>Machinery<br/>and<br/>equipment</u> | <u>Office<br/>furniture<br/>and<br/>equipment</u> | <u>Vehicles</u> | <u>Leasehold<br/>improve-<br/>ments</u> | <u>Total</u>   |
|--|--|---|-----------------|---|----------------|
|  | <u>US dollars in thousands</u>         |   |                 |   |                |
| <b><u>Cost</u></b>   |  |   |                 |   |                |
| <b>Balance as of January 1, 2024</b>   | 136,049                                | 4,937   | 152             | 10,790                                  | 151,928        |
| Additions during the year  | 7,099                                  | 629   | 18              | 616                                     | 8,362          |
| Net exchange differences arising from the translation of financial statements into presentation currency | (110)                                  | -   | -               | (51)                                    | (161)          |
| <b>Balance as of December 31, 2024</b>   | <u>143,038</u>                         | <u>5,566</u>                                      | <u>170</u>      | <u>11,355</u>                           | <u>160,129</u> |
| <b><u>Accumulated depreciation</u></b>   |  |   |                 |   |                |
| <b>Balance as of January 1, 2024</b>   | 118,520                                | 4,149   | 24              | 8,491                                   | 131,184        |
| Additions during the year  | 2,504                                  | 251   | 14              | 431                                     | 3,200          |
| Net exchange differences arising from the translation of financial statements into presentation currency | (24)                                   | -   | -               | (12)                                    | (36)           |
| <b>Balance as of December 31, 2024</b>   | <u>121,000</u>                         | <u>4,400</u>                                      | <u>38</u>       | <u>8,910</u>                            | <u>134,348</u> |
| <b><u>Balance of depreciated cost as of December 31, 2024</u></b>  | <u>22,038</u>                          | <u>1,166</u>                                      | <u>132</u>      | <u>2,445</u>                            | <u>25,781</u>  |

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### Note 8 – Fixed assets (Cont.)

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

Year of 2023:

|   | Machinery<br>and<br>equipment | Office<br>furniture<br>and<br>equipment | Vehicles | Leasehold<br>improve-<br>ments | Total   |
|---|-------------------------------|---|----------|--------------------------------|---------|
|   | US dollars in thousands       |   |          |                                |         |
| <b><u>Cost</u></b>  |                               |   |          |                                |         |
| <b>Balance as of January 1, 2023</b>                                  | 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   | -                             | -                                       | -        | -                              | -       |
| <b>Balance as of December 31, 2023</b>                                | 136,049                       | 4,937                                   | 152      | 10,790                         | 151,928 |
| <b><u>Accumulated depreciation</u></b>                                |                               |   |          |                                |         |
| <b>Balance as of January 1, 2023</b>                                  | 116,617                       | 3,930                                   | 10       | 8,160                          | 128,717 |
| Additions during the year   | 1,903                         | 219                                     | 14       | 331                            | 2,467   |
| Disposals during the year   | -                             | -                                       | -        | -                              | -       |
| <b>Balance as of December 31, 2023</b>                                | 118,520                       | 4,149                                   | 24       | 8,491                          | 131,184 |
| <b><u>Balance of depreciated cost as of<br/>December 31, 2023</u></b> | 17,529                        | 788                                     | 128      | 2,299                          | 20,744  |

Regarding liens, see Note 19c.

##### b. Purchase of fixed assets on credit

As of December 31, 2024, and December 31, 2023, the balance of fixed assets in supplier credit amounted to US\$ 450 and US\$ 1,406 thousand, respectively. The said balances will be repaid by September 20, 2025, plus interest for this credit.

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

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

##### Year of 2024:

|   | <b>Land and<br/>buildings</b> | <b>Vehicles</b> | <b>Total</b> |
|---|-------------------------------|-----------------|--------------|
|   | US dollars in thousands       |                 |              |
| <b><u>Cost</u></b>  |                               |                 |              |
| <b>Balance as of January 1, 2024</b>                                  | 12,319                        | 813             | 13,132       |
| Additions during the year   | 2,648                         | 417             | 3,065        |
| Disposals during the year   | (455)                         | -               | (455)        |
| <b>Balance as of December 31, 2024</b>                                | 14,512                        | 1,230           | 15,742       |
| <b><u>Accumulated depreciation</u></b>                                |                               |                 |              |
| <b>Balance as of January 1, 2024</b>                                  | 6,220                         | 595             | 6,815        |
| Additions during the year   | 2,245                         | 167             | 2,412        |
| Disposals during the year   | (266)                         | -               | (266)        |
| <b>Balance as of December 31, 2024</b>                                | 8,199                         | 762             | 8,961        |
| <b><u>Balance of depreciated cost as of<br/>December 31, 2024</u></b> | 6,313                         | 468             | 6,781        |

##### Year of 2023:

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

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### Note 10 - Intangible assets

##### Composition:

|  | As of December 31, 2024 |                      |         |                      |          |        |
|--|-------------------------|----------------------|---------|----------------------|----------|--------|
|  | Franchise<br>assets     | List of<br>customers | Patents | Computer<br>software | Goodwill | Total  |
|  | US dollars in thousands |                      |         |                      |          |        |
| <b>Balance as of January 1, 2024</b>   | 4,292                   | 982                  | 139     | 7,195                | 49       | 12,657 |
| Additions during the year  | 5,684                   | 10                   | 25      | 628                  | -        | 6,347  |
| Net exchange differences arising from the translation of financial statements into presentation currency | -                       | (63)                 | -       | -                    | -        | (63)   |
| <b>Balance as of December 31, 2024</b>   | 9,976                   | 929                  | 164     | 7,823                | 49       | 18,941 |
| <b><u>Accumulated amortization</u></b>   |                         |                      |         |                      |          |        |
| <b>Balance as of January 1, 2024</b>   | 2,860                   | 80                   | 50      | 5,092                | -        | 8,082  |
| Amortization recognized during the year  | 1,759                   | 201                  | 14      | 522                  | -        | 2,496  |
| Net exchange differences arising from the translation of financial statements into presentation currency | -                       | (12)                 | -       | -                    | -        | (12)   |
| <b>Balance as of December 31, 2024</b>   | 4,619                   | 269                  | 64      | 5,614                | -        | 10,566 |
| <b>Amortized balance as of December 31, 2024</b>   | 5,357                   | 660                  | 100     | 2,209                | 49       | 8,375  |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

