

TEFRON LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2021

(UNAUDITED)

TEFRON LTD.

Condensed Consolidated Financial Statements as at June 30, 2021

(Unaudited)

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Date: August 25, 2021

To: The Management of Tefron Ltd.

Report of Factual Findings in Connection with the translated Financial Information as of June 30, 2021

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 condensed consolidated statement of financial position as of June 30, 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the periods of six and three months ended on that date (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 Interim Condensed Consolidated Financial Statements of **Tefron Ltd.** as of June 30, 2021 and for the period of six and three months ended on that date that was published in Hebrew language, on which we have issued an unqualified review report on August 25, 2021.

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 Interim Condensed Consolidated Financial Statements of Tefron Ltd. as of June 30, 2021.

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

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

Tefron Ltd.

Condensed Consolidated Balance Sheets

	As at				
	As at June 30,		December 31,		
	2021	2020	2020		
	(Unaudited)		Audited		
US dollars in thousands					
ASSETS					
CURRENT ASSETS					
Cash	5,513	6,903	8,279		
Trade receivables, net	42,705	34,384	41,764		
Other receivables	6,028	10,407	3,626		
Inventory	49,736	20,693	33,759		
Total current assets	103,982	72,387	87,428		
NON-CURRENT ASSETS					
Property, plant and equipment, net	13,931	13,611	13,870		
Right-of-use asset	6,237	(*)1,681	(*)1,417		
Goodwill and intangible assets, net	122	121	123		
Software, net	2,581	2,114	2,312		
Deferred taxes, net	4,623	2,545	3,051		
Total non-current assets	27,494	20,072	20,773		
Total Assets	131,476	92,459	108,201		

(*) Reclassified

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

Tefron Ltd.

Condensed Consolidated Balance Sheets

	As at		
	As at June 30,		December 31,
	2021	2020	2020
	(Unaudited)	Audited	US dollars in thousands
LIABILITIES			
CURRENT LIABILITIES			
Bank credit	25,599	23,755	27,268
A loan from the controlling shareholders	2,000	2,000	2,000
Liabilities for bank options	1,247	-	-
Trade payables	45,828	29,844	36,296
Other payables	8,762	4,515	6,602
Total current liabilities	83,436	60,114	72,166
NON-CURRENT LIABILITIES			
Loans from banks	5,143	5,859	5,559
Liabilities for bank options	-	28	168
Liabilities for benefits to employees, net	1,679	1,018	1,368
Long-term payables	5,441	1,528	1,551
Total non-current liabilities	12,263	8,433	8,646
EQUITY			
Share capital	33,784	33,617	33,617
Additional paid-in capital	100,204	99,921	99,967
Reserve for remeasurement of defined benefit plan	(2,260)	(2,080)	(2,260)
Accumulated deficit	(88,870)	(100,158)	(96,718)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	(282)	(514)	(381)
Other capital reserves	609	534	572
Total equity	35,777	23,912	27,389
Total liabilities and equity	131,476	92,459	108,201

August 25, 2021

Date of approval of the financial statements

Arnon Tiberg
Chairman of the Board

Ben Lieberman
CEO

Gregory Davidson
CFO

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

Tefron Ltd.

Condensed Consolidated Statements of Income

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,
	2021	2020	2021	2020	2020
	(Unaudited)				
US dollars in thousands (excluding data on income per share)					
Sales	126,137	75,471	68,232	40,835	180,000
Cost of sales	95,266	62,286	50,551	33,462	145,693
Gross profit	30,871	13,185	17,681	7,373	34,307
Development expenses, net	2,469	1,053	1,213	429	2,816
Selling and marketing expenses	15,291	7,705	9,066	3,749	18,991
General and administrative expenses	2,133	1,749	1,246	751	3,438
Other expenses (income)	708	(13)	708	(7)	451
Operating profit	10,270	2,691	5,448	2,451	8,611
Financing income	86	262	-	187	380
Financing expenses	(2,667)	(1,248)	(2,030)	(613)	(2,907)
Financing expenses, net	(2,581)	(986)	(2,030)	(426)	(2,527)
Income before taxes on income	7,689	1,705	3,418	2,025	6,084
Tax income (expenses)	159	(585)	912	(385)	(1,524)
Net income	7,848	1,120	4,330	1,640	4,560
<u>Income per share (in dollars)</u>					
Basic income per share	0.66	0.09	0.36	0.14	0.38
Diluted income per share	0.62	0.09	0.33	0.14	0.38

