DELTA GALIL INDUSTRIES LTD
Form 20-F/A
April 13, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 13, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
AMENDMENT No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER 0-30020

DELTA GALIL INDUSTRIES LTD.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

ISRAEL
(JURISDICTION OF INCORPORATION OR ORGANIZATION)

2 Kaufman Street, Tel Aviv 68012, Israel
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

NONE
(Title of each class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

ORDINARY SHARES (1)
(Title of Class)

AMERICAN DEPOSITARY SHARES (2)
(Title of Class)

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(1) Not for trading, but only in connection with the listing of the American Depositary Shares.
(2) Evidenced by American Depositary Receipts, each American Depositary Share representing one ordinary share, par value NIS 1.00 per share.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report:

AS OF DECEMBER 31, 2004 THE REGISTRANT HAD 19,947,849 ORDINARY SHARES OUTSTANDING (INCLUDING 1,206,802 ORDINARY SHARES OWNED BY THE REGISTRANT AND 45,882 ORDINARY SHARES HELD BY A TRUSTEE IN CONNECTION WITH THE REGISTRANT'S STOCK OPTION PLANS).

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No _______

Indicate by check mark which financial statement item the Registrant elected to follow:

Item 17 _______ Item 18 __X__

EXPLANATORY NOTE

Delta Galil Industries Ltd. is filing this amendment on Form 20-F/A to its Form 20-F ("Original Form 20-F") for the year ended December 31, 2004, originally filed on June 27, 2005, to correct an error contained in the statement of cash flows for the year ended December 31, 2004.

The error relates to the classification of a cash payment of $4.8 million in fiscal 2004, relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills. The Company had incorrectly classified the payment as a cash flow used in investing activities rather than cash flows used in operating activities. The following table reflects the adjustments to the statement of cash flows to correct this classification error:

	AS REPORTED	CORRECTION	AS RESTATED
		In $ thousands	
Cash flows from operating activities	$ 27,174	$ (4,800)	$ 22,3
Cash flows from investing activities	(73,689)	4,800	(68,8
Cash flows from financing activities	50,836	-	50,8
Translation differences on cash and cash equivalents	130	-	1
Net increase in cash and cash equivalents	$ 4,451	-	$ 4,4

No other financial statement items were affected by the correction of the classification error.

Furthermore, the Company is amending the Original Form 20-F for the following Items:

a) Amend Item 15 within the Original Form 20-F to clarify the opinion of our Chief Executive Officer and of our Chief

Financial Officer with respect to the effectiveness of our internal controls over financial reporting as of December 31 2004. We hereby replace Item 15 of the Original Form 20-F with the amended Item 15 included in this Amendment No. 1;

b) Include a revised report of Kesselman & Kesselman dated April 11, 2006, on the Consolidated Financial Statements of Delta Galil Industries Ltd., which includes a new note 16 relating to events that occured after December 31, 2004;

c) Include a report of Baker Tilly dated April 10, 2006;

d) Include the revised report of Allied for Accounting & Auditing, Member Firm of Ernst & Young Global, dated 30 March, 2006, that refers to the standards of the Public Company Accounting Oversight Board (United States); and

e) Amend Item 5 - Operating and Financial Review and Prospects to reflect the restatement to the Consolidated Statement of Cash Flows for the year ended December 31, 2004.

Except as otherwise expressly stated herein and to reflect the changes referred to above, this amended annual report on Form 20-F/A speaks as of the filing date of the Original Form 20-F, and does not purport to reflect events or developments subsequent to the original filing date of the Original Form 20-F.

PART I

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH DELTA GALIL'S CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THOSE FINANCIAL STATEMENTS INCLUDED IN ITEM 18 OF THIS ANNUAL REPORT. DELTA GALIL'S CONSOLIDATED FINANCIAL STATEMENTS ARE PREPARED IN CONFORMITY WITH US GAAP.

LIQUIDITY AND CAPITAL RESOURCES

Delta Galil finances its operations mainly from cash flow from operations, supplemented, if needed, by revolving short-term bank loans and long-term bank loans. Delta Galil repays short-term bank loans if the cash flow from operations exceeds the cash needs for operations and investment.

Following is a breakdown of Delta Galil's cash flows for the last three years in US $ millions:

	YEAR ENDED DECEMBER 31		
	2002	2003	2004
			(RESTATE
Net cash flow provided by operating activities *............	$26.3	$42.9	$22.4
Net cash flow used in investing activities **...............	(19.7)	(18.4)	(68.9)
Net cash flow provided by financing activities (excluding dividends to shareholders and cost of acquisition of treasury shares)...	10.5	(11.8)	59.1
Dividends to shareholders..................................	(7.0)	(9.5)	(8.3)
Cost of acquisition of treasury shares......................	(8.4)	-	-
Translation differences on cash equivalents of foreign....... currency consolidated subsidiary............................	-	-	0.1

Increase in cash and cash equivalents........................	$1.7	$3.2	$4.4

* Net cash provided by operating activities has been decreased by $ 4.8 million due to a correction of an error in classification of payments made in 2004 relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills (see note 1A3 of the Notes to the Consolidated Financial Statements).

** Net cash used in investing activities has been increased by $4,800 thousand due to the correction of an error in classification of payments made in the year 2004, relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills (see note 1A3 of the Notes to the Consolidated Financial Statements).

In 2002, 2003 and 2004 Delta Galil generated excess cash flow from operations of $26.3 million, $42.9 million and $22.4 million respectively. The decrease in net cash flow provided by operating activities from $42.9 million in 2003 to $22.4 million in 2004 is mainly attributed to the decrease in net income. The increase in the net cash flow used in investing activities is mainly attributed to the acquisition of Burlen in the fourth quarter of 2004. Net cash flow used in financing activities in 2004 amounted to $59.1 million while in 2003 the net cash flow provided by financing activities amounted to $11.8 million. The decrease in cash flow used in financing activities is attributed mainly to the increase in bank debt in connection with the acquisition of Burlen.

PART II

ITEM 15: CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES. Delta Galil's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of its disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Delta Galil had in place, as of the end of the period covered by this Annual Report, effective controls and procedures designed to ensure that information required to be disclosed by Delta Galil in the reports it files or submits under the Securities Exchange Act of 1934, as amended, and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

INTERNAL CONTROLS. There have not been any change in Delta Galil's internal control over financial reporting identified in connection with the evaluation described above that occurred during the period covered by this Annual Report that has materially affected or is reasonably likely to affect, Delta Galil's internal control over financial reporting.