### Note 10 - Intangible assets (Cont.)

#### Composition:

|  | <b>As of December 31, 2023</b> |                              |                |                              |                 |              |
|--|--------------------------------|------------------------------|----------------|------------------------------|-----------------|--------------|
|  | <b>Franchise<br/>assets</b>    | <b>List of<br/>customers</b> | <b>Patents</b> | <b>Computer<br/>software</b> | <b>Goodwill</b> | <b>Total</b> |
|  | <b>US dollars in thousands</b> |                              |                |                              |                 |              |
| <b>Balance as of January 1, 2023</b>             | 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)      |
| <b>Balance as of December 31, 2023</b>           | 4,292                          | 982                          | 139            | 7,195                        | 49              | 12,657       |
| <b><u>Accumulated amortization</u></b>           |                                |                              |                |                              |                 |              |
| <b>Balance as of January 1, 2023</b>             | 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)      |
| <b>Balance as of December 31, 2023</b>           | 2,860                          | 80                           | 50             | 5,092                        | -               | 8,082        |
| <b>Amortized balance as of December 31, 2023</b> | 1,432                          | 902                          | 89             | 2,103                        | 49              | 4,575        |

### Note 11 - Credit from banks

#### a. Composition:

|                                       | <b>As of December 31</b>       |             |
|---------------------------------------|--------------------------------|-------------|
|                                       | <b>2024</b>                    | <b>2023</b> |
|                                       | <b>US dollars in thousands</b> |             |
| Short-term credit from banks          | 5,000                          | 6,000       |
| Current maturities of long-term loans | -                              | 1,457       |
|                                       | 5,000                          | 7,457       |

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

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **Note 12 - Trade payables**

#### **Composition:**

|               | <b>As of December 31</b>       |               |
|---------------|--------------------------------|---------------|
|               | <b>2024</b>                    | <b>2023</b>   |
|               | <b>US dollars in thousands</b> |               |
| Open accounts | 44,118                         | 41,703        |
| Notes payable | 608                            | 1,571         |
|               | <u>44,726</u>                  | <u>43,274</u> |

### **Note 13 - Other payables**

#### **Composition:**

|  | <b>As of December 31</b>       |              |
|--|--------------------------------|--------------|
|  | <b>2024</b>                    | <b>2023</b>  |
|  | <b>US dollars in thousands</b> |              |
| Liability to employees and other liabilities<br>for wages and salaries | 5,207                          | 4,827        |
| Accrued expenses   | 1,935                          | 1,886        |
| Liability for royalty payments   | 3,429                          | 1,469        |
|  | <u>10,571</u>                  | <u>8,182</u> |

### **Note 14 - Loans from banks**

#### **(1) Composition:**

As of December 31, 2024, the Company has no loans from banks.

#### **As of December 31, 2023:**

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

#### **(2) A new financing agreement for the Company's operations with CITIBANK CANADIAN BRANCH:**

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 HSBC was acquired by the ROYAL BANK OF CANADA (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.



# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

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

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 US\$ 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 US\$ 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. Aggregate 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 US\$ 3,000,000 for inventory in transit); and (2) US\$ 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 US\$ 3 million;

1.3 A long-term loan to the Company in the amount of US\$ 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 US\$ 1,000,000 to the Company.

1.5 A Credit line for credit cards in the amount of US\$ 425,000.

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:

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

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

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

“**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 Inc. (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;
- 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 US\$ 12 million per year during the first two years after the completion of the agreement and US\$ 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) US\$ 2,000,000 in 2024, (ii) US\$ 2,000,000 in 2025, (iii) US\$ 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.

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

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

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 US\$ 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.

As of December 31, 2024, 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 4.71.

Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 0.10.

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

### 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:

|  | <b>As of December 31,</b>      |             |
|--|--------------------------------|-------------|
|  | <b>2024</b>                    | <b>2023</b> |
|  | <b>US dollars in thousands</b> |             |
| <b><u>Financial assets</u></b>                                   |                                |             |
| Financial assets measured at amortized cost:                     |                                |             |
| Cash   | 6,216                          | 3,321       |
| Trade receivables  | 49,582                         | 44,797      |
| Receivables  | 1,173                          | 947         |
| Total financial assets measured at amortized cost                | 56,971                         | 49,065      |
| <br>   |                                |             |
| Total financial assets   | 56,971                         | 49,065      |
| Total current financial assets                                   | 56,632                         | 48,723      |
| Total non-current financial assets                               | 339                            | 342         |
| <br>   |                                |             |
| <b><u>Financial liabilities</u></b>                              |                                |             |
| Financial liabilities measured at amortized cost:                |                                |             |
| Loans and credit from banks                                      | 5,000                          | 15,107      |
| Trade payables   | 44,946                         | 44,789      |
| Other payables   | 12,160                         | 8,780       |
| Lease liabilities  | 7,091                          | 6,679       |
| Total financial liabilities measured at amortized cost           | 69,197                         | 75,355      |
| <br>   |                                |             |
| Financial liabilities at fair value through profit or loss:      |                                |             |
| Liabilities in respect of share-based payment                    | 538                            | 56          |
| Total financial liabilities at fair value through profit or loss | 538                            | 56          |
| <br>   |                                |             |
| Total financial liabilities                                      | 69,735                         | 75,411      |
| Total current financial liabilities                              | 60,690                         | 60,609      |
| Total non-current financial liabilities                          | 9,045                          | 14,802      |

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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 in order to hedge certain risk exposures.

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

#### **(1) Market risks**

##### **a. Foreign currency risk:**

The Group operates in a large number of countries and is exposed to fluctuations in foreign currencies, mainly the NIS and the Euro against the US Dollar. 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.

##### **b. Interest risk:**

The Group is exposed to risk due to changes in market interest rates resulting from long-term and short-term loans received that carry a variable interest rate (the loans are linked to the SOFR interest rate).

#### **Sensitivity analysis**

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 changes selected in the relevant risk variables were determined in accordance with management's assessments of reasonable possible changes in these risk variables. For loans with variable interest rates, the sensitivity test for interest rate risk was performed on the variable component of interest.

#### **Change in exchange rates:**

As of December 31, 2024, the Company has an excess of financial liabilities in NIS over financial assets in the amount of US\$ 9,374 thousand (as of December 31, 2023 – US\$ 5,075 thousand).

