RETAILORS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

UNAUDITED

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Building a better working world

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Auditors' review report to the shareholders of Retailors Ltd.

Introduction

We have reviewed the accompanying financial information of Retailors Ltd. ("the Company") and its subsidiaries, which comprises 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 then ended. The board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of interim financial information for these periods in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of subsidiaries, whose assets constitute approximately 5.9% of total consolidated assets as of June 30, 2021, and whose revenues constitute approximately 4.4% and 2.3% of total consolidated revenues for the periods of six and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of other auditors.

Scope of review

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

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

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

Tel-Aviv, Israel
August 23, 2021

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2021	2020	2020
	Unaudited		Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	702,783	74,405	90,027
Trade receivables	57,984	44,931	58,190
Other accounts receivable	60,733	26,777	24,032
Inventories	184,801	113,717	159,306
	1,006,301	259,830	331,555
NON-CURRENT ASSETS:			
Property, plant and equipment	150,451	101,937	135,793
Investment in company accounted for at equity	16,996	-	18,512
Restricted deposits	15,225	-	8,800
Long-term receivables	1,800	-	2,219
Right-of-use assets	728,491	475,990	579,626
Deferred taxes	10,689	7,829	8,101
Store removal fees	5,075	5,262	5,528
Intangible assets	1,304	1,809	1,556
Goodwill	3,607	3,607	3,607
	933,638	596,434	763,742
	1,939,939	856,264	1,095,297

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2021	2020	2020
	Unaudited		Audited
	NIS in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	23,150	58,778	58,050
Related companies	982	2,330	43,063
Trade payables	201,770	90,845	140,885
Other accounts payable	77,873	44,213	136,048
Short-term lease liability	101,412	68,071	85,368
	405,187	264,237	463,414
NON-CURRENT LIABILITIES:			
Loans from banks	24,450	45,812	36,790
Long-term finance lease obligation	662,849	434,612	524,863
Employee benefit liabilities	1,356	1,059	1,217
	688,655	481,483	562,870
EQUITY:			
Share capital and share premium	825,336	54,000	54,000
Foreign currency translation reserve	(286)	118	(228)
Reserve from remeasurement of defined benefit plans	73	179	73
Reserve from share-based payment transactions	150	-	-
Retained earnings (deficit)	(6,000)	37,987	(6,765)
Total equity attributable to equity holders of the Company	819,273	92,284	47,080
Non-controlling interests	26,824	18,260	21,933
Total equity	846,097	110,544	69,013
Total liabilities and equity	1,939,939	856,264	1,095,297

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

August 23, 2021			
Date of approval of the Financial statements	Harel Wizel Chairman of the Board	Dov Schneidman CEO	Avior Teboul CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2021	2020	2021	2020	2020
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues from sales	413,959	254,956	240,856	124,900	637,659
Cost of sales	211,480	130,304	121,099	62,904	324,509
Gross profit	202,479	124,652	119,757	61,996	313,150
Selling and marketing expenses	157,597	97,198	90,499	43,018	230,745
General and administrative expenses *)	6,384	2,460	3,640	1,322	6,672
Group's share of losses of a company accounted for at equity, net	1,277	-	618	-	820
Operating income	37,221	24,994	25,000	17,656	74,913
Finance expenses on revaluation of Leumi Partners option, net (see Note 3a)	18,308	-	-	-	76,615
Finance expenses, net	11,085	5,887	7,537	2,401	13,205
Income (loss) before taxes on income	7,828	19,107	17,463	15,255	(14,907)
Taxes on income	6,525	4,090	4,478	3,245	15,320
Net income (loss)	1,303	15,017	12,985	12,010	(30,227)
Net income (loss) attributable to:					
Equity holders of the Company	765	15,785	11,947	12,129	(28,967)
Non-controlling interests	538	(768)	1,038	(119)	(1,260)
Net income (loss)	1,303	15,017	12,985	12,010	(30,227)
Basic and diluted net earnings (loss) per share (in NIS)	0.02	0.50	0.30	0.37	(0.89)

*) Including issue expenses of approximately NIS 2.9 million and NIS 1.3 million for the periods of six and three months ended June 30, 2021, respectively (see also Note 3i).

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2021	2020	2021	2020	2020
	Unaudited				Audited
	NIS in thousands				
Net income (loss)	1,303	15,017	12,985	12,010	(30,227)
Other comprehensive income (net of taxes):					
Amounts that will not be subsequently reclassified to profit or loss:					
Actuarial loss from defined benefit plans, net	-	-	-	-	(106)
Amounts that will be subsequently reclassified to profit or loss when specific conditions are met:					
Adjustments arising from translating financial statements of foreign operations	(363)	911	(621)	(9)	1,131
Group's share of net other comprehensive income (loss) of companies accounted for at equity	(241)	-	75	-	(322)
Total other comprehensive income (loss)	(604)	911	(546)	(9)	703
Total comprehensive income (loss)	699	15,928	12,439	12,001	(29,524)
Total comprehensive income (loss) attributable to:					
Equity holders of the Company	707	16,087	11,641	12,218	(29,117)
Non-controlling interests	(8)	(159)	798	(217)	(407)
	699	15,928	12,439	12,001	(29,524)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital and share premium	Reserve for share-based payment transactions	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as of January 1, 2021 (audited)	54,000	-	(228)	73	(6,765)	47,080	21,933	69,013
Net income	-	-	-	-	765	765	538	1,303
Total other comprehensive loss	-	-	(58)	-	-	(58)	(546)	(604)
Total comprehensive income (loss)	-	-	(58)	-	765	707	(8)	699
Cost of share-based payment	-	150	-	-	-	150	-	150
Exercise of Leumi Partners option (see Note 3a)	94,923	-	-	-	-	94,923	-	94,923
Issue of share capital (less issue expenses of approximately NIS 29.5 million, including tax) (see Note 3i)	676,413	-	-	-	-	676,413	-	676,413
Issue of share capital to holders of non-controlling interests	-	-	-	-	-	-	4,899	4,899
Balance as of June 30, 2021	825,336	150	(286)	73	(6,000)	819,273	26,824	846,097

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	Unaudited						
	NIS in thousands						
Balance as of January 1, 2020 (audited)	*) -	(184)	179	72,202	72,197	-	72,197
Net income (loss)	-	-	-	15,785	15,785	(768)	15,017
Total other comprehensive income	-	302	-	-	302	609	911
Total comprehensive income (loss)	-	302	-	15,785	16,087	(159)	15,928
Distribution of dividend	-	-	-	(50,000)	(50,000)	-	(50,000)
Issue of share capital	54,000	-	-	-	54,000	-	54,000
Non-controlling interests arising from initially consolidated company	-	-	-	-	-	18,419	18,419
Balance as of June 30, 2020	54,000	118	179	37,987	92,284	18,260	110,544