PART III

ITEM 17: FINANCIAL STATEMENTS

Not applicable

ITEM 18: FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-1 through F-54 hereof.

ITEM 19: EXHIBITS

(A) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(B) EXHIBITS

1.1 Memorandum of Association, as amended**

1.2 Articles of Association**

2.1 Form of Deposit Agreement and ADR*

4.1 Stock Purchase Agreement dated as of December 8, 2004 by and among Steven Klein, Kristina Nettesheim, and Gary Beggs, as selling shareholders and Delta Galil Industries Ltd. and Delta Galil USA Inc. as Purchaser relating to the acquisition of Burlen Corp. + ******

4.2 Second Amended and Related Credit and Security Agreement dated as of December 9, 2004 by and among Delta Galil USA Inc., as Borrower; Bank Leumi USA and Bank Hapoalim B.M., as Lenders and Bank Leumi USA, as Agent. ******

4.3 Agreement for Purchase and Sale of Stock of Auburn Hosiery Mills, Inc. dated October 30, 2003, by and among Delta Galil USA Inc., Delta Galil Industries Ltd., Delta Galil Holland B.V., CGW Holdings, Inc., GCI Spainco, S.L. and Kellwood Company ****

4.4 Option Plan to 13 employees of Delta Galil and/or its subsidiaries*

4.5 Option Plan to Arnon Tiberg*

4.6 Option Plan to 70 employees of Delta Galil and/or its subsidiaries***

4.7 Delta Galil Industries Ltd. 2002 Share Option Plan*****

4.8 Form of Indemnification Undertaking******

8.1 List of subsidiaries ******

12.1 Section 302 Certification of Dov Lautman

12.2 Section 302 Certification of Yossi Hajaj

13.1 Section 906 Certification of Dov Lautman

13.2 Section 906 Certification of Yossi Hajaj

14.1 Consent of Kesselman & Kesselman

14.2 Consent of Baker Tilly

14.3 Consents of Allied for Accounting & Auditing, Member Firm of Ernst & Young Global

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* Previously filed as an exhibit to Delta Galil's Registration Statement on Form F-1 (Registration No. 333-10062) filed with the Securities and Exchange Commission on February 26, 1999 and incorporated herein by reference.
** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No.0-30020) filed with the Securities and Exchange Commission on June 8, 2001 and incorporated herein by reference

*** Previously filed as an exhibit to Delta Galil's Registration Statement on Form S-8 (Registration No. 333-12608) filed with the Securities and Exchange Commission on September 26, 2000 and incorporated herein by reference.
**** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 23, 2004 and incorporated herein by reference.
***** Previously filed as an exhibit to Delta Galil's Registration Statement on Form S-8 (Registration No. 353-102247) filed with the Securities and Exchange Commission on December 30, 2002 and incorporated herein by reference.
****** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 26, 2003 and incorporated herein by reference.
******* Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 27, 2005 and incorporated herein by reference.

+Portions of this exhibit have been omitted and have been filed separately with the secretary of the Securities and Exchange Commission pursuant to a confidential treatment request.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DELTA GALIL INDUSTRIES LTD.

By: Yossi Hajaj

Name: Yossi Hajaj
Title: Chief Financial Officer

Date: April 13, 2006

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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The amounts are stated in U.S. dollars ($) in thousands.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of
DELTA GALIL INDUSTRIES LTD.

We have audited the consolidated balance sheets of Delta Galil Industries Ltd. (the "Company") and its subsidiaries as of December 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 12% and 18% of total consolidated assets as of December 31, 2004 and 2003, respectively, and whose revenues included in consolidation constitute approximately 0%, 2% and 10% of total consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. The financial statements of those subsidiaries were audited by other independent registered public accounting firms, whose reports have been furnished to us, and our Opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent registered public accounting firms.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other registered public accounting firms provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent registered public accounting firms, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1A.3 to the consolidated financial statements, the consolidated statement of cash flows for the year ended December 31, 2004 has been restated.

Tel-Aviv, Israel
April 11, 2006

Kesselman & Kesselman
Certified Public Accountant (Isr.)
A member of PricewaterhouseCoopers
International Limited

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED STATEMENTS OF INCOME
(U.S. dollars in thousands, except earnings per share)

	YEAR ENDED DECEMBE	
	2004	2003
NET REVENUES	$654,269	$580,130
COST OF REVENUES	533,036	463,863
GROSS PROFIT	121,233	116,267
SELLING, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES - net	98,646	82,089
GAIN (LOSS) ON SALE OF ASSETS AND SUBSIDIARY SHARES	922	3,645
RESTRUCTURING EXPENSES	1,100	1,007
OPERATING INCOME	22,409	36,816

FINANCIAL EXPENSES - net	6,231	5,637
OTHER INCOME - net	958	252
INCOME BEFORE TAXES ON INCOME	17,136	31,431
TAXES ON INCOME	2,846	7,340
	14,290	24,091
SHARE IN PROFITS (LOSSES) OF ASSOCIATED COMPANIES - net	(237)	(300)
MINORITY INTERESTS, NET	(1,368)	(439)
NET INCOME	$12,685	$23,352
EARNINGS PER SHARE:		
Basic	$0.69	$1.28
Diluted	$0.67	$1.24
WEIGHTED AVERAGE NUMBER OF SHARES (IN THOUSANDS):		
Basic	18,478	18,313
Diluted	18,834	18,763

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands)

	DECEMBER 31	
	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$22,150	$17,699
Accounts receivable:		
Trade	105,129	85,723
Other	10,627	10,662
Inventories	183,767	142,984
Deferred income taxes	3,675	5,464
Other investment , see note 3		1,682
Total current assets	325,348	264,214
INVESTMENTS AND LONG-TERM RECEIVABLES:		
Associated company	455	661
Funds in respect of employee rights upon retirement	6,852	6,161
Long-term receivables, net of current maturities	226	419

	7,533	7,241
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization	128,341	124,877
GOODWILL	57,920	54,358
INTANGIBLE ASSET	14,778	
DEFERRED CHARGES, net of accumulated amortization	577	194
Total assets	$534,497	$450,884