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

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

##### **(1) Market risks (Cont.)**

##### **b. Interest risk (Cont.)**

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.

|      | <b>Sensitivity test to changes in<br/>NIS exchange rate</b> |  |
|------|---|--|
|      | <b>Gain (loss) from change</b>                              |  |
|      | <b>10% increase in<br/>exchange rate</b>                    | <b>10% decrease in<br/>exchange rate</b> |
|      | <b>US dollars in thousands</b>                              |  |
| 2024 | <u>937</u>  | <u>(937)</u>                             |
| 2023 | <u>507</u>  | <u>(507)</u>                             |

##### **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 ignores tax effects

|      | <b>Sensitivity test to changes in interest rates</b> |                                     |
|------|--|-------------------------------------|
|      | <b>Gain (loss) from change</b>                       |                                     |
|      | <b>10% increase in<br/>interest</b>                  | <b>10% decrease in<br/>interest</b> |
|      | <b>US dollars in thousands</b>                       |                                     |
| 2024 | <u>(21)</u>  | <u>21</u>                           |
| 2023 | <u>(81)</u>  | <u>81</u>                           |

##### **(2) Credit risks:**

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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

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

##### **(2) Credit risks (Cont.)**

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.

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

##### **(3) 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, 2024, the cash balance amounted to US\$ 6,216 thousand. The Company also had an unutilized line of credit derived from the Company's current volume of collateral in the amount of US\$ 45,000 thousand.

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

#### **As of December 31, 2024:**

|                   | <b><u>Up to one<br/>year</u></b> | <b><u>1 to 2<br/>years</u></b> | <b><u>2 to 3<br/>years</u></b> | <b><u>3 to 4<br/>years</u></b> | <b><u>4 to 5<br/>years</u></b> | <b><u>Total</u></b> |
|-------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---------------------|
|                   | <b>US dollars in thousands</b>   |                                |                                |                                |                                |                     |
| Loans from banks  | 5,000                            | -                              | -                              | -                              | -                              | 5,000               |
| Trade payables    | 44,726                           | 88                             | 88                             | 44                             | -                              | 44,946              |
| Other payables    | 8,822                            | 2,114                          | 1,224                          | -                              | -                              | 12,160              |
| Lease liabilities | 2,141                            | 1,993                          | 1,342                          | 938                            | 677                            | 7,091               |
|                   | <u>60,689</u>                    | <u>4,195</u>                   | <u>2,654</u>                   | <u>982</u>                     | <u>677</u>                     | <u>69,197</u>       |

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

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

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

As of December 31, 2023:

|                                | <u>Up to one<br/>year</u> | <u>1 to 2<br/>years</u> | <u>2 to 3<br/>years</u> | <u>3 to 4<br/>years</u> | <u>4 to 5<br/>years</u> | <u>Total</u>  |
|--------------------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|
| <u>US dollars in thousands</u> |                           |                         |                         |                         |                         |               |
| 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                 | 7,231                     | 1,549                   | -                       | -                       | -                       | 8,780         |
| Lease liabilities              | 2,647                     | 1,780                   | 1,051                   | 636                     | 565                     | 6,679         |
|                                | <u>60,609</u>             | <u>5,926</u>            | <u>2,658</u>            | <u>2,243</u>            | <u>3,919</u>            | <u>75,355</u> |

##### 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).

|   | <u>As of December 31</u> |             |
|---|--------------------------|-------------|
|   | <u>2024</u>              | <u>2023</u> |
| <u>US dollars in thousands</u>              |                          |             |
| <b>Level 2</b>                              |                          |             |
| Liability in respect of share-based payment | <u>(538)</u>             | <u>(56)</u> |
| Total financial liabilities                 | <u>(538)</u>             | <u>(56)</u> |



# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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.

|   | <b><u>For the year ended December 31</u></b> |                    |                    |
|---|--|--------------------|--------------------|
|   | <b><u>2024</u></b>                           | <b><u>2023</u></b> | <b><u>2022</u></b> |
|   | <b><u>US dollars in thousands</u></b>        |                    |                    |
| Expenses in respect of defined contribution plans | <u>517</u>                                   | <u>468</u>         | <u>457</u>         |

#### **(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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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:**

|   | <b>For the year ended December 31</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2024</b>                           | <b>2023</b> |
|   | <b>US dollar in thousands</b>         |             |
| <b><u>Opening balance</u></b>                                   | 1,299                                 | 1,311       |
| <b><u>Amounts recorded to profit and loss:</u></b>              |                                       |             |
| Cost of current service   | (115)                                 | 92          |
| Interest expenses, net  | 36                                    | 29          |
| Expenses recorded to profit or loss in the period               | (79)                                  | 121         |
| Payments from the plan  | 29                                    | 157         |
| <b><u>Amounts recorded to other comprehensive income</u></b>    |                                       |             |
| Actuarial gain (loss) due to changes in demographic assumptions | (18)                                  | 28          |
| Actuarial gain (loss) due to changes in financial assumptions   | 8                                     | (27)        |
| Actuarial gain due to experience deviations                     | 25                                    | 41          |
| Effect on other comprehensive income in the period              | 15                                    | 42          |
| Effect of changes in exchange rates of foreign currency         | (3)                                   | (18)        |
| Closing balance   | 1,203                                 | 1,299       |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

### 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:

|                               | <u>For the year ended December 31</u> |             |
|-------------------------------|---------------------------------------|-------------|
|                               | <u>2024</u>                           | <u>2023</u> |
|                               | <u>%</u>                              | <u>%</u>    |
| Discount rate (*)             | 5.6                                   | 5.8         |
| 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:

|  | <u>The change in the defined<br/>benefit obligation</u> |
|--|---|
|  | <u>Dollars thousand</u>                                 |
| <b>As of December 31, 2024:</b>  |   |
| <u>Sensitivity test to changes in expected salary increase rate</u>                              |   |
| The change as a result of:   |   |
| Salary increase of 1%  | 57  |
| Salary decrease of 1%  | (50)  |
| <u>Sensitivity test to changes in the discount rate of the plan's<br/>liabilities and assets</u> |   |
| The change as a result of:   |   |
| 1% increase of the discount rate   | (48)  |
| 1% decrease of the discount rate   | 56  |

### Note 17 – Long-Term Payables

|  | <u>For the year ended<br/>December 31</u> |              |
|--|---|--------------|
|  | <u>2024</u>                               | <u>2023</u>  |
|  | <u>US dollars in thousands</u>            |              |
| Liability for long-term royalty payments       | 3,337                                     | 1,549        |
| Supplier credit - Purchase of fixed assets (1) | -   | 492          |
| Supplier credit – Acquisition of operation     | 220                                       | 1,024        |
| Liability for share-based payment (2)          | 538                                       | 56           |
|  | <u>4,095</u>                              | <u>3,121</u> |

(1) For additional details, see Note 8b above.