*) Represents less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital and share premium	Reserve for share-based payment transactions	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as of April 1, 2021	54,000	-	20	73	(17,947)	36,146	26,026	62,172
Net income	-	-	-	-	11,947	11,947	1,038	12,985
Total other comprehensive loss	-	-	(306)	-	-	(306)	(240)	(546)
Total comprehensive income (loss)	-	-	(306)	-	11,947	11,641	798	12,439
Cost of share-based payment	-	150	-	-	-	150	-	150
Exercise of Leumi Partners option (see Note 3a)	94,923	-	-	-	-	94,923	-	94,923
Issue of share capital (less issue expenses of approximately NIS 29.5 million, including tax) (see Note 3i)	676,413	-	-	-	-	676,413	-	676,413
Balance as of June 30, 2021	825,336	150	(286)	73	(6,000)	819,273	26,824	846,097

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited						
	NIS in thousands						
Balance as of April 1, 2020	54,000	29	179	25,858	80,066	18,477	98,543
Net income (loss)	-	-	-	12,129	12,129	(119)	12,010
Total other comprehensive income (loss)	-	89	-	-	89	(98)	(9)
Total comprehensive income (loss)	-	89	-	12,129	12,218	(217)	12,001
Balance as of June 30, 2020	54,000	118	179	37,987	92,284	18,260	110,544

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital and share premium	Foreign currency translation reserve	Reserve from remeasurement of defined benefit plans	Retained earnings (deficit)	Total	Non-controlling interests	Total equity
	Audited						
	NIS in thousands						
Balance as of January 1, 2020	*) -	(184)	179	72,202	72,197	-	72,197
Loss	-	-	-	(28,967)	(28,967)	(1,260)	(30,227)
Total other comprehensive income (loss)	-	(44)	(106)	-	(150)	853	703
Total comprehensive loss	-	(44)	(106)	(28,967)	(29,117)	(407)	(29,524)
Non-controlling interests arising from initially consolidated company	-	-	-	-	-	18,419	18,419
Issue of share capital	54,000	-	-	-	54,000	-	54,000
Dividend paid to equity holders of the Company	-	-	-	(50,000)	(50,000)	-	(50,000)
Issue of share capital to holders of non-controlling interests	-	-	-	-	-	3,921	3,921
Balance as of December 31, 2020	54,000	(228)	73	(6,765)	47,080	21,933	69,013

*) Represents less than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2021	2020	2021	2020	2020
	Unaudited				Audited
	NIS in thousands				
Cash flows from operating activities:					
Net income (loss)	1,303	15,017	12,985	12,010	(30,227)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	79,196	(10,870)	9,845	(5,236)	120,436
Net cash provided by operating activities	80,499	4,147	72,830	6,774	90,209
Cash flows from investing activities:					
Receipt of rent concessions (purchase of property, plant and equipment and store removal fees), net	(17,119)	(20,724)	(8,091)	(15,193)	(61,134)
Restricted deposit	(6,580)	-	(6,580)	-	(8,800)
Foundation of subsidiary, Retailors-FL NK Ventures B.V.	-	18,419	-	-	18,419
Foundation of associate, FL-Retailors Ventures B.V.	-	-	-	-	(19,654)
Acquisition of operations in Poland through sub-subsidiary	-	-	-	-	(2,634)
Acquisition of Retailors Germany GmbH	-	(10,313)	-	-	(10,313)
Acquisition of operations through subsidiary, Retailors-FL NK Ventures B.V.	-	(18,799)	-	-	(18,799)
Placement of deposits	-	-	-	-	(2,219)
Net cash used in investing activities	(23,699)	(31,417)	(14,671)	(15,193)	(105,134)
Cash flows from financing activities:					
Receipt (repayment) of short-term credit from banks	(32,382)	40,299	(85,043)	10,299	40,135
Receipt of long-term loans from banks and others	2,953	31,243	2,650	-	31,243
Receipt (repayment) of short-term loans from controlling shareholders	(40,000)	-	-	-	40,000
Issue of share capital, net	669,633	54,000	669,633	-	54,000
Issue of shares in subsidiary, Retailors-FL NK Ventures B.V.	4,899	-	-	-	3,921
Dividend paid	-	(50,000)	-	-	(50,000)
Repayment of lease liabilities	(33,280)	(22,015)	(20,123)	(8,323)	(52,208)
Repayment of long-term loans from banks and others	(15,387)	(8,755)	(10,845)	(5,003)	(18,729)
Net cash provided by (used in) financing activities	556,436	44,772	556,272	(3,027)	48,362
Translation differences of balances of cash and cash equivalents	(480)	100	(892)	947	(213)
Increase (decrease) in cash and cash equivalents	612,756	17,602	613,539	(10,499)	33,224
Cash and cash equivalents at the beginning of the period	90,027	56,803	89,244	84,904	56,803
Cash and cash equivalents at the end of the period	702,783	74,405	702,783	74,405	90,027

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2021	Six months ended June 30, 2020	Three months ended June 30, 2021	Three months ended June 30, 2020	Year ended December 31, 2020
	Unaudited				Audited
	NIS in thousands				
(a) Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Income and expenses not involving cash flows:					
Depreciation of property, plant and equipment, store removal fees and right-of-use assets	48,964	30,434	29,105	12,905	72,311
Amortization of intangible assets	253	253	126	126	506
Increase in employee benefit liabilities	139	180	139	103	201
Taxes on income	6,525	4,090	4,478	3,245	15,320
Group's share of losses of companies accounted for at equity, net	1,277	-	618	-	820
Finance expenses on option revaluation (see Note 3a)	18,308	-	-	-	76,615
Cost of share-based payment	150	-	150	-	-
Finance expenses	7,560	5,927	4,583	2,185	12,765
	83,176	40,884	39,199	18,564	178,538
Changes in asset and liability items:					
Decrease (increase) in trade receivables	169	3,930	18,478	(22,158)	(9,329)
Increase in other accounts receivable	(21,787)	(9,081)	(9,734)	(6,153)	(6,871)
Decrease (increase) in inventories	(25,245)	(1,230)	(27,138)	9,470	(46,185)
Increase (decrease) in trade payables	46,949	(39,906)	62,063	(12,899)	9,869
Increase (decrease) in other accounts payable	17,452	4,941	(8,104)	10,118	21,927
	17,538	(41,346)	35,565	(21,622)	(30,589)
Cash paid and received during the period for:					
Taxes paid	(14,036)	(4,565)	(10,388)	-	(14,816)
Interest paid	(7,482)	(5,843)	(4,531)	(2,178)	(12,697)
	(21,518)	(10,408)	(14,919)	(2,178)	(27,513)
	79,196	(10,870)	59,845	(5,236)	120,436
(b) Significant non-cash transactions:					
Purchase of assets on credit	6,771	(7,618)	8,554	(4,357)	(8,505)
Grant of rent concessions (see Note 1a)	9,466	10,159	2,623	8,844	19,408
Movement in lease liability, net	197,755	116,975	79,552	1,328	140,913
Exercise of liability option to issue the Company's shares (see also Note 3a)	94,923	-	94,923	-	-

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

NOTE 1:- GENERAL

Retailors Ltd. ("the Company") was incorporated on December 11, 2008 and began its operations in January 2009.