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands)

	DECEMBER 31	
	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	$55,603	$94,560
Current maturities of long-term bank loans and other liability	27,942	10,436
Accounts payable and accruals:		
Trade	80,338	54,464
Other	34,083	48,142
Total current liabilities	197,966	207,602
LONG-TERM LIABILITIES:		
Bank loans and other liability, net of current maturities	99,437	14,709
Liability for employee rights upon retirement	7,408	6,732
Deferred income taxes	4,894	6,300
Total long-term liabilities	111,739	27,741
COMMITMENTS AND CONTINGENT LIABILITIES, see note 9		
Total liabilities	309,705	235,343
MINORITY INTERESTS	3,711	3,207
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 1 par value December 31, 2004 and 2003: Authorized - 26,000,000 shares; Issued - 19,947,849 shares; Issued and paid - 19,901,967 shares and 19,860,211 shares, respectively	21,840	21,830

Additional paid-in capital	100,749	99,735
Retained earnings	108,980	104,607
Accumulated other comprehensive loss	(788)	(2,503)
Treasury shares, at cost (1,206,802 shares and 1,422,486 shares, in December 31, 2004 and 2003, respectively)	(9,700)	(11,335)
Total shareholders' equity	221,081	212,334
Total liabilities and shareholders' equity	$534,497	$450,884

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. dollars in thousands)

	SHARE CAPITAL				AC
	NUMBER OF SHARES	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CO IN
	IN THOUSANDS				
BALANCE AT JANUARY 1, 2002	19,678	21,792	98,014	81,098	
CHANGES DURING 2002:					
Net income				16,626	
Losses in respect of derivative instruments designated as a cash-flow hedge (net of related taxes of $363,000)				(808)	
Differences from translation of foreign currency financial statements					
Additional minimum pension liability adjustment (net of related taxes of $540,000)					
Total comprehensive income					
Exercise of employee stock options	2	*	16		
Cash dividend ($0.37 per share)				(6,976)	
Cost of acquisition of treasury shares					
BALANCE AT DECEMBER 31, 2002	19,680	$21,792	$98,030	$90,748	
CHANGES DURING 2003:					
Net income				23,352	
Losses in respect of derivative instruments designated as a cash-flow hedge (net of related taxes of $474,000)					
Differences from translation of foreign currency financial statements					
Additional minimum pension liability					

adjustment (net of related taxes of $25,000)					
Total comprehensive income					
Exercise of employee stock options	181	38	1,387		
Tax benefit in respect of employee stock options exercised			318		
Cash dividend ($0.52 per share)				(9,493)	
BALANCE AT DECEMBER 31, 2003	19,861	$21,830	$99,735	$104,607	
CHANGES DURING 2004:					
Net income				12,685	
Gains in respect of derivative instruments designated as a cash-flow hedge (net of related taxes of $798,000)					
Differences from translation of foreign currency financial statements					
Additional minimum pension liability adjustment (net of related taxes of $30,000)					
Total comprehensive income					
Exercise of employee stock options	41	10	321		
Tax benefit in respect of employee stock options exercised			79		
Reissuance of treasury shares on acquisition of Burlen (see note 2a)			614		
Cash dividend ($0.45 per share)				(8,312)	
BALANCE AT DECEMBER 31, 2004	19,902	$21,840	$100,749	$108,980	

* Less than $1,000.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEM

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	YEAR EN
	2004
	(as resated)
CASH FLOWS FROM OPERATING ACTIVITIES*:	
Net income	$12,685
Adjustments to reconcile net income to net cash provided by operating activities:	
Income and expenses not involving cash flows:	

Minority interests in profits of subsidiaries - net	1,368
Share in losses (profits) of associated companies, net	237
Amounts carried to deferred charges	(597)
Depreciation and amortization	15,185
Write-down of other investments	
Deferred income taxes - net	(279)
Restructuring expenses	1,310
Changes in accrued liability for employee rights upon retirement	1,023
Loss (gain) on amounts funded in respect of employee rights upon retirement	(416)
Capital loss (gain) on sale of property, plant and equipment and subsidiary shares	(922)
Capital gain from realization of other investment	(958)
Erosion of long-term receivables	(6)
Exchange differences (erosion) of principal of long-term bank loans - net	(180)
	15,765
Changes in operating assets and liabilities:	
Decrease (increase) in accounts receivable	1,798
Increase (decrease) in accounts payable and accruals	12,204*
Increase in inventories	(20,078)
	(6,076)
Net cash provided by operating activities - forward	$22,374*

* Net cash provided by operating activities has been decreased by $4,800 thousand due to the corr
classification of payments made in the year 2004 relating to restructuring expenses recorded as p
of Auburn Hosiery Mills (see note 1A3).

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	YEAR EN
	2004
	(as restated)
Brought forward	$22,374
CASH FLOWS FROM INVESTING ACTIVITIES**:	
Acquisition of subsidiaries (1)	(56,039)
Additional payment allocated to goodwill	(6,700)
Purchase of property, plant and equipment	(13,484)
Investment grants relating to property, plant and equipment	1,074
Other investments	(58)

Proceeds from sale of property, plant and equipment	4,318
Proceeds from realization of other investment	2,640
Proceeds from sale of subsidiary shares	
Associated company consolidated in previous years (2)	
Loans granted to employees	(260)
Collection of employees loans	313
Long term loans granted	(26)
Amounts funded in respect of employee rights upon retirement - net	(667)
Net cash used in investing activities	(68,889)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cost of acquisition of treasury shares	
Long-term bank loans and other long-term liabilities	119,000
Decrease in long-term loans and other long-term liabilities	(10,430)
Dividend to the Company's shareholders	(8,312)
Dividend to minority shareholders in a subsidiary	(863)
Short-term bank credit - net	(48,890)
Proceeds from exercise of options granted to employees and the company's CEO	331
Net cash provided by (used in) financing activities	50,836
TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS OF FOREIGN CURRENCY CONSOLIDATED SUBSIDIARY	130
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,451
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,699
CASH AND CASH EQUIVALENTS AT END OF YEAR	$22,150

* Less than $1,000.

(1), (2) See next page for details.
** Net cash used in investing activities has been increased by $4,800 thousand due to the correction of an error in classification of payments made in the year 2004, relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills (see note 1A3).

