

TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2017

TEFRON LTD.

Interim Consolidated Financial Statements as at March 31, 2017

Unaudited

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Review Report of the Auditors to the Shareholders of Tefron Ltd.

Preface

We have reviewed the attached financial information of Tefron Ltd. and its subsidiaries (hereinafter: "the Group"), which includes the condensed consolidated balance sheet as at March 31, 2017, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period, in accordance with International Accounting Standard IAS 34 - "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of the review

We have performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor". A review of financial information for interim periods consists of making inquiries, primarily with persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all significant matters which might have been identified in an audit. Consequently, we are not expressing an opinion of an audit.

Conclusion

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

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

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Date: May 25, 2017

Tefron Ltd.

Consolidated Balance Sheets

	As at March 31,		As at December 31,
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		
<u>Current assets</u>			
Cash	4,987	1,451	1,354
Trade receivables, net	15,180	15,196	16,681
Other receivables	4,021	2,556	4,129
Inventory	26,481	28,132	24,574
	<u>50,669</u>	<u>47,335</u>	<u>46,738</u>
<u>Non-current assets</u>			
Property, plant and equipment, net	23,759	27,367	24,348
Goodwill and intangible assets, net	178	269	213
Software, net	1,234	1,319	1,367
Deferred taxes, net	2,890	3,047	2,890
	<u>28,061</u>	<u>32,002</u>	<u>28,818</u>
	<u>78,730</u>	<u>79,337</u>	<u>75,556</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated Balance Sheets

	<u>As at</u> <u>March 31,</u>		<u>As at</u> <u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Dollars thousands</u>		
<u>Current Liabilities</u>			
Bank credit	15,142	10,541	15,156
Trade payables	21,853	24,471	17,898
Other payables	2,612	2,570	2,546
	<u>39,607</u>	<u>37,582</u>	<u>35,600</u>
<u>Non-current liabilities</u>			
Long-term loans from banks	10,415	12,037	10,826
Liabilities for bank options	129	127	95
Liabilities for benefits to employees, net	810	794	797
Long-term payables	494	1,646	1,043
	<u>11,848</u>	<u>14,604</u>	<u>12,761</u>
<u>Equity attributed to the Company's shareholders</u>			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,686	99,678	99,686
Capital reserve for remeasurement of defined benefit plan	(1,259)	(1,232)	(1,259)
Accumulated deficit	(97,551)	(97,694)	(97,631)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	190	190	190
<u>Total equity</u>	<u>27,275</u>	<u>27,151</u>	<u>27,195</u>
	<u>78,730</u>	<u>79,337</u>	<u>75,556</u>

May 25, 2017

Date of approval of
the financial statements

Arnon Tieberg
Chairman of the Board

Ben Lieberman
Acting CEO

Eliezer Parnafes
CFO

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of income

	For the three months ended March 31,		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		
	(excluding data on income (loss) per share)		
Sales	33,106	26,607	106,402
Cost of sales	<u>26,738</u>	<u>21,918</u>	<u>92,531</u>
Gross profit	6,368	4,689	23,871
Development expenses, net	1,130	1,042	3,991
Selling and marketing expenses	3,626	2,795	13,401
General and administrative expenses	712	807	3,055
Other expenses	<u>-</u>	<u>352</u>	<u>1,099</u>
Operating income (loss)	<u>900</u>	<u>(307)</u>	<u>2,325</u>
Financing income	-	-	9
Financing expenses	<u>(786)</u>	<u>(694)</u>	<u>(2,673)</u>
Financing expenses, net	<u>(786)</u>	<u>(694)</u>	<u>(2,664)</u>
Income (loss) before taxes on income	114	(1,001)	(339)
Tax expenses	<u>(34)</u>	<u>(183)</u>	<u>(782)</u>
Net income (loss)	<u>80</u>	<u>(1,184)</u>	<u>(1,121)</u>
<u>Income (loss) per share attributable to the Company's shareholders (in dollars)</u>			
Basic and diluted income (loss) per share	<u>0.01</u>	<u>(0.10)</u>	<u>(0.09)</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		
Net income (loss)	<u>80</u>	<u>(1,184)</u>	<u>(1,121)</u>
Other comprehensive loss (after the effect of the tax):			
<u>Amounts that will not be restated thereafter to the statements of income:</u>			
Loss from remeasurement of defined benefit plan	<u>-</u>	<u>-</u>	<u>(27)</u>
Subtotal of items that will not be restated thereafter to the statements of income	<u>-</u>	<u>-</u>	<u>(27)</u>
Total other comprehensive loss	<u>-</u>	<u>-</u>	<u>(27)</u>
Total comprehensive income (loss) attributable to the Company's shareholders	<u>80</u>	<u>(1,184)</u>	<u>(1,148)</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of changes in shareholders' equity