The Company is engaged in the retail sale of footwear products, sports apparel and sports accessories as well as leisure fashion through chain stores that are operated by the Company and its investees in Israel, Canada and Europe ("the Group").

On May 13, 2021, the Company's shares were first sold to the public through share issuance and a tender offer and since May 19, 2021 its shares are traded on the Tel-Aviv Stock Exchange Ltd. (see additional information in Note 3i).

These financial statements have been prepared in a condensed format as of June 30, 2021 and for the periods of six and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020 and for the year then ended and accompanying notes ("annual financial statements").

The consequences of the Covid-19 crisis:

Disclosure of the impact of the spread of Covid-19 in Israel:

During 2020 and the first quarter of 2021, the Government of Israel took various measures to contain the spread of Covid-19 and its consequences in Israel. In this framework, severe restrictions were imposed on citizen mobility, prohibiting gatherings, limiting the number of workers allowed to enter the workplace premises, closing commercial centers including malls and open shopping centers and prohibiting operation of businesses that were defined nonessential. Similar to what was happening in Israel, many countries around the world have responded in the same way as Israel and imposed various restrictions on trade and opening of stores.

For information regarding the impact of the "first wave" and the "second wave" in Israel and abroad and moves made by the Group, among others, for saving costs, adjustment to the changing situation, strengthen financial stability and optimal preparation for returning to work, see Note 1b to the Company's annual financial statements as of December 31, 2020.

The impact of the "third wave" of Covid-19 in Israel:

Following a significant rise in morbidity, on December 27, 2020, the Government of Israel decided to impose restrictions on economic activity and gatherings and also ban commercial activity. Accordingly, all Group's stores in Israel closed.

Following the above, the Company made several cost-saving moves, similar as in previous lockdowns, which included, among others, putting all Company's employees and managers on unpaid leave, with the exception of a limited number of employees and managers mostly at the Company's headquarters, which operated in a limited basis (in scale and salary) for the sake of business continuity. Further, the Company's management, including the Company's CEO and other officers, informed on temporary and partial waiver of salary during the period.

NOTE 1:- GENERAL (Cont.)

During the reporting period, the Company and subsidiaries have reached agreements with most of the lessors in Israel and abroad that no rent payments and management fees (part or full) will be due for the period in which operation of stores was banned (from December 27, 2020 to February 21, 2021 and abroad – in the relevant periods).

Accordingly, as a result of a rent concession received for the periods of six and three months amounting to NIS 11,064 thousand and NIS 2,907 thousand, respectively, the Company and subsidiaries recognized in the periods of six and three months ended June 30, 2021 a decrease in depreciation expenses of approximately NIS 9,466 thousand and NIS 2,623 thousand, respectively, and a decrease in finance expenses of approximately NIS 1,598 thousand and NIS 284 thousand, respectively. Also, as a result of a rent concession received for the periods of six and three months ended June 30, 2021 amounting to NIS 12,440 thousand and NIS 10,813 thousand, respectively, the Company and subsidiaries recognized a decrease in depreciation expenses of approximately NIS 10,159 thousand and NIS 8,844 thousand, respectively, and a decrease in finance expenses of approximately NIS 2,281 thousand and NIS 1,969 thousand, respectively.

On February 21, 2020, trade restrictions were lifted and all Company's stores in malls in Israel reopened, subject to compliance with the guidelines and restrictions imposed to ensure public health, among others, in relation to the number of staff and customers and the Group's employees and managers returned to work on a regular basis. In March and April 2021, mainly due to the extensive national vaccination campaign, the market began gradually reopening and almost returned to normal activity.

The impact of Covid-19 on the Group's stores abroad:

Similar to what was happening in Israel, many countries around the world have responded in the same way as Israel and imposed various restrictions on trade following the spread of Covid-19:

Europe:

The Group's stores in Belgium moved on March 27, 2021 to operate in the format of shopping by appointment and on April 26, 2021 stores reopened fully.

The Group's stores in the Netherlands closed on December 15, 2020 and reopened on March 3, 2021 with restrictions of shopping by appointment and limited number of customers allowed inside at any time. On April 28, 2021, The Group's stores in the Netherlands reopened fully.

The Group's store in Germany closed on December 16, 2020 and reopened on March 8, 2021 with restrictions of shopping by appointment and limited number of customers. Despite the above and pursuant to the decision of the local authority, the Group's store in Germany closed again on March 20, 2021 and reopened on May 22, 2021 with restrictions of limited number of customers allowed inside at any time (until mid-July).

The Group's stores in Poland closed from December 25, 2020 until February 1, 2021 and closed again from March 14, 2021 until March 22, 2021 and reopened on May 4, 2021.

NOTE 1:- GENERAL (Cont.)

The Group's stores in Hungary closed on March 8, 2021 and reopened on April 7, 2021.

Canada:

Some of the Group's stores in Canada closed on November 23 2020 and other stores closed during December and entirely closed on December 26, 2020. The Group's stores in Canada reopened gradually from February 16, 2021 until the reopening of all of the Group's stores in Canada on March 8, 2021. The Group's stores in Canada closed again on April 8, 2021 and reopened on June 30, 2021.

The subsidiaries in Canada and Europe reached various agreements with lessors regarding discounts on rent payments for the period in which operation of stores was banned and some also for the period after the stores reopened. According to the agreements, discounts on rent payments and management fees are for several months.

Government support:

Subsidiaries in Europe and Canada are entitled to receive support grants from the relevant countries for employees' salary expenses, loss of income and one-time expenses. In the periods of six and three months ended June 30, 2021, the subsidiaries recognized such grants against a deduction in selling and marketing expenses of approximately NIS 11,378 thousand and NIS 5,826 thousand, respectively.

On June 29, 2021, the Israeli Government approved property tax assistance also to large businesses with annual turnover of over NIS 400 million. Accordingly, in the second quarter of 2021, the Company recognized a deduction in selling and marketing expenses in the total of approximately NIS 1,200 thousand.