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DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	YEAR EN
	2004
SUPPLEMENTARY DISCLOSURE OF CASH FLOW	

INFORMATION - CASH PAID DURING THE YEAR FOR:	
Interest	$4,133
Income taxes	$3,169
(1) ACQUISITION OF SUBSIDIARIES, SEE ALSO NOTE 2:	
Assets and liabilities of the subsidiaries upon acquisition:	
Working capital (excluding cash and cash equivalents)	$29,944
Long-lived assets	9,636
Intangible asset	14,778
Goodwill arising on acquisition	4,930
	59,288
Reissuance of treasury shares	2,249
Amount payable	1,000
Cash paid - net	$56,039
(2) ASSOCIATED COMPANY PREVIOUSLY CONSOLIDATED:	
Assets and liabilities of the subsidiary previously consolidated	
Working capital (excluding cash and cash equivalents)	
Fixed assets	
Long-term liabilities	
Minority interest in subsidiaries	
Investments in an associated company	

SUPPLEMENTARY INFORMATION ON INVESTING ACTIVITIES NOT INVOLVING CASH FLOWS:

In 2004, 2003 and 2002, the net changes in outstanding balances of trade payables in respect of t
plant and equipment were an increase (decrease) of $ 0.1 million, $(1.1) million and $ 0.2 millio

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

A. GENERAL:

1) Operations

Delta Galil Industries Ltd. (the "Company") is an Israeli corporation which, together with its subsidiaries (the "Group"), is engaged primarily in manufacturing and marketing of intimate apparel, in five reportable operating segments - Delta USA, U.S. upper market, Europe, Socks and Delta marketing Israel. As to the Group's segments and principal markets see note 15.

A significant portion of the Group's revenues derives from three principal customers. See note 12a and 15c.

2) Accounting principles

The consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America.

3) Statement of cash flows - restatement

These financial statements have been amended to correct an error in the statement of cash flows for the year ended December 31, 2004. The error relates to the classification of a payment of $4,800 thousand, made in year 2004, relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills. The Company is amending the Statement of cash flows to reclassify this payment from cash flows used in investing activities to cash flows used in operating activities.

No other items were affected by the error referred to above.

The following reflect the adjustment to the cash flow statement for the year ended December 31, 2004:

	AS REPORTED	CORRECTION
		In $ thousands
Cash flows from operating activities	$ 27,174	$ (4,800
Cash flows from investing activities	(73,689)	4,800
Cash flows from financing activities	50,836	-
Translation differences on cash and cash equivalents	130	-
Net increase in cash and cash equivalents	$ 4,451	-

4) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

5) Functional currency

The currency of the primary economic environment in which the operations of the Company and most of its subsidiaries are conducted is the U.S. dollar (the "dollar" or "$").

Since the U.S. dollar is the primary currency in the economic environment in which the Company operates, monetary accounts maintained in currencies other than the dollar are remeasured using the representative foreign exchange rate at the balance sheet date. Operational accounts and non-monetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are recorded as financial income or expenses as appropriate.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The functional currency of a subsidiary which was acquired in 2003 (see also note 2c) and an associated company is its local currency (EURO and NIS). The financial statements of this subsidiary are included in consolidation based on translation into dollars in accordance with the principles set forth in Statement of Financial Accounting Standard ("FAS") No. 52 issued by the FASB: assets and liabilities are translated at year end exchange rate, while operating results items are translated at average exchange rates during the year. Differences resulting from translation are presented in shareholders' equity, under accumulated other comprehensive income (loss).

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. In these financial statements, "subsidiaries" are companies controlled to the extent of over 50%, the financial statement of which are consolidated with those of the Company. Significant intercompany balances and transactions were eliminated in consolidation. Profits from intercompany sales, not yet realized outside the Group, have also been eliminated.

C. CASH EQUIVALENTS

The Group considers all highly liquid investments, which composed of short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

D. INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined as follows:

Raw materials and supplies, packaging which is part of the production line and maintenance materials - on the "moving average" basis. Finished products and products in process - direct cost of materials (on the "moving average" basis), labor and an appropriate portion of indirect manufacturing costs.

E. INVESTMENTS IN AN ASSOCIATED COMPANY

An "associated company" is a company over which significant influence is exercised, but which is not a consolidated subsidiary. An associated company is accounted for by the equity method.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, net of related investment grants in the amount of $ 49.8 million and $ 49.2 million at December 31, 2004 and 2003, respectively. Fixed asset leased by the Group under capital lease are classified as the Group's asset and included at the present value of the minimum lease payments as determined in the lease agreement.

Depreciation is computed by the straight-line method on the basis of the estimated useful life of the assets, at the following annual rates:

Buildings and plumbing	2%-7% (mainly 4%)
Machinery and equipment	7%-25% (mainly 7%)
Vehicles	15%-20% (mainly 15%)
Office furniture and equipment	6%-25% (mainly 7%)

Leasehold improvements are amortized by the straight-line method over the lease period, which is shorter than the estimated useful life of the improvements.

G. GOODWILL

Under FAS 142 "Goodwill and Other Intangible Assets", goodwill is no longer amortized but tested for impairment at least annually. The Company has selected September 30 of each year as the date on which it will perform its annual goodwill impairment test. No impairment resulted from the annual review performed in the year ended December 31, 2004, 2003 and 2002.

H. DEFERRED CHARGES

Deferred charges represent mainly financing charges, which are amortized over the credit period.

Amortization of deferred charges included among "financial expenses, net" were $ 353 thousands, $ 250 thousands and $ 164 thousands, for the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

I. IMPAIRMENT IN VALUE OF LONG-LIVED ASSETS

Under FAS 144 "Accounting for the Impairment or Disposal of Long- Lived Assets" ("FAS 144"), the Company reviews long-lived assets, to be held and used, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values.

As for long - lived assets impairment, see note 12e.

J. DEFERRED INCOME TAXES

Deferred taxes are determined utilizing the asset and liability method, based on the estimated future tax effect differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax assets or tax liabilities from period to period.

As stated in note 11a, a plant of an Israeli subsidiary has been granted "approved enterprise" status and, accordingly, upon distribution of dividends by this subsidiary to the Company, such dividends may be subject to tax. In light of the Group's policy not to cause distribution of dividends, which would result in additional tax liabilities, any dividends received from the abovementioned subsidiary will be distributed to the Company's shareholders. Accordingly, no account has been taken of the additional tax in respect of the above dividends. See note 11a(1)(a).