(2) For additional details, see Note 21b2 as follows.

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

### 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 United States and Canada is 27% (including federal and state taxes).  
The tax rate applicable to a subsidiary in Jordan is 21%.

**c. Final tax assessments:**

Final tax assessments were issued to the Company up to and including the tax year 2019. The main subsidiary operating outside Israel has final tax assessments until 2020.

**d. Deferred taxes:**

**Composition:**

|  | Balance sheets |       | Statements of income       |         |         |
|--|----------------|-------|----------------------------|---------|---------|
|  | December 31    |       | The year ended December 31 |         |         |
|  | 2024           | 2023  | 2024                       | 2023    | 2022    |
| US dollars in thousands                |                |       |                            |         |         |
| <b><u>Deferred tax liabilities</u></b> |                |       |                            |         |         |
| Fixed assets                           | (754)          | (991) | 237                        | 186     | 267     |
|  | (754)          | (991) |                            |         |         |
| <b><u>Deferred tax assets</u></b>      |                |       |                            |         |         |
| Carry-forward losses for tax purposes  | -              | 2,068 | (2,068)                    | (2,697) | (1,873) |
| Employee benefits                      | 445            | 414   | 31                         | 21      | (61)    |
|  | 445            | 2,482 |                            |         |         |
| Deferred tax income (expenses)         |                |       | (1,800)                    | (2,490) | (1,667) |
| Deferred tax assets (liabilities), net | (309)          | 1,491 |                            |         |         |

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

|                         | December 31             |       |
|-------------------------|-------------------------|-------|
|                         | 2024                    | 2023  |
|                         | US dollars in thousands |       |
| Non-current assets      | -                       | 1,491 |
| Non-current liabilities | (309)                   | -     |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

**f. Composition of income tax expenses in the statements of income:**

|   | <b>For the year ended December 31</b> |              |              |
|---|---------------------------------------|--------------|--------------|
|   | <b>2024</b>                           | <b>2023</b>  | <b>2022</b>  |
|   | <b>US dollars in thousands</b>        |              |              |
| Current tax expenses                                      | 2,586                                 | 1,079        | 1,237        |
| Expenses (income) in respect of taxes from previous years | 61                                    | (46)         | (546)        |
| Deferred tax expenses                                     | 1,800                                 | 2,490        | 1,667        |
|   | <u>4,447</u>                          | <u>3,523</u> | <u>2,358</u> |

**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:

|   | <b>For the year ended December 31</b> |              |              |
|---|---------------------------------------|--------------|--------------|
|   | <b>2024</b>                           | <b>2023</b>  | <b>2022</b>  |
|   | <b>US dollars in thousands</b>        |              |              |
| Income before taxes on income   | 19,559                                | 14,456       | 9,805        |
| Statutory tax rate  | 23%                                   | 23%          | 23%          |
| Tax expenses computed at the statutory tax rate   | 4,499                                 | 3,325        | 2,255        |
| Increase (decrease) in taxes on income resulting from the following factors:  |                                       |              |              |
| Non-deductible expenses for tax purposes  | 102                                   | 72           | 86           |
| Temporary differences for which no deferred taxes were recorded   | 168                                   | 24           | 250          |
| Losses for tax purposes for which no deferred tax assets were recognized in the past, but were recognized during the reporting period | -                                     | (270)        | -            |
| Difference in the tax rate applicable to income in consolidated subsidiaries located in other jurisdictions                           | 132                                   | 170          | 126          |
| Losses for tax purposes for which no deferred tax assets were recognized  | 125                                   | -            | -            |
| Losses for tax purposes for which no deferred tax assets were recognized in the past, which were utilized during the reporting period | (621)                                 | -            | -            |
| Adjustments carried out during the year in respect of taxes from previous years   | 61                                    | (46)         | (546)        |
| Others  | (19)                                  | 248          | 187          |
| Tax expenses  | <u>4,447</u>                          | <u>3,523</u> | <u>2,358</u> |

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **Note 19 - Contingent liabilities, commitments and liens**

#### **a. Contingent liabilities:**

##### **Legal proceedings:**

1. On February 18, 2024, the Company was presented with a legal claim that 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 Misgav Industrial Park. 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.
2. On August 12, 2024, the Court issued a judgment rejecting the claim filed on January 10, 2022, against the Company and other 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 on the grounds of commissions that the defendants allegedly owe him. On November 14, 2024, the plaintiffs in the aforesaid claim submitted an appeal to the Supreme Court against the Company and the additional defendants. The appeal is scheduled for a hearing toward the end of 2025. The Company believes, based on its legal advisors, it has good arguments to answer the appeal.

#### **b. Commitments for lease payments:**

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 2025-2031.

The expected lease fees for non-cancellable lease agreements in the coming years, which are calculated according to the lease agreements in effect as of December 31, 2024, are as follows:

|                        | <b>As of December 31</b>       |              |
|------------------------|--------------------------------|--------------|
|                        | <b>2024</b>                    | <b>2023</b>  |
|                        | <b>US dollars in thousands</b> |              |
| Year 1                 | 2,604                          | 2,666        |
| Year 2                 | 2,293                          | 1,417        |
| Year 3                 | 2,173                          | 931          |
| Year 4                 | 1,945                          | 776          |
| Year 5 and there after | 2,220                          | 547          |
|                        | <b>11,235</b>                  | <b>6,337</b> |

#### **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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **Note 20 - Capital**

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

|  | <b>As of December 31,</b> |             |
|--|---------------------------|-------------|
|  | <b>2024</b>               | <b>2023</b> |
|  | <b>Number of shares</b>   |             |
| 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)  | 12,719,284                | 12,437,934  |
| Paid up share capital (ordinary shares of NIS 10 par value each)   | 12,619,544                | 12,338,194  |
| Stock options (non-tradable) for the Company's employees and managers, directors and service providers exercisable into ordinary shares of NIS 10 par value each | 1,216,355                 | 1,586,667   |
| 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, 2024, and 2023. 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 2024, 2023, and 2022, the Company achieved a return on capital of 19.7%, 17.3%, and 14.3%, respectively.