Liquidity and financial stability:

For a working capital loan, in 2020, the Company took an owner's loan from the parent company, Fox, in the total of NIS 40 million which has been repaid in full in March 2021.

The Company's management estimates that its balance of cash and cash equivalents, low leverage ratio and capital raised in May 2021 (issuance of its shares to the public and allocation to Foot Locker Inc., see also Note 3c and i), mitigate the exposure to financial instability caused by Covid-19.

In view of the recent significant increase in Covid-19 cases in Israel, the Israeli Government decided to tighten domestic restrictions, expand the "green pass" and start to apply the "purple pass" in malls and places of commerce on August 18, 2021.

As of the reporting date, all of the Company's stores in Israel and abroad are open in accordance with the relevant guidelines and regulations for containment of Covid-19.

NOTE 1:- GENERAL (Cont.)

The Covid-19 crisis is a dynamic event and the extent of its impact on the results of the Group's operation in 2021 and onwards depends, among other, on the extent and severity of the restrictions imposed or lifted and how long will it take to return to regular activity.

The Company tested the estimates it used in evaluating its assets and liabilities in the statement of financial position which include, among others, trade receivables, inventories, property, plant and equipment and intangible assets and it is of the opinion that the values of the Company's assets and liabilities do not require adjustments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim financial statements:

The interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as below:

Amendment to IFRS 16, "Practical Expedient in Accounting for Any Change in Lease Payments Resulting from the Covid-19 Crisis":

In view of the Covid-19 crisis, in May 2020, the IASB issued an amendment to IFRS 16, "Leases" ("the 2020 Amendment"). The objective of the 2020 Amendment is to allow lessees to apply a practical expedient according to which changes in lease payments as a consequence of Covid-19 will not be accounted for as lease modifications but as variable lease payments. The 2020 Amendment can only be applied by lessees.

The 2020 Amendment applied retrospectively to annual periods beginning on June 1, 2020. Earlier application is permitted. The 2020 Amendment only applied to reduction in lease payments that affects payments originally due up to June 30, 2021. However, the pandemic have persisted longer than anticipated, so the IASB extended the 2020 Amendment permitting to apply it to reduction in lease payments that affects payments due up to June 30, 2022 ("the 2021 Amendment "). The other criteria for application of the 2020 Amendment remain unchanged.

The 2021 Amendment which was issued in April 2021 applies for annual periods beginning on April 1, 2021. Earlier application is permitted. The Company elected to early adopt the 2021 Amendment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Disclosure of new standards in the period prior to their adoption:

Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively to annual periods beginning on January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment is to be applied to annual periods beginning on or after January 1, 2023. Earlier application is permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the initial application of the Amendment is not expected to have a material impact on its financial statements.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. In furtherance to Note 17b(6) to the annual financial statements as of December 31, 2020, regarding agreements with Leumi Partners, on February 16, 2021, an amendment to the agreements was signed according to which instead of the option granted to Leumi Partners under the original agreement it was agreed that if the IPO of the Company's shares is completed by August 31, 2021 and if the price per any Ordinary share of the Company, as determined in the first offering, reflects an effective value before the IPO of not less than NIS 1.35 billion (subject to adjustments stipulated in the amendment to the agreements), the Company will allocate to Leumi Partners, shortly before the first offering, shares representing about 9.9% of the Company's share capital (when signing the amendment to the agreement and when exercising the option) for a consideration that reflects Company value of NIS 900 million (before the money) or, at the Company's sole discretion, for a smaller number of shares in a net exercise. In accordance with the terms of the amendment to the agreements, subject to prior notice to the Company, Leumi Partners is entitled to sell the shares allocated to it when exercising the option, provided that Leumi Partners notifies the Company of its intention to do so in the tender offer up to the date set in the amendment to the agreements. On May 13, 2021, with the publication of the IPO prospectus, the tender offer prospectus and the shelf prospectus for the Company for 2021 and the publication of the results of the public offering, the Company completed to allocate shares to Leumi Partners by net exercise and Leumi Partners sold those shares in the tender offer (see also Note 3i).

In addition and in accordance with the amendment to the agreements, the shareholders' agreement was automatically cancelled from the offering completion date and the tender offer, except for one clause in the shareholders' agreement which, as per the amendment, confers Leumi Partners a one-time tag along right to Fox transaction to sell Company's shares in an off-market transaction or a similar transaction for the sale of Company's shares as a result of which Fox no longer holds more than 45% of the Company's issued and outstanding share capital, at the same price and on equal terms as Fox, provided that, after the sale by Leumi Partners has completed, the then holding of Leumi Partners in the Company's shares will not fall below the minimum requirement under the agreement (in which case the tag along right expires).

As a result of the change in the terms of the option, in the first quarter of 2021, the Company updated the fair value of the option to approximately NIS 94,923 thousand. The fair value of the option was updated based on Company value before the offering (before the money).

Accordingly, in the first quarter of 2021, the Company recognized finance expenses on option revaluation of approximately NIS 18,308 thousand.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

b. In furtherance to Note 26d(2) to the annual financial statements as of December 31, 2020, the employment terms of Mr. Tomer Czapnik, CEO Retailors Nike Stores International, were updated on March 24, 2021 (and approved by the general meeting of the parent company, Fox, on April 29, 2021) for three years from June 1, 2023 to the end of 2025 and comprise, among others, the following conditions: (1) monthly salary as follows: from June 1, 2023 – NIS 60,000 and from June 1, 2024 to the end of the contractual term - NIS 65,000; (2) an annual bonus of 13 (gross) salaries for each of the years 2023-2025 and the Remuneration Committee and Company's Board will have the authority to reduce the bonus due to reasons to be provided in the Company's annual financial statements in the year in which it is decided to reduce the bonus taking into account, among others, meeting parameters to be determined at the beginning of each year (including measurable targets); (3) a company car with value of up to NIS 200,000 including car expenses. The Company will gross up the respective costs; (4) pension, managers' insurance (including loss of earning capacity), advance study fund, paid leave of up to 20 days annually, cellular phone and other social benefits under the law. Each of the Company and Mr. Czapnik will be entitled to terminate the employment agreement with a 60-day advance written notice; (5) reimburse a lump sum used to cover the cost of relocating the expat and his family to Europe in connection with the performance of his duties of up to € 12,500, including entitlement to trips back home for the expat and his family up to twice a year, educational frameworks (kindergartens) for his children based on actual costs and up to € 2,700 per month (net) and participation in rent of standard residential apartments of up to € 4,000 per month.