The Group does not provide for an additional tax liability with respect to the excess of the amount for financial reporting over the tax basis of investments in non-Israeli subsidiaries, as the

Company does not expect such temporary differences to be reversed in the foreseeable future.

K. TREASURY SHARES

Treasury shares held by the Company are presented as a reduction of shareholders' equity, at their cost. The FIFO method was used for the costing of the reissuance of treasury shares, and any resulting gains (net of related tax) are credited to additional paid in capital.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

L. REVENUE RECOGNITION

Revenues from sales of products and supplies are recognized when an arrangement (usually in the form of purchase order) exists, delivery has occurred and title passed to the customer, the company's price to the customer is fixed or determinable and collectibility is reasonably assured.

Volume discounts due to customers are estimated based on the terms of the agreements with the customers.

A reserve for sales returns is recorded based on historical experience or specific identification of an event necessitating a reserve.

M. CONCENTRATION OF CREDIT RISKS - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Group's cash and cash equivalents as of December 31, 2004 and 2003 were deposited Mainly with major banks in United States of America, United Kingdom, Hungary and Egypt and in 2003 United States of America, Israel, Hungary and Egypt. The Company is of the opinion that the credit risk in respect of these balances is remote.

A large part of the Group's sales is to 3 principal customers (see also note 15c). The balance receivables from these principal customers as of December 31, 2004 and 2003 were $ 47,982 thousands and $ 51,297 thousands, respectively (see also note 12a). The Group does not hold any collateral from these customers; however, based on past experience with those customers, the Group does not anticipate any difficulties in collecting the above balances. The balance of the item "accounts receivable - trade" is composed of a large number of customers. An appropriate allowance for doubtful accounts is included in the accounts in respect of specific debts doubtful of collection. The bad debt income (expenses) and allowance charged to expenses, for the years ended December 31, 2004, 2003 and 2002 aggregated $ 950 thousands, $ 309 thousands and $ (3,558) thousands, respectively.

N. SHIPPING AND HANDLING COSTS

The Group's shipping and handling costs are included under selling and marketing expenses in the consolidated statements of income. Shipping and handling costs for the years ended December 31, 2004, 2003 and 2002 were approximately $ 20 million, $ 17 million and $ 18 million, respectively.

O. ADVERTISING COSTS

These costs are expensed as incurred. Advertising costs for the years ended December 31, 2004, 2003 and 2002 were $ 2.1 million, $ 1.9 million and $ 2.5 million, respectively.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

P. STOCK BASED COMPENSATION

Stock options granted to employees are accounted for under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Under APB 25, compensation cost for employee stock option plans is measured using the intrinsic value based method of accounting.

Accordingly, the difference, if any, between the quoted market price of the ordinary shares on the date of grant of the options and the exercise price of such options is amortized by the accelerated amortization method, against income, over the expected service period (up to four years).

FAS 123, "Accounting for Stock-Based Compensation", established a fair value based method of accounting for employee stock options or similar equity instruments, and encourages adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans using the accounting treatment prescribed by APB 25. The Company has elected to continue accounting for employee stock option plans under APB 25, and has accordingly complied with the disclosure requirements set forth in FAS 123, as amended by FAS 148, for companies electing to apply APB 25, (see also note 1t).

The following table illustrates the effect on net income and earnings per share assuming the Company has applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation:

	YEAR ENDED DECE	
	2004	2003

	$ IN THOUSA (EXCEPT PER SHA	
Net income, as reported	$ 12,685	$ 23,352
Add - stock-based employee compensation expense include in reported net income net of related tax effect		
Less - stock-based employee compensation expense determined under fair value method, net of related tax effect	(690)	(1,384
Pro forma net income	$11,995	$ 21,968
Earnings per share:		
Basic - as reported	$ 0.69	$ 1.28
Basic - pro forma	$ 0.65	$ 1.20
Diluted - as reported	$ 0.67	$ 1.24
Diluted - pro forma	$ 0.64	$ 1.17

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The fair value of options granted during 2004, 2003 and 2002 was $452 thousands, $72 thousands and $1,700 thousands, respectively. The fair value of each option granted is estimated on the date of grant using the Black & Scholes option-pricing model, with the following weighted average assumptions:

	2004	2003	2002
Dividend yield	3.5%	5%	5%
Expected volatility	28.00%	27.33%	30.94%
Risk-free interest rate	4%	1%	2%
Expected life - in years	4.25	4.25	5.58

Q. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the year, net of treasury shares.

Diluted earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the year, net of treasury shares, taking into account the potential dilution that could occur upon the exercise of options granted under employee stock option plans, using the treasury stock method.

R. DERIVATIVES

The Company enters into forward exchange contracts to hedge the cash flows resulting from sales of products, salaries and wages, in currencies other than the functional currency. The Company does not hold derivative financial instruments for trading purposes.

Under FAS 133 "Hedging Activities", all derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative for accounting purposes, as: (1) hedging instrument, or (2) non-hedging instrument.

For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portions of changes in fair value of the derivative are recorded in other comprehensive income (loss), under "Gains or losses in respect of derivative instruments designated as a cash-flow hedge , net of related tax" and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized immediately in income among financial expenses. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in income among financial expenses. Cash flows from derivatives that qualify as a cash flow hedge are recognized in the statements of cash flows in the same category as that of the hedged item.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

S. COMPREHENSIVE INCOME

In addition to net income, other comprehensive income (loss) includes gains or losses in respect of derivative instruments designated as cash-flow hedge, net of related taxes, differences from translation of foreign currency financial statements of a subsidiary and an associated company and additional minimum pension liability adjustments, net of related taxes.

T. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

1) FAS 123 (revised 2004) Share-based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued the revised Statement of Financial Accounting Standards ("FAS") No. 123, Share-Based Payment (FAS 123R), which addresses the accounting for share-based payment transactions in which the company obtains employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments .In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretation of FAS 123R.