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### 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:

|   | <b>For the year ended<br/>December 31</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2024</b>                               | <b>2023</b> | <b>2022</b> |
|   | <b>US dollars in thousands</b>            |             |             |
| Share based payment plans settled with equity instruments for employees and consultants | 888                                       | 236         | 276         |
| Share based payment plans settled in cash for employees and consultants                 | 482                                       | 56          | (87)        |
| Total share-based payment plans settled with equity instruments and in cash             | <u>1,370</u>                              | <u>292</u>  | <u>189</u>  |

**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 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, subject to the adjustments as detailed in the Company's option plan. The offeree will be entitled to exercise the options in 3 series, exercisable for a period of five years each,



# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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 date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 293,590 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, subject to the adjustments as detailed in the Company's option plan. 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 date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 212,960 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 in this sub-clause – "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 NIS 10. On December 4, 2023, 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

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

### **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.)**

each option determined by the Company's Board is NIS 16.77, subject to the adjustments as detailed in the Company's option plan. 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 date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 572,500 options.

4. On October 29, 2024, the Company's Board of Directors decided, after receiving the approval of the Company's Remuneration Committee, to allocate 35,000 non-tradeable options to the Company's CFO, Mr. Gregory Davidson (hereinafter in this sub-section - "the options" and "the offeree", respectively), exercisable for up to 35,000 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 offeree (in an average calculation of the three series) is NIS 15.7. On November 3, 2024, the options were allocated to the offeree without consideration as part of the offeree's remuneration in respect of his position in the Company. The exercise price of each option determined by the Company's Board of Directors is NIS 31.05, subject to the adjustments as detailed in the Company's option plan. The offeree will be entitled to exercise the options in 3 series, which will be exercisable for a period of five years each, as of the following dates and in accordance with the principles detailed as follows:

- First series – 11,667 options exercisable for up to 11,667 ordinary shares of the Company of NIS 10 par value each as of December 1, 2025, and until November 30, 2030.
- Second series – 11,667 options exercisable for up to 11,667 ordinary shares of the Company of NIS 10 par value each as of December 1, 2026, and until November 30, 2031.
- Third series – 11,666 options exercisable for up to 11,666 ordinary shares of the Company of NIS 10 par value each as of December 1, 2027, and until November 30, 2032.

As of the date of this report, the remaining amount of options that can still be exercised in regard to this allocation is 35,000 options.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

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

##### **(2) Transactions settled in cash:**

1. 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. 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 date of this report, the remaining amount of rights that can still be exercised in regard to this allocation is 50,000 rights.

2. On July 1, 2024, six employees in the subsidiary who are not officers of the Company were granted 90,000 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. 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 May 1, 2025.
  - Second series – 30,000 rights exercisable as of May 1, 2026.
  - Third series – 30,000 rights exercisable as of May 1, 2027.

As of the date of this report, the remaining amount of rights that can still be exercised in regard to this allocation is 90,000 rights.

#### **c. Exercising options:**

During the reporting period, 351,978 of the Company's employee options were exercised into 281,350 ordinary shares of the Company. During the reporting period, 53,334 employee options expired.

Subsequent to the date of the report, 102,305 of the Company's employee options were exercised into 82,741 ordinary shares of the Company.

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

#### 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:

|  | <u>As of December 31, 2024</u> |   | <u>As of December 31, 2023</u> |   |
|--|--------------------------------|---|--------------------------------|---|
|  | <u>Number<br/>of options</u>   | <u>Weighted<br/>average<br/>exercise<br/>price (dollar)</u> | <u>Number<br/>of options</u>   | <u>Weighted<br/>average<br/>exercise price<br/>(dollar)</u> |
| Options for shares granted at the beginning of the year          | 1,586,667                      | 2.7   | 1,036,667                      | 1.6   |
| Options for shares granted during the year                       | 35,000                         | 8.3   | 600,000                        | 4.6   |
| Options expired during the year                                  | (53,334)                       | 2.9   | -                              | -   |
| Options exercised during the year                                | (351,978)                      | 1.4   | (50,000)                       | 1.9   |
| Options for shares at the end of the year                        | <u>1,216,355</u>               | <u>3.0</u>  | <u>1,586,667</u>               | <u>2.7</u>  |
| Options for shares which can be exercised at the end of the year | <u>794,687</u>                 | <u>2.1</u>  | <u>796,667</u>                 | <u>1.5</u>  |

The weighted average of the remaining contractual term of the share options as of December 31, 2024, is 4.4 years (2023 – 4.8 years).

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

The Company uses the binomial 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **a. Cost of sales:**

|   | <b>For the year ended December 31</b> |                |                |
|---|---------------------------------------|----------------|----------------|
|   | <b>2024</b>                           | <b>2023</b>    | <b>2022</b>    |
|   | <b>US dollars in thousands</b>        |                |                |
| Finished goods and incidentals (*)                          | 144,043                               | 116,304        | 122,244        |
| Materials   | 29,922                                | 23,619         | 21,918         |
| Payroll and benefits  | 18,808                                | 13,657         | 11,962         |
| Sub-contracted work   | 10,039                                | 5,716          | 6,656          |
| Depreciation  | 5,554                                 | 4,839          | 4,067          |
| Other manufacturing expenses                                | 11,054                                | 8,385          | 5,476          |
|   | <u>219,420</u>                        | <u>172,520</u> | <u>172,323</u> |
| Decrease in work-in-progress and finished goods inventories | <u>7,963</u>                          | <u>15,802</u>  | <u>872</u>     |
|   | <u>227,383</u>                        | <u>188,322</u> | <u>173,195</u> |

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

#### **b. Development expenses:**

|                               | <b>For the year ended<br/>December 31</b> |              |              |
|-------------------------------|---|--------------|--------------|
|                               | <b>2024</b>                               | <b>2023</b>  | <b>2022</b>  |
|                               | <b>US dollars in thousands</b>            |              |              |
| Payroll and benefits          | 4,327                                     | 3,517        | 3,072        |
| Manufacturing expenses        | 1,864                                     | 1,601        | 1,862        |
| Depreciation and amortization | 409                                       | 404          | 400          |
| Materials                     | 155                                       | 66           | 229          |
| Others                        | 336                                       | 114          | 58           |
|                               | <u>7,091</u>                              | <u>5,702</u> | <u>5,621</u> |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