In addition, the employment terms of Mr. Czapnik comprise allocation of restricted stock units ("RSUs") of the Company with total value of NIS 1.5 million, subject to the completion of the offering. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the Securities Regulations (Private Placement of a Listed Company), 2000 regarding allocation of RSUs to Mr. Czapnik. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs.

It is clarified that RSUs will be exercised by issuing Ordinary shares of the Company. The underlying shares in the above plan will be allocated against the payment fixed in the articles and guidelines of the Tel-Aviv Stock Exchange Ltd. upon the allocation as the minimum price per share payable by Mr. Czapnik on the date of exercise. It is also clarified that the RSUs vest on June 30, 2025. At the end of the vesting period of all RSUs, the RSUs will be automatically exercised into the Company's shares and transferred to Mr. Czapnik without any notification by Mr. Czapnik (but subject to making the payment, as above).

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

c. On April 13, 2021, shortly before the completion of the public offering, the parent company, Fox, the Company and Foot Locker Inc. entered into an agreement regarding the allocation of the Company's shares to constitute 10% of the Company's issued and outstanding share capital after the completion of the public offering ("the allocated shares") at a price per share equal to 87.5% of the price per share in the public offering. According to the agreement, among others, Fox undertook (as a mere commitment on its part, to which the Company is not a party) to vote for the election of the candidate of Foot Locker Inc. as a director or to allow Foot Locker Inc. to appoint an observer on the Company's Board (at Foot Locker Inc. choice) if, among others, Foot Locker Inc. meets the minimum holding rate in the allocated shares and holds a predetermined minimum rate in the Company's issued and outstanding capital and other conditions as agreed between the parties. On May 13, 2021, with the publication of the IPO prospectus, the tender offer prospectus and the shelf prospectus for the Company and the publication of the results of the public offering, the Company completed to allocate shares to Foot Locker Inc. in consideration of approximately NIS 221.8 million.

d. On May 12, 2021, an agreement was signed between the Company and Terminal X Online Ltd. ("Terminal X"), which is controlled by the parent company, Fox, which is the controlling shareholder in the Company ,where it was agreed that Foot Locker and Dream Sport websites will be operated for the Company through Terminal X. The Company will set up the websites and own them, including the IP. Terminal X will pay the Company monthly usage fee for each website it operates in the amount of NIS 10,000 (up to a maximum cumulative amount of NIS 350,000 per website).

According to the provisions of the agreement, the Company will determine the brands and products that will be sold on the website and will place the orders for the websites after consulting with Terminal X.

The Company will sell the products to Terminal X at cost based on orders at the beginning of each season in consideration of a commission out of total retail sales made online. Orders of additional inventory from the Company beyond the orders at the beginning of the season will be sold to Terminal X at cost + 10%. Terminal X will record online sales in its books and account for all costs related to the operation of the websites, including expenses related to royalties payable to Foot Locker international group on online sales from Foot Locker website similarly to the rate of royalties payable by the Company to Foot Locker under Foot Locker Israel franchise agreement.

In consideration, in 2021, Terminal X will pay the Company monthly royalties amounting to 4% of net sales from Foot Locker website and Dream Sport website which will increase by 0.5% on January 1 of each of the years 2022 and 2023. In 2024, 2025 and 2026 royalties will amount 5%, 5.5%, 6%, respectively.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

After a period of about three years of the launch of Dream Sport website, the Company will be authorized to operate the Dream Sport website by itself. The Company may terminate at any time the Foot Locker website contract (before three years of the launch of Foot Locker website) if Foot Locker demands that the website be operated by the Company itself. After a period of about three years of the launch of Foot Locker website, the Company will be authorized to operate the website by itself.

In addition, the agreement stipulates a mechanism for paying royalties on sale of sports brands in Terminal X. In 2021, Terminal X will pay the Company monthly royalties amounting to 4% of net sales of all sports brands by Terminal X other than online sales by Foot Locker and/or Dream Sport, whether or not purchased from the Company ("Terminal X royalties from sports") from the earlier of setting up the first website (either Foot Locker or Dream Sport) and October 1, 2021, which will increase by 0.5% on January 1 of each of the years 2022 and 2023. In 2024, 2025 and 2026 royalties will amount 5%, 5.5%, 6%, respectively. No royalties are payable on sports brands that are not part of the Company's brands but sold by it as well as sports brands sold by the Company in small quantities.

Terminal X will be entitled to discontinue the operation of the Foot Locker and Dream Sport websites by providing the Company an advance written notice of at least six months instead of the payment of Terminal X royalties from sports (as defined above). Terminal X will pay the Company royalties amounting to 2% of net sales by Terminal X of the Nike brand.

The agreement becomes binding once the offering is complete and will be in effect for a period of five (5) years from the offering completion date ("the initial term"). The agreement shall be renewed upon the expiration of the initial term, subject to the receipt of the necessary corporate approvals from the Company under the applicable law.

After the completion of the offering, Foot Locker addressed the Company regarding the mechanism for recording online sales from Terminal X and royalties. The Company and Foot Locker hold discussions on this issue. Unless otherwise agreed by the parties, online sales from Foot Locker site will be recognized by the Company rather than by Terminal X. The expected website launch date (whether operated by Terminal X or by the Company itself) is during the second half of 2021.

e. Service and burden agreement between the Company and the parent company, Fox - on May 12, 2021, the Company entered into an agreement with Fox for a period of five years from the offering completion date regarding the provision of various operating services and other services to the Company which are needed to carry out its activities ("the service agreement" and "the parties", respectively). The service agreement was signed so the Company may benefit from the advantages related to the size and enjoy the synergistic values derived from receiving services from Fox.

The service agreement regulates the various services that Fox renders the Company and the way such costs are borne by the Company.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

The burden cost is regulated in the agreement by establishing fixed mechanisms (determined in negotiations between Fox and the Company (in which Fox does not hold total share capital)) based on standard burden methods in similar agreements (as detailed below) which rely on: (a) fixed amounts determined in the agreement which reflect the relative share of services provided to each party by the staff in the department (in relation to manpower services) so the outcome to the Company is costs in either less than or equal to the amount of the relative share of the services provided; (b) the agreement establishes fixed burden keys for each type of service based on the following: rate of employees and rate of space.