FAS 123R eliminates the ability to account for employee share-based payment transactions using APB Opinion No. 25 - "Accounting for Stock Issued to Employees", and requires instead that such transactions be accounted for using the grant-date fair value based method. This Statement will be effective for public companies at the beginning of their next fiscal year that begins after June 15, 2005 (first quarter of 2006 for the Company). Early adoption of FAS 123R is encouraged. This Statement applies to all awards granted or modified after the Statement's effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the Statement's effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant-date fair value as previously calculated for the pro-forma disclosure under FAS 123.

The company estimates that there will not be any cumulative effect of adopting FAS 123R, as of its adoption date by the company (1 January 2006), based on the awards outstanding as of December 31, 2005. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur subsequent to December 31, 2005 and prior to the adoption of FAS 123R.

The Company expects that upon the adoption of FAS 123R, as of January 1, 2006, the Company will apply the modified prospective application transition method, as permitted by the Statement. Under such transition method, upon the adoption of FAS 123R, the Company's financial statements for periods prior to the effective date of the Statement will not be restated. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro-forma disclosure purposes under FAS 123.

The company does not expect this statement to have a material effect on the company's financial statements or its result of operations in future periods.

2) FAS 151 Inventory Costs - an amendment of ARB 43, Chapter 4 In November 2004, the FASB issued FAS No. 151, "Inventory Costs - an Amendment of ARB 43, Chapter 4" ("FAS 151"). This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads

to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the company). Earlier application of FAS 151 is permitted. The provisions of this Statement shall be applied prospectively. The company does not except this statement to have a material effect on the company's financial statements, its results of operations or cash flows.

3) FAS 154 Accounting Changes and Error Corrections - a replacement of Accounting Principles Board Opinion ("APB") No. 20 and FASB Statement No. 3.

In June 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement generally requires retrospective application to prior periods' financial statements of changes in accounting principle. Previously, Opinion No. 20 required that most voluntary changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. FAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the company). The Company does not expect the adoption of this statement will have a material impact on the Company's results of operations, financial position or cash flows.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

4) In December 2004, the FASB issued FAS No. 153, "Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29" (FAS 153). FAS 153 amends APB Opinion No. 29, "Accounting for Non-monetary Transactions" (Opinion 29). The amendments made by FAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for non-monetary exchanges of similar productive assets and replace it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The provisions in FAS 153

are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 (July 1, 2005 for the Company). Early application of the FAS 153 is permitted. The provisions of this Statement shall be applied prospectively. The Company does not expect the adoption of FAS 153 to have a material effect on the Company's financial statements or its results of operations.

5) FAS 155

In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No.133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have been issued for the financial year. Management is currently evaluating the impact of this statement, if any, on the Company's financial statements or its results of operations.

6) FAS 156

In March 2006 the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Reporting No. 156 ("SFAS 156"). This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities, and is effective for financial periods beginning after September 15, 2006. The Company does not currently engage in transfers of financial fixed assets and accordingly does not anticipate that the adoption of this statement will have a material impact on its financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

U. RECLASSIFICATIONS

Certain figures in respect of prior years have been reclassified to conform with the current year presentation.

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS ACQUISITIONS:

The acquisitions described bellow have all been accounted for by the purchase method. The consideration for each acquisition was attributed to net assets on the basis of the fair value of assets acquired and liabilities assumed.

A. ACQUISITION OF BURLEN INC. (BURLEN) - IN 2004

On December 8, 2004, the Company acquired, through a wholly owned subsidiary all of the shares of Burlen, a privately held U.S. company, which is engaged in the development, production and marketing of ladies' intimate apparel.

The Burlen acquisition is another step in the Company's strategy to increase its intimate apparel category of the mass market by exploiting the synergies between Burlen's operations and the Company's existing activities. This acquisition is expected to strengthen the Company's position in the mass market.

The acquisition price amounted to $ 59.6 million from which $ 56.4 million was paid in cash (including $ 8.2 million paid to a bank for discharge of a loan) and $ 2.2 million in ordinary shares comprised of 215,684 ordinary shares reissued from treasury shares, based on a price per share of $ 10.43. Acquisition costs accrued to $ 1.0 million would be paid in 2005.

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS ACQUISITIONS (continued):

In addition, under the agreement the Company may pay additional amount to the selling shareholders, subject to achieving certain revenues and operating profit targets over a period of 3 years, 2005-2007. The additional consideration, will be recorded as additional goodwill.

Other intangible asset acquired, which amounted to $ 14.8 million, represents customer relations and is amortized over a period of 20 years. The excess of cost of acquisition over the fair value of net assets, on acquisition date - $ 3.9 million - was allocated to goodwill and included as part of Delta USA segment . Goodwill and customer relations are deductible for tax purposes. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

At December 8, 2004 (in thousands)	
Cash and cash equivalents	$2,605
Account receivable - trade	20,577
Account receivable - Other	117
Inventories	19,677
Intangible asset	14,778
Property, plant, and equipment	7,805
Goodwill	3,873

Total assets acquired	$69,432
Short-term bank credit	3,038
Accounts payable - trade	4,341
Accounts payable - Other	2,452
Net assets acquired	$59,601

As to proforma result, see note d below.

DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS (continued):

B. ACQUISITION OF MANUFACTURING PLANT IN THAILAND (THAILAND) - IN 2004

In December 2004 the Company acquired a manufacturing facility in Thailand for a total consideration of $2.4 million. From the said amount $0.9 million was paid for the shares and $0.8 million to pay off debt to the former shareholders. In addition, the Company assumed bank debt of $0.7 million. The acquired manufacturing facility in Thailand constitute a "business" under EITF 98-3 - "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business".

The main strategy for the Thailand plant acquisition is to reduce the sewing cost. The excess of cost of acquisition over the fair value of net assets on acquisition date approximately - $1.0 million - was allocated to goodwill.

At December 31, 2004 (in thousands)	
Cash and cash equivalent	$61
Account receivable - trade	1,025
Account receivable - Other	34
Inventories	1,381
Property, plant, and equipment	1,831
Goodwill	1,057
Total assets acquired	$5,389
Short-term bank credit	601
Accounts payable - trade	528
Accounts payable - Other	1,776
Long term debt	131
Net assets acquired	$2,353

DELTA GALIL INDUSTRIES LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS (continued):

C. ACQUISITION OF AUBURN HOSIERY MILLS ("AUBURN") - IN 2003

In November 2003, the Company acquired, through wholly owned subsidiaries from Kellwood inc. ("the seller") all of the shares of its two private held U.S. and Irish companies, which are engaged in the operations of design, development, manufacture, sourcing, marketing, distribution and sale of socks. The functional currency of the Irish operation is its local currency - the Euro.