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Capital reserve for actuarial losses</u>	<u>Accum. deficit</u>	<u>Treasury shares</u>	<u>Other capital reserves</u>	<u>Total equity</u>
<u>Unaudited</u>							
<u>Dollars thousands</u>							
<u>Balance as at January 1, 2017 (Audited)</u>	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195
Net income	-	-	-	80	-	-	80
<u>Balance as at March 31, 2017</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,259)</u>	<u>(97,551)</u>	<u>(7,408)</u>	<u>190</u>	<u>27,275</u>

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Capital reserve for actuarial losses</u>	<u>Accum. deficit</u>	<u>Treasury shares</u>	<u>Other capital reserves</u>	<u>Total Equity</u>
<u>Unaudited</u>							
<u>Dollars thousands</u>							
<u>Balance as at January 1, 2016 (Audited)</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(1,184)	-	-	(1,184)
Share-based payment to employees and directors	-	4	-	-	-	-	4
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
<u>Balance as at March 31, 2016</u>	<u>33,617</u>	<u>99,678</u>	<u>(1,232)</u>	<u>(97,694)</u>	<u>(7,408)</u>	<u>190</u>	<u>27,151</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of changes in shareholders' equity

Relating to the Company's shareholders

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Capital reserve for actuarial losses</u>	<u>Accum. deficit</u>	<u>Treasury shares</u>	<u>Other capital reserves</u>	<u>Total Equity</u>
<u>Audited</u>							
<u>Dollars thousands</u>							
<u>Balance as at January 1, 2016 (Audited)</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(1,121)	-	-	(1,121)
Total other comprehensive loss	-	-	(27)	-	-	-	(27)
Share-based payment to employees and directors	-	12	-	-	-	-	12
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
<u>Balance as at December 31, 2016</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,529)</u>	<u>(97,631)</u>	<u>(7,408)</u>	<u>190</u>	<u>27,195</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of cash flows

	For the three months ended March 31,	For the year ended December 31
	2017	2016
	Unaudited	Audited
	Dollars thousands	
<u>Cash flows from operating activities:</u>		
Net income (loss)	80	(1,184)
Adjustments required to present cash flows from operating activities:		
Adjustments to statement of income items:		
Depreciation and amortization of fixed assets and intangible assets	1,197	1,355
Cost of share based payment	-	4
Loss from impairment of slow inventory	144	122
	1,341	1,481
Change in deferred taxes, net	-	183
Change in liabilities for benefits to employees, net	14	32
Change in fair value of liabilities for bank options	34	23
Taxes on income	2	72
Financing expenses, net	385	381
	435	691
Changes in assets and liabilities items:		
Decrease in trade receivables	1,500	1,649
Decrease (increase) in other receivables	108	482
Increase in inventory	(2,051)	(9,432)
Increase in trade payables	3,994	9,609
Increase in other payables	66	258
	3,617	2,566
Cash paid and received during the period for:		
Interest paid	(383)	(373)
Interest received	-	-
Taxes paid	(2)	(72)
	(385)	(445)
Net cash provided from operating activities	5,088	3,109
		1,802

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Consolidated statements of cash flows

	For the three months ended March 31,		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(376)	(816)	(1,815)
Purchase of software	(64)	(85)	(286)
Net cash used for investing activities	(440)	(901)	(2,101)
<u>Cash flows from financing activities:</u>			
Short term bank credit, net	(117)	(319)	3,756
Repayment of long term loans	(310)	(952)	(1,650)
Repayment of long-term credit for property, plant and equipment	(588)	(250)	(1,217)
Net cash provided from (used for) financing activities	(1,015)	(1,521)	889
<u>Increase in cash</u>	3,633	687	590
Cash at beginning of period	1,354	764	764
<u>Cash at end of period</u>	4,987	1,451	1,354

	For the three months ended March 31,		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		

Appendix A - non-cash significant transactions

Acquisition of fixed assets on credit	-	325	-
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The accompanying notes are an integral part of the interim consolidated financial statement

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 1 - General

- a. These financial statements were prepared in a condensed form as at March 31, 2017 and for the three months period 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, 2016 and for the year then ended, and the notes accompanying them (hereinafter -"annual financial statements").
- b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations ("Periodic and Immediate Reports"), 1970, since it believes that including such information shall not carry with it any additional material information to the investor.
- c. On May 18, 2015, the Company and the banks signed an additional appendix to the amendment to the financing agreement, in the framework of which, amongst else, the financial covenants the Company is obligated to meet, were amended.

As at March 31, 2017, the Company meets all the financial covenants that have been determined in the amendment to the aforementioned financing agreement.

Note 2 - Significant accounting principles

- a. Form of preparation of the interim consolidated financial statements

The interim 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.

The accounting policy used in preparing the interim consolidated financial statements is consistent with the one used in preparing the annual financial statements.

- b. 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, that are expected to reduce the tax liability in the reporting year, are deducted.

Note 3 - Disclosure to new IFRS during the period prior to their implementation

In continuation to the aforesaid in Note 4 to the consolidated annual financial statements as at December 31, 2016, the new amendments to the existing standards which came into effect as of January 1, 2017, do not have any material impact on the financial data of the Company.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 4 – Significant events during the period of the report

- a. On March 27, 2017, the General Meeting of the Company approved the updated remuneration policy for officers of the Company.
- b. On March 28, 2017, the Company convened an Extraordinary General Meeting in order to approve the engagement of the Company to receive management services from the Company's acting CEO, Mr. Ben Lieberman, who is amongst the controlling shareholders of the Company. (see also Note 7b below).

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 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.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 - Operating segments (cont.)

b. Reporting in respect of operating segments

	For the three-month period ended March 31, 2017			For the three-month period ended March 31, 2016		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	12,741	20,365	33,106	11,695	14,912	26,607
Direct profit (loss)	(998)	2,950	1,952	(215)	957	742
Indirect costs	(405)	(647)	(1,052)	(470)	(579)	(1,049)
Segment results	<u>(1,403)</u>	<u>2,303</u>	<u>900</u>	<u>(685)</u>	<u>378</u>	<u>(307)</u>
Financing expenses, net			(786)			(694)
Tax expenses			(34)			(183)
Profit (loss)			<u>80</u>			<u>(1,184)</u>

	For the year ended December 31, 2016		
	Brands	Retail	Total
	Audited		
	Dollars thousand		
Total segment revenues	<u>40,302</u>	<u>76,100</u>	<u>116,402</u>
Direct profit (loss)	(5,211)	11,767	6,556
Indirect costs	(1,485)	(2,746)	(4,231)
Segment results	<u>(6,696)</u>	<u>9,021</u>	<u>2,325</u>
Financing expenses, net			(2,664)
Tax expenses			(782)
Loss			<u>(1,121)</u>

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 6 - Financial Instruments

a. 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. In continuation to that stated in Note 5 to the annual financial statements as at December 31, 2016, in relation with the Company's engagement in factoring transactions, as at March 31, 2017, the Company deducted debts of trade receivables in the amount of US 1.4 million dollars (US 1.9 million dollars as at December 31, 2016). The balance of trade receivables is presented net of such amounts, as aforesaid.

Note 7 – Events subsequent to the balance sheet date

a. A plea bargain regarding an indictment in a labor court

On November 23, 2016, the Company reported that an indictment was submitted to the Labor Court against the Company's subsidiary, the Company's former CEO and a former employee of the subsidiary, claiming that the defendants have violated the workplace safety regulations in connection with a work accident, which occurred at the subsidiary in 2013. On April 7, 2017, the Company reached a plea bargain concerning the said indictment, which was approved by the Court, and according to which the former CEO of the Company was deleted from the indictment and the Company's subsidiary was fined NIS 15,000 and the former employee was fined NIS 10,000 NIS.

- b. On May 4, 2017, the General Meeting of the shareholders of the Company approved the engagement of the Company with Mr. Ben Lieberman, through a private company he owns, in an agreement to provide management services to the Company as Acting CEO.