The service agreement contains a mechanism allowing Fox to stop providing services to the Company, subject to prior notice to the Company, and a mechanism stating that the Company, with the approval of its Audit Committee, may notify Fox that it wishes to stop receiving services from it. According to the service agreement, Fox will stop providing services at the end of the calendar quarter in which the notice was given. The service agreement also contains a mechanism whereby the parties may agree from time to time that Fox will provide additional services to the Company which are needed to carry out its activities, subject to the receipt of the approval from the Company's Audit Committee under the applicable law. The parties agreed that Fox will provide the Company with additional services and the pricing of these services will be determined based on the burden keys outlined in the agreement on condition that in no event will either party be authorized to agree to add these services if the respective total annual payment expected therefrom exceeds NIS 1 million (on a cumulative basis). The Company will disclose in its annual financial statements details pertaining to any additional service with the burden key used to determine its estimated annual cost. For the avoidance of doubt and without derogating from the stated in this paragraph, any modification to the service and burden agreement is subject to the receipt of all necessary approvals under the applicable law.

Management and consulting services by Fox - a management and consulting service agreement between Fox and the Company which became binding on the offering completion date ("the management agreement") regulates the terms agreed between the parties and its key elements are as follows:

- The services - Fox will provide the Company with management services that include: directorship services (excluding services of acting chairman of the Board); financial consulting for the Company's activity, including relationships with private investors and banks; consulting in connection with franchise agreements and services, suppliers relationship, capital market activity; business development and examination of transactions; financial consulting; strategy consulting; identification of opportunities and connections in Israel and abroad and real estate consulting, including examining and locating sites and negotiating with landlords.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

- The consideration - the Company will pay Fox management fees of NIS 225 thousand per each calendar quarter, plus VAT as required by law. The management fee will be updated once a year in such a way that for any increase of NIS 250 million in the Company's turnover, based on the Company's audited annual consolidated financial statements for the previous year, there will be an increase of NIS 50 thousand in the quarterly fees plus VAT as required by law, provided that there is no case that: (a) management fee will increase, as aforesaid, if the Company's turnover is less than NIS 1 billion, and (b) the management fee will not exceed NIS 400 thousand.

- Reimbursement of expenses – besides management fee, Fox will be entitled to reimbursement of reasonable expenses actually incurred by it in rendering management services, including payment to external consultants, accommodation, travel, flights and expenses related to rendering management services, according to the Company's procedures and against the presentation of a tax invoice, as long as these expenses are not paid directly by Fox ("reimbursement of expenses"). The expenses will be reimbursed at the same time as the management fee is paid in respect of the calendar quarter preceding the payment date. Reimbursement is not subject to a ceiling. The Company's CFO approves the expenses and sends once a year a report to the Audit Committee which will discuss the reasonableness of the above expenses and will be entitled to set a limit and reduce them from the decision date onwards.

- The term of the agreement and its termination - the management agreement becomes binding once the offering is complete and will be in effect for a period of five years from the offering completion date. The agreement shall be renewed upon the expiration of the initial term, subject to the receipt of the necessary corporate approvals from the Company under the applicable law.

See additional information in Note 28e to the Company's annual financial statements.

f. Customers' club service agreement - on May 12, 2021, the Company entered into an agreement with the parent company, Fox, regarding the provision of marketing and customers' club services for Dream Card ("the club") in connection with Dream Sport and Foot Locker chains in Israel which are managed and operated by the Company and are part of the club's brands (for this purpose, "the parties" and "the Dream Card agreement", respectively). The Dream Card agreement was signed so that the Company could continue to include the above chains in the Fox Group customers' club and benefit from the advantages related to the size of Fox Group, as it did before the date of this agreement.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

The Dream Card agreement regulates the various services that Fox renders the Company by the customers' club department, which include marketing and customers' club services for Dream Card, including customers' club management, ongoing services to club members, database maintenance, data processing and analysis, production of reports, emailing and etc., in a way that is similar and consistent with other business units in Fox Group. In addition, the agreement regulates the undertaking of Fox and the Company in relation to the redemption and accumulation of reward points by club members in chains in Israel which are managed and operated by the Company as well as in relation to accumulation in the framework of the club's credit card. For the avoidance of doubt, the IP of the customers' club will remain with Fox. See additional information in Note 28f to the Company's annual financial statements.

g. In accordance with the approval of the Company's Board, the employment terms of Mr. Danny Gaoni, Operations Manager of Nike Israel, Foot Locker Israel and Dream Sport Israel, comprise allocation of restricted stock units ("RSUs") with total value of NIS 1.5 million. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the Securities Regulations (Private Placement of a Listed Company), 2000 regarding allocation of such RSUs. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs.

In addition and in accordance with the approval of the Company's Board and general meeting, the employment terms of Mr. Dov Schneidman, the Company's CEO, comprise allocation of RSUs with total value of NIS 0.6 million. The number of RSUs to be allocated will be determined based on the average price of the Company's share in the first 30 trading days after the completion of the offering and based on the entire value of RSUs as derived from generally accepted accounting principles. After the completion of the offering, the Company will publish a private offering report in accordance with the regulations pertaining to a private placement regarding allocation of such RSUs. It is clarified that no further approval by the Company's authorized organs is required for the allocation of RSUs according to the provisions of chapter five to the sixth part of the Companies Law in the issue of approval of transactions with interested parties, but the Company's Board has to approve a plan for the allocation of RSUs which will provide for actual allocation of RSUs.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

h. On May 12, 2021, the parent company, Fox, and the Company entered into a demarcation agreement which became binding on the offering completion date, regulating the circumstances in which Fox Group and officers serving both the Company and other Fox Group companies require to bring to the Company's knowledge and evaluation any business opportunity presented to them. The agreement refers to a business opportunity in territories in which the Company and companies held by it operate at any relevant date and which concern the acquisition and/or receipt of right to set up and operate a chain of physical stores specializing in sports footwear and apparel of international brands. The agreement will not apply in one or more of the following cases:

(a) The sports footwear component in the relevant activity will be lower than the sports footwear component in any of the Company's major activities (as of the reporting date - less than 40% of the scope of the relevant activity);

(b) The Company's ability to exploit the business opportunity is limited under existing agreements, as they will be from time to time, including due to a non-competition clause in the Company's agreements.

(c) In addition, the one who presents the business opportunity will not be required to give any business opportunity to the Company if the partner or the relevant brand owner of the business activity has notified in writing that it wishes that the relevant activity be done directly by Fox and not by the Company and/or in case where an existing brand owner with whom Fox Group has an agreement expands the brands it offers and products it markets.

Pursuant to the agreement, insofar as the relevant organs in the Company decide that the Company has no interest in the business opportunity, Fox or any member company in the group may enter into a transaction relating to the business opportunity and this shall not constitute exploitation of the Company's business opportunity, provided that the conditions set in the agreement are met.