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

Tefron Ltd.

Condensed Consolidated Statements of Comprehensive Income

					For the year ended December 31,
	For the six-month period ended June 30,		For the three-month period ended June 30,		2020
	2021	2020	2021	2020	
	(Unaudited)	(Unaudited)	(Unaudited)	Audited	
US dollars in thousands					
Net income	7,848	1,120	4,330	1,640	4,560
Other comprehensive income (loss) (after the effect of the tax):					
<u>Amounts that will not be reclassified thereafter to the statements of income:</u>					
Loss from remeasurement of defined benefit plans	-	-	-	-	(180)
Subtotal of items that will not be reclassified thereafter to the statements of income	-	-	-	-	(180)
<u>Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:</u>					
Unrealized gain on cash flows hedge transaction	30	41	14	-	54
Realized gain on cash flows hedge transaction	-	-	-	(48)	-
Unrealized gain (loss) due to interest rate swap transaction	69	(262)	43	-	(142)
Total items that shall be reclassified or are reclassified to the statements of income	99	(221)	57	(48)	(88)
Total other comprehensive income (loss)	99	(221)	57	(48)	(268)
Total comprehensive income attributed to the Company's shareholders	<u>7,947</u>	<u>899</u>	<u>4,387</u>	<u>1,592</u>	<u>4,292</u>

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
US dollars in thousands								
Balance as at January 1, 2021	33,617	99,967	(2,260)	(96,718)	(7,408)	(381)	572	27,389
Net income	-	-	-	7,848	-	-	-	7,848
Total other comprehensive income	-	-	-	-	-	99	-	99
Issuance of shares	167	54	-	-	-	-	-	221
Share based payment to employees and consultants	-	183	-	-	-	-	-	183
A benefit payment from a controlling shareholder	-	-	-	-	-	-	37	37
Balance as at June 30, 2021 (Unaudited)	33,784	100,204	(2,260)	(88,870)	(7,408)	(282)	609	35,777
	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
US dollars in thousands								
Balance as at January 1, 2020	33,617	99,866	(2,080)	(101,278)	(7,408)	(293)	497	22,921
Net income	-	-	-	1,120	-	-	-	1,120
Total other comprehensive loss	-	-	-	-	-	(221)	-	(221)
Share based payment to employees and consultants	-	55	-	-	-	-	-	55
A benefit payment from a controlling shareholder	-	-	-	-	-	-	37	37
Balance as at June 30, 2020 (Unaudited)	33,617	99,921	(2,080)	(100,158)	(7,408)	(514)	534	23,912

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
US dollars in thousands								
Balance as at April 1, 2021 (Unaudited)	33,617	99,982	(2,260)	(93,200)	(7,408)	(339)	591	30,983
Net income	-	-	-	4,330	-	-	-	4,330
Total other comprehensive income	-	-	-	-	-	57	-	57
Issuance of shares	167	54	-	-	-	-	-	221
Share based payment to employees and consultants	-	168	-	-	-	-	-	168
A benefit payment from a controlling shareholder	-	-	-	-	-	-	18	18
Balance as at June 30, 2021 (Unaudited)	33,784	100,204	(2,260)	(88,870)	(7,408)	(282)	609	35,777