**c. Selling and marketing expenses:**

|                                       | <b>For the year ended December 31</b> |               |               |
|---------------------------------------|---------------------------------------|---------------|---------------|
|                                       | <b>2024</b>                           | <b>2023</b>   | <b>2022</b>   |
|                                       | <b>US dollars in thousands</b>        |               |               |
| Payroll and benefits                  | 10,603                                | 8,743         | 7,925         |
| Export and distribution               | 8,998                                 | 7,338         | 8,544         |
| Commissions to agents and franchisees | 2,836                                 | 3,084         | 3,072         |
| Overseas office maintenance           | 586                                   | 579           | 505           |
| Overseas excursions                   | 1,024                                 | 670           | 527           |
| Depreciation and amortization         | 2,144                                 | 1,653         | 1,603         |
| Sales promotion                       | 1,238                                 | 1,199         | 1,236         |
| Others                                | 2,255                                 | 1,850         | 1,833         |
|                                       | <b>29,684</b>                         | <b>25,116</b> | <b>25,245</b> |

**d. General and administrative expenses:**

|  | <b>For the year ended December 31</b> |              |              |
|--|---------------------------------------|--------------|--------------|
|  | <b>2024</b>                           | <b>2023</b>  | <b>2022</b>  |
|  | <b>US dollars in thousands</b>        |              |              |
| Payroll and benefits                     | 2,981                                 | 2,066        | 1,757        |
| Consulting                               | 1,301                                 | 1,144        | 575          |
| Remuneration and insurance for directors | 223                                   | 210          | 257          |
| Others                                   | 1,456                                 | 1,359        | 1,716        |
|  | <b>5,961</b>                          | <b>4,779</b> | <b>4,305</b> |

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

|   | <b>For the year ended<br/>December 31</b> |              |              |
|---|---|--------------|--------------|
|   | <b>2024</b>                               | <b>2023</b>  | <b>2022</b>  |
|   | <b>US dollars in thousands</b>            |              |              |
| <b>Financing income:</b>                                |   |              |              |
| Gain from change in exchange rates                      | 167                                       | 337          | 295          |
|   | <b>167</b>                                | <b>337</b>   | <b>295</b>   |
| <b>Financing expenses:</b>                              |   |              |              |
| Financing expenses in respect of credit and bank loans  | 667                                       | 1,952        | 2,115        |
| Interest expenses for the advancement of payments       | 2,205                                     | 2,146        | 755          |
| Bank commission   | 262                                       | 237          | 224          |
| Interest on lease                                       | 579                                       | 422          | 484          |
| Loss from change in foreign exchange rates              | -   | -            | 186          |
| Net expenses due to a change in fair value of cash flow | -   | -            | 211          |
| Other expenses  | 639                                       | 668          | 459          |
|   | <b>4,352</b>                              | <b>5,425</b> | <b>4,434</b> |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

### 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,            |   |   |   |  |   |
|--|--|---|---|---|--|---|
|  | 2024                                       |   | 2023  |   | 2022                                       |   |
|  | Weighted<br>average<br>number of<br>shares | Earnings<br>attributed<br>to<br>sharehold-<br>ers of the<br>Company | Weighted<br>average<br>number<br>of<br>shares | Earnings<br>attributed<br>to<br>sharehold-<br>ers of the<br>Company | Weighted<br>average<br>number<br>of shares | Loss<br>attributed<br>to<br>sharehol-<br>ders of the<br>Company |
|  | Thousands                                  | Dollars<br>thousands  | Thousands                                     | Dollars<br>thousands  | Thousands                                  | Dollars<br>thousands  |
| For the purpose of calculating<br>basic earnings   | 12,619                                     | 15,112  | 12,338  | 10,933  | 12,312                                     | 7,447   |
| For the purpose of calculating<br>diluted earnings | 13,335                                     | 15,112  | 12,931  | 10,933  | 13,004                                     | 7,447   |

### 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.

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

##### **b. Information on reportable segments' sales, income (loss) and assets (Cont.)**

The income (loss) of the segments reflects the income (loss) from the operations of the segment and does 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.

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

|  | <b>For the year ended December 31, 2024</b> |                |                    |                |
|--|---|----------------|--------------------|----------------|
|  | <b>Brands</b>                               | <b>Retail</b>  | <b>Adjustments</b> | <b>Total</b>   |
|  | <b>US dollars in thousands</b>              |                |                    |                |
| Total segment revenues from external customers | <u>94,250</u>                               | <u>199,613</u> |                    | <u>293,863</u> |
| Cost of goods sold                             | <u>72,692</u>                               | <u>154,691</u> |                    | <u>227,383</u> |
| Gross profit                                   | <u>21,558</u>                               | <u>44,922</u>  |                    | <u>66,480</u>  |
| Segment results                                | <u>11,400</u>                               | <u>12,344</u>  |                    | <u>23,744</u>  |
| Financing expenses, net                        |   |                |                    | <u>(4,185)</u> |
| Tax expenses                                   |   |                |                    | <u>(4,447)</u> |
| Net profit                                     |   |                |                    | <u>15,112</u>  |
| Segment assets                                 | <u>45,906</u>                               | <u>69,646</u>  | <u>34,235</u>      | <u>149,787</u> |
| Segment liabilities                            | <u>17,752</u>                               | <u>49,005</u>  | <u>6,238</u>       | <u>72,995</u>  |
| Cost of purchasing long-term assets            | <u>-</u>                                    | <u>-</u>       | <u>9,025</u>       | <u>9,025</u>   |
| Depreciation and amortization                  | <u>1,664</u>                                | <u>2,507</u>   | <u>3,937</u>       | <u>8,108</u>   |



# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

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

|  | <b>For the year ended December 31, 2023</b> |                |                    |                |
|--|---|----------------|--------------------|----------------|
|  | <b>Brands</b>                               | <b>Retail</b>  | <b>Adjustments</b> | <b>Total</b>   |
|  | <b>US dollars in thousands</b>              |                |                    |                |
| Total segment revenues from external customers | <u>66,701</u>                               | <u>176,762</u> |                    | <u>243,463</u> |
| Cost of goods sold                             | <u>50,161</u>                               | <u>138,161</u> |                    | <u>188,322</u> |
| Gross profit                                   | <u>16,540</u>                               | <u>38,601</u>  |                    | <u>55,141</u>  |
| Segment results                                | <u>9,857</u>                                | <u>9,687</u>   |                    | <u>19,544</u>  |
| Financing expenses, net                        |   |                |                    | <u>(5,088)</u> |
| Tax expenses                                   |   |                |                    | <u>(3,523)</u> |
| Net profit                                     |   |                |                    | <u>10,933</u>  |
| Segment assets                                 | <u>43,955</u>                               | <u>68,590</u>  | <u>28,299</u>      | <u>140,844</u> |
| Segment liabilities                            | <u>20,647</u>                               | <u>41,164</u>  | <u>15,851</u>      | <u>77,662</u>  |
| Cost of purchasing long-term assets            | <u>-</u>                                    | <u>-</u>       | <u>7,384</u>       | <u>7,384</u>   |
| Depreciation and amortization                  | <u>1,876</u>                                | <u>1,931</u>   | <u>3,090</u>       | <u>6,897</u>   |

|                                     | <b>For the year ended December 31, 2022</b> |                |                    |                |
|-------------------------------------|---|----------------|--------------------|----------------|
|                                     | <b>Brands</b>                               | <b>Retail</b>  | <b>Adjustments</b> | <b>Total</b>   |
|                                     | <b>US dollars in thousands</b>              |                |                    |                |
| Total segment revenues              | <u>77,377</u>                               | <u>144,933</u> |                    | <u>222,310</u> |
| Cost of goods sold                  | <u>60,741</u>                               | <u>112,454</u> |                    | <u>173,195</u> |
| Gross profit                        | <u>16,636</u>                               | <u>32,479</u>  |                    | <u>49,115</u>  |
| Segment results                     | <u>8,831</u>                                | <u>5,113</u>   |                    | <u>13,944</u>  |
| Financing expenses, net             |   |                |                    | <u>(4,139)</u> |
| Tax expenses                        |   |                |                    | <u>(2,358)</u> |
| Net profit                          |   |                |                    | <u>7,447</u>   |
| Segment assets                      | <u>38,700</u>                               | <u>89,325</u>  | <u>27,213</u>      | <u>155,238</u> |
| Segment liabilities                 | <u>19,606</u>                               | <u>32,019</u>  | <u>51,463</u>      | <u>103,088</u> |
| Cost of purchasing long-term assets | <u>-</u>                                    | <u>-</u>       | <u>5,325</u>       | <u>5,325</u>   |
| Depreciation and amortization       | <u>1,707</u>                                | <u>1,683</u>   | <u>2,680</u>       | <u>6,070</u>   |

# Tefron Ltd.

## Notes to the Consolidated Financial Statements

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

d. Secondary reporting regarding geographical segments:

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

|               | <b>For the year ended December 31</b> |                |                |
|---------------|---------------------------------------|----------------|----------------|
|               | <b>2024</b>                           | <b>2023</b>    | <b>2022</b>    |
|               | <b>US dollars in thousands</b>        |                |                |
| North America | 244,929                               | 210,875        | 189,030        |
| Europe        | 48,921                                | 32,578         | 33,276         |
| Israel        | 13                                    | 10             | 4              |
|               | <u>293,863</u>                        | <u>243,463</u> | <u>222,310</u> |

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

|               | <b>Balance of non-current assets (*)</b> |               |               | <b>Capital expenditures</b>           |              |              |
|---------------|--|---------------|---------------|---------------------------------------|--------------|--------------|
|               | <b>As of December 31,</b>                |               |               | <b>For the year ended December 31</b> |              |              |
|               | <b>2024</b>                              | <b>2023</b>   | <b>2022</b>   | <b>2024</b>                           | <b>2023</b>  | <b>2022</b>  |
|               | <b>US dollars in thousands</b>           |               |               |                                       |              |              |
| Israel        | 22,510                                   | 17,941        | 17,409        | 7,722                                 | 2,981        | 3,976        |
| North America | 698                                      | 267           | 291           | 625                                   | 166          | 93           |
| Others        | 5,931                                    | 5,680         | 1,978         | 678                                   | 3,229        | 1,256        |
|               | <u>29,139</u>                            | <u>23,888</u> | <u>19,678</u> | <u>9,025</u>                          | <u>6,376</u> | <u>5,325</u> |

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

e. Major customers

|   | <b>For the year ended December 31</b> |                |                |
|---|---------------------------------------|----------------|----------------|
|   | <b>2024</b>                           | <b>2023</b>    | <b>2022</b>    |
|   | <b>Total sales</b>                    |                |                |
| Customer A (part of the retail segment) | 77,255                                | 62,342         | 40,798         |
| Customer B (part of the retail segment) | 59,917                                | 62,862         | 63,396         |
|   | <u>137,172</u>                        | <u>125,204</u> | <u>104,194</u> |

## Tefron Ltd.

### Notes to the Consolidated Financial Statements

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

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

|                                   | As of December 31,      |      |
|-----------------------------------|-------------------------|------|
|                                   | 2024                    | 2023 |
|                                   | US dollars in thousands |      |
| <u>Under current assets:</u>      |                         |      |
| Trade receivables                 | 7                       | 64   |
| <u>Under current liabilities:</u> |                         |      |
| Trade payable                     | 121                     | 84   |
| Other payables                    | 44                      | -    |

##### b. Transactions with related parties and interested parties

|  | For the year ended December 31 |      |      |
|--|--------------------------------|------|------|
|  | 2024                           | 2023 | 2022 |
|  | US dollar in thousands         |      |      |
| Salaries and benefits for employees of the Company or of a subsidiary, including the CEO | 725                            | 439  | 375  |
| Number of beneficiaries of salaries and benefits   | 2                              | 1    | 1    |
| Fees of directors not employed by or on behalf of the Company                            | 167                            | 169  | 195  |
| Number of beneficiaries of salaries and benefits   | 5                              | 5    | 6    |

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

|   | For the year ended December 31, |       |       |
|---|---------------------------------|-------|-------|
|   | 2024                            | 2023  | 2022  |
|   | US dollars in thousands         |       |       |
| Sales (*)                                 | 126                             | 1,063 | 3,355 |
| Cost of sales                             | -                               | (2)   | (1)   |
| Selling and marketing expenses (**)       | (385)                           | (227) | (252) |
| General and administrative expenses (***) | (654)                           | (608) | (571) |

(\*) The sales in the years 2022-2023 derived from an agreement for invoicing services with a related party, as described in clause f as follows.