The Group paid $10.8 million in cash to the seller.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The excess of cost of acquisition over the fair value of net assets on acquisition date approximately $ 1.4 million - was initially allocated to goodwill.

At November 13, 2003 (in thousands)	
Cash and cash equivalents	$699
Account receivable - trade	5,754
Account receivable - other	700
Inventories	9,448
Property, plant, and equipment	6,642
Goodwill	1,368*
Total assets acquired	$24,611
Short-term bank credit	$213
Accounts payable	7,435
Accrued expenses - restructuring costs	6,163*
Net assets acquired	$10,800

*In 2003 the Company recorded liabilities in respect of restructuring costs in an amount of $6.2 million, which includes approximately $2.2 million for severance pay and related costs and $ 4.0 million for costs associated with the shut down of certain acquired facilities. An amount of $4.8 million was paid during 2004, $2 million related to grants, $2.3 million related to employees, $0.1 million related to property, plant and equipment and $0.4 million related to manufacturing and others.

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS (continued):

During 2004 the Company finalized the restructuring plan and liabilities in respect of restructuring costs, which results in a decrease of $1.9 million on the excess of cost of acquisitions over the fair value of net assets on acquisition date. The said decrease was allocated $ 1.4 million to the goodwill (which off set the entire goodwill initially recognized) and $ 0.5 million to property, plant and equipment.

D. Hereafter are certain unaudited pro forma combined income data assuming that the acquisition of Burlen had occurred on January 1, 2004 and 2003, respectively, and the acquisition of Auburn had occurred on January 1, 2003 and 2002, respectively. The unaudited pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions of Burlen and Auburn occurred as of January 1, 2004 and 2003, and 2003 and 2002, respectively, nor is it necessarily indicative of future results.

	YEAR ENDED DECEMBER 31		
	2004	2003	2002
	IN THOUSANDS		
	(EXCEPT EARNINGS PER SHARE)		
	(UNAUDITED)		
Net Revenues	$763,375	$721,172	$626,732
Net Income	$19,853	$24,664	$16,079
Earning per share - Basic	$1.06	$1.33	$0.85
Earning per share - Diluted	$1.04	$1.30	$0.85

E. ACQUISITION OF THE OPERATIONS OF KOMAR TEXTILE TRADING CO. LTD. ("KOMAR") - IN 2002

In November 2002 the Company purchased some of the operations of Komar, a privately held Hungarian company. Komar is engaged in production of baby-wear. The purchase price - $ 5,600 thousands was paid in cash. The excess of cost of acquisition over the fair value of net assets on acquisition date - $ 753 thousands - was allocated to goodwill, which is included as part of the Europe segment. Goodwill is not deductible for tax purposes. During the fourth quarter of 2004 the group has decided to close the logistic center, and included $ 1.5 million restructuring expenses, of which $ 0.4 million is included in cost of revenues. See also note 12e.

F. ACQUISITION OF INNER SECRETS INC. ("INNER") - IN 2001

In January 2001, the Company acquired, through a wholly owned subsidiary - Wundies Industries Inc. ("the acquiring company"), all of the shares of Inner, a privately held U.S. company, which is engaged in the development, production and marketing of ladies' intimate apparel.

DELTA GALIL INDUSTRIES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - ACQUISITIONS AND OTHER TRANSACTIONS (continued):

The acquisition price was paid as follows: 85% in cash and 15% in Company shares. In addition, the acquisition price was set to be four times Inner's earnings before interest, income taxes, depreciation and amortization ("EBITDA"), subject to certain adjustments, for the year ended December 31, 2000, but after deducting liabilities to banks and other loans as of December 31, 2000.

In addition, in case the EBITDA of both the acquired company and the acquiring company for the year 2002 will be higher than the EBITDA of both companies for the year 2000 by at least $ 4 million, the sellers will be entitled to an additional cash payment, of an amount not exceeding 50% of the EBITDA of the acquired company for the year 2000 (hereafter - "the performance payment"), in accordance with certain adjustments. In case the sellers' entitlement to full performance payment will not be in accordance with the 2002 results, the sellers will be entitled to receive the rest of the performance payment, in accordance with the agreement, considering the 2003 results. In any case, the sellers will not be entitled to an over-all payment that exceeds the performance payment. Such additional payment will be paid in cash and will be recorded when earned as additional purchase price.

During 2001 the Company paid $ 48.7 million in cash (including $ 14.4 million paid to a bank for discharge of a loan) and $ 5.9 million in 454,020 Company shares, based on a price per share of $ 13.05. During 2003 and 2004 the Company paid an additional $ 2.0 million and $ 6.7 million in cash, respectively, as an adjustment to the purchase price. The payments were allocated to goodwill.

In 2003 the purchase price was finalized and the total goodwill amount, resulted from the acquisition, was $ 24.3 million, which is included as part of Delta USA segment. Goodwill is not deductible for tax purposes.

OTHER TRANSACTION:

SALE OF SUBSIDIARY'S SHARES

In August 2002, Delta Galil signed an agreement for the sale of 10% of its wholly-owned subsidiary, in consideration of $250 thousands.

During March 2003 the Company received the payment, transferred the shares and as a result recognized a gain in an amount of $ 109 thousands.

According to the agreement the buyer has an option to purchase additional shares of the subsidiary on terms to be agreed at a later stage. The option shall remain in effect for a period of 36 months from the date of agreement.

NOTE 3 - OTHER INVESTMENT AND INVESTMENT IN AN ASSOCIATED COMPANY

A. SALE OF INVESTMENT IN STANDARD TEXTILE EUROPE LTD. ("STE") - OTHER INVESTMENT

On August 4, 2000, a subsidiary signed an agreement for the sale of its investment in STE, which was an associated company (till January 2003), for $ 9 million, which bears interest of LIBOR plus 1.5% per year.

The transaction was carried out in four equal batches, in the years 2004, 2003, 2002 and 2000. The capital gains recorded in the years 2004, 2003 and 2002 were $958 thousands, $885 thousands and $ 960 thousands, respectively, and were classified to "Other Income - net".