The Company may cancel the demarcation agreement if so decided by the Company's Audit Committee with a 120-day advance notice. As to Fox, the demarcation agreement shall cease to apply when officers who serve as officers in Fox or in a company controlled by Fox no longer serve the Company ("dual office-holding "). In addition, any dual officer will be entitled to inform that the demarcation agreement does not apply to the officer, if Fox gives a 180-day advance notice to the Company without derogating from the responsibilities or liabilities of Fox or the dual officer under the law.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

According to the demarcation agreement, any officer in Fox or in any member company in the group may be appointed as an officer in the Company if the officer signs on a conflict of interest agreement within its framework:

(a) The officer will undertake not to be involved in making decision in any meeting of the Board or the Company's committees whose agenda includes agreements between the Company and Fox or any other members of Fox Group.

(b) The officer will undertake not to be involved in the capacity of an officer in Fox or in any member company in the group in making decision regarding the purchase or sale of any top brands marketed by the Company or its subsidiaries on the Terminal X website.

i. Listing the Company's shares on the stock exchange - on May 13, 2021, the Company published an IPO prospectus, tender offer prospectus and a shelf prospectus and the results of the public offering. On May 13, 2021, the Company's shares were first offered to the public through the issuance of 9,090,554 registered Ordinary shares of the Company without a par value and through a tender offer of Leumi Partners of 1,808,076 registered Ordinary shares of the Company without a par value which were allocated to Leumi Partners Ltd. shortly before the completion of the public offering (see also Note 3a). Since May 19, 2021, the Company's shares are traded on the Tel-Aviv Stock Exchange Ltd.

Upon completion of the IPO, Fox holds 55.74% of the Company's share capital and voting rights. In addition, upon completion of the IPO and the completion of the tender offer by Leumi Partners, Leumi Partners holds about 6.81% of the Company's issued and outstanding capital.

The total proceeds for the Company from the IPO net, after deducting issue expenses, was approximately NIS 448.6 million. The payment to the Company under the allocation agreement with Foot Locker Inc. (see Note 3c) was approximately NIS 221.8 million.

Issue expenses amounted to approximately NIS 32.4 million, of which an amount of approximately NIS 29.5 million was capitalized to equity in accordance with generally accepted accounting principles and the balance of NIS 2.9 million was recognized in the statement of profit or loss for the first half of 2021 in the item general and administrative expenses (an expense of approximately NIS 1.3 million was recognized in the second quarter).

j. On June 2, 2021, agreements were signed between several foreign companies controlled by unaffiliated third parties and the subsidiary, Retailors-FL NK Ventures B.V., and its wholly owned companies for the acquisition of the activity of five Nike stores - two stores in Hungary, two in the Czech Republic and one in Slovakia in consideration of the total amount of approximately € 1 million, plus cost of inventory in stores of approximately € 527 thousand. The transaction was completed on July 15, 2021.

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

k. On June 7, 2021, the Company made an early repayment of a loan of NIS 4.1 million to a large Israeli bank. In addition, on June 9, 2021, the Company made an early repayment of an additional loan of NIS 2.3 million to a large Israeli bank.

NOTE 4:- OPERATING SEGMENTS

a. General:

The operating segments are identified based on information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the businesses of the Group as follows:

Nike activity	-	This activity comprises the sale of sports products in Nike stores in Israel, Europe and Canada.
Foot Locker activity	-	This activity comprises the sale of products in Foot Locker stores in Israel and Europe.
Other	-	The activity of Dream Sport.

To present segment reporting results based on the areas of operation of the Company and the information that is reviewed by the chief operating decision maker (the CODM), the data for sales and segment income of companies that are reported using the equity method are presented at full holding rate (100%) and a corresponding adjustment of sales and segment income was made to present the segment's results based on the actual holding rate under the 'adjustments' column.

NOTE 4:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Nike	Foot Locker	Other	Adjustments	Total
	NIS in thousands				
Six months ended June 30, 2021 (unaudited):					
Revenues from external entities	184,730	202,631	35,688	(9,090)	413,959
Total revenues	184,730	202,631	35,688	(9,090)	413,959
Segment income (loss)	22,937	14,278	(2,212)	2,218	37,221
Finance expenses on revaluation of Leumi Partners option, net (see Note 3a)					18,308
Finance expenses, net					11,085
Income before taxes on income					7,828
Six months ended June 30, 2020 (unaudited):					
Revenues from external entities	124,595	129,094	1,267	-	254,956
Total revenues	124,595	129,094	1,267	-	254,956
Segment income	13,632	11,677	(315)	-	24,994
Finance expenses, net					5,887
Income before taxes on income					19,107

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Nike	Foot Locker	Other	Adjustments	Total
	NIS in thousands				
Three months ended June 30, 2021 (unaudited):					
Revenues from external entities	106,873	118,173	21,778	(5,968)	240,856
Total revenues	106,873	118,173	21,778	(5,968)	240,856
Segment income (loss)	13,833	10,895	(448)	720	25,000
Finance expenses, net					7,537
Income before taxes on income					17,463
Three months ended June 30, 2020 (unaudited):					
Revenues from external entities	59,507	64,126	1,267	-	124,900
Total revenues	59,507	64,126	1,267	-	124,900
Segment income (loss)	9,384	8,587	(315)	-	17,656
Finance expenses, net					2,401
Income before taxes on income					15,255

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Nike	Foot Locker	Other	Adjustments	Total
	NIS in thousands				
Year ended December 31, 2020 (audited):					
Revenues from external entities	336,206	285,789	19,969	(4,305)	637,659
Total revenues	336,206	285,789	19,969	(4,305)	637,659
Segment income (loss)	48,243	25,663	(196)	1,203	74,913
Finance expenses on revaluation of Leumi Partners option, net (see Note 3a)					76,615
Finance expenses, net					13,205
Loss before taxes on income					(14,907)

Breakdown of the Company's revenues by geographical market is as follows:

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2021	2020	2021	2020	2020
	Unaudited				Audited
	NIS in thousands				
Revenues from sales in Israel	353,525	220,522	204,121	110,594	507,959
Revenues from sales in Canada	18,087	22,129	5,458	3,949	78,525
Revenues from sales in Europe	51,437	12,305	37,245	10,357	55,480
Adjustments	(9,090)	-	(5,968)	-	(4,305)
	413,959	254,956	240,856	124,900	637,659

NOTE 5:- FINANCIAL INSTRUMENTS

a. Financial instruments measured for disclosure purposes only:

The carrying amount of certain financial assets and financial liabilities, including cash and cash equivalents, restricted deposits, trade receivables, other accounts receivable, loan granted, short-term loans and credit, trade payables, other accounts payable and long-term liabilities approximates their fair value.

b. Classification of financial instruments within the fair value hierarchy:

Financial liabilities measured at fair value:

	June 30, 2021 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands			
Liability option measured at fair value	-	-	-	-

	June 30, 2020 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands			
Liability option measured at fair value	-	-	-	-

	December 31, 2020 (audited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands			
Liability option measured at fair value	-	-	76,615	76,615

c. Reconciliation of fair value measurements that are categorized within Level 3 of the fair value hierarchy:

	Financial instruments	
	2020	**2019**
	NIS in thousands	
Balance as of January 1, (audited)	(76,615)	-
Total income (loss) recognized in:		
Profit or loss	(18,308)	-
Sales	94,923	-
Balance as of June 30, (unaudited)	-	-

NOTE 6:- SEASONALITY

The Company's revenues are affected by seasonality, which is usually reflected in higher sales during Passover, the Jewish New Year holidays and the fourth quarter of the year primarily because of increased sales in Europe and Canada before Christmas. There is also an increase in Company's revenues in the back-to-school season. The operating results should be viewed while taking into consideration this seasonality.