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
US dollars in thousands								
Balance as at April 1, 2020 (Unaudited)	33,617	9,898	(2,080)	(101,798)	(7,408)	(466)	516	22,279
Net income	-	-	-	1,640	-	-	-	1,640
Total other comprehensive loss	-	-	-	-	-	(48)	-	(48)
Share based payment to employees and consultants	-	23	-	-	-	-	-	23
A benefit payment from a controlling shareholder	-	-	-	-	-	-	18	18
Balance as at June 30, 2020 (Unaudited)	33,617	99,921	(2,080)	(100,158)	(7,408)	(514)	534	23,912

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
US dollars in thousands								
Balance as at								
January 1, 2020	33,617	99,866	(2,080)	(101,278)	(7,408)	(293)	497	22,921
Net income	-	-	-	4,560	-	-	-	4,560
Other comprehensive loss	-	-	(180)	-	-	(88)	-	(268)
Share based payment to employees and consultants	-	101	-	-	-	-	-	101
Benefit payment from a controlling shareholder	-	-	-	-	-	-	75	75
Balance as at								
December 31, 2020	<u>33,617</u>	<u>99,967</u>	<u>(2,260)</u>	<u>(96,718)</u>	<u>(7,408)</u>	<u>(381)</u>	<u>572</u>	<u>27,389</u>

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

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30,		For the three-month period ended June 30,		For the year ended December 31,				
	2021	2020	2021	2020	2020				
	(Unaudited)		(Unaudited)		Audited				
US dollars in thousands									
<u>Cash flows from operating activities</u>									
Net income	7,848	1,120	4,330	1,640	4,560				
Adjustments required to present cash flows from operating activities:									
Adjustments to the statement of income items:									
Depreciation and amortization of fixed assets and intangible assets	2,072	2,181	1,173	1,367	4,349				
Capital gain on sale of fixed assets	-	(13)	-	(7)	(13)				
Impairment of fixed assets	708	-	708	-	-				
Cost of share-based payment	183	55	168	23	101				
A benefit payment from a controlling shareholder	37	37	18	18	75				
Loss due to impairment of slow inventory	287	242	79	131	761				
	<u>3,287</u>	<u>2,502</u>	<u>2,146</u>	<u>1,532</u>	<u>5,273</u>				
Change in deferred taxes, net	(1,572)	209	(1,572)	9	(297)				
Change in liabilities for benefits to employees, net	311	(170)	273	(104)	-				
Change in fair value liabilities for bank options	1,300	-	1,300	-	140				
Taxes on income	896	(142)	964	(144)	82				
Financing expenses, net	1,164	772	511	315	1,401				
	<u>2,099</u>	<u>669</u>	<u>1,476</u>	<u>76</u>	<u>1,326</u>				
Changes in asset and liability items:									
Decrease (increase) in trade receivables	(941)	(4,543)	7,241	(12,246)	(11,923)				
Decrease (increase) in other receivables	(2,372)	(6,202)	(2,847)	787	592				
Decrease (increase) in inventory	(16,264)	9,033	(4,882)	2,960	(4,552)				
Increase in trade payables	9,344	1,288	4,729	8,306	7,387				
Increase in other payables	1,094	284	59	694	2,391				
	<u>(9,139)</u>	<u>(140)</u>	<u>4,300</u>	<u>501</u>	<u>(6,105)</u>				
Cash paid and received during the period for:									
Interest paid	(1,018)	(727)	(402)	(293)	(1,320)				
Taxes paid	(979)	(11)	(964)	(9)	(235)				
Taxes received	83	153	-	153	153				
	<u>(1,914)</u>	<u>(585)</u>	<u>(1,366)</u>	<u>(149)</u>	<u>(1,402)</u>				
Net cash provided from operating activities	<u>2,181</u>	<u>3,566</u>	<u>10,886</u>	<u>3,600</u>	<u>3,652</u>				