B. EDOMIT LTD. ("EDOMIT") - AN ASSOCIATED COMPANY

The Company holds 50% of the shares in Edomit. The Company's investment in Edomit is accounted for by the equity method.

The balance of the investment in Edomit as of December 31, 2004 and 2003 is $ 455 thousands and $ 661 thousands, respectively. As of December 31, 2004 and 2003 these balances include a loan in the amount of $ 446 and $ 417, respectively. The loan is linked to the Israeli CPI and bears no interest.

NOTE 4 - LONG-TERM RECEIVABLES

Long-term receivables represent long-term loans to employees - mainly linked to the Israeli consumer price index ("CPI") and bearing interest at the rate of 4%.

These balances are mature in the following years after balance sheet dates:

	DECEMBER 31	
	2004	2003
	IN THOUSANDS	
First year - current maturities	$193	$512
Second year	204	362
Third year	14	36
Fourth year	5	21
Fifth year	3	

$226	$419
$419	$931

DELTA GALIL INDUSTRIES LTD..
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

A. Composition of property, plant and equipment, grouped by major classifications, is as follows:

	DECEMBER 31	
	2004	20
	IN THOUSANDS	
Land, buildings and plumbing, see b. below*	$41,706	$3
Machinery and equipment	134,873	12
Vehicles, office furniture and equipment and leasehold improvements	46,729	4
	223,308	21
Less - accumulated depreciation and amortization	(94,967)	(8
	$128,341	$12
* Including building leased under capital lease - (see note 1f):		
Cost	$1,414	$
Less - accumulated depreciation	409	
	$1,005	$

In 2003 the Group recorded a $3.5 millions capital gain from sale of real estate in London.

B. LAND AND BUILDINGS

Part of the buildings of the Company stand on land leased from the Israel Lands Administration for periods expiring in the years 2016-2037. The leasehold rights have not yet been registered in the Land Registry.

C. Investment projects of the Company and its subsidiary have been approved by the Israeli Investment Center, under the Law for the Encouragement of Capital Investments, 1959. The balance of uncompleted investments as of December 31, 2004 aggregates $ 6.4 million.

D. Depreciation and amortization in respect of property, plant and equipment totaled $ 14.8 , $14.3 and $ 13.9 million in the year ended December 31, 2004, 2003 and 2002 (excluding impairment of assets relating to restructuring, see note 12e).

E. As to pledges on assets, see notes 8d and 11a.

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DELTA GALIL INDUSTRIES LTD.
(An Israeli corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - GOODWILL:

Changes in goodwill during the year:

	YEAR ENDED DECEMBER 31,			
	IN THOUSANDS			
	DELTA USA	US UPPER MARKET	EUROPE	
Goodwill at beginning of year	$ 46,732	$2,119	$ 753	$
Changes during the year:				
Goodwill arising from acquisition of subsidiaries, see notes 2a and 2b	3,873		1,057	
Adjustment to purchase price, see note 2c				
Goodwill at end of year	$ 50,605	$2,119	$1,810	$

	YEAR ENDED DECEMBER 31,			
	IN THOUSANDS			
	DELTA USA	US UPPER MARKET	EUROPE	
Goodwill at beginning of year	$ 40,032	$2,119	$ 753	$
Changes during the year:				
Goodwill arising from Acquisition of operations, see note 2c				
Adjustment to purchase price, see note 2f	6,700			
Goodwill at end of year	$ 46,732	$2,119	$ 753	$

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NOTE 7 - EMPLOYEE RIGHTS UPON RETIREMENT:

A. Employee related obligations are composed as follows:
B.

	DECEMBER 31	
	2004	2003
	IN THOUSANDS	
Accrued severance pay	$6,076	$5,442
Obligation in respect of defined benefit plans	1,332	1,290
	$7,408	$6,732

As of December 31, 2004 and 2003, the Group had deposits of $ 5.7 million and $ 5.1 million, respectively, with funds managed by major Israeli insurance companies, which are earmarked by management to cover the severance pay liability in respect of Israeli employees. Under FAS No. 132, "Employers Disclosures About Pensions and Other Post Retirement Benefits", such deposits are not considered to be "plan assets".

Costs of pension and severance pay charged to income in the years ended December 31, 2004, 2003 and 2002 were $ 6.9 million, $ 7.0 million and $ 6.5 million respectively (in 2004, 2003 and 2002, excluding $ 190 thousands, $ 850 thousands and $ 651 thousands, respectively, relating to the termination of employment, which were charged to restructuring expenses, see note 12e).

The profit (loss) from deposits in respect of severance pay were $ 416 thousands, $(214) thousands and $(624) thousands in the years ended December 31, 2004, 2003 and 2002, respectively.

The main terms of the various arrangements with employees are described in b. below. Further details relating to defined benefit plans, as required by FAS 132, are presented in b and c below.

B. TERMS OF ARRANGEMENTS:

1) The Company and Israeli subsidiaries

Israeli law generally requires payment of severance pay and/or pensions upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to employee rights upon retirement, as applicable to Israeli companies in the Group:

a) Pension plans for the majority of the Group's employees - under collective labor agreements, these external pension plans cover the severance pay liability. The pension and severance pay liabilities covered by these plans are not reflected in the financial statements as the pension and severance pay risks have been irrevocably transferred to the pension funds.

b) Insurance policies for employees in managerial positions - these policies provide coverage for severance pay and pension liabilities of managerial personnel. Under labor agreements these insurance policies are, subject to certain limitations, the property of the employees.

NOTE 7 - EMPLOYEE RIGHTS UPON RETIREMENT (continued):

c) Severance pay liabilities not covered by the pension funds are fully provided for in these consolidated financial statements, as if it was payable at each balance sheet date on an undiscounted basis, based upon the number of years of service and the most recent monthly salary of the Group's employees in Israel.

2) Non-Israeli subsidiary

A U.S. subsidiary provides various defined benefit pension plans to its employees, see c below.

At December 31, 2004, the assets of the defined benefit pension plan are primarily invested in group annuity contracts with an insurance company. The plan was frozen effective January 1996.

Contributions to the defined contribution 401(k) plan are based on a percentage of annual salaries. The Company generally matches 50% of each participant's pretax contribution up to 4% of the participant's annual compensation.

C. CERTAIN DETAILS RELATING TO DEFINED BENEFIT PLANS: