

G WILLI FOOD INTERNATIONAL LTD  
Form 20-F  
June 29, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_

COMMISSION FILE NO. 000-29256

G. WILLI-FOOD INTERNATIONAL LTD.  
(Exact name of Registrant as specified in its charter  
and translation of Registrant's name into English)

ISRAEL  
(Jurisdiction of incorporation or organization)

4 NAHAL HARIF ST., NORTHERN INDUSTRIAL ZONE, YAVNE, 81106, ISRAEL  
(Address of principal executive offices)

Ety Sabach  
Chief Financial Officer  
4 Nahal Harif St. Norther Industrial Zone,  
Yavne 81106, Israel  
Tel: 972-8-932-1000

-----  
(Name, Telephone, E-mail and/or Facsimile number and Address of  
Registrant's Contact Person)

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

Title of class -----	Name of each exchange on which registered -----
-------------------------	--

ORDINARY SHARES, NIS 0.10 PAR  
VALUE PER SHARE

NASDAQ CAPITAL MARKET

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

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NONE

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

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

The registrant had 10,267,893 outstanding ordinary shares, NIS 0.10 nominal value per share as of December 31, 2008.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

Yes  No

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financing Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant

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is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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### PRESENTATION OF INFORMATION

In this Annual Report, references to the "Company", "we" and "us" refer to G. Willi-Food International Ltd. and its consolidated subsidiaries.

The Company presents its consolidated financial statements in New Israeli Shekels, the currency of the State of Israel. Unless otherwise specified or the context otherwise requires, references to "\$", "US\$", "Dollars", "USD" and "U.S. Dollars" are to the United States Dollars and references to "NIS" are to New Israeli Shekels.

Solely for the convenience of the reader, this Annual Report contains translations of certain NIS amounts into U.S. Dollars at specified rates. These translations should not be construed as representations that the translated amounts actually represent such dollar or NIS amounts, as the case may be, or could be converted into U.S. Dollars or NIS as the case may be, at the rates indicated or at any other rate. Therefore, unless otherwise stated, the translations of NIS into U.S. Dollars have been made at the rate of NIS 3.802 = \$ 1.00, the representative exchange rate on December 31, 2008.

### PRESENTATION OF FINANCIAL AND SHARE INFORMATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements that were prepared in accordance with IFRS as issued by the IASB and IFRS 1-"First Time Adoption of International Financial Reporting Standards". Until and including our financial statements for the year ended December 31, 2007, we prepared our consolidated financial statements in accordance with Israeli GAAP. The influence of the transition to IFRS (from financial statements prepared in accordance with Israeli GAAP) on the Company's financial statements for the year ended December 31, 2007 and its

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results of operations for that year, is detailed in note 30 to our consolidated annual financial statements included elsewhere in this annual report. Following the Company's adoption of IFRS, as issued by the IASB, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.

### CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Annual Report that are not historical facts, including, without limitation, certain statements made in the sections hereof entitled "Information on the Company," "Dividends," "Operating and Financial Review and Prospects," and "Quantitative and Qualitative Disclosures about Market Risk" are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation:

- o changes affecting currency exchange rates, including the NIS/U.S. Dollar exchange rate,
- o payment default by any of our major clients,
- o loss of one or more of our principal clients,
- o the loss of one or more of our key personnel,
- o changes in laws and regulations, including those relating to the food distribution industry, and inability to meet and maintain regulatory qualifications and approvals for our products,
- o termination of arrangements with our suppliers, in particular Arla Foods amba,
- o increasing levels of competition in Israel and other markets in which we do business,
- o changes in political, economic and military conditions in Israel, including, in particular, economic conditions in the Company's core markets,

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- o increase or decrease in global purchase prices of food products,
- o our inability to accurately predict consumption of our products,
- o we may not successfully integrate our prior acquisitions,
- o interruption to our storage facilities,
- o product liability claims,
- o variations from quarter to quarter,
- o our inability to protect our intellectual property rights,
- o Initiation and Enforcement of Legal Action in Israel,

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- o our inability to continue to meet the NASDAQ listing requirements,
- o One shareholder owns a large percentage of our shares,
- o We are controlled by and have business relations with Willi-Food and its management,
- o Our international operations may be adversely affected by risks associated with international business, and
- o The price of our ordinary shares may be volatile.

The Company is under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. See Item 3: "Key Information-Risk Factors" and Item 5: "Operating and Financial Review and Prospects - Results of Operations".

### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### A. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read together with Item 5: "Operating and Financial Review and Prospects" and our audited consolidated financial statements and related notes included elsewhere in this Annual Report. The selected consolidated balance sheet data as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements included elsewhere in this Form 20-F, which have been prepared in accordance with IFRS and interpretations as issued by the IASB, and such accounting policies have been applied retrospectively to the Company's financial statements as of December 31, 2007 and for the year then ended.

The selected consolidated balance sheet data as of December 31, 2008 and 2007 and the selected consolidated statements of operations data for each of the two years in the period ended December 31, 2008 and 2007 have been audited by Brightman Almagor Zohar & Co., an independent registered public accounting firm, and a Member Firm of Deloitte Touche Tohmatsu. Their report appears in Item 18 in this Form 20-F. The selected consolidated balance sheet data as of December 31, 2006, 2005, and 2004 and the selected consolidated statements of operations data for the years ended December 31, 2006, 2005 and 2004 have been derived from our audited consolidated financial statements which are not included in the Form 20-F. Historical financial results may not be indicative of our future performance and interim results may not be reflective of the results for the fiscal year.

The Company maintains its accounts and presents its financial statements in New Israeli Shekels. Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the

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Company's balance sheet were presented on the historical nominal amount and were adjusted to changes in the Israeli Consumer Price Index ("CPI"). As of December 31, 2003 when the economy ceased to be hyper-inflationary and the Company no longer adjusted its financial statements to the Israeli CPI, the adjusted amounts as of such date were used as the historical costs. The financial statements were prepared using the historical cost, except for:

- o Assets and liabilities measured by fair value: financial assets measured by fair value recorded directly as profit or loss.
- o Non-current assets are measured at the lower of their previous carrying amount and fair value less costs of sale.
- o Inventories are stated at the lower of cost and net realizable value.
- o Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.
- o Liabilities to employees as described in note 13 to our consolidated annual financial statements.

### RECENT EXCHANGE RATES OF NIS TO ONE U.S. DOLLAR

The table shows the high and low exchange rate of NIS per one U.S. Dollars for the last six months:

	HIGH -----	LOW -----
January 2009	4.065	3.783
February 2009	4.191	4.012
March 2009	4.245	4.024
April 2009	4.256	4.125
May 2009	4.169	3.958
June 2009 (through June 22, 2009)	4.005	3.887

The representative exchange rate for NIS on December 31, 2008 was NIS 3.802 = \$1.00, and the representative exchange rate for NIS on June 22, 2009 was NIS 3.955= \$1.00.

The average exchange rate of NIS 3.5878 = USD 1.00 was for the year ended December 31, 2008, NIS 4.108 for the year ended December 31, 2007, 4.457 for the year ended December 31, 2006, 4.489 for the year ended December 31, 2005 and 4.482 for the year ended December 31, 2004.

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### INCOME STATEMENT DATA: IN ACCORDANCE WITH ISRAELI GAAP

	2006		2005		NIS
	NIS -----	USD -----	NIS -----	USD -----	
Sales	191,460	50,358	166,282	43,735	170,982
Cost of sales	143,581	37,765	128,215	33,723	130,292
Gross profit	47,879	12,593	38,067	10,012	40,690

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Sales and Marketing	21,100	5,550	15,771	4,148	15,632
General and administrative	14,151	3,722	13,544	3,562	9,134
Total Operating expenses	35,251	9,272	29,315	7,710	24,766
Operating Income	12,628	3,321	8,752	2,302	15,924
Financial Income					
(Expenses), Net	4,925	1,295	2,501	658	1,121
Other Income, Net	18,248	4,800	35	9	34
Pre Tax Income	35,801	9,416	11,288	2,969	17,079
Income taxes	5,379	1,415	3,567	938	5,886
Income after taxes on					
income	30,422	8,001	7,721	2,031	11,193
Minority interest	1,807	475	-	-	-
Net Income	28,615	7,526	7,721	2,031	11,193
Earnings per Share Basic	3.17	0.83	0.90	0.24	1.30
Shares Used in Computing					
Earnings per Share	9,028,223	9,028,223	8,615,000	8,615,000	8,600,000
Dividend declared per share	-	-	0.55	0.14	-

INCOME STATEMENT DATA:  
IN ACCORDANCE WITH IFRS

	2008		2007	
	NIS	USD	NIS	USD
Revenue	349,227	91,853	249,693	65,674
Cost of sales	281,651	74,080	198,961	52,331
Gross profit	67,576	17,773	50,732	13,343
Selling expenses	33,759	8,879	24,263	6,382
General and administrative				
expenses	23,127	6,083	18,869	4,963
Other (Income) expenses	2,195	577	(470)	(124)
Goodwill impairment	1,067	280	3,054	803
Total operating expenses	60,148	15,819	45,716	12,024
Operating profit	7,428	1,954	5,016	1,319
Finance income	(4,095)	(1,077)	2,362	621
Finance costs	1,612	424	88	23
Finance income (costs), net	(5,707)	(1,501)	2,274	598
Profit before tax	1,721	453	7,290	1,917
Income tax charge	1,454	382	2,651	697
Profit for the period	267	71	4,639	1,220
Attributable to:				
Equity holders of the				
Company	(786)	(206)	2,342	616
Noncontrolling interest	1,053	277	2,297	604
Net Income	267	71	4,639	1,220
Basic and diluted earnings				
per Share	(0.08)	(0.02)	0.23	0.06
Shares Used in Computing				
Earnings per Share	10,267,893	10,267,893	10,267,893	10,267,893
Dividend declared per share	-	-	-	-

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BALANCE SHEET DATA:  
IN ACCORDANCE WITH ISRAELI GAAP

2006

2005

2004



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	NIS	USD	NIS	USD	NIS	USD
	-----	-----	-----	-----	-----	-----
Working capital	144,323	37,960	85,419	22,467	95,986	25,24
Total assets	219,971	57,857	137,274	36,106	129,861	34,15
Short-term bank debt	-	-	-	-	2,489	65
Shareholders' equity	171,739	45,171	101,867	26,793	98,900	26,01

BALANCE SHEET DATA:  
IN ACCORDANCE WITH IFRS

	2008		2007	
	NIS	USD	NIS	USD
	-----	-----	-----	-----
Working capital	122,523	32,226	142,645	37,518
Total assets	273,342	71,894	239,452	62,981
Short-term bank debt	17,562	4,619	5,978	1,572
Shareholders' equity	185,582	48,812	190,607	50,133

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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D. RISK FACTORS

OUR RESULTS OF OPERATIONS MAY BE IMPACTED BY MONETARY RISK. OUR PORTFOLIO OF MARKETABLE SECURITIES IS SUBJECT TO VARIOUS MARKET RISKS.

We are exposed to fluctuations in the rate of the United States Dollar and Euro versus the NIS. Most of our income is in NIS, whereas most of our purchases are in United States Dollars and in Euros. In addition, a significant portion of our short term bank borrowings, when needed, are in United States Dollars and/or in Euros. A significant depreciation in the NIS vis-a-vis the United States Dollar and/or Euro could have a material adverse effect on our results of operations and financial condition.

We strive to minimize market risks arising from exchange rate fluctuations and the cost of imported goods, especially by opening wide documentary credits for suppliers abroad, holding foreign currency reserves and initiating forward transactions and foreign currency options.

As a method of investing cash reserves, we hold from time to time a portfolio of marketable securities traded on the Tel Aviv Stock Exchange as well as other stock exchanges and certain bonds traded abroad. This portfolio of marketable securities is subject to various market risks resulting from fluctuations in interest rates and foreign currency, exchange rates, price fluctuations and other market risks in Israel and abroad. We do not utilize derivative securities for trading purposes, enter into swap arrangements or otherwise hedge our currency in a manner that we believe could expose us to significant market risk.

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Our financial instruments consist mainly of cash and cash equivalents, current accounts receivable, short-term borrowings, current accounts payable and accruals. In view of their nature, the fair value of the financial instruments, included in working capital, is usually identical or close to their book value.

OUR BUSINESS MAY BE MATERIALLY AFFECTED IF ANY OF OUR MAJOR CLIENTS DEFAULTS ON ITS PAYMENT TO US.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of trade receivables. Despite our large number of clients (over 1,500 in Israel and abroad), a major and significant part of our sales is made to a limited number of customers (mainly the organized market). Our two largest customers accounted for 20% of our sales in 2008. We generally do not require and do not receive collateral from those customers, although we do require and receive collateral from most of the remainder of our clients in Israel to ensure security of collecting payments. We maintain an allowance for doubtful debts based upon factors surrounding the credit risk of specific customers, historical trends and other information which our management believes adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of our major clients defaults on its payment obligations to us, we will not possess sufficient security to collect the entire debt.

WE DEPEND ON A SMALL NUMBER OF PRINCIPAL CLIENTS WHO HAVE IN THE PAST BOUGHT OUR PRODUCTS IN LARGE VOLUMES. WE CANNOT ASSURE THAT THESE CLIENTS OR ANY OTHER CLIENT WILL CONTINUE TO BUY OUR PRODUCTS IN THE SAME VOLUMES, ON THE SAME TERMS OR AT ALL.

Despite our wide dispersion of clients, we have two major clients, both supermarket chains, who accounted for approximately 16% and 4% respectively of our revenue during 2008. We do not have long term purchase contracts with our clients, and our sales arrangements with our clients do not have minimum purchase requirements. We cannot assure that our major clients will continue to buy our products at all or in the same volumes or on the same terms as they have in the past. Their failure to do so may significantly reduce our sales. Losing one or more of them may adversely affect our business results. In addition, we cannot assure that we will be able to attract new customers.

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WE ARE DEPENDENT ON OUR KEY PERSONNEL. THE LOSS OF ANY OF OUR KEY PERSONNEL COULD HAVE A MATERIAL EFFECT ON OUR BUSINESS.

We depend on a small number of technical staff, managers and directors, including managing services provided to us by Zwi Williger and Joseph Williger, through management companies that they control, each of whom holds senior management positions with us. The loss of one or more of them could have a material adverse effect on our business and operations.

WE ARE SUBJECT TO REGULATIONS AND OTHER POLICIES OF THE ISRAELI GOVERNMENT AND OF OTHER COUNTRIES INTO WHICH WE IMPORT AND EXPORT. IF WE ARE UNABLE TO OBTAIN AND MAINTAIN REGULATORY QUALIFICATIONS OR APPROVALS FOR OUR PRODUCTS, OUR BUSINESS MAY BE ADVERSELY AFFECTED.

REGULATORY, LICENSING AND QUOTAS: The import, export, storage, marketing, manufacturing, distribution and labeling of food products are subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Trade and Industry, the Ministry of Agriculture and the Ministry of Finance. To the extent

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that we have imported and exported, or will import and export, food products outside of Israel, we may be subject to quotas and other import and export laws and regulations which may limit our ability to sell certain of our food products into these countries. We are required to maintain our distribution processes in conformity with all applicable laws and regulations. In the event that such laws and regulations change, or we fail to comply with such laws and regulations, we may be prevented from trading within Israel or another part of the world.

**TARIFFS:** The Ministry of Finance and the Ministry of Trade and Industry of the State of Israel may increase the levels of tariffs on importing goods. This would have a direct impact on us and our financial performance by increasing our costs which we may not be able to pass on to our customers.

**KOSHER LICENSES:** Under kosher regulations, we are required to ascertain that the foodstuffs which we offer for sale bear kosher certification approved by certain authorities such as the Chief Rabbinate of Israel. There is a risk that the relevant authorities in Israel or other areas of the world responsible for issuing kosher licenses may change the criteria for obtaining such licenses. In such circumstances, we may be prohibited from obtaining kosher licenses for various products that we sell into the various kosher markets. Failure to comply with such applicable laws and regulations in relation to kosher licenses could subject us to civil sanctions, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on us and our financial performance.

WE ARE DEPENDENT ON ARLA FOODS AMBA, OR ARLA, AND WE ALSO WORK WITH A LIMITED NUMBER OF OTHER KEY SUPPLIERS. IF THESE SUPPLIERS RAISE PRICES OR TERMINATE THEIR ENGAGEMENT WITH US, OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED.

We are dependent on Arla, which supplies a high percentage of our dairy and dairy substitute products, although we are not dependent on any single supplier in respect of a majority of our products. Terminating the engagement with any supplier, in particular Arla, or a material change in the engagement terms for purchasing products from those suppliers may have an adverse affect on our results of operations. We have a distribution agreement with Arla pursuant to which we serve as Arla's sole agent and distributor in Israel of certain products for a five-year period beginning in March 2005. In July 2007, the agreement was amended and the exclusivity period was extended to ten years from March 2005. See "Item 4. Information on the Company - B. Business Overview - Suppliers". If these suppliers raise their prices, our operating results may be adversely affected. See "Increases in milk, corn, rice and other product prices have, and may continue to have, a material adverse effect on our profitability." We believe that there are alternative suppliers for purchasing our products; however, we cannot assure that the products of the alternative suppliers will become immediately available and that the terms of purchase will be similar to the current ones.

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WE MAY NOT BE ABLE TO SUCCESSFULLY COMPETE WITH LARGER COMPETITORS WHO HAVE GREATER OPERATIONS, FINANCIAL, MARKETING, HUMAN AND OTHER RESOURCES THAN WE HAVE.

The food distribution business in Israel is highly competitive. We face competition from existing competitors in respect of imported as well as locally manufactured food products. Local producers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which we are subject. We believe that we may also face competition from potential newcomers to the food business as well as from

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existing importers and/or manufacturers not currently involved in the same lines of products as us. In addition, in the event we further expand our activity in the international food markets, we will face also competition from manufacturers and/or distributors from the locations in which we expand our activity. Certain of our current and potential competitors are substantially more established, benefit from substantially greater market recognition and have greater financial, marketing, human and other resources than us. If any of our competitors materially reduces prices, we may be required to reduce our prices in order to remain competitive. Such reductions, if effected, could have a material adverse effect on our financial condition and results of operations.

### ECONOMIC CONDITIONS IN ISRAEL AFFECT OUR FINANCIAL PERFORMANCE.

A major part of our sales are made in Israel, and consequently our financial performance is dependent to a significant extent on the economy of Israel. In recent quarters, the global economic instability and economic uncertainty have negatively impacted economic conditions in Israel. A recession has started in Israel, and the unemployment rates have increased. This has resulted in our customer base, both in the retail and in the wholesale markets, to reduce their purchases from us, both in quantities and by purchasing lower cost food products. A deterioration of the economic situation in Israel may erode the real wages and lower the buying power of our potential customers. This in turn may adversely affect our activities and business results.

### WE MAY BE AFFECTED BY POLITICAL, ECONOMIC AND MILITARY CONDITIONS IN ISRAEL AND THE MIDDLE EAST.

Political, economic and military conditions in Israel have a direct influence on us because our operations are located there. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially and adversely affect our operations. Several Arab countries still restrict business with Israeli companies and these restrictions may have an adverse impact on our operating results, financial condition or the expansion of our business. We could be adversely affected by restrictive laws or policies directed towards Israel and Israeli businesses. The establishment in 2006 of a government in the Palestinian Authority by representatives of the Hamas militant group has created additional unrest and uncertainty in the area. In December 2008, Israel was engaged in an armed conflict with Hamas in the Gaza Strip, in the southern region of Israel. During the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamic Shiite militia group, which disrupted most daily civilian activity in northern Israel. These events have at times caused considerable damage to the Israeli economy. As a result of the political and military situation, Israel's economy has at times suffered considerably. Ongoing or revived hostilities related to Israel may have a material adverse effect on our business and on our share price.

Many of our executive officers and employees in Israel are obligated to perform annual military reserve duty in the Israeli Defense Forces and may be called to active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to reserve duty. Any disruption in our operations may harm our business.

INCREASES OR DECREASES IN GLOBAL PRODUCT PRICES HAVE IN THE PAST, AND IN THE

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FUTURE MAY CONTINUE TO, HAVE A MATERIAL ADVERSE EFFECT ON OUR PROFITABILITY.

In 2007, a number of our suppliers increased their product prices to us due to increases in milk, wheat, corn and rice prices. This reduced our profitability during 2007. The cost of food commodities and other food products is subject to cyclical and other market factors and may fluctuate significantly. As a result, our cost in securing these products is subject to substantial increases and decreases over which we have no control. We cannot assure that we will be able to pass on to customers the increased costs associated with the procurement of these products. Moreover, there has in the past been, and there may in the future be, a time lag between the incurrence of such increased costs and the transfer of such increases to customers. To the extent that increases in the prices of our products cannot be passed on to customers or there is a delay in passing on the increased costs to customers, we are likely to experience an increase in our costs which may materially reduce our margin of profitability.