NOTE 7:- EVENTS AFTER THE REPORTING DATE

a. In furtherance to Note 17a(2) to the consolidated financial statements as of December 31, 2020, regarding a request to approve a claim as a class action against the Company and against the parent company, Fox, and other companies held by Fox, ("the respondents") which was filed on June 23, 2020 with the Lod District Court, in which the plaintiff argues that the respondents violate the Consumer Protection (Cancellation of a Transaction) Regulations, 2010 and do not allow consumers to cancel a transaction if they do not show the original receipt, including a gift receipt, and the respondents only offer the consumer to receive credit or purchase a substitute product in the store. In addition, it is argued that the respondents incorrectly mark on some of the gift receipt a code intended for the Group's employees which means that the goods were purchased with vouchers/gift cards and, in this way, the law does not apply to the buyers. Moreover, it is argued that contrary to the law, the respondents state that if products are purchased at an outlet store, no refund will be given. Another argument against the respondents is that they give their customers vouchers or gift cards in a way that is not a waiver of what is written down. A pretrial hearing was set for July 5, 2021. At the end of the hearing, the parties were advised to refer to mediation. The parties agreed to mediate. The Court ruled that the parties are required to file an update of the mediation process by November 30, 2021.

   The overall amount of the claim, as a class action, is estimated at NIS 150 million. In the opinion of the respondents' legal advisors based, among others, on information presented to them by the respondents, the chances that the request to approve will end in a settlement or a withdrawal without being accepted as a class action in amounts that are immaterial for the Company and the other companies are higher than 50%.

b. On August 4, 2021, the Company made an early repayment of two loans in the total of approximately NIS 10.1 million to a large Israeli bank. In addition, on August 5, 2021, the Company made an early repayment of additional three loans in the total of approximately NIS 25.0 million to a large Israeli bank.

c. The Company's general meeting, which was held on August 16, 2021, approved the appointment of Messer. John Maurer, Noa Landau and Keren Kurtz Zilber as directors of the Company and the appointment of Mr. Israel Yaakobi as an independent director of the Company. Also the appointment of Messer. Orit Alster and Dalia Tal as external directors of the Company was approved for an initial term of office of three years.

NOTE 7:- EVENTS AFTER THE REPORTING DATE (Cont.)

d. On August 18, 2021, the Company signed a memorandum of understanding (non-binding) with Energym Ltd. ("Energym "), the shareholders in Energym, Messer. Perry Arnon and Farhiya Moshe, each holds 50% of the share capital of Energym ("the sellers") and Energym Concept Ltd. ("Energym Concept"), which is 80% held by the sellers, in connection with a transaction whose key elements are as follows:

Subject to signing binding agreement, if and to the extent of completing the transaction, the Company will purchase shares in Energym for the total consideration of approximately NIS 32.75 million, subject to the terms set, of which approximately NIS 14.25 million by allocation of Energym shares to the Company and the balance, approximately NIS 18.5 million, by buying shares from the sellers (in equal parts), such that upon completion of the transaction, the Company will hold about 50.98% and each of the sellers will hold about 24.51%, of the share capital and voting rights in Energym. It is clarified that the above payment is also for the purchase of about 51% of Energym Concept shares by the Company.

Based on the information provided to the Company, Energym was established in 1987 and operates in the field of importing and marketing sports and fitness equipment for home use and professional gyms. Energym markets its products to sports stores, gyms, institutional bodies and the private consumer and is the exclusive importer of several top brands in the sports and fitness world: Kettler, Life Fitness, Inspire, Escape, Horizon, Hammer Strength, Marcy and more. Energym is also the owner of a private label, "VO2".

Energym operates a large sales hall in Herzliya and Energym Concept operates a store in Netanya. In addition, at the end of 2019, a new retail website was launched (www.energym.co.il) that comprises the entire range of products and since then shows growth in operation.

The Company considers the transaction (if closed) as a strategic and significant step in expanding the Company's brand mix and entering new and complementary areas in the sports world for its continued growth and development in both the domestic and international markets. The Company plans (subject to the completion of the transaction) to open several stores in an innovative concept.

In accordance with the provisions of the memorandum of understanding, the sellers were granted an option to sell their shares to the Company at a value to be determined by a multiplier on the average annual net income in the two calendar years before the exercise. The option may be exercised from October 1, 2024 over one year. In addition, the Company was granted an option to buy the sellers' shares at a value to be determined by a multiplier on the average annual net income in the two calendar years before the exercise, after the sellers' option expires over one year. The terms of the options and the manner of their exercise will be in accordance with the terms to be agreed between the parties and included in a binding agreement.

NOTE 7:- EVENTS AFTER THE REPORTING DATE (Cont.)

In addition, according to the principles agreed between the parties, the Company will be entitled to appoint the majority of the Board's members, including the chairman of the Board, and decisions of the Board and the general meeting will be accepted by ordinary majority, excluding regarding a limited list of extraordinary decisions that require the consent of at least one seller. Accordingly, the Company will have control over Energym and Energym Concept and will consolidate their financial statements. The memorandum of understanding also stipulates standard provisions regarding dividend distribution policy and restrictions on the transfer of shares.

This memorandum of understanding shall be valid for an indefinite period, except for confidentiality and obligation to negotiate exclusively until October 10, 2021. The parties will sign binding agreement subject to completion of a due diligence by the Company to its satisfaction, formation of the parties' understandings into a binding agreement and receipt of the required approvals of the relevant organs of the parties. The completion of the transaction is subject to suspending conditions to be included in the binding agreement, such as the receipt of third party approvals (including the approval of the Commissioner for Competition), if and to the extent required.

e. On August 23, 2021, the Company announced (subject to the Board's approval) the appointment of Mr. Uziel Shmueli as the Company's internal auditor beginning August 23, 2021.

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