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

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

					For the year ended December 31,	
	For the six-month period ended June 30,		For the three-month period ended June 30,		2020	
	2021	2020	2021	2020		
(Unaudited)						
US dollars in thousands						
<u>Cash flows from investing activities</u>						
Purchase of property, plant and equipment	(1,089)	(859)	(991)	(753)	(2,133)	
Purchase of software	(518)	(264)	(193)	(119)	(721)	
Proceeds from sale of fixed assets	-	17	-	-	17	
Obtaining control	-	-	-	-	102	
Net cash used for investing activities	<u>(1,607)</u>	<u>(1,106)</u>	<u>(1,184)</u>	<u>(872)</u>	<u>(2,735)</u>	
<u>Cash flows from financing activities</u>						
Short-term bank credit, net	(370)	983	(6,075)	(375)	4,196	
Repayment of long-term loans	(1,715)	-	(1,715)	-	-	
Repayment of long-term credit for fixed assets	(406)	(75)	(406)	(75)	(75)	
Repayment of lease liability	<u>(849)</u>	<u>(319)</u>	<u>(492)</u>	<u>(158)</u>	<u>(613)</u>	
Net cash provided from (used for) financing activities	<u>(3,340)</u>	<u>589</u>	<u>(8,688)</u>	<u>(608)</u>	<u>3,508</u>	
Increase (decrease) in cash and cash equivalents						
	(2,766)	3,049	1,014	2,120	4,425	
Balance of cash and cash equivalents at beginning of period						
	<u>8,279</u>	<u>3,854</u>	<u>4,499</u>	<u>4,783</u>	<u>3,854</u>	
Balance of cash and cash equivalents at end of period						
	<u>5,513</u>	<u>6,903</u>	<u>5,513</u>	<u>6,903</u>	<u>8,279</u>	
<u>Appendix a – Significant non-cash transactions</u>						
Purchase of fixed assets on credit	<u>746</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>632</u>	

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

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 1 – General

- a.** These financial statements were prepared in a condensed format, as at June 30, 2021 and for the periods of six months and three months then ended (hereinafter – “interim consolidated financial statements”). These statements should be read together with Tefron Ltd.’s (hereinafter: “the Company”) annual financial statements as at December 31, 2020 and for the year then ended, and the notes accompanying them (hereinafter: the “annual consolidated financial statements”).
- b.** The Company did not include separate financial information in the financial statements in accordance with Regulation 38d of the Securities Regulations (“Periodic and Immediate Reports”), 1970, since the Company believes that the inclusion of such information shall not constitute as additional significant information to the investor.

Note 2 – Significant accounting principles

a. Basis for the preparation of the financial statements

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

During the preparation of these interim financial statements, the Group implemented accounting policies, presentation rules and calculation methods identical to those applied in its financial statements as at December 31, 2020, and for the year then ended.

b. Taxes on income in interim financial reports

The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes.

Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year are deducted.

Note 3 – Amendments to standards which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods

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

The amendment clarifies that the classification of liabilities as current or non-current is based on the existing rights at the end of the reporting period and is not affected by the entity's estimation concerning the exercise of this right.

The amendment removed the reference to the existence of an unconditional right and clarified that if the right to defer the settlement is contingent on financial covenants, the right exists if

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 3 – Amendments to standards which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods (Cont.)

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 on the amount or timing of the recognition of those liabilities or the income and expenses related thereto.

The amendment will be applied retrospectively for annual reporting periods beginning on or after January 1, 2023. Early application is possible.