(\*\*) The expenses include rent fees for lease agreements with related parties as described in clauses e and m as follows. In addition, in 2024 salary expenses to a relative (daughter) of a controlling shareholder of the Company were added as well, as described in clause n as follows.

(\*\*\*) The expenses include remuneration to a controlling shareholder of the Company who provides management services to the Company as CEO, as described in clause l as follows, as well as remuneration for directors.

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

##### **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. Subsequent to the date of the report, in light of the fact that Messrs. Helen Lieberman and Lorne Lieberman, the sister and brother of Messrs. Ben and Martin Lieberman, have become controlling shareholders of Litef together with Messrs. Ben and Martin Lieberman, in equal shares, Messrs. Helen Lieberman and Lorne Lieberman have also become part to the aforesaid non-competition letter of commitment.

##### **e. Lease agreements with a related party:**

1. 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 company that his owned by controlling shareholders of the Company, for the purpose of the 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. The renewal of the said lease agreement for additional periods has been approved from time to time by the Company's Audit Committee and Board of Directors. 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. On March 14, 2024, the Company's Board approved, after receiving the approval of the Company's Audit Committee, as of that date, the renewal of the Company's engagement in the said rental agreement for a period of an additional year. Subsequent to the date of the report, on March 20, 2025, the Company's Board of Directors approved the Company's continued engagement in the said lease agreement after receiving the approval of the Company's Audit Committee on the same date, for a period of an additional year, with the option of terminating the said agreement by either party with a prior notice of 30 days.

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

##### **e. Lease agreements with a related party (Cont.)**

2. On May 7, 2024, the Company's Audit Committee and thereafter the Company's Board approved, the Company's engagement in a non-extraordinary transaction with a company owned by controlling shareholders of the Company for subleasing offices in Montreal, Canada, which will replace the sublease detailed in sub-clause 1 above, on the date when the preparation of the new offices is completed, and this, in light of the increase in the scope of the Company's activity in North America, which requires moving to larger offices. The said offices have a total area of 2,507 square meters, and the monthly lease fee is CA\$ 36,875. The said lease agreement is valid for a period of 10 years which is expected to begin on June 1, 2025, with the Company having the option to extend the lease period for an additional 5 years. Either party has the right to terminate the agreement during the lease period (or during the option period, if exercised) with a prior notice of one 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 are paid to Lamour, are transferred to the Company upon receiving them 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. In 2023 the Company started to sell its products directly to Walmart Canada and the aforesaid transaction has come to an end.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **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.

#### **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, related to their position as officers of the Company, 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. Subsequent to the date of the report, on March 19, 2025, 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

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

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

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 that is not being carried out under market conditions does not meet the definition of a negligible transaction 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 an 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*

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

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

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 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



## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

#### **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.)**

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. During 2024 this agreement came to an end by mutual consent 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, 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. Lieberman in her position as aforementioned, after also receiving the approval of the Audit Committee and Board of Directors of the Company for these terms.

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. An 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 that are 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.

# **Tefron Ltd.**

## **Notes to the Consolidated Financial Statements**

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

#### **a. Dividend distribution:**

On March 17, 2024, the Company announced, after receiving approval from the Board of Directors, the distribution of a cash dividend to the Company's shareholders in an aggregate amount of US\$ 1,995,281.40 million (US\$ 0.16 per share). The dividend was paid on April 9, 2024.

#### **b. “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 the Gaza Strip on the State of Israel. Since the beginning of the war, it has also expanded to the northern front against the terrorist organization Hezbollah and led to direct confrontations with Iran. The ongoing fighting against the terrorist organization Hezbollah on the northern front, the continuation of fighting in Gaza and the West Bank, as well as the escalation with Iran, all continue to impact the Israeli economy, the capital market, and the cost of living.

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, there was an increase in transportation costs compared to their prices prior to 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 ongoing fighting and its economic consequences led to the downgrade of Israel's credit rating during 2024, by all three international credit rating companies. Nevertheless, the Company estimates, especially considering that it does not work with the Israeli banking system, that the effect of said downgrade will not be material to the Company.

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 war. Based on the experience during the ongoing war, and in particular when there is a ceasefire on the Lebanese front as of the date of publication of this report, 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 major war in particular, and a regional war in general, 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

#### **c. Imposing additional tariffs on products imported from China to the United States**

Subsequent to the date of the report, in March 2025, the president of the United States announced the implementation of an additional tariff of 10% on products imported from China to the United States (hereinafter: the "additional tariff order"), after an additional tariff of 10% had already been imposed at the beginning of February 2025. Therefore, as of the beginning of 2025, a total of 20% tariffs were imposed on products imported from China to the United States. The Company estimates that the additional tariff order may reduce the Company's profitability with respect to sales of products sold by the Company and manufactured in China. Assuming

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

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

##### **c. Imposing additional tariffs on products imported from China to the United States (Cont.)**

that these sales will be similar to the Company's sales of these products in 2024, the aforementioned reduction in profitability may affect the Company's pre-tax profit in 2025 by an estimated amount of US\$ 2-3 million. The aforementioned depends on the pace of the Company's ability to transfer the production process of these products from China to other countries and on the results of negotiations with both the suppliers of these products and the customers who purchase these products regarding changes in the purchase prices of the products and their selling prices to customers, and accordingly, a material change may occur in the aforementioned estimation. As of the date of the publication of this report, there was no change in the Company's assessment.

## **Tefron Ltd.**

### **Notes to the Consolidated Financial Statements**

Details regarding the investee companies held by the Company as of December 31, 2024:

| <b>Name of company</b>   | <b>Country of incorporation and principal place of business activity</b> | <b>% of rights of ownership</b> |             |
|--|--|---------------------------------|-------------|
|  |  | <b>as of December 31,</b>       |             |
|  |  | <b>2024</b>                     | <b>2023</b> |
|  |  | <b>%</b>                        | <b>%</b>    |
| 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   | 99.9%                           | 99.9%       |
| New Net Industries Ltd.  | Israel   | 99.9%                           | 99.9%       |

**\* \* \***