Note 4 – Significant events during the period of the report and thereafter

a. Exiting a joint operation and obtaining control

On March 14, 2021, an agreement was signed between the Company (the Company itself and through a wholly owned subsidiary in Jordan) (hereinafter: "the subsidiary") and a company incorporated in Jordan (hereinafter: "the partner" and "the agreement"), which together with the subsidiary holds equal parts of the company incorporated in Jordan, which engages in local production in Jordan of products made by the seamless technology, exclusively for the Company, C&T FOR PIECE WORKS PRIVATE SHAREHOLDING COMPANY LTD (hereinafter: "the joint company"). Pursuant to the agreement, the Company, through the subsidiary, purchases, as at December 31, 2020, the entire holdings of the partner in the joint company in exchange for the par value of the acquired shares. Accordingly, at the date of the transfer of the partner's shares in the joint company to the subsidiary, a total of 25,000 Jordanian dinars will be paid to the partner, a sum equivalent to US 35,000 dollars.

In addition, the parties agreed that the joint company will continue to lease from the partner the property in Jordan, which is owned by it, and is used by the joint company's plant, until December 31, 2025.

The engagement in the agreement was carried out in light of the partner's willingness to sell its holdings to the Company in exchange for the par value of its shares and in light of the Company's wishes to receive the entire holdings of the joint company which produces products exclusively for the Company's customers.

In regard to the implications of the aforesaid agreement, see Note 26 c to the annual financial statements as at December 31, 2020.

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report and thereafter (Cont.)

b. Allocation of options to employee and directors

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: "the options" and "the offerees"), exercisable for up to 585,000 ordinary shares of NIS 10 par value each (hereinafter: "the exercise shares"), in accordance with the "cashless" method. The economic value of each option offered to the offerees (in an average calculation of the three series) is NIS 4.6.

On May 5, 2021, these options were allocated to the offerees without consideration as part of the offerees' remuneration in respect of their position in the Company. The exercise price of each option determined by the Company's Board is NIS 7.07.

The offerees will be entitled to exercise the options in 3 series, exercisable for a period of five years each one (hereinafter: the "exercise period"), 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.

c. Exercising options

On April 20, 2021, Bank Hapoalim Ltd. exercised 71,400 option warrants granted to him in a cashless exercise, and accordingly it was granted 54,136 options of the Company.

d. Amendment to the financing agreement with HSBC

On April 22, 2021, the signing of an amendment to the financing agreement of the Company with the bank that finances its operations, HSBC, was completed (hereinafter: "the financing agreement", "the amendment" and "the bank", respectively). The principles of the amendment are as follows:

1. Increasing the line of credit provided by the bank to Tefron Canada Ltd., a Canadian subsidiary wholly owned by the Company (hereinafter: "Tefron Canada"), from the amount of US\$ 25,000,000, as stipulated in the agreement, to the amount of US\$ 35,000,000 (hereinafter: "the line of credit").
2. Adjusting the designated credit line of Tefron Canada in such a way that against it Tefron Israel would be provided with back-to-back credit through HSBC Israel, for long-term loan repayments (which is part of this credit line) carried out as of the date of the long-term loan so that it shall stand at US\$ 10,000,000, while reducing the required guarantee from EDC to secure this credit line to a sum of US\$ 5,000,000. This credit line is in addition to the line of credit mentioned in section 1 above. In this context, the

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report and thereafter (Cont.)

d. Amendment to the financing agreement with HSBC (Cont.)

Company's obligation in the financing agreement to accelerate the repayment of the long-term loan in any case where there is a free cash flow was cancelled.

3. The interest on the financing will be variable interest, which will include a margin above the base interest rate, such as LIBOR or prime as detailed as follows:

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

4. The financial covenant relating to debt service cover ratio was amended to at least 1.20 times (*in lieu* of 1.25 times as set forth in the financing agreement).
5. The parties have reached an agreement regarding the base interest rate formula that will replace the LIBOR interest rate once the global use of this interest rate ceases. In general, the base interest rate formula will be the one that will be used as the standard interest rate that replaces the LIBOR interest rate in the bank.

In addition, on April 27, 2021, the signing of the amendment to the addendum to the Company's financing agreement with the Bank dated February 21, 2019, was completed. Pursuant to the amendment, the bank increased the additional line of credit provided as part of the addendum to finance advance receipts intended to be received from the customer Walmart, from an amount of up to US\$ 5,000,000 to an amount of up to US\$ 7,000,000.

As at June 30, 2021, 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 4.62.

Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 0.88.

e. The Coronavirus

In continuation to Note 26a to the annual financial statements as at December 31, 2020, regarding the impact of the Coronavirus pandemic on the Company, as at the date of the publication of this report and during the reporting period, the spread of the Coronavirus has caused, among other things, disruptions and significant price increases in the supply chain of products, as well as restrictions on transportation and employment which have been imposed by the Israeli government and other governments around the world. As at the date of this report, there is still uncertainty concerning the overall impact of the crisis as well as

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report and thereafter (Cont.)

e. The Coronavirus (Cont.)

the timing of the recovery therefrom. At this stage, we are witnessing the process of vaccinating the local and global population against the pandemic, and it is still unclear when this process ends and what will the consequences be on a global perspective. On the other hand, we are witnessing the development of mutations of the virus, and it is too early to assess the consequences thereof. From all of the aforementioned, at this stage, it is difficult to estimate the future consequences of the pandemic on the Company, that during the pandemic period has improved its actual results. Nevertheless, the uncertainty still exists, but as long as the trends we have witnessed during the reporting period and as at the date of publication of this report continue, the Company expects to overcome this event, but it may have an impact on the profitability of the Company.

Note 5 - Operating segments

a. General

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

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

- (a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company's plants and through subcontractors and are sold to customers with leading brands.
- (b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

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Notes to the Condensed Consolidated Financial Statements

Note 5 - Operating segments (Cont.)

b. Reporting in respect of operating segments

	For the six-month period ended June 30, 2021			For the six-month period ended June 30, 2020		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
Dollars thousand						
Total segment revenues	35,303	90,834	126,137	24,498	50,973	75,471
Direct profit	3,845	9,490	13,335	269	4,315	4,584
Indirect costs	(657)	(1,700)	(2,357)	(598)	(1,295)	(1,893)
Segment results	<u>3,188</u>	<u>7,790</u>	<u>10,978</u>	<u>(329)</u>	<u>3,020</u>	<u>2,691</u>
Other expenses			(708)			-
Financing income, net			(2,581)			(986)
Tax income (expenses)			159			(585)
Net income			<u>7,848</u>			<u>1,120</u>
 For the three-month period ended June 30, 2021						
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited			Unaudited		
	Dollars thousand					
Total segment revenues	18,239	49,993	68,232	14,518	26,317	40,835
Direct profit	1,817	5,708	7,525	553	2,691	3,244
Indirect costs	(366)	(1,003)	(1,369)	(282)	(511)	(793)
Segment results	<u>1,451</u>	<u>4,705</u>	<u>6,156</u>	<u>271</u>	<u>2,180</u>	<u>2,451</u>
Other expenses			(708)			-
Financing expenses, net			(2,030)			(426)
Tax income (expenses)			912			(385)
Net income			<u>4,330</u>			<u>1,640</u>

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Notes to the Condensed Consolidated Financial Statements

Note 5 - Operating segments (Cont.)

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

	For the year ended December 31, 2020		
	Brands	Retail	Total
Audited			
US dollars in thousands			
Total segment revenues	54,553	125,447	180,000
Direct profit (loss)	(359)	13,132	12,773
Indirect costs	(2,435)	(1,727)	(4,162)
Segment results	<u>(2,794)</u>	<u>11,405</u>	<u>8,611</u>
Financing expenses, net			<u>(2,527)</u>
Tax expenses			<u>(1,524)</u>
Net income			<u>4,560</u>

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

Note 6 - Financial instruments

a. Financial instruments that are not measured at fair value

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

b. Financial instruments that are measured at fair value

Most of the company's financial liabilities, which are measured at fair value, are liabilities for bank options.

These liabilities are measured in the balance sheet at fair value in accordance with Level 3.