In 2008, the global purchase price of a number of our key products decreased sharply due to the global recession. This reduced our profitability during 2008 because of the sharp decrease in the selling prices of our products that we had previously purchased or committed to purchase at higher prices. Because we purchase many of our products from outside Israel, there is a lag of time from when we purchase inventory from our suppliers (or commit to purchase inventory from our suppliers) until the time we sell this inventory to our customers in Israel. To the extent that the purchase price of products that we purchase decreases from the time that we purchase our inventory (or commit to purchase our inventory) until the time we sell the inventory to our customers, our margin of profitability may be materially reduced if we are not able to sell our products at prices exceeding the market price.

OUR RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED IF WE DO NOT ACCURATELY PREDICT THE RATE OF CONSUMPTION OF OUR PRODUCTS.

We hold inventory of basic foodstuffs (such as preserved food, oils and rice) and other food products, and we accumulate inventories of these products based on our prediction of the consumption of these products. If actual consumption does not meet the prediction, and the shelf life of such products expire or we cannot otherwise sell such products, this may materially and adversely affect our financial condition and results of operations. On the other hand, to the extent we do not have adequate inventory of these critical products (due, for example, to an emergency situation), we will not be able to meet the needs of our customers and our revenues may be adversely affected.

WE MAY NOT SUCCESSFULLY INTEGRATE OUR RECENT ACQUISITIONS.

In light of our recent acquisitions of Shamir Salads (2006) Ltd. and Kirkeby, our success will depend in part on our ability to manage the combined operations of these companies, to integrate the operations and personnel of these companies together with our other subsidiaries into a single organizational structure, and to replace those subsidiary managers who have departed or may in the future leave our employ. There can be no assurance that we will be able to effectively integrate the operations of our subsidiaries and our acquired businesses into a single organizational structure. Integration of these operations could also place additional pressures on our management as well as on our key personnel. The failure to successfully manage this integration could have an adverse material effect on our results of operations.

WE MAY BE ADVERSELY AFFECTED BY ANY INTERRUPTION TO OUR STORAGE FACILITIES.

We store most of our products in two main locations - a logistics center warehouse situated in Yavne, Israel and a factory and logistics center situated in Barkan, Israel save for products being distributed to customers. Any interruption to these storage facilities, whether by power failure, flooding or

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other event, would have a material impact on our ability to trade in the ordinary course.

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OUR INSURANCE COVERAGE MAY NOT BE SUFFICIENT TO COVER OUR LOSSES IN THE EVENT OUR PRODUCTS ARE SUBJECT TO PRODUCT LIABILITY CLAIMS OR OUR PRODUCTS ARE SUBJECT TO RECALL. IN SUCH EVENT, IT WOULD HAVE A MATERIAL ADVERSE EFFECT ON US.

Our products may become the subject of product liability claims, and there can be no assurance that our property insurance coverage limits will be adequate or that all such claims will be covered by insurance. A product recall or a product liability claim, even one without merit or for which we have substantial coverage, could result in significant expenses, including legal defense costs, thereby increasing our expenses, lowering our earnings and, depending on revenues, potentially resulting in additional losses. A successful product liability claim or other judgment against us in excess of our insurance coverage could have a material adverse effect on us and our reputation.

OUR OPERATING RESULTS MAY BE SUBJECT TO VARIATIONS FROM QUARTER TO QUARTER.

Our operating results may be subject to variations from quarter to quarter depending on, among other things, the timing of sales campaigns and special events initiated by both us and our customers, the major Jewish holidays (such as the Jewish New Year and Passover), our ability to manage future inventory levels in line with business opportunities and anticipated customers' demand, competitive developments in the market, changes in the rates of inflation in Israel and fluctuations in NIS/Dollar exchange rates. There can be no assurance that our sales or net income (if any) in any particular quarter will not be lower than the preceding and/or comparable quarter or that its sales or net income (if any) in a particular quarter will be indicative of our results of operations for the entire year. The trading prices of our ordinary shares may fluctuate significantly in response to variations in our operating results.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, OUR COMPETITIVE POSITION COULD BE COMPROMISED.

We market certain products under the trademarks "Willi-Food", "Shamir Salads", "Pizza Top", "Gold Food", "Donna Rozza", "Manchow", "Bloose", "Krisponim", "Bubles" and "Gold Frost". Although we have registered trademarks for these brands, we cannot assure that the degree of protection these and other trademarks offer will be sufficient to protect our rights in these marks.

INITIATION AND ENFORCEMENT OF LEGAL ACTION IN ISRAEL.

We are organized under the laws of the State of Israel. Most of our executive officers and Directors and some of the experts named in this Annual Report are non-residents of the United States, and a substantial portion of the Company's assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of those persons. It may also be difficult to enforce civil liabilities under United States federal securities laws in actions initiated in Israel.

IF OUR ORDINARY SHARES ARE DE-LISTED FROM NASDAQ, THE LIQUIDITY AND PRICE OF OUR ORDINARY SHARES AND OUR ABILITY TO ISSUE ADDITIONAL SECURITIES MAY BE SIGNIFICANTLY REDUCED.

We may in the future fail to comply with the NASDAQ Capital Market

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regulations and listing requirements as to minimum net income, minimum number of shareholders and public float and other requirements, and as a result NASDAQ may initiate procedures to de-list our ordinary shares from the NASDAQ Capital Market.

Since the beginning of 2009, our stock price has been trading in a range from \$0.86 to \$2.29 per share. Under NASDAQ's Marketplace Rule 5450(a)(2), ("RULE") any company whose share has a closing bid price less than \$1.00 for 30 consecutive business days may be subject to a de-listing proceeding instigated by the NASDAQ. Due to the current extraordinary market conditions, on October 16, 2008, Nasdaq filed an immediately effective rule change with the SEC providing that companies will be deemed to be in compliance with the continuing listing standards related to bid price or market value of publicly held shares. The relief, as extended in March 2009, is currently in effect through July 19, 2009. If we fail to meet the continued listing criteria defined under the Rule following the expiration of the relief, our ordinary shares may be delisted from trading on the Nasdaq Global Market.

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Delisting from the Nasdaq Global Market could have an adverse effect on our business and on the trading of our ordinary shares. If a delisting of our ordinary shares were to occur, our shares would trade on the OTC Bulletin Board or on the "pink sheets". The OTC Bulletin Board and "pink sheets" are generally considered to be less efficient markets, and this could diminish investors' interest in our ordinary shares as well as significantly impact our share price and the liquidity of our ordinary shares. Any such de-listing may also severely complicate trading of our shares by our shareholders, or prevent them from re-selling their shares at/or above the price they paid. Furthermore, our relatively low trading volumes may make it difficult for shareholders to trade shares or initiate any other transactions. De-listing may also make it more difficult for us to issue additional securities or secure additional financing.

In July 2003 and in November 2004, we received letters from the NASDAQ Stock Market informing us that we had failed to meet a continued listing requirement, that we have 500,000 publicly held shares, and that our ordinary shares were therefore subject to de-listing from the NASDAQ Capital Market, unless a proper plan for complying with the requirement was presented. Following the receipt of the November 2004 letter, Willi Food Investments Ltd. and Mr. Joseph Williger sold 75,000 of our shares to the public and at the same time we distributed a one to one stock dividend to our shareholders. As a result of these actions, we then complied with the abovementioned listing requirements and the threat of de-listing was removed.

ONE SHAREHOLDER OWNS A LARGE PERCENTAGE OF OUR SHARES.

As of the date of this Annual Report, Willi-Food Investments Ltd., which we refer to as Willi-Food owned approximately 69.36% of our ordinary shares. Mr. Joseph Williger, who serves as Chief Executive Officer and director of our company, and serves as Chairman of the Board of Willi-Food, holds approximately 25.07% of the outstanding shares of Willi-Food (approximately 25.17% on a fully-diluted basis). Mr. Zwi Williger, who serves as Chief Operating Officer and Chairman of the Board of our company, and serves as a director and Chief Executive Officer of Willi-Food, holds approximately 37.65% of the outstanding shares of Willi-Food (approximately 36.62% on a fully-diluted basis).

Our Articles of Association do not provide for cumulative voting rights with respect to the election of directors and every resolution of the company in the general meeting of shareholders is deemed duly passed if passed by a simple

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majority of the shareholders present and voting unless another majority is required by the Israeli Companies Law or by our Articles of Association.

WE ARE CONTROLLED BY AND HAVE BUSINESS RELATIONS WITH WILLI-FOOD AND ITS MANAGEMENT.

Willi-Food, our controlling shareholder, is a holding company whose main asset is the ordinary shares it owns in our company. Willi-Food currently does not directly conduct any material business.

Willi-Food, Mr. Zwi Williger, a 37.65% shareholder of Willi-Food, the Chairman of our Board of Directors and our Chief Operating Officer and a director and Chief Executive Officer in Willi-Food, and Mr. Joseph Williger, a 25.07% shareholder of Willi-Food, a director and our Chief Executive Officer and the chairman of the Board of Directors of Willi-Food, have been and continue in certain cases to be party to certain agreements and arrangements relating to our operations. Such transactions include service and employment arrangements between each of Messrs. Joseph and Zwi Williger together with us, and a service agreement we have with Willi-Food. All such transactions include consideration.

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In addition, certain of our key personnel also serve in management positions in Willi-Food. By serving in dual capacities, these persons may experience conflicts of interest involving the two companies. Israeli law imposes procedures, including, for certain material transactions, a requirement of shareholder approval, as a precondition to entering into interested party transactions. These procedures may apply to transactions between Willi-Food and us. However, we cannot assure that we will be able to avoid the possible detrimental effects of any such conflicts of interest by complying with the procedures mandated by Israeli law.

OUR INTERNATIONAL OPERATIONS MAY BE ADVERSELY AFFECTED BY RISKS ASSOCIATED WITH INTERNATIONAL BUSINESS.

We purchase food products from over 250 suppliers located around the world. Therefore, we are subject to certain risks that are inherent in an international business. These include:

- o varying regulatory restrictions on sales of our products to certain markets and unexpected changes in regulatory requirements;
- o tariffs, customs, duties, quotas and other trade barriers;
- o difficulties in managing foreign operations and foreign distribution partners;
- o longer payment cycles and problems in collecting accounts receivable;
- o fluctuations in currency exchange rates;
- o political risks;
- o foreign exchange controls which may restrict or prohibit repatriation of funds;
- o export and import restrictions or prohibitions, and delays from customs brokers or government agencies;



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- o seasonal reductions in business activity in certain parts of the world; and
- o potentially adverse tax consequences.

Depending on the countries involved, any or all of the foregoing factors could materially harm our business, financial condition and results of operations.

THE PRICE OF OUR ORDINARY SHARES MAY BE VOLATILE.

The market price of our ordinary shares has fluctuated significantly and may be affected by our operating results, changes in our business, changes in the products we market and distribute, and general market and economic conditions which are beyond our control. In addition, the stock markets in general have, from time to time, experienced significant price and volume fluctuations that are unrelated or disproportionate to the operating performance of individual companies. These fluctuations have affected stock prices of many companies without regard to their specific operating performance. The price of our ordinary shares may fluctuate significantly in the future.

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### ITEM 4. INFORMATION ON THE COMPANY

#### A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company was incorporated in Israel in January 1994 under the name G. Willi-Food Ltd. and commenced operations in February 1994. It changed its name to G. Willi-Food International Ltd. in June 1996.

In May 1997, the Company completed an initial offering to the public in the United States (the "INITIAL PUBLIC OFFERING") of 1,397,500 units, each unit consisting of one ordinary share and one redeemable ordinary share purchase warrant.

In May 2001, the Company acquired all the shares of Gold Frost Ltd., which we refer to herein as GOLD FROST, for NIS 336 thousand (USD 88 thousand). Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products.

In December 2004, the Company declared a stock dividend of 1 ordinary share for each outstanding ordinary share (an aggregate of 4,307,500 ordinary shares). All shares and per share amounts set forth in this Annual Report have been retroactively restated to reflect the aforementioned share dividend for all periods presented.

On March 9, 2006, the Company's subsidiary, Gold Frost, completed an initial issuance to the public on the London AIM market which yielded gross proceeds of NIS 36.5 million (USD 9.6 million). Following this issuance, as of May 30, 2006, the Company held approximately 75.7% of Gold Frost's share capital. See "Item 10. Additional Information - 10C. Material Contracts". During November 2007- January 2008, the Company purchased on the AIM market an additional approximately 14.3% of Gold Frost's share capital, reaching an aggregate holdings of up to 90% of Gold Frost's share capital.

On October 5, 2006 the Company closed a \$10.0 million through private placement of shares of its ordinary shares and warrants to institutional investors. The Company issued a total of 1,652,893 ordinary shares at a purchase

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price of \$6.05 per share, and the Company also issued warrants to purchase 561,982 additional shares at an exercise price of \$8.00 per share. After deducting closing costs and fees, the Company received net proceeds of approximately \$9.6 million. See "Item 10. Additional Information - 10C. Material Contracts".

On January 19, 2007, the Company established a fully-owned subsidiary in the US, WF Kosher Food Distributors LTD. ("WF") in order to acquire the operations and assets of Laish Israeli Food Products Ltd. ("Laish"), a U.S. importer and distributor of kosher food products for approximately \$3.5 million in cash. The sources for the purchase price were a bank loan in the amount of \$1.5 million taken by WF and cash on hand from the Company. On July 14, 2008 the Company announced that WF has ceased the activities of its operations effective immediately. See "Item 10. Additional Information - 10C. Material Contracts".

In February 2007, the Company formed a joint global kosher trade and export company ("BARON") with the Baron family (an unrelated third party), kosher food exporters located in Israel. The Company holds a 50.1% interest in Baron, and the Baron family holds the remaining interest. Under the terms of the agreement, in consideration for the 50.1% interest in Baron, the Company paid \$1 million in owner's loans that were converted into equity on April 1, 2008. Under the terms of the agreement, all of the food export operations of the Baron family are executed under the new entity, and Baron is engaged in the food export activities performed until then by the Baron family, which involves the export of kosher products from more than 100 suppliers, predominantly from Israel, to the U.S., Canada, England, Belgium, France, Switzerland, Australia, South Africa, Mexico, Argentina and Chile. Product categories currently exported include candies, preserves, cakes and cookies, snacks, cereals, frozen pastries and ice creams, baby food and general grocery items. See "Item 10. Additional Information - 10C. Material Contracts".

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Since April 2007, the Company operates from a new logistics center situated in Yavne, Israel, that replaced the Company's previous logistics center, located nearby, as well as the Company's use of numerous external warehouse facilities. The new logistics center was established in an effort to reduce the Company's operating costs, increase its logistical efficiency and to optimize its overall operational activity. For more information, see "Item 4D. Property, Plants and Equipment."

In January 2008, Willi Food purchased 51% of the interests of Shamir Salads (2006) Ltd. ("SHAMIR"), an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad. See "Item 10. Additional Information - 10C. Material Contracts".

In February 2008, the Company's subsidiary Gold Frost purchased a majority interest from the owners of a dairy distributor in Denmark Kirkeby International Foods A/S ("KIRKEBY"). Gold Frost currently holds a 51% interest in Kirkeby, and the former owners of Kirkeby hold the remaining interest. Kirkeby has a U.S. dairy import license. See "Item 10. Additional Information - 10C. Material Contracts".

On May 20, 2008, a Special General Meeting of Gold Frost approved the cancellation of its ordinary share listing to the AIM Market of the London Stock Exchange. The cancellation of Gold Frost's AIM admission took place on May 27, 2008.

On February 5, 2009 the Company launched a tender offer (as extended on

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March 5, 2009) to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 5 pence per share or per depositary interest in cash. The proposed tender offer was subject to, among others, the condition precedent that the number of shares and depositary interests duly tendered constitute, upon expiration of the offer period and together with the shares held by the Company at such time, more than 95 percent of the issued and outstanding share capital of Gold Frost. Such condition was not met. As a result, the Company did not purchase any of the Gold Frost shares that have been tendered.

On June 22, 2009, the Company launched a second tender offer to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 7 pence per share or per depositary interest in cash. The tender offer is scheduled to expire on July 22, 2009, at 3:00 pm London time. The other conditions of the tender offer remain the same as were in the first tender offer.

The Company's principal executive offices are situated at 4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106 Israel. The Company's telephone number is 972-8-9321000, its fax number is 972-8-9321001, its e-mail address for communications is willi@willi-food.co.il and its Web site is www.willi-food.co.il.

### CAPITAL EXPENDITURES

Our capital expenditures were \$0.9 million, \$3.0 million and \$6.0 million for the three years ended December 31, 2008, 2007 and 2006, respectively. See "Item 4D. Property, Plants and Equipment" for a description of the logistic center.

There are no currently material capital expenditure or divestures in progress.

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### B. BUSINESS OVERVIEW

#### OVERVIEW

The Company is an Israeli-based company engaged, directly and through subsidiaries, in the design, import, export, manufacturing, marketing and distribution in Israel and around the world of a wide variety of over 2,500 food products. The Company sells products in Israel with widespread demand in the Israeli marketplace, as well as products which cater to more select groups. The Company distributes certain of its products on an exclusive basis. Some products are currently also sold in insubstantial volumes in the areas administered by the Palestinian Authority. The Company also sells its products outside Israel to a variety of customers around the world (U.S., Canada, England, Belgium, France, Switzerland, Australia, South America, Mexico, Argentina and Chile), mainly by its subsidiary - Baron. The Company purchases food products from over 250 suppliers located in Israel and around the world, including from the Far East (China, India, the Philippines and Thailand), Eastern Europe (Hungary, Poland and Bulgaria), South America (Argentina, Ecuador and Costa Rica), the United States, Western and Northern Europe (The Netherlands, Belgium, Germany, Sweden, Denmark and France) and Southern Europe (Spain, Portugal, Italy, Turkey, Greece and Cyprus).

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The products imported by the Company are marketed and sold to over 1,500 customers in Israel and around the world, including supermarket chains, wholesalers and institutional consumers. The Company markets most of the products under the brand name "Willi-Food", the chilled salads under the name "Shamir Salads" and some of the chilled and frozen products under the brand name "Gold Frost". Certain products are marketed under brand names of the manufacturers or under other brand names.

In addition to its acquisition of the operations and assets of Laish, Baron, Shamir and Kirkeby, as described in "- A. History and Development of the Company ", the Company continues to re-evaluate its strategic position and consider other business opportunities, including acquisitions by and mergers of the Company. As part of this re-evaluation, the Company is also considering forming strategic alliances with or entering into different lines of business.

As of June 22, 2009, the Company's principal shareholder, Willi-Food, holds approximately 69.36% of the Company's outstanding share capital. The primary assets of Willi Food are the Company's ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions". Willi Food's securities are traded on the Tel Aviv Stock Exchange.

### BUSINESS STRATEGY

The Company's business strategy is:

- o to promote the "Willi-Food" and "Shamir Salads" brand names and to increase market penetration of products that are currently sold by the Company through, among other things, marketing efforts and advertising campaigns;
- o to expand its current food product lines and diversify into additional product lines, as well as to respond to market demand; and
- o to expand the Company's activity in the international food markets, mainly in the U.S. and Europe.

Utilizing management's expertise in identifying market demand and preferences, as well as its sourcing abilities, the Company intends:

- o to continue to locate, develop and distribute additional food products, some of which may be new to Israeli consumers;

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- o to increase its inventory levels from time to time both to achieve economies of scale on its purchases from suppliers and to more fully meet its customers' demands;
- o to further expand the international food markets, mainly in the U.S. and Europe, by purchasing additional food distribution companies and/or increasing cooperation with local existing distributors and/or exporting products directly to the customer; and
- o to penetrate new markets within the Middle East through the establishment of business relationships and cooperation with representatives in such markets subject to a positive political climate.

The Company has developed certain trade relationships locally, as well as

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in areas administered by the Palestinian Authority, although current sales volumes to the Palestinian administered areas are low.

In addition, the Company has:

- o promoted the value of the "Willi-Food" brand and introduced additional food products to the Israeli marketplace under the brand name "Willi-Food";
- o initiated sales in the U.S. and Europe; and
- o entered into arrangements with recognized manufacturers to market their products under their respective brand names, in addition to brand names under which the Company currently markets its products.

### PRODUCTS

The Company imports, exports, markets and distributes two kinds of line products: preserved products and non-preserved products.

#### PRESERVED PRODUCTS

The Company imports, exports, markets and distributes a broad variety of over 200 preserved food products, most of which enjoy a long shelf life (mostly between two to four years). Sales of preserved products accounted for approximately 26% of the Company's sales in 2008. These products are sold principally in tin cans and glass jars in a variety of sizes and are intended for use by the individual consumer as well as by the institutional consumer food markets.

The Company aims at broadening the variety of the preserved products it distributes. Due to commercial considerations, the Company occasionally stops importing certain preserved products.

The principal products in the preserved product line are as follows:

**CANNED VEGETABLES AND PICKLES:** including okra, mushrooms (whole and sliced) and terfess, artichoke (hearts and bottoms), beans, asparagus, capers, corn kernels, baby corn, palm hearts, bamboo shoots, vine leaves (including vine leaves stuffed with rice), sour pickles, mixed pickled vegetables, pickled peppers, an assortment of black and green olives, sun dried tomatoes and edamame soybeans. These products are primarily imported from China, Spain, Greece, Thailand, South America, Turkey, France, India, Poland, Morocco and The Netherlands.

**CANNED FISH:** including tuna (in oil or in water), sardines, anchovies, smoked and pressed cod liver, herring, fish paste and salmon. These products are primarily imported from the Philippines, Thailand, Portugal, Canada, Spain, Greece and Sweden.

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**CANNED FRUIT:** including pineapple (sliced or pieces), peaches, apricot, pears, cherries, mangos, litchies and fruit cocktail. These products are primarily imported from the Philippines, Thailand, Greece and Europe.

#### NON-PRESERVED PRODUCTS

The Company imports, exports, manufactures, markets and distributes a broad

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variety of over 2,300 non-preserved food products, most of which enjoy a relatively long shelf life (mostly between ten months and two years). Sales of non-preserved products accounted for approximately 74% of the Company's sales in 2008. These products are sold in a variety of sizes and types of receptacles, such as glass jars, plastic and glass bottles and containers and sealed plastic vacuum packages, and are intended for use by the individual consumer as well as by the institutional consumer food markets.

The Company aims at broadening the variety of the non-preserved products it distributes. Due to commercial considerations, the Company occasionally stops importing certain non-preserved products.

The principal products in the non-preserved product line are as follows:

**CHILLED SALADS:** including hummus, tchina, avocado, eggplant and ikra. All of these salads are manufactured in the logistics center of Shamir.

**EDIBLE OILS:** including olive oil, sunflower oil, soybean oil, corn oil and rapeseed oil. These products are primarily imported from Belgium, Argentina, Turkey, Italy and Spain.

**DAIRY AND DAIRY SUBSTITUTE PRODUCTS:** including hard and semi-hard cheeses (parmesan, edam, kashkaval and emmental), molded cheeses (brie, camembert and danablu) feta, Bulgarian cheese, butter, butter spreads, margarine, melted cheese, cheese alternatives, condensed milk and others. These products are primarily imported from Greece, Denmark, Bulgaria, Italy, The Netherlands and the United States.

**DRIED FRUIT, NUTS AND BEANS:** including figs, apricots, prunes, papaya, pineapple, sunflower seeds, walnuts, pine nuts, cashew nuts and peanuts. These products are primarily imported from Greece, Turkey, India, China, Thailand and the United States.

**OTHER PRODUCTS:** including, among others, instant noodle soups, coffee creamers, Lemon juice, halva, Turkish delight, cookies, vinegar, sweet pastry and crackers, sauces, corn flour, pastes, rice, rice sticks, pasta, spaghetti and noodles, breakfast cereals, corn flakes, instant coffee, rusks, coconut milk, and ouzo. These products are primarily imported from the Netherlands, Germany, Romania, Italy, Greece, Belgium, the United States, Scandinavia, China, Thailand, Turkey, India, South America, including Argentina.

Some of the preserved and non-preserved products listed above as sold by the Company are imported by Gold Frost. The Company imported some of these products prior to 2001, but this was done on a small-scale basis aimed at testing the demand for such products and their profitability. After the purchase of Gold Frost, the import of these products was expanded by Gold Frost.

The products (preserved and non-preserved) that generated the largest sales volume for the year ended December 31, 2008 were chilled salads (20% of sales), dairy and dairy substitute products (19% of sales) and canned vegetables (14% of sales).

The products (preserved and non-preserved) that generated the largest sales volume for the year ended December 31, 2007 were canned vegetables (22% of sales), dairy and dairy substitute products (19% of sales), canned fish (12% of sales) and edible oils (10% of sales).

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The products (preserved and non-preserved) that generated the largest sales volume for the year ended December 31, 2006 were canned vegetables (22% of sales), dairy and dairy substitute products (23% of sales), canned fish (17% of sales) and edible oils (14% of sales).

Most of the products that the Company imports and markets are approved as Kosher by, and/or under the supervision of, various supervisory institutions including the Chief Rabbinate of Israel, Chug Chatam Sofer, certain Jewish organizations administering Kashrut procedures and certifications (such as the Union of the Orthodox Jewish Congregation of America (referred to as OU), Badatz Igud Harabanim Manchester, OK, Circle K and Triangle K) and rabbis of local Jewish congregations abroad. See "Government Regulation".

The Company's products are packaged by various manufacturers and suppliers abroad and labeled with Hebrew, English and, in certain cases, Arabic and Russian labels, in accordance with the Company's instructions and requirements and in accordance with applicable law. See "Government Regulation".

### SUPPLIERS

The Company is not a manufacturer of preserved food products and therefore purchases final preserved food products only. In the case of non-preserved food products Shamir manufactures all of the chilled salads, and for the other non-preserved food products, the Company purchases final products only. The Company purchases preserved food products from over 50 suppliers worldwide, including suppliers located in Israel, in the Far East (China, India, the Philippines and Thailand), in Eastern Europe (Poland), in South America (Ecuador and Costa Rica), in Canada and Western, Northern and Southern Europe (Sweden, Greece, The Netherlands, Portugal, Spain, France and Turkey). The Company purchases non preserved food products from over 220 suppliers, including suppliers located in Israel, in the Far East (China, India, the Philippines and Thailand), in Eastern Europe (Bulgaria and Latvia), in South America (Argentina), in the United States and in Western, Northern and Southern Europe (Sweden, Denmark, Greece, The Netherlands, Italy, Portugal, Spain, Belgium, Germany, France, Turkey and Cyprus).

In addition, the Company actively maintains contact with approximately 150 suppliers worldwide through which it assesses on an on-going basis world market trends, fluctuations in prices and terms internationally available and other issues relevant to its business. The Company's management and personnel visit food trade fairs worldwide on a regular basis and endeavor to create new business relationships with potential suppliers on an ongoing basis.

In the years 2008 and 2007, no supplier accounted for more than 10% of our total purchases of preserved products.

The following table represents the percentage of purchases of non-preserved products by the Company from suppliers who accounted for more than 10% of the total purchases in the years 2008 and 2007:

SUPPLIER	2008	2007
-----	-----	-----
Arla	*	13%

\* less than 10%

We are not dependent on any given supplier for the supply of a majority of our products. We purchase most of our products from several suppliers. We are dependent on one source of supply - Arla from Denmark - with respect to a large part of our dairy and dairy substitute products. A distribution agreement between the Company and Arla grants the Company exclusive and non-transferable

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right to market and distribute cheese and butter products manufactured by Arla and its affiliated companies in Israel. The exclusivity for the Company is subject to the purchase by the Company of certain minimum quotas of products. The agreement was signed in March 2005 for a period of 5 years. In July 2007, the agreement was extended for a period of 10 years from March 2005 and is renewable automatically for a further period of five years, unless notice of termination is provided by either party. Arla has the right to terminate the agreement on three months notice in certain circumstances, including in the case of the death or permanent incapacity of Zwi Williger or his ceasing to be involved in the Company's business or if the Company fails to satisfy its minimum purchase requirements under the agreement.

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Although we are not dependent on any one supplier with respect to most of our products, termination of our business relationships with certain suppliers and/or a material adverse change in the terms at which we purchase such products from such suppliers could have a material adverse effect on our financial results. There can be no assurance that alternative sources for such products, if required, will be readily available nor can we assure the terms of purchase of such products from such alternative sources.

We do not generally enter into written agency or other agreements with our suppliers. However, we have written agreements with one foreign supplier of preserved products and fifteen foreign suppliers of non-preserved products that confirm our exclusive appointment as the sole agent and/or distributor of such suppliers either with respect to a specific product or with respect to a line of products, within the State of Israel. These exclusivity rights have generally been granted for a period of 12-24 months and are automatically extendable unless terminated by either party upon notice, and in certain cases are conditioned upon our compliance with certain minimum purchase requirements. The supplier of the preserved products from which we received such letter of confirmation accounted for approximately 1% of our purchases in 2008 and less than 1% of our purchases in 2007. The suppliers of the non-preserved products from which we received such letters of confirmation accounted for 21% of our purchases in 2008 and in 2007. In a few instances we did not fulfill our commitment to the minimum purchase requirements, but since the commencement of our activities, no supplier has terminated its agreement with us due to our failure to comply with the minimum purchase requirements. Our purchases are not motivated by a desire to meet minimum purchase requirements, and the considerations in purchasing products from these suppliers are identical to those for purchasing from other suppliers.

Certain of the preserved products imported by the Company are seasonal agricultural products, such as artichokes, cherries, mushrooms and peaches. In order to assure itself a continued supply of these seasonal items, the Company generally makes arrangements with the producers of such products at the beginning of the season for the terms of purchase of such items for the upcoming year.

A substantial portion of the Company's purchases from suppliers is made in USD (such as purchases from the Far East, the United States, South America and certain European countries) with the remaining purchases usually made in Euros and other foreign currencies (e.g., Swedish Kronas). Supply is generally made to the Company against letters of credit for a period of up to 90 days. See Item 5: "Operating And Financial Review and Prospects - B. Liquidity and Capital Resources - Impact of Inflation and Devaluation on Results of Operations, Liabilities and Assets".



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The average volume of the Company's credit balance with its suppliers amounted in 2008 to NIS 48.6 million (USD 12.8 million) consisting of 62 days of suppliers credit on average, and in 2007 to NIS 31.0 million (USD 8.2 million) consisting of 58 days of suppliers credit on average.

### CUSTOMERS

The Company's products (preserved and non-preserved) are marketed and sold to over 1,500 customers throughout Israel (including customers in the areas administered by the Palestinian Authority) and outside of Israel, mainly by the Company's two new subsidiaries, Baron and Shamir Salads.

Customers of the Company typically purchase both preserved and non-preserved products from the Company. The number of clients who purchase products from only one of these categories is not material.

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The Company's customers generally fall within one of the following two groups:

- o large retail supermarket chains in the organized market, and
- o private supermarket chains, mini-markets, wholesalers, manufactures, institutional customers and the customers in the Palestinian Authority referred herein as the PRIVATE SECTOR.

The first major group includes the largest Israeli supermarket chains in the organized market in Israel, including: (i) Supersol Ltd. (including the chains: Supersol Deal, Supersol Big, Supersol Sheli, Supersol, Yesh and Katif); (ii) Blue Square Israel Ltd. (which also includes MegaCenter, MegaBool and Shefa Shuk); and (iii) Co-Op Israel (which also includes Co-Op Jerusalem, Mister Zol, Pashut Zol and M.M.N). The Company contracts with the supermarket chains in the organized market through the buyers in the head office of the supermarket chain, and then the Company receives orders from the logistic center or directly from their stores. Merchandise is then delivered directly to each branch or to the supermarket's chain distribution center.

The second major group includes private supermarket chains, mini-markets, wholesalers, food manufacturers, institutional consumers, such as catering halls, hotels, hospitals and food service companies and food producers, and customers in the Palestinian Authority.

The Company's sales, by customer group, for the years ended December 31, 2008 and 2007 are as follows:

	PERCENTAGE OF TOTAL SALES YEAR ENDED DECEMBER 31	
CUSTOMER GROUPS -----	2008 ----	2007 ----
Supermarket Chains in the organized market	23%	24%
Private Supermarket Chains, mini-markets, wholesalers, manufacturers, institutional consumers and the customers in the Palestinian Authority	77%	76%
	100%	100%

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The Company's largest customer (a supermarket chain in the organized market) accounted for 16% of the Company's sales both in 2008 and 2007.

The loss of this major customer would have a material adverse effect on the Company's financial condition and results of operations. The Company is seeking to expand its operations in other areas so as to reduce its dependence on any single significant customer.

We agreed to pay the large supermarket retail chains in the organized market incentives calculated as a fixed percentage of the annual sales to such customer. Other incentives include penetration discounts for sales of our new products, limited discounts for opening of new branches that sell our products and payments for participation in our product advertisements. The above mentioned incentives vary among customers and are usually awarded as part of a written annual framework agreement.

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These incentives typically range from 5% to 8.5% of our annual sales to such customers and are generally paid at the beginning of each year with respect to the previous year's sales. These arrangements also generally include specific exclusions, such as direct or joint importing of products that are not considered for purposes of such incentives. Certain of these commitments are not evidenced in written agreements. For the years ended December 31, 2008, 2007 and 2006, we paid and/or are obligated to pay approximately NIS 4,686 thousand (USD 1,233 thousand), NIS 3,774 thousand (USD 993 thousand) and NIS 3,370 thousand (USD 886), respectively, with respect of such incentives.

Our engagement with private sector customers is not subject to any exclusivity provisions or framework agreement, and they have no specific term. Prior to any engagement with a potential private sector customer, we examine the financial stability of such potential customer and determine the extent of the credit and period for which credit would be granted. Most of the private sector customers are required to deposit securities as collateral (personal and/or bank guarantees as well as post-dated checks). Some of the customers of this sector (mainly private supermarket chains and wholesalers) are also awarded incentives based on the increase in volume of sales to such customers in excess of a certain agreed amount, or incentives calculated as a fixed percentage of the annual sales to such customer. The extent of such incentives varies between 0.5%-4.5% of the increase in volume of sales to such customers in excess of a certain agreed amount or of the annual sales turnover of each relevant customer (depending on the agreement with each customer).

The average aggregate debit balance of the Company's customers with the Company amounted in 2008 to NIS 83.3 million (USD 21.9 million) and the average time period within which our accounts receivable were paid was 81 days and in 2007 the average aggregate debit balance of the Company's customers with the Company amounted to NIS 67.6 million (USD 17.8 million) and the average time period within which our accounts receivable were paid was 95 days.

In the event that a client does not respect its financial commitments, the Company may elect to foreclose on the collateral or the promissory note given by customers in the private sector. In 2006-2008, no significant use of this means was implemented.

The Company strives to minimize its credit risks by constantly reviewing the credit it extends to customers versus the security it receives. As a result, the Company has ceased selling products to certain customers and considerably

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reduced sales to other customers, and may continue to do so.

In July 13, 2005, Club Market Marketing Chains Ltd., one of the three largest food chains in Israel, owner of 114 stores and a major customer of the Company, encountered major financial difficulties, announcing that it could not pay its debts to its creditors. The District Court of Tel Aviv accepted Club Market's petition for a stay of procedures against it and appointed receivers for Club Market. On August 28, 2005, the court allowed the sale of Club Market to Supersol, subject to several conditions. As of September 1, 2005, Club Market's activities were substantially transferred to Supersol. This merger of two of the three largest food chains in Israel strengthened Supersol's buying power with local food suppliers (such as the Company) and the dependency of local food suppliers on Supersol has grown.

The Company submitted a claim of debt with the receivers with respect to Club Market's debt to the Company, amounting to NIS 6.5 million (USD 1.7 million), including VAT (NIS 5.5 million net of VAT (USD 1.4 million), as of July 13, 2005. As of the date of this Annual Report, the Company has received approximately NIS 2.1 million (USD 0.55 million). In view of this claim and the ratification of the creditors' arrangement by the court on December 12, 2005, the Company is expected to receive a proportional share of its claim of debt. The Club Market receivers established the rate of payment to be approximately 51% of the total debts. The receivers have approved the Company's claim of debt in the amount of NIS 5.6 million (USD 1.47 million), including the NIS 2.1 million (USD 0.55 million) already received by the Company. There is no assurance as to the portion of the debt owed by Club Market that will actually be paid to the Company.

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The Company's bad debt expenses for the years ended December 31, 2008 and 2007 amounted to NIS 3,161 thousand (USD 831 thousand) and NIS 2,303 thousand (USD 606 thousand), respectively.

### DISTRIBUTION, MARKETING AND SALES

The Company principally distributes and markets its products on its own. The Company markets its products via internal sales agents, apart from sales of certain products to clients situated in Beer Sheva and elsewhere in the south of Israel, where it distributes products through external distributors, with whom the Company does not have exclusivity agreements. The sales of these distributors are not significant.

The Company generally has no written agreements with its customers, nor are its arrangements with its customers on an exclusive or binding basis. The Company generally extends its customers approximately 60-90 days credit beginning at the end of the month in which the sale took place. The supermarket chains in the organized market generally effect payment by wire transfers or cash payments on the due date, while other customers are generally required to provide post-dated promissory notes at least one month prior to the date of the expected payment. The Company generally does not require the supermarket chains in the organized market to provide any kind of security for payments; however, other customers may be required to provide security, including personal guarantees.

Sales in Israel and in the U.S. are made by the placement of customers' orders (except for part of the dairy and dairy substitute products), which are directed to the Company's regional office and placed by the sales personnel or directly by the customers. Orders are delivered by the Company's transport

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network (including 15 refrigeration trucks, eight regular trucks and four combined trucks) and by independent transporters. In certain cases, the Company transports products directly from port to customers, utilizing the services of independent transporters. In some instances, the Company transfers the merchandise to the logistic centers of the supermarket chains, and the supermarket chains themselves are responsible for the distribution of the merchandise to their chain stores for a commission charged to the Company.

The sale of part of the dairy and dairy substitute products is performed by "van sale" sales agents using small terminals. The sales agents supply these products immediately from the stock of products in the refrigeration trucks in which they travel.

Some of the marketing and distribution to institutional clients in the private sector (such as hotels, police, prisons, the Ministry of Defense and "Kibbutz" collective settlements) is done by winning tenders or direct distribution or by wholesalers.

The Company generally holds an inventory of products which the Company believes to be sufficient to meet market requirements for a period of up to 45 days. Occasionally, the Company may take advantage of low priced merchandise and purchase larger amounts than usual of a product with long shelf life. In those cases, the inventory quantities may be even higher than 70 days. Products ordered by customers in full container loads are generally forwarded directly to the customers' facilities without being stored in the Company's facilities. The Company does not regularly maintain significant backlog of orders from customers; orders received by customers are generally filled within one week.

The Company's inventory as of December 31, 2008 amounted to NIS 34.4 million (USD 9.1 million) compared with NIS 31.0 million (USD 8.2 million) as of December 31, 2007.

The Company also participates in various sales campaigns within the supermarket chains that are intended to stimulate sales volume. Among such campaigns are food festivals initiated by the supermarket chains and certain importers, including the Company, in which the import and marketing of products from a specific country or region are celebrated and promoted. Such festivals typically involve increased display space as well as enhanced promotional activities, both with respect to the festival itself and the products. Such activities are sponsored by the supermarkets in collaboration with the importers participating in the festival. Within the framework of these festivals, the Company imports a wide variety of products which include pastries, vegetables, jams, cheese, fish, and dairy products, as well as certain articles typical to the culture and/or cuisine of each specific festival.

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The Company maintains close contact with its consumer markets in an effort to be attentive to market needs, market trends, demand for certain products and their value to the market. The Company also regularly gathers information on new products manufactured worldwide, including by attending food exhibitions and maintaining close relations with manufacturers and suppliers worldwide.

The Company is responsible for the products it markets in Israel under the Israeli Law of Defective Products, 1980, and it has also purchased an insurance policy for product liability.

SEASONALITY

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Each year as the Passover and Rosh Hashana festivals approach, the Company usually increases its inventories in order to provide a fast response to the market's demand. Usually there is an increase in the Company's sales prior to the Rosh Hashanah holiday (celebrated in September-October) and the Pesach (Passover) holiday (celebrated in March-April). Despite the impact of the holiday season on the Company's activities, the Company's quarterly sales are not materially affected as a result of these holiday seasons.

### COMPETITION

The food distribution business in Israel is highly competitive with respect to imported, as well as locally manufactured, food products. The Company believes that it presently faces direct competition from both local manufacturers, as well as from a number of importers of food products. The food market in Israel is very price sensitive.

For each of the categories of products distributed by the Company, there exists competition by dozens of local manufacturers as well as from other importers. The barriers to entry in the food market are low, and new potential competitors are constantly joining the market. The Company believes that it may also face competition from potential new-comers to the food business, as well as from existing importers and/or manufacturers currently not involved in the same lines of products as the Company.

For example, certain of the products imported by the Company such as canned fish, corn, edible oils, certain pickles, olives, pasta, cereal, sweet pastry and crackers and certain dairy products are also produced by local manufacturers in Israel. Local producers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which the Company is subject.

To the Company's knowledge, several of its competitors (Shemen, Tet-Bet and Solbar with respect to edible oils, Fodor (Starkist and Yona), Posidon and Williger of the Neto Group, Filtuna and Shastowits with respect to fish products, Pri HaGalil-Vita, Yachin-Zan laKol, Williger of the Neto Group, Alaska and Johnson with respect to canned vegetable and canned fruits products, Osem, Barila, Pri HaGalil-Vita, Williger of the Neto Group and Tomer with respect to pasta products, Tnuva, Tara, Strauss, Siman, Machlvot Gad and Meshek Zuriel with respect to dairy and dairy substitute products, Strauss, Osem, Miki's salads and Yad-Hamelech salads with respect to chilled salads, for example) are substantially more established, have greater market recognition and have greater financial, marketing, human and other resources than those of the Company. If any of the Company's major competitors materially reduces prices, the Company would experience significantly more competitive pressure and a decrease in profitability. The Company cannot predict whether it could successfully compete with these pressures and, if it were unable to do so, the Company's business would suffer.

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The Company's management does not have precise information regarding the extent of the import of food products to Israel. However, it believes it is one of the leading companies in Israel in its line of products.

The Company endeavors to compete by following the availability of products, their prices, offers for performing transactions and business opportunities while diversifying sources of supply as well as following the selling prices of competing products and setting product prices according to changing market prices.

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### INTELLECTUAL PROPERTY RIGHTS

The Company markets certain products under the trademark "Willi-Food," which was approved for registration in Israel in May 1997 for certain uses relating to the food industry. In 2001, the trademark's validity was extended for an additional fourteen years (until 2015). The Company markets certain products under the trademark "Gold-Frost," which was registered in Israel in February 2002. The Company also markets certain products under the trademark "Shamir Salads," which was registered in Israel in January 1995.

The Company also markets cheeses and cheese substitute for pizza under the trademark "Pizza Top" which was registered in Israel in September 2002. On February 16, 2006, the Company entered into an agreement with Gold Frost under which the Company assigned to Gold Frost all its rights, title and interest in and to the trademark "Pizza Top".

The Company also markets certain products under the trademark "Gold Food", which was registered in Israel in November 2002 for different uses in the food industry.

The Company also markets cheeses and cheese substitute under the trademark "Bloose," which was registered in Israel in October 2007, markets breakfast cereals under the trademark "Bubles," which was registered in Israel in December 2006, markets snacks under the trademark "Krisponim," which was registered in Israel in January 2007, and markets edamame soybeans under the trademark "Manchow," which was registered in Israel in June 2007.

The Company also markets pasta and sauces under the trademark "Donna Rozza," which was registered in Israel in August 2005 for different uses in the food industry. Other products marketed by the Company under their original brand name are "Completa", "Raskas", "Puck", "Nobeleza Gaucha", "Hazer Baba", "Sera", "Daawat", "Zanetti", "Ferro", "Hahne", "Brillo", "Arla" and "Lurpak". The Company imports several products for the Supersol chain under the brand name "Supersol".

There can be no assurances as to the degree of protection registration of the Company's trademarks will afford. In 2008 and 2007, the Company applied for two new trademarks and in relation to one of them the Company received some objections. There is no certainty that these trademarks will be registered as the Company requested.

The Company also owns four trademarks which are not currently used. The Company's investment in registering these trademarks was insignificant.

### EMPLOYEES

Since December 31, 2008, the Company, including its subsidiaries, employed a total of 246 persons (most of them are located in Israel), 21 of whom were in management, 32 of whom were in accounting and importing positions, 45 of whom were involved in the Company's sales and marketing departments, and 148 of whom were employed in logistics networks (manufacturing, warehousing and transportation). This compares with 135 employees as of December 31, 2007, 18 of whom were in management, 22 of whom were in accounting and importing positions, 37 of whom were involved in the Company's sales and marketing departments, and 58 of whom were employed in logistics networks (warehousing and transportation).

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Since December 31, 2008, 79 additional employees (stewards and sales people) were engaged on an hourly basis. On December 31, 2007, the number was 24. Other employees were supplied by temporary manpower companies.

The increase in the number of employees in all of the departments is mainly due to the expansion of the Group with the addition of two new subsidiaries, Shamir and Kirkeby.

Most of the Company's employees are party to written employment contracts. Regarding the Company's management services agreements with companies controlled by Messrs. Joseph and Zwi Williger, see "Item 6. Directors, Senior Management and Employees- Compensation".

The Company believes that its working relations with its employees are satisfactory. Israeli labor laws are applicable to most of the Company's employees, as are certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) (the "HISTADRUT") and the Coordination Bureau of Economic Organizations (including the Manufacturers' Association of Israel) (the "MAI"), by order of the Israeli Ministry of Labor. These provisions, along with the Israeli labor laws, principally concern the length of the work day, minimum daily wages for professional employees, paid annual sick leave, prohibition of discrimination, insurance for work-related accidents, social security, procedures for termination of employment by dismissal, entitlement to and calculation of severance pay and other terms of employment.

In addition, Israeli employers, including the Company, are required to provide certain escalations in wages in relation to the increase in the Israeli CPI. The specific formula for such escalation varies according to agreements between the Government of Israel, the MAI and the Histadrut.

A general practice in Israel followed by the Company is the maintenance of a pension plan to the benefit of its employees (the "PENSION PLAN"). Each month, both the Company and its employees allocate sums to the Pension Plan. Types of Pension Plans may vary, while a commonly used Pension Plan is known as "Manager's Insurance". Pension Plans provide a combination of savings plan, insurance and severance pay benefits to participating employees. Some of the sums allocated monthly by the Company to the employees' Pension Plans are on account of Severance Pay to which the employees may be entitled, upon termination of employment. Each month the employee contributes an amount which equals to 5% to 7.5% of his insured salary, and the Company contributes an additional sum of between 13.3% to 15.83% to his/her insured salary. In addition, Israeli law generally requires payment of severance pay upon the retirement or death of an employee or termination of employment without due cause. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute (which is similar, to some extent, to the United States Social Security Administration). The payments thereto amount to 7.35% to 17.43% of wages; the employee's share being 3.5% to 12% (depending on the marginal level of wages) and the employer's share being 3.85% to 5.43%.

### GOVERNMENT REGULATION

The import, export, storage, distribution, manufacturing, marketing and labeling of food products is subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Finance and the Ministry of Trade and Industry. We are required to maintain our distribution processes, as well as the products imported and manufactured by us, in conformity with all applicable laws and regulations. Failure to comply with these applicable laws and regulations could subject us to civil sanctions, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could have a

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material adverse effect on us. We believe that we comply in all material respects with the above-mentioned requirements. To the extent that the Company has imported, or will import, food products outside of Israel, we may be subject to quotas and other import laws and regulations which may limit our ability to sell certain of our food products into these countries.

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In 1978, the Israeli government issued the free import decree, which exempts the import of most food products from the requirement to acquire a license. However, preliminary permits from the Ministry of Health or the Ministry of Agriculture are still required. These preliminary permits are granted based on laboratory analysis reports and other data.

Customs duties and charges are levied on a portion of the Company's products. Israeli government policy in favor of exposing the local market to certain imported products has directly impacted the Company's operations since September 1991, when certain customs duties levied by category, formerly levied on products, including those imported by the Company, were canceled.

The Company is required to obtain import licenses for the import of certain food products from the Ministry of Trade and Industry of the State of Israel. The Company has obtained the necessary import licenses for the products imported by it as required by the import authorities. The Company has also obtained the necessary authorization required by the Ministry of Health (Food Authority) for the import of all of its food products to Israel. The Company's products are packaged by various manufacturers and suppliers abroad and labeled in Hebrew, English and, in certain cases, Arabic and Russian, according to the Company's instructions and the requirements of the Israeli authorities. Since the beginning of the Company's activities, the Company has been found to have mislabeled packages four times, as a result of which the Company was required to pay an immaterial amount of fines.

Most of the products which the Company imports and markets are approved as Kosher by and/or under the supervision of various supervisory institutions including, the Chief Rabbinate of Israel, Chug Chatam Sofer, certain Jewish organizations administering Kashrut procedures and certifications (such as the Union of the Orthodox Jewish Congregation of America (OU), Badatz Igud Harabanim Manchester, OK, Circle K, Triangle K, etc.) and rabbis of local Jewish congregations abroad. Such procedures include, in certain cases, personal supervision by a Kashrut supervisor sent by such institutions to the manufacturing facilities from which the Company purchases products, who is present at the plant during the processing of the product. Under Israeli law, the Company is required to ascertain that the kosher foodstuffs which it offers for sale bear kosher certification approved by certain authorities, such as the Chief Rabbinate of Israel, and also bear the name of the individual authorized to certify such product. Not all products marketed by the Company have been so certified, although they do bear certain kosher certification from other certification bodies. The expenses for obtaining the Kashrut approval are relatively low.

Most of the products which the Company manufactures are approved as Kosher by and/or under the supervision of Badatz Ha'eda Hacharedit (except for "Kosher to Passover" products) and the Chief Rabbinate of Israel.

### C. ORGANIZATIONAL STRUCTURE

The Company's principal shareholder, Willi Food, as of June 22, 2009, held approximately 69.36% of the Company's outstanding share capital. The primary



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assets of Willi Food are the Company's ordinary shares. Willi Food was established on November 27, 1992 and its securities have been traded on the Tel Aviv Stock Exchange since January 1993.

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The Company, as of June 22, 2009, had five active subsidiaries:

SUBSIDIARY	JURISDICTION OF ORGANIZATION	COMPANY'S OWNERSHIP INTEREST
Gold Frost	Israel	90%
Baron	Israel	50.1%
W.F.D.	Israel	100%
Kirkeby	Denmark	45.9% indirectly owned through Gold Frost's 51.0% holding
Shamir	Israel	51.0%

The offices of Gold Frost, Baron and W.F.D, are located in Yavne, Israel, at the offices of the Company.

The Offices of Kirkeby are located in Svendborg, Denmark.

The offices of Shamir are located in Barkan, Israel.

### GOLD FROST

In May 2001, the Company acquired all the shares of Gold Frost in consideration for NIS 336 thousand (USD 88 thousand). Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products. The Company purchased Gold Frost in order to take advantage of Gold Frost's know-how in importing frozen and chilled products as well as of its well known brand name in the Israeli market. Gold Frost distributes over 130 products, usually packed for private consumers (in cans, jars, containers and plastic sealed and vacuumed packages), but also for institutional consumers and labeled in Hebrew, English, and in certain cases, Arabic and Russian. Gold Frost markets certain products under the trademarks "Gold Frost" and "Willi Food" which are registered in Israel. Gold Frost is working towards broadening the variety of products that it develops and distributes. The mission of Gold Frost is to develop low fat, low cholesterol dairy chilled and frozen products aimed at the kosher and health conscious consumer market.

On March 9, 2006, Gold Frost completed an initial issuance to the public on the London AIM market which yielded gross proceeds of NIS 36.5 million (USD 9.6 million). As of June 22, 2009, the Company held approximately 90.0% of Gold Frost's share capital.

On February 5, 2009 the Company launched a tender offer (as extended on March 5, 2009) to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 5 pence per share or per depositary interest in cash. The proposed tender offer was subject to, among others, the condition precedent that the number of shares and depositary interests duly tendered constitute, upon expiration of the offer period and together with the shares held by the Company at such time, more than 95 percent of the issued and outstanding share capital of Gold Frost. Such

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condition was not met. As a result, the Company did not purchase any of the Gold Frost shares that have been tendered.

On June 22, 2009, the Company launched a second tender offer to purchase from the holders of shares and/or depository interests of Gold Frost all of the issued and outstanding share capital of Gold Frost which were not already held by the Company for a price of 7 pence per share or per depository interest in cash. The tender offer is scheduled to expire on July 22, 2009, at 3:00 pm London time. The other conditions of the tender offer remain the same as were in the first tender offer.

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On February 28, 2006, a relationship agreement between Gold Frost, the Company and others was signed, defining the relationship between the two companies. See "Item 10. Additional Information - 10C. Material Contracts".

### BARON

On February 2007, the Company formed a joint global kosher trade and export company ("Baron") with the Baron family (an unrelated third party), kosher food exporters located in Israel. The Company holds a 50.1% interest, and the Baron family holds the remaining interest. Under the terms of the agreement, all of the current food export operations of the Baron family are to be executed under the new entity. For more information see "Item 4. Information on the Company - 4A. History and Development of the Company" and "Item 10. Additional Information - 10C. Material Contracts."

### SHAMIR

In January 2008, the Company purchased 51% of the interests of Shamir Salads (2006) Ltd. ("Shamir"), an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad.

For more information see "Item 4. Information on the Company - 4A. History and Development of the Company" and "Item 10. Additional Information - 10C. Material Contracts."

### WF

On January 19, 2007, the Company established a wholly-owned subsidiary in the US, WF in order to acquire the operations and assets of Laish, a U.S. importer and distributor of kosher food products for approximately \$3.5 million in cash. The sources for the purchase price were through a bank loan in the amount of \$1.5 million taken by WF and cash on hand from the Company.

On July 14, 2008 the Company announced that WF has ceased the activities of its operations effective immediately. For more information see "Item 4. Information on the Company - 4A. History and Development of the Company" and "Item 10. Additional Information - 10C. Material Contracts."

### KIRKEBY

In February 2008, the Company's subsidiary, Gold Frost, purchased a majority interest from the owners of a dairy distributor in Denmark Kirkeby International Foods A/S ("KIRKEBY"). Gold Frost currently holds a 51% interest in Kirkeby, and the former owners of Kirkeby hold the remaining interest. Kirkeby has a U.S. dairy import license. For more information see "Item 4. Information on the Company - 4A. History and Development of the Company" and

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"Item 10. Additional Information - 10C. Material Contracts."

W.F.D.

Since November 1995, the Company incorporated a wholly-owned subsidiary, W.F.D. The Company occasionally imports certain products through this subsidiary, which then sells these products to the Company. W.F.D. has no assets, facilities or obligations, other than those amounts owed to suppliers overseas with respect to products purchased from them. W.F.D. had no sales for each of the last two years.

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### D. PROPERTY, PLANTS AND EQUIPMENT

The Company's principal executive offices are situated at a new logistic center in the northern industrial zone of Yavne, at 4 Nahal Harif St., Israel, 35 km south of Tel-Aviv. The Company purchased the land from Titanic Food Ltd. ("TITANIC"), a private Israeli company controlled by Messrs. Joseph Williger, the Company's Chief Executive Officer and a director, and Zvi Williger, the Company's Chief Operating Officer and Chairman of the Board, at the same price that it was purchased by Titanic, in August 2005, and the Company built on this land the new logistic center. The new logistic center is 8,600 square meters (approximately 77,400 square feet) and is located on a plot of 19,000 square meters (approximately 171,000 square feet). This transaction was approved by the Company's Board of Directors, Audit Committee of the Board of Directors and shareholders. The new logistic center replaced the Company's previous logistic center, located nearby, which the Company leased from Titanic. The new logistic center, which became operational during the second quarter of 2007, was established in order to save the Company the expense of using storage services in free warehouses, as described below, and in order to improve the Company's operation. The new logistic center was financed mainly by the funds that were raised in the private placement in October 2006.

Since January 22, 2008, the Company has been operating the Yavne facility under a municipal business license as required under Israeli applicable law. The license has been granted permanently.

Before the transition to the new logistic center, the Company also utilized free warehouses services, mainly in the area of the Ashdod seaport. The Company was charged only for storage per container (I.E., there is no charge for rental while the Company does not use the free warehouse services). Since the transition to the new logistic center, the Company has utilized free warehouses services mainly for the storage of chilled products. The Company's expenses for usage of free warehouses services were immaterial in the years 2008 and 2007 - NIS 225 thousand (USD 59 thousand) for the year ended December 31, 2008 and NIS 541 thousand (USD 142 thousand) for the year ended December 31, 2007. The expenses of these services for the years ended December 31, 2006 were NIS 1,294 thousand (USD 340 thousand).

As of December 31, 2008, the Company owned 15 refrigeration trucks (each with capacity of 2.5 to 6.5 tons), eight regular trucks (each with capacity of 10 to 15 tons) and four combined trucks (each with capacity of 5.5 to 8.6 tons). Pursuant to the Transfer Agreement with Gold Frost, ten of the abovementioned trucks and one private car were sold as of January 1, 2006 from the Company to Gold Frost. See Item 7. "Major Shareholders and Related Party Transactions - 7B. Related Party Transactions - Transfer Agreement". The above mentioned transfer was implemented in order to allow Gold Frost to market its products on its own accord.

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The total investment in the new logistics center (including the land which the Company purchased from Titanic) until December 31, 2008 amounted to NIS 42,267 thousand (USD 11,117 thousand).

### ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### OVERVIEW

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and the related Notes thereto submitted in this Annual Report. The Company's financial statements as of December 31, 2008 and for the year then ended have been prepared in accordance with IFRS and interpretations issued by the IASB, and such accounting policies have been applied retrospectively to the Company's financial statements as of December 31, 2007 and for the year then ended.

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The Company is engaged in the design, import, manufacture, export, marketing and distribution of a broad range of food products purchased from over 250 suppliers worldwide and marketed in Israel and internationally, and to a much lesser extent, the areas administered by the Palestinian Authority. The Company's products are sold in Israel and around the world to over 1,500 customers, including supermarket chains in the organized market, private supermarket chains, mini-markets, wholesalers, manufacturers and institutional consumers. The Company was incorporated in Israel in January 1994 and commenced operations in February 1994.

In 2008, we faced challenges pertaining to increases in food commodity prices that exceeded global inflation rates. Beginning in the fourth quarter of 2008, we were affected by the sharp decrease of global purchase prices of food products, resulting in the sharp decrease in the selling prices of our products as well. Because our commitments to purchase food products were based on higher prices from our vendors, the immediate consequence was a decline in the gross margin in the fourth quarter of 2008. The decrease of global purchase prices of food products compounded with the recent strengthening of the U.S. dollar versus the NIS (a depreciation of more than 11% of the value of the NIS in the fourth quarter of 2008) and the general effects of the global economic recession and increasing unemployment rates reduced our gross margin to 7.4% in the fourth quarter of 2008 from 8.7% in the comparable period in 2007.

In light of the anticipated continued recession and increasing unemployment rates, our foreseeable challenges ahead will be in managing our expenses, and in particular the cost of our products, to an acceptable degree in order to accommodate our consumers' anticipated desire to acquire lower cost products. We hope that in these difficult times we will be able to maintain our customer base both in the retail and in the wholesale markets.

We also intend to continue to seek to grow our market share in Israel and abroad through the introduction of additional innovative niche products to give the customer more choice, healthier and/or less expensive products and, where permitted, by expanding our relationships with our suppliers. We also intend to increase expenditures on marketing and sales activities to increase the market penetration of the products that we currently sell in Israel. We also intend to

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expand our business outside of Israel, and in particular, in the U.S. and Europe.

For convenience purposes, the financial data for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 has been translated into U.S. Dollars using the representative exchange rate. This rate as of December 31, 2008 was NIS 3.802 = USD 1.00.

The Company is not involved in any off balance sheet transactions or long-term contractual obligations.

### CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis is based upon the consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB for all reporting periods presented. The use of these International Financial Reporting Standards requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting accounting periods presented. These estimates include, among other things, assessing the collectibility of accounts receivable and the use of recoverability of inventory. Actual results could differ from those estimates. The markets of the Company's products are characterized by intense competition and a rapid turnover of products and frequent new introductions of products, all of which may impact future ability to value the Company's assets.

The following critical accounting policies may affect significant judgments and estimates used in the preparation of the consolidated financial statements.

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1. REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

- (1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- o The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- o The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- o The amount of revenue can be measured reliably;
- o It is probable that the economic benefits associated with the transaction will flow to the entity; and
- o The costs incurred or to be incurred in respect of the transaction can be measured reliably.

This policy is significant because the revenue is a key component of the Company's operations, as well as the fact that the revenue recognition determines the timing of certain expenses. Revenue results are difficult to

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predict and any shortfall in revenue or delay in recognizing revenue could cause the operating results to vary from quarter to quarter and may result in operating losses

2. INVENTORIES - Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production overheads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost is determined as follows:

Raw material, components and packaging	-	by the "first-in, first-out" method;
Processing goods	-	cost of materials plus labor
finished products	-	on the basis of standard cost which approximates actual production cost (materials, labor and indirect manufacturing costs).
Products	-	weighted average method

3. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT - the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.
4. IMPAIRMENT OF GOODWILL - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

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5. DEFERRED TAXES- The Company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.
6. The current value of the Company's obligation in respect of severance pay is based on actuarial assumptions, including discount rate (which is based on the discount rate of government bonds), market conditions, etc. Differences in the actuarial assumptions may change the book value of the Company's obligation in respect of severance pay.

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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- (1) STANDARDS AND INTERPRETATIONS WHICH ARE EFFECTIVE AND HAVE BEEN APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS.

The following three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- |          |  |
|----------|--|
| IFRIC 11 | IFRS 2: Group and Treasury Share Transactions (effective March 1, 2007);   |
| IFRIC 12 | Service Concession Arrangements (effective January 1, 2008);   |
| IFRIC 14 | IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1, 2008). |

The adoption of the Interpretations has not led to any changes in the Company's accounting policies.

- (2) STANDARDS AND INTERPRETATIONS WHICH HAVE NOT BEEN APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS WERE IN ISSUE BUT NOT YET EFFECTIVE

As of the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of the effective date of the financial statements, the following Interpretations were in issue but not yet effective:

### IAS 1 (AMENDED) "PRESENTATION OF FINANCIAL STATEMENTS"

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the "report of comprehensive income", and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

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The implementation of the standard will not have any influence on the financial statements of the Company.

### IAS 23 (AMENDED) "BORROWING COSTS"

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation.

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At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.

### IAS 27 (AMENDED) "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS"

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The noncontrolling interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively. At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.

### IFRS 3 (AMENDED) "BUSINESS COMBINATIONS"

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Noncontrolling interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.



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### IFRIC 13, CUSTOMER LOYALTY PROGRAMS

The clarification stipulates that transactions for the sale of goods and services, for which the company confers reward grants to its customers, will be treated as multiple component transactions and the payment received from the customer will be allocated between the different components, based upon the fair value of the reward grants. The consideration attributed to the grant will be recognized as revenue when the reward grants are redeemed and the company has made a commitment to provide the grants.

The directives of the clarification apply to annual reporting periods commencing on January 1, 2009. Earlier implementation is permissible.

At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.

### AMENDMENT TO IAS 32, FINANCIAL INSTRUMENTS: PRESENTATION, AND IAS 1, PRESENTATION OF FINANCIAL STATEMENTS

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.

### IFRS 1 "FIRST TIME ADOPTION OF IFRS" AND IAS 27 "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS"

The amendment states, among other things, the method in which the measurement of the investments in subsidiaries, associated entities and joint control entities should be applied at first time adopting IFRS, and the method in which income from dividends received should be recognized.

The amendment is effective for annual periods commencing January 1, 2009.

At this stage, the management of the Company estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Company.

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#### A. RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, the correlation (in percentages) between items from the Company's statements of operations to its total sales for such periods:

YEAR ENDED	YEAR ENDED
DECEMBER 31, 2008	DECEMBER 31, 2007

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Sales	100%	100%
Cost of Sales	80.65%	79.68%
Gross Profit	19.35%	20.32%
Sales and Marketing Expenses	9.67%	9.72%
General and Administrative Expenses	6.62%	7.56%
Other (Income) expense	0.63%	(0.19)%
Impairment of Goodwill	0.31%	1.22%
Operating profit	2.12%	2.01%
Financial Income (costs), Net	(1.63)%	0.91%
Profit before tax	0.49%	2.92%
Income Taxes	0.42%	1.06%
Profit for the period	0.08%	1.86%
Attributable to:		
Equity holders of the Company	(0.22)%	0.94%
Non-controlling interest	0.30%	0.92%
Net Income	0.08%	1.86%

YEAR ENDED DECEMBER 31, 2008 COMPARED WITH YEAR ENDED DECEMBER 31, 2007

**SALES.** Sales for the year ended December 31, 2008 increased by approximately NIS 99,534 thousand (USD 26,179 thousand), or 39.86%, to approximately NIS 349,227 thousand (USD 91,853 thousand) from NIS 249,693 thousand (USD 65,674 thousand) for the year ended December 31, 2007. This increase in sales resulted mainly from the recent consolidation of the revenues of the two subsidiaries - Shamir Salads and the Danish dairy distributor.

**COST OF SALES.** Cost of sales for the year ended December 31, 2008 increased to approximately NIS 281,651 thousand (USD 74,080 thousand), or 80.65% of sales, from approximately NIS 198,961 thousand (USD 52,331 thousand), or 79.68% of sales, for the year ended December 31, 2007. The increase in Cost of sales was mainly due to the recent strengthening of the U.S. dollar versus the NIS (devaluation of 13% in the second half of 2008) and due to the sharp decrease in the global purchase prices of food products in the fourth quarter of 2008.

**GROSS PROFIT.** Gross profit for the year ended December 31, 2008 increased to NIS 67,576 thousand (USD 17,773 thousand), or 19.35% of sales, in the year ended December 31, 2008, as compared to a gross profit of approximately NIS 50,732 thousand (USD 13,344 thousand), or 20.32% of sales, in the year ended December 31, 2007. The decrease in the gross profit margin was due to the recent strengthening of the U.S. dollar versus the NIS (devaluation of 13% in the second half of 2008) and due to the sharp decrease in the fourth quarter of 2008 in the global purchase prices of food products, resulting in the sharp decrease in the selling prices of the Company's products as well. Because the Company's commitments to purchase food products were based on higher prices from its vendors, the immediate consequence was a decline in the gross margin in the fourth quarter of 2008.

**SALES AND MARKETING EXPENSES.** Sales and marketing expenses for the year ended December 31, 2008 increased to approximately NIS 33,759 thousand (USD 8,879 thousand), or 9.67% of sales, from approximately NIS 24,263 thousand (USD 6,382 thousand), or 9.72% of sales, for the year ended December 31, 2007. This increase in sales and marketing expenses was mainly due to the sales and marketing expenses of the Company's two new subsidiaries, Shamir Salads and the Danish dairy distributor.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the year ended December 31, 2008 increased to approximately NIS 23,127 thousand (USD 6,083 thousand), or 6.62% of sales, from approximately NIS 18,869 thousand (USD 4,963 thousand), or 7.56% of sales, for the year ended December 31, 2007. This increase of general and administrative expenses was mainly due to the general and administrative expenses of the Company's two subsidiaries, Shamir Salads and the Danish dairy distributor, whose results were consolidated with the Company's results starting in 2008.

OTHER EXPENSE (INCOME). Other expense for the year ended December 31, 2008 amounted to NIS 2,195 thousand (USD 577 thousand) as compared to other income of NIS 470 thousand (USD 124 thousand) for the year ended December 31, 2007. Other expense for the year ended December 31, 2008, was mainly due to a final arbitration award entered against the Company for damages in the amount of NIS 1,981 thousand (USD 521 thousand) in connection with a dispute with the Vitarroz Corp.

IMPAIRMENT OF GOODWILL. Impairment of Goodwill expense for the year ended December 31, 2008, was NIS 1,067 thousand (USD 280 thousand) due to impairment of goodwill relating to the Danish dairy distributor, as compared to Impairment of Goodwill expense for the year ended December 31, 2007, of NIS 3,054 thousand (USD 803 thousand), which was due to impairment of goodwill relating to WF Kosher Food Distributors Ltd.

OPERATING INCOME. Operating income for the year ended December 31, 2008 increased by approximately NIS 2,412 thousand (USD 634 thousand), or by 48.09%, to approximately NIS 7,428 thousand (USD 1,954 thousand), or 2.13% of sales, from approximately NIS 5,016 thousand (USD 1,319 thousand), or 2.01% of sales, for the year ended December 31, 2007.

FINANCING INCOME (COSTS), NET. Financing costs, net, for the year ended December 31, 2008 was approximately NIS 5,707 thousand (USD 1,501 thousand) compared with Financing income, net, for the year ended December 31, 2007 of approximately NIS 2,274 thousand (USD 598 thousand). The financing costs for the year ended December 31, 2008 mainly included losses from marketable securities of NIS 4,836 thousand (USD 1,272 thousand) as compared to losses from marketable securities of NIS 68 thousand (USD 18 thousand) in the year ended December 31, 2007, and expenses due to rate exchanges of NIS 2,698 thousand (USD 710 thousand) in the year ended December 31, 2008 as compared to expenses due to rate exchanges of NIS 229 thousand (USD 60 thousand) in the year ended December 31, 2007. The financing income for the year ended December 31, 2008 mainly included interest income from short-term bank deposits of NIS 1,475 thousand (USD 388 thousand) as compared to NIS 2,251 thousand (USD 592 thousand) in the year ended December 31, 2007.

PRE-TAX INCOME. Income before taxes for the year ended December 31, 2008 decreased by approximately NIS 5,569 thousand (USD 1,465 thousand), or by 76.39%, to approximately NIS 1,721 thousand (USD 453 thousand) from NIS 7,290 thousand (USD 1,917 thousand) for the year ended December 31, 2007.

TAXES ON INCOME. Taxes on income for the year ended December 31, 2008 decreased to approximately NIS 1,454 thousand (USD 382 thousand) from approximately NIS 2,651 thousand (USD 697 thousand) in the year ended December 31, 2007. The decrease in taxes on income in 2008 as compared to 2007 was attributable to the decrease in income before taxes.

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NET INCOME. Net income for the year ended December 31, 2008 decreased by approximately NIS 4,372 thousand (USD 1,150 thousand), or 94.25%, to approximately NIS 267 thousand (USD 71 thousand), or 0.08% of sales, from approximately NIS 4,639 thousand (USD 1,220 thousand), equal to 1.86% of sales for the year ended December 31, 2007.

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### B. LIQUIDITY AND CAPITAL RESOURCES

The Company's operations are funded mainly through equity and cash flows from operating activities. The Company's bank indebtedness is secured by certain liens on its share capital, goodwill and certain other assets.

For the year ended December 31, 2008, cash and cash equivalents increased from approximately NIS 61.6 million (USD 16.2 million) at December 31, 2007 to approximately NIS 78.7 million (USD 20.7 million) at December 31, 2008.

During the year ended December 31, 2008, marketable securities decreased to NIS 9.4 million (USD 2.5 million) from NIS 31.3 million (USD 8.2 million) at December 31, 2007.

For the year ended December 31, 2008, the Company generated a positive cash flow from operating activities of approximately NIS 18.9 million (USD 5.0 million) as compared to positive cash flow from operating activities of approximately NIS 7.9 million (USD 2.1 million) in the year ended December 31, 2007, primarily as a result of an increase in trade and other payables, and accrued expenses of approximately NIS 11.6 million (USD 3.0 million) and of unrealized loss on marketable securities of approximately NIS 5.2 million (USD 1.4 million) which was offset by an increase in trade receivables and other receivables of approximately NIS 4.2 million (USD 1.1 million).

For the year ended December 31, 2007, the Company generated a positive cash flow from operating activities of approximately NIS 7.9 million (USD 2.1 million), primarily as a result of an increase in trade and other payables, and accrued expenses of approximately NIS 13.2 million (USD 3.5 million) which was offset by an increase in trade receivables and other receivables of approximately NIS 11.6 million (USD 3.0 million). Our trade receivables and other receivables increased primarily due to the increase in trade receivables.

During the year ended December 31, 2008, the Company utilized cash flow of NIS 3.1 million (USD 0.8 million) for investing activities, mainly for a purchase of the subsidiaries (Shamir Salads and the Danish dairy distributor) and purchase of additional shares of Gold Frost in the total amount of NIS 14.9 million (USD 3.9 million) and for additions to fixed assets of NIS 3.3 million (USD 0.9 million), which was offset by proceeds from realization of marketable securities, net, in the amount of NIS 16.7 million (USD 4.4 million).

During the year ended December 31, 2007, the Company utilized cash flow of NIS 44.3 million (USD 11.7 million) for investing activities, mainly for a purchase of subsidiary and purchase of additional shares of Gold Frost in the total amount of NIS 15.6 million (USD 4.1 million), for the purchase of marketable securities, net, in the amount of NIS 17.4 million (USD 4.6 million), and for additions to fixed assets of NIS 11.3 million (USD 3.0 million), consisting mostly of the investments in the Company's new logistics center.

During the year ended December 31, 2008, the Company generated cash flow from financing activities of NIS 1.3 million (USD 0.3 million) mainly due to short term bank borrowings. During the year ended December 31, 2007, the Company

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generated cash flow from financing activities of NIS 6.8 million (USD 1.8 million) due to short term bank borrowings.

The Company's cash requirements, net, during the years ended December 31, 2008 and 2007 were met primarily through its working capital. As of December 31, 2008, the Company had working capital of approximately NIS 122.5 million (USD 32.2 million) compared with working capital of NIS 142.6 million (USD 37.5 million) as of December 31, 2007. The Company believes that its working capital is sufficient for the Company's present requirements.

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The Company's trade receivables balance as of December 31, 2008 was NIS 79.6 million (USD 20.9 million) as compared to a trade receivables balance as of December 31, 2007 in the amount of NIS 63.8 million (USD 16.8 million). The average time period within which our accounts receivable were paid was 81 days for 2008, compared with 95 days for 2007.

### IMPACT OF INFLATION AND DEVALUATION ON RESULTS OF OPERATIONS, LIABILITIES AND ASSETS

The rate of inflation in Israel in recent years has been significantly reduced as compared to previous years. The rate of devaluation of the NIS against the U.S. Dollar, which was high until 2005, has reversed course and the representative rate of the U.S. Dollar was NIS 3.802 on December 31, 2008, compared with NIS 3.846 on December 31, 2007, NIS 4.225 on December 31, 2006, NIS 4.603 on December 31, 2005, and NIS 4.308 on December 31, 2004. As of June 22, 2009, the representative rate of the U.S. Dollar was NIS 3.955.

The annual rates of inflation in Israel during the years ended December 31, 2004, 2005, 2006, 2007 and 2008 were approximately 1.6%, 2.4%, (0.1%), 3.4% and 3.8%, respectively, while during such periods the devaluation of the NIS against the U.S. Dollar was approximately (1.6%), 6.8%, (8.2%), (9.0%) and (1.1%), respectively. During each of the years ended December 31, 2003, 2004, 2006, 2007 and 2008, the rate of inflation in Israel exceeded the rate of devaluation of the NIS against the U.S. Dollar, while during the year ended December 31, 2005 the rate of devaluation of the NIS against the U.S. Dollar exceeded the rate of inflation in Israel.

A revaluation of the NIS in relation to the U.S. Dollar has the effect of increasing the U.S. Dollar value of any assets of the Company which consist of NIS or receivables payable in NIS. Such a revaluation also has the effect of increasing the U.S. Dollar amount of any liabilities of the Company which are payable in NIS (unless such payables are linked to the Dollar). Conversely, any decrease in the value of the NIS in relation to the U.S. Dollar will have the effect of decreasing the U.S. Dollar value of any linked NIS assets of the Company and the U.S. Dollar amount of any linked NIS liabilities of the Company.

The dollar cost of the Company's operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel over the rate of inflation in the United States is offset by the devaluation of the NIS in relation to the U.S. Dollar.

The Company's assets are not linked to the Israeli CPI or the U.S. Dollar. However, some of the Company's liabilities are linked to the Israeli CPI and various foreign currencies. Consequently, inflation in Israel and currency fluctuations will have a negative effect on the value to the Company of payments the Company receives in NIS and on the Company's liabilities linked to foreign currencies.

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### GUARANTEES AND PLEDGES

Principally in connection with letters of credit issued to the Company, the Company has issued a debenture to each of Bank Leumi Le'Israel, Bank Mizrahi Ltd. and Bank Hapoalim B.M, pursuant to which the Company has pledged all of its assets (including its outstanding share capital and goodwill of the Company) in favor of such banks to secure its obligations or those obligations incurred by the Company jointly with third parties, including obligations with respect to letters of credit with the Company's suppliers. Bank Leumi Le'Israel, Bank Mizrahi Ltd. and Bank Hapoalim B.M have agreed among them that the pledges subject to such debentures will rank PARI PASSU. The outstanding amount of such letters of credit as of December 31, 2008 was approximately NIS 19,215 thousand (USD 5,054 thousand).

The Company also guarantees, without limitation as to amount and for an unlimited period of time, 51% of the obligations of its subsidiary, Shamir Salads, to the United Mizrahi Bank Ltd. and Ben-Leumi Le'Israel. As of December 31, 2008, Shamir Salads obligations to those banks amounted to NIS 13,385 thousand (USD 3,520 thousand).

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The Company also guarantees, without limitation as to amount and for an unlimited period of time, the obligations of its wholly-owned subsidiary, W.F.D., to the United Mizrahi Bank Ltd. As of December 31, 2008, W.F.D. had no obligations to United Mizrahi Bank Ltd.

The Company also guarantees, without limitation as to amount and for an unlimited period of time, the obligations of its subsidiary, Gold Frost, both to Bank Leumi Le'Israel and to the United Mizrahi Bank Ltd. As of December 31, 2008, Gold Frost had no obligations to such banks.

#### C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Not applicable.

#### D. TREND INFORMATION

In prior years, there has been an increase in the number of small private supermarket stores that have opened in Israel, which has resulted in greater price competition in the stores and in our business. The increased price competition resulted in an increase in our cost of sales as a percentage of total sales. In order to maintain our gross margin at its high levels, in the past we were able to change our product mix and introduce new products with higher margins to increase our gross profit. In 2007, the global market experienced steep price increases in agricultural commodities and cost pressures due to weather-related problems, reduced milk production, cessation of EU dairy export subsidies at the same time that consumption and demand increased in growing emerging markets. These factors negatively impacted our near term sales and gross margins. In 2008, and especially in the fourth quarter of 2008, the decrease in our gross margin continued due to the sharp decrease of the global purchase prices of food products, resulting in the sharp decrease in the selling prices of our products as well. Because our commitments to purchase food products were based on higher prices from our vendors, the immediate consequence was a decline in our gross margin in 2008, and a decline in 2009 first quarter gross margins. The decrease of global purchase prices of food products compounded with the strengthening of the U.S. dollar versus the NIS (a devaluation of more than 13% of the NIS in relation to the U.S. Dollar in the

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second half of 2008 and further devaluation of 10% in first quarter of 2009) and the general effects of the global economic recession, led to a gross margin of 19.35% in 2008 as compared to a gross margin of 20.32% in 2007. To the extent that global purchase prices of food products continue to decline, or the depreciation of the NIS versus the U.S. dollar continues, our gross margins may be impacted beyond the second quarter of 2009 because we must continue to purchase inventory from foreign vendors in advance to take into account the time for manufacture and shipment of products.

The Company is operating from a new logistics center starting from the second quarter of 2007 with the aim of increasing the efficiency of its logistic process and reducing its operating expenses. The Company is also working towards increasing its sales to customers outside of Israel.

The Company's management is evaluating the financial stability of its customers by entering into agreements with companies for providing business data, examining bank accounts, investigations, and following negative publications regarding those customers or other signs indicating financial difficulties.

In the U.S., despite the declining Jewish population (due to intermarriage and lower birth rates), a published report earlier this year concluded that global demand for kosher products is growing because of demand for kosher products is not limited to just the Jewish population. Kosher food now commands attention from a new crop of consumers and not just those who follow traditional Jewish dietary laws. In a survey referred to in this report, approximately 62% of respondents who buy kosher foods felt that kosher products are of better quality than non-kosher items, while approximately 51% of respondents who buy kosher foods felt that kosher products are healthier than non-kosher items. We believe that as increasing number of mainstream consumers are becoming concerned about the integrity of the food they eat for ethical or health reasons, and this will provide a growth opportunity for the kosher market, in which our subsidiary, Baron, is currently operating. In addition to the increase in health-conscious consumers, we believe that other ethnic or religious groups contribute to the increase in the kosher food market since the dietary restrictions for certain other religious groups are met by kosher food.

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### E. OFF-BALANCE SHEET ARRANGEMENTS

Not applicable

### F. TABULAR DISCLOSURE OF CONTRACTURAL OBLIGATIONS

The following table of the Company's material contractual obligations as of December 31, 2008 summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

Contractual Obligations	2008				
	Total	Payments due by period			More than
		Less than 1 year	1-3 years	3-5 years	5 years
Open purchase orders	NIS 19,215	NIS 19,215			

(in thousands)

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	(USD 5,054)	(USD 5,054)	-	-	-
Loans from banks (*)	NIS 17,246 (USD 4,536)	NIS 17,246 (USD 4,536)	-	-	-
Lease agreements (**)	NIS 584 (USD 153)	NIS 317 (USD 83)	NIS 267 (USD 70)	-	-
Total	NIS 37,045 (USD 9,743)	NIS 36,778 (USD 9,673)	NIS 267 (USD 70)	-	-

(\*) Does not include interest. The interest rates are as follows:

Overdraft in the amount of NIS 5,837 thousand (USD 1,535 thousand) bears interest at an annual rate of prime +1% through prime+6.65%.

Short term bank loans linked to the Israeli CPI in the amount of NIS 456 thousand (USD 120 thousand) bears annual interest of 5.91%.

Short term bank loans in the US dollar in the amount of NIS 3,296 thousand (USD 867 thousand) bears annual interest of Libor+1%.

Short term bank loans in the amount of NIS 7,657 thousand (USD 2,014 thousand) bears annual interest of prime+1% through 6.95%.

(\*\*) Does not include interest. The annual interest rates are between 3.75% to 9.81%.

### G. SAFE HARBOR

This Annual Report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, based on certain assumptions and information currently available to management, all of which are subject to certain risks and uncertainties including, among others:

- o changes affecting currency exchange rates, including the NIS/U.S. Dollar exchange rate,
  - o payment default by any of our major clients,
  - o loss of one or more of our principal clients,
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- o the loss of one of more of our key personnel,
  - o changes in laws and regulations, including those relating to the food distribution industry, and inability to meet and maintain regulatory qualifications and approvals for our products,
  - o termination of arrangements with our suppliers, in particular Arla Foods amba,
  - o increasing levels of competition in Israel and other markets in which we do business,



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- o changes in political, economic and military conditions in Israel, including, in particular, economic conditions in the Company's core markets,
- o increase or decrease in global purchase prices of food products,
- o our inability to accurately predict consumption of our products,
- o we may not successfully integrate our prior acquisitions,
- o interruption to our storage facilities,
- o product liability claims,
- o variations from quarter to quarter
- o our inability to protect our intellectual property rights,
- o Initiation and Enforcement of Legal Action in Israel,
- o our inability to continue to meet the NASDAQ listing requirements,
- o One shareholder owns a large percentage of our shares,
- o We are controlled by and have business relations with Willi-Food and its management,
- o Our international operations may be adversely affected by risks associated with international business, and
- o The price of our ordinary shares may be volatile.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results of operations may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

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### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. DIRECTORS AND SENIOR MANAGEMENT

The directors, executive officers and key employees of the Company as of the date of this Annual Report are as follows:

NAME	AGE	POSITION WITH THE COMPANY
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Joseph Williger	52	Chief Executive Officer and Director
Zwi Williger	54	Chief Operating Officer and Chairman of the Board
Rachel Bar-Ilan (1)	51	Director
Ariel Herzfeld (1)	54	External Director
Etti Cohen (1)	40	External Director

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Gil Hochboim	39	Vice President
Ety Sabach	36	Chief Financial Officer

(1) Members of the Company's Audit Committee.

The Directors are elected at the annual general meeting of shareholders and hold office until the next annual general meeting of shareholders and until their successors have been elected. Officers serve at the discretion of the Board, subject to the terms of any agreement between officers and the Company.

The business experience of each of the Directors, executive officers and key employees of the Company is set forth below:

JOSEPH WILLIGER has served as the Chief Executive Officer (or general manager) and a Director of the Company since its inception in January 1994. He has also served as a Chairman of the Company's subsidiaries, W.F.D. and Gold Frost, since November 1996 and April 2001, respectively. Mr. Williger has also served as a director and as chairman of the Board of Willi Food, the controlling shareholder of the Company, since December 1992 and June 1994, respectively. Mr. Williger has served as Director of Titanic, a company he owns together with Mr. Zwi Williger, since April 1990. Mr. Williger attended Bar-Ilan University in Israel and Nortrige University in Los Angeles. Mr. Williger is the brother of Zwi Williger, Chief Operating Officer and Chairman of the Board of Directors of the Company.

ZWI WILLIGER has served as the Chief Operating Officer and Chairman of the Company since January 1997, and from inception of the Company to January 1997 as a Director and Manager of Marketing Development of the Company. Mr. Williger has also served as a director of the Company's subsidiaries, W.F.D., Gold Frost and Shamir, since November 1996, April 2001 and January 2008, respectively. Mr. Williger has also served as a director of Willi Food since December 1992. Mr. Williger served as Director of Titanic since April 1990. Mr. Williger attended Fresno University in California. Zwi Williger is the brother of Joseph Williger, Chief Executive Officer and a director of the Company.

RACHEL BAR-ILAN has served as Director of the Company since May 2001. Since 2005, she has been the general manager of ORTHOBAR Company, a privately owned company established in 2002, which provides medical services and orthopedic equipment to hospitals, institutes, emergency medical care center and private clinics and patients. From 1999 to 2004, Ms. Bar-Ilan managed the marketing and application of medical laboratory instrumentation in medical laboratories of Medtechnica Ltd., a company publicly traded on the Tel Aviv Stock Exchange. From 1994 to 1999, Ms. Bar-Ilan worked for Agentec Ltd., where she has been in charge of the marketing and application of medical instrumentation in the chemical field. Ms. Bar-Ilan received her degree in Medical Science (M.Sc.) from the Technion - Israel Institute of Technology in Haifa, Israel.

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ARIEL HERZFELD has served as an external director since August 30, 2006. Mr. Herzfeld is a senior partner in the Israeli CPA firm, M. Herzfeld & Co. and in Herzfeld-Cohen Management Services where he served in auditing, consulting and managing services, including in information-systems projects to a wide variety of private and public organizations. Mr. Herzfeld also served as a director (including a member of the audit committee) in Crystal Consumer Products Ltd., a prominent Israeli importer of appliances that is traded in the Tel-Aviv Stock Exchange. Mr. Herzfeld was the managing partner in charge of the audit-force nominated by the Israeli Parliamentary Investigation Commission for

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locating and restoring of property for Holocaust victims in Bank Hapoalim B.M (one of the largest banks in Israel). Mr. Herzfeld earned his BA degree from the University of Denver in Colorado in 1978 and his MBA, majoring in Information Systems Analysis, from the Ono Academic College, in 2005. Mr. Herzfeld is a Certified Public Accountant (Isr.) and Certified Systems Analyst (Isr.).

ETTI COHEN has served as an external director since December 2007. Mrs. Cohen is an attorney at law in Israel. Mrs. Cohen has served as the Deputy Manager of Analyst Underwriting & Issue Ltd. since 2007. Prior to that, Mrs. Cohen served as the VP Marketing & Merchandising of Office Depot. From 2006, Ms. Cohen also served as a Marketing Manager of Partner Communication Ltd. Mrs. Cohen was responsible for the Marketing and Tariff Strategy. Mrs. Cohen has an LL.B from the College of Management, Rishon Lezion, Israel, and a B.A. in political science from the Hebrew University of Jerusalem, Israel.

GIL HOCHBOIM returned to the Company as Vice President in June 2007, with responsibility for mergers and acquisitions and general operations. Mr. Hochboim served as Chief Financial Officer of the Company between August 2000 and October 2006. Between March 1998 and August 2000, he served as deputy manager of Ha'menia Goods Transport Corp. Ltd., and between April 1995 and February 1998, Gil served as Deputy Comptroller of Dan Hotels Corp. Ltd. Mr. Hochboim is a certified public accountant (Israel). He received his BA in Accounting and Business Management from the College of Management, Tel Aviv, Israel.

ETY SABACH has served as Chief Financial Officer since May 29, 2008. Ms. Sabach has extensive experience in the food retail market. Prior to joining the Company she was the Chief Financial Officer of Burger Ranch (which was one of the largest fast food chains in Israel) where she began working in May 2002. Between January 1998 and April 2002, Ety served as a Senior Manager at PriceWaterhouseCoopers Israel. Ety is a certified public accountant (Israel), and she received her BA in Accounting and Business Management and MBA in Business Management from the College of Management, Rishon Lezion, Israel.

### TERMINATION OF OFFICE

YARON LEVY served as our Chief Financial Officer until May 2008.

### B. COMPENSATION

#### COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate compensation paid by the Company to its directors and officers as a group for the fiscal year 2008 was approximately NIS 3.6 million (USD 0.95 million), excluding bonuses in an aggregate amount of approximately NIS 75 thousand (USD 19.7 thousand) paid to Messrs. Joseph and Zwi Williger. These amounts include all contingent or deferred compensation payable to directors or officers during 2008. These amounts also include payments to non-executive directors in the aggregate amount of approximately NIS 242 thousand (USD 64 thousand) during 2008.

The foregoing does not include amounts expended by the Company for motor vehicles made available to its officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and other benefits commonly reimbursed and paid for by companies in Israel. The Company provides motor vehicles to key employees and certain officers, at the Company's expense.

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See also "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions".

### MANAGEMENT SERVICE AGREEMENTS

As of June 1, 1998, the Company entered into management services agreements with companies controlled by each of Messrs. Joseph and Zwi Williger, respectively (collectively, the "WILLIGER MANAGEMENT COMPANIES"), pursuant to which Messrs. Joseph and Zwi Williger provide management services on behalf of the Williger Management Companies to the Company (the "MANAGEMENT SERVICES AGREEMENTS").

The term of the Management Services Agreements were for a period of four years commencing on June 1, 1998 (the "MANAGEMENT SERVICES PERIOD"), were automatically renewed on June 1, 2002 for an additional period of two years and were automatically renewed for an additional period of two years in June 1, 2004. Under these agreements, the Company has the ability to terminate the Management Services Agreements only upon six months notice prior to the end of the Management Services Period or any extension thereof as the case may be. In the event the Company terminates any of the Management Services Agreements prior to the expiration of the Management Services Period or any extension thereof, for any reason whatsoever, it is obligated to pay all amounts due under the respective Management Services Agreements through the expiration of the Management Services Period or any extension thereof, as the case may be.

Each of the Management Services Agreements provides for monthly service fees equal to USD 24,500 (excluding VAT) and an annual bonus at a rate of 3% of the Company's pre-tax consolidated annual profits, if such profits are equal to or less than NIS 3.0 million (approximately USD 0.8 million), or at a rate of 5% if such profits exceed such level. The Management Services Agreements further provide that benefits in general, including the social benefits of Messrs. Joseph or Zwi Williger, and income tax payments, national insurance payments and other payments due by employees with respect of their employment, are to be paid for at the sole expense of the Williger Management Companies. The Williger Management Companies undertook to indemnify the Company with respect to any claims against the Company with respect to employer/employee relations. In addition, each of the Management Services Agreements includes non-competition provisions for the duration of the Management Services Period as well as confidentiality provisions.

In July 2005, the Management Services Agreements was amended as follows:

- (1) The term of the Management Services Agreements were extended indefinitely, subject to clauses (2), (5) and (6) below.
  - (2) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice, which will be delivered to the other party as follows:
    - o The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 18 months.
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- o Each Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.
  - (3) The Company may waive receiving actual management services from the Williger Management Company during the prior notice period, but this will

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not eliminate its obligation to continue paying the Williger Management Company the management fees owed to the Williger Management Company until the termination of the prior notice period.

- (4) If a Williger Management Company terminates the Management Services Agreement, the Williger Management Company will be entitled to receive the management fees for a period of six (6) months, which shall begin after the prior notice period, whether or not it provides the Company with any management services during such six-month period.
- (5) In the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case of the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.
- (6) Both Messrs. Zwi Williger and Joseph Williger have agreed with the Company that if a liquidation order or receivership order is issued against a Williger Management Company which prevents the Williger Management Company from continuing to provide the management services according to the Management Services Agreement, they will immediately commence working for the Company in return for pay and social benefits costing the Company the same amount as the monthly management fees that the Company paid the Williger Management Company to that date, or alternatively, at their sole discretion, shall begin providing the Company with management services via another company owned and controlled by them under the conditions of the Management Services Agreement.
- (7) In addition, the Management Services Agreements contain provisions regarding the Company providing vehicles for the use of Messrs. Zwi Williger and Joseph Williger, and regarding full reimbursement of expenses incurred by Messrs. Zwi Williger and Joseph Williger while providing the management services to the Company, including reasonable lodging and travel expenses in Israel and abroad, phone expenses in their home and mobile phone expenses, including calls abroad related to providing the management services to the Company, subject to providing receipts.

These amendments were approved unanimously by the Audit Committee and the Board of Directors on May 4, 2005, and Messrs. Zwi Williger and Joseph Williger did not participate in the meetings of the Audit Committee and the Board of Directors. These amendments were approved by the Company's shareholders on July 20, 2005.

On February 15, 2006, in light of the decision of the Israeli Securities Authorities to limit the duration of the aforesaid Management Services Agreements to a period of five (5) years, the Board of Directors decided to limit the duration of the Management Services Agreements to a period of five (5) years each, both ending five years after the date of their approval by the General Meeting of Shareholders (I.E. July 19, 2010).

On March 16, 2008, the Management Services Agreements with Messrs. Zwi Williger and Joseph Williger were amended as follows:

- (a) The current monthly services fees according to the Management Services Agreements will cease to be linked to the US Dollar and will be translated to NIS 102,900 (excluding VAT) linked to changes in the Israeli CPI.

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(b) The terms of the Management Services Agreements are to be extended indefinitely, subject to clause (c) below; provided however that in the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case of the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.

(c) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice which will be delivered to the other party as follows:

- o The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 36 months.
- o The Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.

(d) If a Williger Management Company is to terminate the Management Services Agreement, the Williger Management Company would be entitled to receive the management fees for a period of twelve (12) months, which will begin after the prior notice period, whether or not it provides the Company with any management services during such twelve-month period.

In addition, the Management Services Agreements contain provisions entitling each of Messrs. Zwi Williger and Joseph Williger to 30 vacation days per year, during which days the applicable Williger Management Company will not provide management services to the Company. Unused vacation days may be accumulated and paid for in lieu of taking such days as vacation.

The amendments were approved unanimously by the Audit Committee and the Board of Directors on January 2, 2008, and Messrs. Zwi Williger and Joseph Williger did not participate in the meetings of the Audit Committee and the Board of Directors. These amendments were approved by the Company's shareholders on March 13, 2008.

Under the Transfer Agreement described in "Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions", 50% of the Company's rights and obligations stipulated in the management agreement with Mr. Zwi Williger were transferred to Gold Frost and 20% of the Company's rights and obligations stipulated in the management agreement with Mr. Joseph Williger were transferred to Gold Frost.

### EMPLOYMENT AGREEMENTS

In June 2007, the Company entered into an employment agreement with Mr. Gil Hochboim, pursuant to which Mr. Hochboim agreed to serve as the Vice President of the Company. The agreement provides for a monthly salary and benefits customarily provided by the Company to its senior employees, including bonuses and the use of a vehicle.

In May 2008, the Company entered into an employment agreement with Ms. Ety Sabach, pursuant to which Ms. Sabach agreed to serve as the Chief Financial Officer of the Company. The agreement provides for a monthly salary and benefits customarily provided by the Company to its senior employees, including bonuses and the use of a vehicle.

### C. BOARD PRACTICES

### TERMS OF OFFICE

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Directors are elected by the shareholders at the annual general meeting of the shareholders, except in certain cases where Directors (who are not External Directors) are appointed by the Board of Directors, and their appointment is later ratified at the first meeting of the shareholders thereafter. Except for External Directors (as discussed below), Directors serve until the next annual general meeting of the shareholders.

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### ALTERNATE DIRECTORS

The Articles of Association of the Company provide that any director may, by written notice to the Company, appoint another person to serve as an alternate director. Under the Israeli Companies Law, the directors of the Company cannot appoint an incumbent director or an incumbent alternate director as an alternate director. The term of appointment of an alternate director may be for a specified period, or until notice is given of the termination of the specified period or of the appointment. A Director on a Board Committee may appoint anyone to be his Alternate subject to the potential alternate not being a member of such committee, and if the appointing Director is an External Director then the alternate must be an External Director having suitable financial and accountancy expertise or professional qualifications, as those of the appointing director. Except for the foregoing regarding a committee of the Board of Directors, an External Director cannot appoint an alternate director.

### AUDIT COMMITTEE

#### NASDAQ REQUIREMENTS

Our ordinary shares are listed for quotation on the Nasdaq Capital Market, and we are subject to the rules of the Nasdaq Capital Market applicable to listed companies. Under the current Nasdaq rules, a listed company is required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has accounting or related financial management expertise. Rachel Bar-Ilan, Etti Cohen and Ariel Herzfeld qualify as independent directors under the current Nasdaq requirement and are members of the Audit Committee. The role of the audit committee for Nasdaq purposes includes assisting the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the Company's accounting, auditing and reporting practices.

#### COMPANIES LAW REQUIREMENTS

Under the Israeli Companies Law, the board of directors of public company must appoint an audit committee, comprised of at least three directors including all of the external directors, but excluding a:

- o chairman of the board of directors;
- o controlling shareholder or his relative; and
- o any director employed by or who provides services to the company on a regular basis.

The responsibilities of the audit committee under the Israeli Companies Law include identifying irregularities in the management of the company's business and approving related party transactions as required by law.

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### INDEPENDENT DIRECTORS

The Company is a "Controlled Company" within the meaning of the Nasdaq rules since more than 50% of its voting power is held by Willi Food. As a Controlled Company, the Company is exempt from certain Nasdaq independence requirements, such as the requirement that a majority of the Board of Directors be independent and the rules relating to independence of directors approving nominations and executive compensation.

### EXTERNAL DIRECTORS UNDER THE ISRAELI COMPANIES LAW

The Israeli Companies Law requires that the Company have at least two external directors on its Board of Directors. The election of an external director under the Israeli Companies Law must be approved by a general meeting of shareholders provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of such arrangement (not including abstentions) or (b) the total number of shares voted against such arrangement does not exceed one percent of the aggregate voting rights in the company.

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A "Controlling Shareholder" is defined in the Israeli Companies Law as a shareholder with the ability to control the actions of the company, whether by majority ownership or otherwise, and for the purpose of transactions with related parties, it may include a shareholder who holds at least 25% of the voting rights in the Company, provided that there is no other Shareholder who holds more than 50% of the voting rights in the Company.

The Israeli Companies Law further requires that at least one external director have financial and accounting expertise, and that the other external director(s) have professional competence, as determined by the company's board of directors. Under recently enacted regulations, a director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company's financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company's business, or has at least five years experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company's business.

An External Director is appointed for a period of three consecutive years and may be re-appointed for one additional three-year period only. Under the Company's Articles of Association, any committee of the Board of Directors to which the Board of Directors has delegated its powers in whole or in part, must include at least one External Director. Under the Israeli Companies Law, the Audit Committee must include all the External Directors.

The External Directors of the Company are Mrs. Etti Cohen, who was appointed as an External Director in December 2007, and Mr. Ariel Herzfeld, who was appointed as an External Director in August 2006.

### FIDUCIARY DUTIES OF AN OFFICER



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The Israeli Companies Law governs the duty of care and duty of loyalty which an Officer has to the company. An "Officer" is defined in the Israeli Companies Law as a director, general manager, chief executive officer, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other managers directly subordinate to the general manager.

The duty of loyalty and to act in good faith, requires the Officer to avoid any conflict of interest between the Officer's position in the company and personal affairs, and proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantages for him or herself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company's affairs that the Officer has received due to his or her position as an Officer. The duty of care requires an Officer to act in a way that a reasonable Officer would act in the same position and under the same circumstances. This includes the duty to utilize reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information.

The Directors of the Company are entitled to obtain all information relating to such company's management and assets and to receive assistance, in special cases, from outside experts at the expense of the company. The law imposes an obligation on the directors of the company to act to convene a meeting of a company's board of directors upon becoming aware of matters that suggest infringements of law, neglect of good business practice or conduct by an Officer, which may result in a breach of duty of such Officer.

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### INTERNAL AUDITOR

Under the Israeli Companies Law, Israeli companies whose securities are publicly traded are also required to appoint an internal auditor, in accordance with the proposal of the audit committee. The role of the internal controller is to examine, INTER ALIA, whether the Company's actions comply with the law, integrity and orderly business procedures. Mr. Joshua Freund, CPA (Isr), has been the internal auditor of the Company since November 1997.

### INDEMNIFICATION

In accordance with the Israeli Companies Law and the Company's Articles of Association, the Company has undertaken to indemnify and insure its directors and senior officers, against certain liabilities which they may incur in connection with the performance of their duties. Under the terms of such indemnification provisions, the Company may, to the extent permitted by law, indemnify an Officer for legal expenses incurred by him/her in connection with such indemnification.

In 2005, the Company restated its Articles of Association in order to conform the Company's Articles of Association to the revised provisions of the Israeli Companies Law. On May 4, 2005, the Board of Directors and Audit Committee of the Company also approved an exemption in advance to any Director or Officer from any liability to the Company attributed to damage or loss caused by breach of the Director's or Officer's duty of care owed to the Company, except for such breach of duty of care in distribution (as such term is defined in the Israeli Companies Law).

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Also, the Board of Directors, the Audit Committee and the shareholders approved an irrevocable indemnification of the Officers by the Company with respect to any liability or expense paid for by the Officer or that the Officer may be obligated to pay.

### APPROVAL OF RELATED PARTY TRANSACTIONS UNDER THE ISRAELI COMPANIES LAW

The Israeli Companies Law requires that an Office Holder promptly disclose any direct or indirect personal interest that he/she or his/her affiliates may have, and all related material information known to him/her, in connection with any existing or proposed transaction by the company. If the Office Holder complies with such disclosure requirements, the company may approve the transaction in accordance with the provisions of its articles of association and the Israeli Companies Law. Under the Israeli Companies Law, if the Office Holder has a personal interest in the transaction, the approval must confirm that the transaction is not adverse to the company's interest.

In most circumstances, the Israeli Companies Law restricts Office Holders who have a personal interest in a matter which is considered at a meeting of the board or the audit committee from being present at such meeting, participating in the discussions or voting on any such matter.

Generally, under the Israeli Companies Law the compensation of an Officer who is a director, or the compensation of an Officer who holds a controlling interest in the company, requires the approval of the Audit Committee, the Board of Directors and the general meeting of the shareholders of the company. The Israeli Companies Law also requires that a transaction between the company and its Officer and also a transaction between the company and another person in which an Officer has a personal interest, requires the approval of the Board of Directors if such transactions are not extraordinary transactions, although, as permitted by law and subject to any relevant stock exchange rule. If such transactions are extraordinary transactions (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), in addition to Audit Committee approval, the transaction also must be approved by the Board of Directors, and, in certain circumstances, the shareholders of the Company at a general meeting. Under the Israeli Companies Law, an extraordinary transaction between a public company and a person having control of the company or an extraordinary transaction between a public company and another person, in which a controlling member has a personal interest, must be approved by the Audit Committee, the Board of Directors and a meeting of the shareholders, provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares voted by shareholders who do not have a personal interest in the matter and who are present at the meeting, are voted in favor of such arrangement (abstentions shall not be included in the total of the votes) or (b) the total number of shares of the shareholders referred to in clause (a) voting against such arrangement does not exceed one percent of the aggregate voting rights of the company.

Under the Israeli Companies Law, a private placement to a shareholder becoming a Controlling Shareholder, or a private placement to a principal shareholder (a holder of 5% or more of a company's issued share capital or voting rights) or due to which a shareholder will become a principal shareholder of at least 20% of the voting rights in the Company before such placement, is also subject to the approval of the Audit Committee, the Board of Directors and a meeting of the shareholders, as specified above. Directors with respect to whom the foregoing matters are brought for Board of Directors or Audit Committee

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approval are not entitled to be present during discussions of, nor to participate in the vote for approval of, such matters at the Board of Directors and/or Audit Committee meetings, unless a majority of Audit Committee or Board members, as the case may be, have a personal interest in such matter or the matter involves non-extraordinary transactions between the company and either a Director or a third party in which a Director has a personal interest. The Israeli Companies Law further provides that in the event that a majority of board members have a personal interest in such a matter, it also requires shareholder approval.

### D. EMPLOYEES

For information regarding the Company's employees see "Item 4". "Information on the Company - B. Business Overview - Employees".

### E. SHARE OWNERSHIP

For information regarding the share ownership of Directors and Officers of the Company see "Item 7. Major Shareholders and Related Party Transactions".

## OPTIONS

As of June 22, 2009, there were 561,982 outstanding options (warrants) to purchase ordinary shares of the Company, currently exercisable at a price of \$8.00 per share.

### EMPLOYEE SHARE OPTION PLAN

In May 1997, the Board of Directors of the Company adopted an employee share option plan (THE "1997 SHARE OPTION PLAN"), pursuant to which the Company granted options to purchase 180,000 ordinary shares to employees, officers, Directors and consultants of the Company and the subsidiary (including 160,000 options to related parties).

Of the above, options to purchase an aggregate of 130,000 ordinary shares were granted to Mr. Joseph Williger and Mr. Zwi Williger at an exercise price equal to the nominal value per share of NIS 0.10. The options were exercisable as to 20% every six-months anniversary from the date of grant, on a cumulative basis, during a period of five years. These options were exercised in January 2000.

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Options to purchase 35,000 ordinary shares were held by the Company's Officers and Directors (as a group) and options to purchase 15,000 ordinary shares were held by other employees. The options, granted as of the effective date of the Company's initial public offering under the Company's 1997 Share Option Plan, are generally exercisable during a five-year period commencing on the 24th month anniversary from the date of grant, at an exercise price equal to the initial public offering price per share - USD 4.10 per share, which was equal to the fair market value of the shares on the date of the grant. On April 2004, Zwi Williger and Joseph Williger exercised 15,000 options each at an exercise price of USD 4.10 per share. The 1997 Share Option Plan was terminated in May 2004, and the remaining 20,000 options expired unexercised.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

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The following table sets forth, as of June 22, 2009, the number of ordinary shares beneficially owned by (i) each shareholder known to the Company to own more than 5% of the ordinary shares and (ii) all directors and officers as a group:

NAME AND ADDRESS -----	NUMBER OF ORDINARY SHARES BENEFICIALLY OWNED -----	PERCENTAGE OF ORDINARY SHARES -----
Willi Food (1)	7,122,137	69.36%
Joseph Williger (1) (2)	7,208,292 (2)	70.20%
Zwi Williger (1) (2)	7,646,648 (2)	74.47%
All directors and officers as a group (2 persons)	7,732,803 (2)	75.31%

- (1) Willi Food's securities are traded on the Tel Aviv Stock Exchange. The principal executive offices of Willi Food are located at 4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106 Israel. The business address of each of Messrs. Joseph Williger and Zwi Williger is c/o the Company, 4 Nahal Harif St., Northern Industrial Zone, Yavne, 81106 Israel.
- (2) Includes 7,122,137 Ordinary Shares owned by Willi Food. Messrs. Zwi Williger and Joseph Williger serve as directors and executive officers of Willi Food and of the Company.

In August 2007, the Company announced the sale by Messrs. Zwi Williger and Joseph Williger of 42% of the outstanding shares of Willi Food to Mr. Arie Bar Lev (Arcadi Gaydamak) ("GAYDAMAK"). On September 24, 2008, each of the Williger Management Companies exercised its call option rights on shares in Willi Food and warrants (series 2) certificates to acquire shares in Willi Food that were held by Gaydamak and were granted by Gaydamak to the Williger Management Companies as security for loans that each made to Gaydamak. As a result, Zwi Williger (through his management company Zvi V & Co. Company Ltd.) acquired 2,059,539 additional shares of Willi Food and 150,000 additional warrants (series 2) certificates of Willi Food, and Joseph Williger (through his management company Yossi Willi Management & Investments Ltd.) acquired 2,059,538 additional shares of Willi Food and 150,000 additional warrants (series 2) certificates of Willi Food.

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Loans from the Williger Management Companies to Gaydamak were made under separate loan and option agreements signed on August 31, 2008 pursuant to which each of the Williger Management Companies loaned NIS 38 million to Gaydamak. Each loan was secured by securities in several companies, including a first priority lien on 2,059,539 (2,059,538 in the case of Yossi Willi Management & Investments Ltd.) shares of Willi Food (50% of Gaydamak's total Willi Food shares) and on 150,000 warrants (series 2) certificates (50% of Gaydamak's total Willi Food warrants (series 2) certificates). Under the loan and option agreements, the Williger Management Companies were granted call rights to acquire any or all of the securities on the occurrence of a default.

All of the shareholders of the Company (including Willi Food) have the same number of votes for each ordinary share held. Accordingly, the major shareholders of the Company, Willi Food, do not have voting rights that are

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different from those of the Company's other shareholders. The Company believes that 2,535,090 Ordinary Shares (approximately 24.69% of its outstanding Ordinary Shares) are held by persons who are not officers, directors or the owners of 10% of the Company's outstanding Ordinary Shares. As of June 22, 2009, there were 17 holders of Ordinary Shares of record registered with a United States mailing address, including banks, brokers and nominees. These holders of record, including a part of the Company's shares held by Willi Food through brokers, represented as of June 22, 2009 approximately 66.9% of the total outstanding Ordinary Shares. Because these holders of record include banks, brokers and nominees, the beneficial owners of these Ordinary Shares may include persons who reside outside the United States.

### B. RELATED PARTY TRANSACTIONS

#### MANAGEMENT SERVICE AGREEMENTS.

In June 1998, the Company entered into management service agreements with Mr. Zwi Williger, Chairman of the Board of Directors and Chief Operating Officer of the Company, and Mr. Joseph Williger, a director and Chief Executive Officer of the Company, through Williger Management Companies. The management service agreements replaced the employment agreements entered into with each of the individuals in April 1997. The term of the Management Service Agreements were for a period of four years commencing June 1998, were renewed in June 2002 for an additional period of two years and were automatically renewed in June 2004 for an additional period of two years. The management fees are USD 24,500 a month (excluding VAT) paid to each of the Williger Management Companies. In addition, according to the management service agreements, each of the Williger Management Companies is entitled to an annual bonus for 1998 and thereafter of 3% of the Company's consolidated pre-tax annual profits (if such profits are equal to or less than NIS 3 million, approximately USD 0.8 million), or 5% (if such profits exceed this level). These agreements include a non-compete provision for the term of the agreement as well as a confidentiality provision that applies during the term of the agreement and thereafter.

In July 2005 and March 2008, the two above-mentioned agreements were amended following approval of the Audit Committee, the Board of Directors and the shareholders of the Company. Please refer to "Item 6. Directors, Senior Management and Employees - B. Compensation - Management Service Agreements" for more details regarding the amendments.

Under the Transfer Agreement described below, 50% of the Company's rights and obligations stipulated in the management agreement with Mr. Zwi Williger were transferred to Gold Frost and 20% of the Company's rights and obligations stipulated in the management agreement with Mr. Joseph Williger were transferred to Gold Frost.

#### LEASE

Shamir leases two joined buildings for its operation (factory, logistics and head office) - the first is 2,512 squared meters, the monthly rent is NIS 40,432 (USD 10,634) (linked to the Israeli CPI from December 2005) and the lease ends on January 2012. The second is 2,192 squared meters, the monthly rent is NIS 41,141 (USD 10,821) (linked to the Israeli CPI from December 2005) and the term of the lease ends on January 2012.

#### SERVICES TO WILLI FOOD

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The Company has been providing certain services to Willi Food on an on-going basis since the Company's commencement of operations, including office space and certain management, financial and administrative services. On April 1, 1997, the Company entered into a service agreement with Willi Food, which became effective as of May 19, 1997, the effective date of the Company's initial public offering. Pursuant to this agreement, Willi Food is entitled to manage its operations from the Company's executive offices in Yavne, including use of office facilities.

The Company also agreed to provide Willi Food with accounting and secretarial services. In consideration for the use of the Company's facilities and such other services, Willi Food agreed to pay the Company a monthly fee equal to NIS 5,480 (USD 1,441) plus VAT. This fee is payable quarterly and is linked to the Israeli CPI. The agreement is for an unlimited term, and is mutually terminable upon three months prior notice. The Company believes that the fees for these services and the terms of such agreement are no less favorable to it than could be obtained from an unaffiliated third party.

As of April 1, 1997, the Company and Willi Food entered into an agreement pertaining to the allocation of corporate opportunities which may arise from time to time. The agreement provides that Willi Food will make available and provide a right of first refusal to the Company with regard to any corporate opportunity offered to Willi Food, which relates to the food business.

On March 31, 2003, the Board of Directors authorized Willi Food to participate in the import license lottery of the Israeli Ministry of Industry and Trade, provided that Willi Food agreed that if it wins an import license it will: (i) coordinate with the Company the items of merchandise to be imported using the import license; and (ii) in consideration for the transfer of the merchandise that is imported using the import license, the Company will sell the merchandise, retaining 20% of the selling proceeds for itself and transferring the balance, if any, to Willi Food. The Board of Directors determined that this arrangement is not an extraordinary transaction. In 2008, the amount retained by the Company pursuant to this arrangement was NIS 117 thousand (USD 31 thousand).

### TRANSFER AGREEMENT

Pursuant to the provisions of a Transfer Agreement, dated February 16, 2006, and effective as of January 1, 2006, the Company and Gold Frost agree to cancel their earlier agreement dated May 2001 (as amended in January 2002) under which the Company was to store and market the food products imported by Gold Frost through the Company for a commission of 20% (which changed from 15% since 2002) of the total monthly sales of Gold Frost's products, which were sold by the Company within that month. Because Gold Frost desired to store, market, sell and distribute its products on its own commencing January 1, 2006, the Company agreed to transfer to Gold Frost employees, equipment and various rights that would allow Gold Frost to store, market, sell and distribute its products on its own. The Company continues to provide certain services to Gold Frost, such as collection of payments from customers and others. Effective January 1, 2006, the following were transferred from the Company to Gold Frost:

**EMPLOYEES:** Sixteen employees ceased to be employees of the Company and became employees of Gold Frost. All the employees agreed to such transfer provided that all the rights to which they are entitled under their employment with the Company transferred to Gold Frost. The Company paid to Gold Frost the amount of NIS 47,927 (USD 12,606) with respect of sums due to the employees for unused vacation days and accumulated recuperation pay. Because the Company did not make all the required payments to the managers' insurance of certain employees, the Company agreed to pay any missing amounts to Gold Frost if and when relevant when the employer-employee relationship between Gold Frost and the employees terminates.

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**EQUIPMENT:** The Company sold to Gold Frost the ownership in certain trucks and other machines.

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**LOGISTICS CENTER:** The parties agreed to enter into a lease agreement pursuant to which Gold Frost would lease certain cooling chambers located in the logistic centers. Please refer to "Lease agreement for Logistics Center" below for more details regarding the lease agreement.

**SALES ACTIVITIES:** The sale personnel of Gold Frost would be responsible for the sales activities with respect of the Gold Frost products. However, since until the date of the agreement such sales activities were performed by the Company and in order to allow Gold Frost to benefit from the Company's experience and reputation among customers, sales of Gold Frost's products in Israel will be made through the Company. Gold Frost's products would be sold to the Company and then sold to customers of Gold Frost. The Company would be responsible for billing and collecting payments from customers, and will then transfer all collected payments to Gold Frost. Although the Company would, in fact, purchase the products from Gold Frost, all risks connected with the collect of payments from customers would be borne by Gold Frost.

**ADDITIONAL SERVICES:** The Company agreed to provide certain services to Gold Frost including, among others, professional services (such as legal services, accountants and directors insurance), communication, office maintenance (such as courier services, electricity and others) and other. In consideration for such services, Gold Frost would pay the Company a certain amount based on a pro-rata amount of the management and general expenses of the Company as they appear in the audited financial statements of the Company.

**THE DIRECTORS:** The Company assigned to Gold Frost 50% of its rights and obligations under its agreement with the management agreement of Mr. Zwi Williger and 20% of its rights and obligations under the management agreement of Mr. Joseph Williger. Consequently, the management company of Mr. Zwi Williger would provide to Gold Frost 50% of its management services that were previously provided to the Company, and the management company of Mr. Joseph Williger would provide to Gold Frost 20% of its management services that were previously provided to the Company. The parties further agreed that Gold Frost would pay the management company the annual bonus from its pre-tax annual profits, and the Company would pay the management company its annual bonus after deducting the annual bonus paid by Gold Frost.

**TERM AND TERMINATION:** The agreement is terminable at any time by Gold Frost by a six-month prior written notice and by the Company by a twelve-month prior written notice.

### LEASE AGREEMENT FOR LOGISTICS CENTER

The Company and Gold Frost are parties to a lease agreement with respect to the Company's logistics center, located in Yavne, Israel. The Company agreed to lease to Gold Frost cooling chambers of 1,445 square meters located in the aforementioned logistics center for a period of 24 years and 11 months. The lease period may be shortened by a six-month prior notice from Gold Frost or by a twelve-month prior notice from the Company. Gold Frost is to pay the Company rental fees in the amount of USD 18,084 + VAT per month, payable on the first day of each quarter with respect of the coming three months, and Gold Frost will also pay all taxes usually imposed on lessees and expenses such as electricity, water, gas, insurance and others related to its use of the cooling chambers.

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### C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The financial statements required by this item are found at the end of this report, beginning on page F-1.

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### DIVIDEND POLICY

On November 21, 2005, the Board of Director declared a cash dividend of NIS 0.55 (USD 0.14) per share (or an aggregate of NIS 4,754 thousand (USD 1,250 thousand)) payable to its shareholders of record as of January 11, 2006. The cash dividend was paid on January 25, 2006. Apart from the abovementioned, the Company has never declared or paid cash dividends on its ordinary shares. The Company may declare cash dividends in the future, depending on its financial and operational condition and on its expansion strategy.

### LEGAL PROCEEDINGS

1. A lawsuit was filed in December 2001 against 29 importers/producers of food products, including the Company, for an amount totalling NIS 500 million. Concurrently, the plaintiffs filed a request for an exemption from the court fee. Following the court's rejection of the plaintiffs' request for the noted fee exemption and their failure to pay such fee, the court dismissed the case. In January 2004 the abovementioned plaintiffs filed a new lawsuit against the 29 noted importers/producers for NIS 1 billion. Again, a request was made concurrently for an exemption from the court fee. This request was rejected by the registrar of the court, and the action was dismissed without prejudice in November 2006.

The plaintiffs then filed an appeal with the District Court of the registrar's November 2006 decision. This request was rejected by the registrar of the District court. The plaintiffs then filed an appeal with the Supreme Court, and requested an exemption from the court fee for the appeal and from the requisite security deposit. In June 2009 the Supreme Court dismissed the claim.

2. In or about October, 2005, Vitarroz Corp. ("VITARROZ" or, the "PLAINTIFF") commenced an action in the Superior Court of the State of New Jersey, against Willi USA Holdings, Inc. (a subsidiary of the Company), the Company and Zwi Williger (collectively, the "DEFENDANTS") due to a dispute concerning a press release announcing the termination of the proposed acquisition of the Vitarroz business by the Company. In September 2005, the Company removed the matter from the Superior Court of New Jersey to the United States District Court for the District of New Jersey. The complaint was subsequently amended and, as amended, alleged, inter alia, breach of contract, defamation, breach of covenants of good faith and fair dealing, fraudulent inducement and tortious interference with contractual relations and prospective economic advantage. The Defendants did not respond to the complaint as an agreement was reached to arbitrate all disputes between the parties and certain third parties. The parties agreed to submit to binding arbitration (i) the claims which were the subject of the amended complaint, (ii) claims that the Defendants have against the Plaintiff and related



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third parties, and (iii) claims which the Company asserted against Vitarroz in an action that was then pending in Israel regarding the alleged breach of an agreement executed by the Company and Vitarroz, pursuant to which Vitarroz was to supply food products to the Company. Vitarroz claimed in correspondence to the District Court that it sustained, inter alia, damage: to its financial reputation; that suppliers refused to extend favorable credit and delivery terms; that there were lost profits of approximately USD 500,000; and that its sale to IDT realized a sales price of approximately USD 3 million less than what was expected; and that there are additional damages resulting from the Defendants' actions which are claimed to exceed USD 3.5 million. During the course of discovery, Vitarroz submitted the reports of its financial expert claiming damages in excess of USD 6.6 million. The Company submitted the report of its financial expert claiming damages in excess of \$10 million. The arbitration panel granted an award against the Company in the amount of approximately USD 0.6 million. Among other things, the panel found that the press release issued by the Company announcing the termination of the proposed acquisition of the Vitarroz business by the Company constituted a breach of contract and violation of the covenant of good faith and fair dealing. In addition, the panel rejected the Company's counterclaims. On October 13, 2008 the Company filed a motion to the Superior Court of the State of New Jersey New to vacate the award. A reserve on the full award is included in the Company's 2008 financial statements.

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3. On February 21, 2007, a lawsuit was filed against Gold Frost by Cukierman & Co. Investment House Ltd. in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 273,852, claiming non payment of fees for professional services rendered. A statement of defense was filed. Given the early stage of these proceedings, the Company is unable at this point to assess the risks involved.
4. In September 2007, Thurgeman Construction Co. Ltd. ("THURGEMAN") filed a claim against the Company in the District Court of Tel Aviv for the amount of NIS 4,449,340 (plus VAT) (USD 1,170,263) regarding a dispute in connection with the construction of the Company's logistics center in Yavne (the "PROJECT") pursuant to a contract between the parties, dated as of September 9, 2005. Under the terms of the contract, Thurgeman was to serve as the operating contractor for the construction of the frame and the surrounding portions for the construction of the Project.

During the course of construction on the Project, the parties raised several claims against each other in connection with the progress of construction on the Project. The Company claimed that Thurgeman grossly violated the terms of the contract by continuous delays in the completion of the Project, and by performing the construction work in a negligent and unprofessional manner and with inferior quality. Thurgeman counterclaimed that it performed the construction work according to the terms of the contract and that any delays in the work were not caused through any fault of Thurgeman. Furthermore, Thurgeman claimed that the Company withheld certain payments to which Thurgeman was entitled for additional work on the Project, causing Thurgeman damages.

At the end of November 2007, the Company filed a statement of defense, which included a counterclaim against Thurgeman and its executive, Dotan Thurgeman, which contained among other things, a claim of defamation, a claim for damages caused by the delay in delivery of the completed Project, and damages caused by Thurgeman's poor and careless work on the Project.

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The sum of the damages claimed by the Company in the counterclaim was NIS 5 million (USD 1.3 million). In February 2008, Thurgeman filed a response to the counter claim. The parties started performing the preliminary proceedings.

At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

5. On June 18, 2006, the Company filed a claim against Filiz and Ash-Bar ("FILIZ AND ASH-BAR") in the amount of NIS 4,473,878 (USD 1,176,717) for breach of contract. The complaint was served on Filiz and Ash-Bar through Ash-Bar's chief executive officer. Filiz then filed a request to cancel the complaint, claiming that Ash-Bar is not authorized to accept service of process on its behalf. The request was denied by the court's registrar.

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On November 4, 2007, Filiz filed an appeal of the registrar's decision and requested an extension for filing its defense to the complaint pending a decision on the appeal. The appeal was denied and the service of process was accepted by the court.

Notwithstanding the fact that the proceedings are still at a preliminary stage, the Company's legal counsel believes that the complaint is based on sound legal arguments, and that there is a reasonable possibility that a not insignificant portion of the arguments will be sustained by the court.

6. On July 7, 2008, WF filed a lawsuit in the Supreme Court of the State of New York, Country of New York, against Laish Israeli Food Products Ltd., Laish Dairy Ltd., 860 Nostrand Associates Llc., Arie Steiner, Eli Biran (WF's former CEO) and others. The plaintiffs assert claims, INTER ALIA, of fraud, conversion and breach of contract against the sellers and former principal of Laish Israeli Food Products Ltd. and related parties. Certain defendants have filed motions to dismiss the claim. On August 27, 2008, 860 Nostrand Associates Llc. filed a lawsuit against the Company claiming that the Company is liable to it as a guarantor of a certain lease that was allegedly signed by WF. Damages are being sought These matters are in the early stage of discovery.
7. On September 22, 2008, a lawsuit was filed against the Company, WF and one of the Company's officers by several Israeli's WF's vendors in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 1,349,899 (USD 355,050), claiming non payment by WF for food products that they allegedly supplied to WF. A statement of defense was filed. Even at the early stage of these proceedings, the Company's management and legal counsel believe that the lawsuit against Company and the Company's officer are without merit, and they intend to vigorously defend against such claims.
8. In November 2008, a purported class action lawsuit was filed by an individual against Shamir Salads. The complaint, which has not been recognized as a class action, alleges that Shamir Salads misled its customers by writing on certain of its products that such products were "home production" while those products were manufactured in Shamir Salad's industrial factory. The complaint alleges damages of approximately NIS 7.45 million. Shamir Salads believes that the complaint is without merit and intends to vigorously defend against the litigation.
9. On April 16, 2009, a purported class action lawsuit was filed against the Company. The complaint alleges that the Company misled its customers by

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illegal marking of a product that the Company imports and sells as "sugar free", according to the Israeli Consumer Protection Law, 1981.

The group, which the lawsuit desires to represent are any Israeli resident who bought this product due to such person's preference for a sugar free or a reduced sugar product (the "GROUP"). According to the plaintiff, the Group consists of 2,000 customers. The plaintiff appraises its own damages at NIS 2,000 (approximately USD 500) and the damages of the entire Group to be NIS 4 million (approximately USD 1 million).

At this preliminary stage, the Company is examining the plaintiff's alleged claims, and it will respond and relate to the allegations, to the extent necessary, after its examination and after consulting with its legal advisors.

Other than as stated above, there are no pending or, to the Company's knowledge, threatened legal proceedings, the outcome of which, in the Company's view, would have a material adverse affect on the Company's consolidated financial position.

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For information concerning taxes to which stockholders in the United States may be subject, see "Item 10.Additional Information- Taxes".

### B. SIGNIFICANT CHANGES

We are not aware of any significant changes bearing upon our financial condition since the date of the audited consolidated financial statements included in this Annual Report.

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

Our ordinary shares have been traded on the Nasdaq Capital Market since May 19, 1997. On March 15, 2006, the ticker symbol of our ordinary shares was changed from "WILCF" to "WILC". The warrants that were issued as part of our initial public offering in May 1997 expired in May 2000.

The following table sets forth for the periods indicated the closing representative high and low bid quotations of our ordinary shares as reported by Nasdaq and adjusted according to the split by bonus share which took place on December 2004. The bid quotations are expressed in United States Dollars and are not adjusted for retail mark-up, mark-down or commissions and do not necessarily represent actual transactions.

CALENDAR PERIOD -----	ORDINARY SHARES -----	
	HIGH -----	LOW -----
2009		
Second Quarter (through June 22, 2009)	2.29	1.26
First Quarter	1.63	0.86
2008	6.95	1.39
First Quarter	6.95	5.32
Second Quarter	5.93	4.11
Third Quarter	4.3	2.8

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Fourth Quarter	2.92	1.39
2007	8.9	5.2
First Quarter	8.05	5.2
Second Quarter	8.64	7.2
Third Quarter	8.9	5.35
Fourth Quarter	7.19	5.39
2006	8.83	3.22
2005	8.47	3.00
2004	4.24	1.73
June 2009 (through June 22, 2009)	2.29	2.00
May 2009	2.13	1.5
April 2009	1.55	1.26
March 2009	1.3	0.86
February 2009	1.63	1.41
January 2009	1.6	1.4
December 2008	1.63	1.39

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B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

In May 1997, our ordinary shares began trading on the Nasdaq Capital Market under the symbol "WILCF". On March 15, 2005, the Company's NASDAQ ticker symbol was changed to "WILC".

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES ON THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

PURPOSES AND OBJECTS OF THE COMPANY

We are a public company registered under the Israeli Companies Law as G. Willi-Food International Ltd., registration number 52-004320-9.

Pursuant to Article 6 of our articles of association, we were formed for the purpose of importing, exporting and marketing products and other commodities. Our Board of Directors is empowered to embark on or withdraw from any business in which we deal. Under our articles of association, our Board of

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Directors is entitled to donate reasonable amounts to worthy causes, even if such donation is not within the framework of our business considerations.

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### THE POWERS OF DIRECTORS

The powers of a Director to vote on a proposal, arrangement or contract in which such Director is materially interested is limited by the relevant provisions of the Israeli Companies Law. In addition, the power of the Directors to vote compensation to themselves or any members of their body requires the approval of the Audit Committee and the shareholders at a general meeting, in addition to the approval of the Board of Directors. Compensation and indemnification of expenses of External Directors must be in accordance with the applicable provisions of the Israeli Companies Law.

The Israeli Companies Law and our Articles of Association require that a Director or Office Holder promptly disclose, either at a board meeting or by way of a general notice, any personal interest that he or she may have and all related material information know to him or her in connection with any existing or proposed transaction by the Company. In addition, if the transaction is an extraordinary transaction (as defined in the Israeli Companies Law), the member of the Board of Directors or Office Holder, must also disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing.

Once the Director or Office Holder complies with the above disclosure requirements, the Company may approve the transaction in accordance with the provisions of the Articles of Association. If the transaction is with a third party in which the member of the Board of Directors or Office Holder has a potential interest, the approval must confirm that the transaction is not adverse to the Company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the Articles of Association, it also must be approved by the Audit Committee and then by the Board of Directors, and, under certain circumstances, by a meeting of the shareholders of the Company. See "Item 6. Directors, Senior Management and Employees - 6C. Board Practices - Approval of Related Party Transactions under the Israeli Companies Law".

Directors with respect to whom the foregoing matters are brought for Board of Directors or Audit Committee approval are not entitled to be present during discussions of, nor to participate in the vote for approval of, such matters at Board and/or Audit Committee meetings, unless a majority of Audit Committee or Board members, as the case may be, have a personal interest in such matter or the matter involves non-extraordinary transactions between the company and either a Director or a third party in which a Director has a personal interest. The Israeli Companies Law further provides that in the event that a majority of board members have a personal interest in such a matter, shareholder approval is also required.

The Articles of Association provide that the Board of Directors, subject to the Israeli Companies Law, may, at its discretion from time to time in accordance with the needs of the Company, make decisions to borrow and/or obtain credit facilities in any amount and to secure the repayment thereof either by mortgage, charge or other security on the Company's undertakings or on its property, in whole or in part (both existing and future) including the share capital of the company which is, at the time, uncalled.

Subject to applicable provisions of the Israeli Companies Law regarding

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matters that the Board of Directors may not delegate to a committee, or matters for which a committee may only make recommendation to the Board of Directors, the Board of Directors may delegate its powers to committees consisting of at least three (3) Directors, including at least one External Director. A resolution passed or an action taken by a directors' committee has the same validity as a resolution passed or an action taken by the Board of Directors, unless otherwise specifically expressed in the resolution of the Board of Directors that established said committee.

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### RIGHTS ATTACHED TO SHARES

The Company is authorized to issue 49,893,520 Ordinary Shares, par value NIS 0.10 and 106,480 Preferred Shares, par value NIS 0.10, each ranking pari passu. The Company may alter the share capital of the Company in accordance with the provisions of the Israeli Companies Law and the Articles of Association. The rights attached to the Company's Shares are as follows:

### DIVIDEND RIGHTS

Holders of Ordinary Shares are entitled to participate pari passu with all other shareholders of the Company's Ordinary Shares in any distribution of a dividend, whether in cash, assets, or in any other legal form, declared, as well as the right to participate pari passu with all other holders of our Ordinary Shares in the distribution of bonus shares resolved by the Company. The Articles of Association note that a shareholder shall not be entitled to receive a dividend or bonus shares as above, and shall not be entitled to exercise any right as a shareholder unless he has paid in full all notices of call delivered to him, together with linkage differences, interest and expenses owed, as applicable, on calls which have not been paid by him on time.

### VOTING RIGHTS

Holders of Ordinary Shares of the Company have the right to receive notices of general meetings of the Company, to be present, and to participate and vote therein. Each holder of Ordinary Shares in the Company has the right to one vote per share in the general meetings of the Company on all matters submitted to a vote of shareholders. A shareholder may vote in person, via proxy, or by means of a written form ("VOTING INSTRUMENT") described in the Articles of Association. Any resolution of the Company in a general meeting shall be deemed duly passed if passed by a simple majority of registered shareholders present and voting, unless a different majority is required by the Israeli Companies Law or the Articles of Association.

Under the Articles of Association, the Directors are elected annually by the registered shareholders at the annual meeting. Directors hold office until the conclusion of the next annual meeting or until their earlier removal or resignation. In addition, at least two (2) External Directors who comply with the qualifications described in the Israeli Companies Law must serve on the Board of Directors. External Directors are appointed by a majority vote at a general meeting, provided that: (i) the majority vote includes at least one-third of the total number of the voted of the non-controlling shareholders voting at the meeting, with abstentions not taken into consideration in calculating the total number of the non-controlling shareholders, and (ii) the total number of non-controlling shareholders voting against the resolution appointing an External Director is not more than 1% of the overall voting rights in the Company. External Directors are appointed for a term of three (3) years and their office may be extended by a resolution of the general meeting for an

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additional three (3) years. An External Director may be removed from office only in accordance with the relevant provisions of the Israeli Companies Law.

If no Directors are elected at an annual meeting, then the persons who served as Directors immediately prior to the annual meeting will continue to serve as directors unless otherwise determined by the annual meeting or by the Board of Directors. A Director who has ceased to serve in office is eligible for reelection. The Board of Directors has the power to appoint additional Directors to fill a vacancy, so long as the number of directors will not exceed a number of Directors approved at a general meeting. Any Director so appointed will hold office until the conclusion of the next annual meeting unless he is removed or resigns earlier.

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### RIGHTS IN THE COMPANY'S PROFITS

The shareholders of the Company have the right to share in the Company's profits distributed as a dividend and any other permitted distribution. See "Dividend Rights" above.

### RIGHTS IN THE EVENT OF LIQUIDATION

Holders of Ordinary Shares are entitled to receive any return of capital, *pari passu*, with all other ordinary shareholders, upon the dissolution of the Company. Holders of Ordinary Shares are also entitled to participate, *pari passu*, with all other Ordinary Shareholders in the distribution of the surplus of the Company's assets available for distribution in the event of dissolution of the Company which remain after the Company has paid the holders of Ordinary Shares all amounts payable as return of capital.

### LIABILITY TO FURTHER CAPITAL CALLS BY THE COMPANY

If the terms of allotment of any shares of the Company do not specify a particular date for the payment of all of the consideration which is to be paid therefore, or any part thereof, our board of directors may, from time to time, as it deems fit, make calls on the shareholders in respect of the amounts not yet paid for their shares, whether on account of the par value of the shares or on the account of the premium, and each shareholder shall be obligated to pay the Company the amount so demanded from him not later than the date of payment set forth in the notice containing the call. Shareholders shall be given prior notice of at least fourteen (14) days in respect of any call. In the event that amounts set forth in the call have not been paid in whole or in part as of the date of payment set forth in the call, the shareholders shall be obligated to pay linkage differences or interest (or both) on the outstanding amounts, as determined by the Board of Directors.

### CHANGING RIGHTS ATTACHED TO SHARES

Under the Articles of Association, the Company may, by resolution of a general meeting, vary the rights attached to any class of shares on the Company's stamp or its printed name (unless otherwise determined in the terms of issue of the shares of such class), after obtaining the written consent of the holders of the majority of the issued shares of said class or with the approval of a resolution duly passed at a class meeting of the holders of such class of shares.

### ANNUAL AND EXTRAORDINARY MEETINGS

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The Board of Directors must convene an annual meeting at least once every calendar year, within fifteen months of the preceding general meeting, at a place prescribed by the board so long as it is in the State of Israel. Per the Articles of Association and subject to the provisions of the Israeli Companies Law, notices to shareholders regarding the convocation of a general meeting are to be published in two daily Hebrew language newspapers circulated in Israel. Notice need not be served to our shareholders on an individual basis.

The Board of Directors will convene a special, extraordinary meeting upon receipt of a written request from either (i) two directors or 25% of the total number of directors; (ii) one or more shareholders holding at least 5% of the issued share capital and at least 1% of the shareholders' voting power; or (iii) one or more shareholders holding no less than 5% of our issued voting shares. If the Board is required to convene an extraordinary meeting, it shall convene it at a time which is at least 21 days, but not longer than 35 days after the date of the notice of convening such meeting. In the event that the board of directors does not convene an extraordinary meeting within the timeframe set forth above, those that submitted the request for such meeting, or part of them representing more than one-half of the voting rights of all of them, may convene the extraordinary meeting themselves, provided that such meeting is held within three months of the time when the extraordinary meeting was requested.

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### LIMITATIONS ON THE RIGHTS TO OWN SECURITIES

The Articles of Association do not place limitations on the rights to own securities. Under the Articles no limitations apply to the transfer of shares in the Company and the number of shareholders is unlimited.

### CHANGES IN THE COMPANY'S CAPITAL

Changes in the capital of the Company are subject to the approval by ordinary majority of the shareholders at a general meeting. Shareholders may resolve to increase the authorized share capital; consolidate our share capital and divide it into shares of greater value than existing shares; divide existing shares into shares of lesser value; cancel any authorized share capital which has not yet been allotted (provided there is no undertaking to allot such share capital); or reduce the capital by way of a distribution if such distribution has been approved by a court, in accordance with the relevant provisions of the Israeli Companies Law. If the shareholders resolve to increase the share capital, the new shares will be subject to the same provisions applicable to the shares of the original capital.

Neither the Memorandum of Association nor Articles of Association of the Company nor the laws of the State of Israel restrict in any way the ownership or voting of ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel.

### C. MATERIAL CONTRACTS

Set forth below are summaries of our material contracts. Because these are summaries, they are qualified by reference to the actual agreements, which are attached as exhibits to this Annual Report.

RELATIONSHIP AGREEMENT. The Company, Gold Frost, Willi Food, Zwi Williger and Joseph Williger each are party to a Relationship Agreement, dated February 28, 2006, pursuant to which the Company, as a controlling shareholder, and Willi Food, the Company's controlling shareholder, and Zwi Williger, and Joseph



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Williger have given certain undertakings to Gold Frost. Under the agreement, the Company undertook to Gold Frost to exercise all voting rights and powers of control available to it in relation to Gold Frost in order that:

(i) Gold Frost is capable of carrying on its business independently of the Company;

(ii) all transactions, agreements or arrangements entered into between Gold Frost, the Company and its "associates" (as defined in the agreement) will be made at arm's length and on a normal commercial basis, or as otherwise approved in accordance with Israeli law;

(iii) no variations will be made to Gold Frost's articles of association which would be contrary to the maintenance of Gold Frost's ability to carry on its business independently of the Company;

(iv) each proposed related party transaction between any of the Company, Willi Food, Zwi Williger, Joseph Williger or any of their associates, on the one hand, and Gold Frost or any subsidiary thereof, on the other hand, will be considered on behalf of Gold Frost by its Board of Directors as a whole (or by committee of the Board that has at least one non-executive director present throughout) and the Company nor any of its associates will seek to influence the consideration of such matter by the Board of Directors (or the committee) in such a way as to further the interests which are or are potentially in conflict with the interests of Gold Frost or any subsidiary thereof;

(v) in the event that a conflict of interest or potential conflict of interest exists or is likely to arise between any of the Company, Willi Food, Zwi Williger, Joseph Williger or any of their associates, on the one hand, and Gold Frost or any subsidiary thereof, on the other hand, disclosure of such conflict shall be made to the board of Gold Frost and any decision by the board of directors of Gold Frost shall be taken by the board but excluding any director who is the Company, or Willi Food, or Zwi Williger, or Joseph Williger or any of their associates or appointed by the Company or Willi Food, or Zwi Williger, or Joseph Williger,

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(vi) the independence of the board of directors of Gold Frost is maintained so as to enable independent decisions as to the enforcement of the agreement to be taken independently of the Company, any of Willi Food, Zwi Williger, Joseph Williger or any of their associates, and

(vii) the provisions of the agreement will be observed. The Company had also undertaken to Gold Frost not to undertake any activity, which would conflict with Gold Frost and would render Gold Frost incapable of carrying on its business independently.

The agreement will terminate if the Company ceases to hold 30% or less of the share capital of Gold Frost.

PRIVATE PLACEMENT ON OCTOBER 2006. On October 5, 2006, we completed a private placement of our ordinary shares pursuant to a Securities Purchase Agreement entered into between us and certain accredited investors on September 20, 2006. Pursuant to the terms of this purchase agreement, these investors purchased from us an aggregate of 1,652,893 ordinary shares at a price of \$6.05 per share and warrants to purchase 495,866 ordinary shares with an exercise price of \$8.00 per share.

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The warrants can be exercised at any time and from time to time from their issuance date and through the 3rd anniversary of the issuance date. Following the one-year anniversary of the issuance date, if the average trading price of our ordinary shares for any 20 trading day period is equal or greater than \$16.00, we may elect, subject to certain restrictions, to require the exercise of up to all of the then unexercised portion of the warrants. The exercise price and the number of shares issuable upon exercise of the warrants are subject to customary adjustments in the event of stock dividend, splits or fundamental transactions. The warrants have a cashless exercise provision that allows the holder to receive a reduced number of ordinary shares without paying the exercise price in cash. Such option is only available, however, following the first anniversary of the issuance date and only at a time when the registration statement of which this prospectus is a part is not effective or this prospectus is not available to the selling shareholders for the resale of the ordinary shares issuable upon the exercise of the warrants. In connection with the private placement, we also granted to the placement agent warrants to purchase 66,166 ordinary shares, with same terms and exercise price.

We issued these ordinary shares and warrants to purchase our ordinary shares in reliance on an exemption from registration pursuant to Regulation D promulgated under the Securities Act of 1933, as amended, or the Securities Act. In connection with the private placement, we granted the investors registration rights, pursuant to which we are obligated to file a registration statement on Form F-3 for the resale of the shares sold in the transaction and the shares issuable upon exercise of the warrants. We have filed a registration statement with the Securities and Exchange Commission for the resale of these shares, and this registration statement was declared effective in the fourth quarter of 2006.

ACQUISITION OF LAISH ISRAELI FOOD PRODUCTS, LTD. In January 19, 2007, the Company established a fully-owned subsidiary in the U.S., WF, in order to acquire the operations and assets (including inventory, account receivables, and account payables) of Laish, a U.S. importer and distributor of kosher food products for approximately \$3.5 million in cash. The sources for the purchase price were a bank loan in the amount of \$1.5 million taken by WF and cash on hand from the Company. On July 14, 2008 the Company announced that WF had ceased the activities of its operations effective immediately.

AGREEMENT WITH BARON FAMILY TO FORM GLOBAL KOSHER TRADE AND EXPORT COMPANY. On February 13, 2007, the Company signed an agreement with the Baron family (an unrelated third party), kosher food exporters located in Israel, to form a joint global kosher trade and export company - Baron. The Company holds a 50.1% interest in Baron, and the Baron family holds the remaining interest. Under the terms of the agreement, all of the current food export operations of the Baron family will be executed under the new entity.

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Under the terms of the agreement, the new entity is to be managed by Lior Baron, as CEO, and Yaakov Baron, as Chairman, and the board of directors is to consist of four members - the CEO, Chairman, Zwi Williger and Joseph Williger. The parties agreed that in the event of a dispute regarding ordinary course business matters the representatives of Willi-Food on the board will have three votes, rather than two. Under the terms of the agreement, in consideration for the 50.1% interest, the Company paid \$1 million in owner's loans that was converted into equity on April 1, 2008.

Under the agreement, the Baron family will be engaged in the food export activities which involved the export of kosher products from more than 100

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suppliers, predominantly from Israel, to the U.S., Canada, England, Belgium, France, Switzerland, Australia, South Africa, Mexico, Argentina and Chile. Product categories currently exported include candies, preserves, cakes and cookies, snacks, cereals, frozen pastries and ice creams, baby food and general grocery items.

AGREEMENT WITH THE OWNERS OF A MANUFACTURER AND GLOBAL DISTRIBUTOR OF KOSHER DAIRY PRODUCTS TO FORM A NEW COMPANY. In October 2007, the Company's subsidiary, Gold Frost, signed a binding letter with the owners of a manufacturer and global distributor of kosher dairy products (the "DISTRIBUTOR"), who are based in Denmark, to form a new joint company ("KIRKEBY"). Gold Frost holds a 51% interest in Kirkeby, and the owners of the distributor hold the remaining interest. A significant aspect of this transaction is the fact that Kirkeby has a US dairy import license.

As part of the transaction, the Distributor transferred to Kirkeby \$200 thousand as well as 35 customers from 15 countries worldwide, including a US import license. Kirkeby was granted the exclusive right to use the distributor's trademarked brand name in sales and marketing of kosher products. The Distributor retained the right to use its trademarked brand name for non-kosher dairy products. It is intended that ultimately Kirkeby will seek to broaden its penetration into the kosher European and North American markets. In consideration for the 51% interest in Kirkeby, Gold Frost paid at the closing \$400 thousand to the Distributor.

ACQUISITION OF SHAMIR SALADS (2006) LTD. In November 2007, Willi Food announced its intention to purchase 51% of the interest of Shamir, an Israeli manufacturer and distributor of pre-packaged chilled kosher Mediterranean dips and spreads in Israel and abroad. The acquisition subsequently closed in the first quarter of fiscal 2008.

According to the agreement, the acquisition cost of Shamir was contingent upon the sum of the audited net profit, after neutralizing capital gains that Shamir was to present in its audited financial statements for the year 2008, being multiplied by 2.55. As of December 31, 2008, and according to the total net profit that Shamir presented for the year ended December 31, 2008, the sum of the compensation was calculated on the sum of the advance that was paid at the closing of the agreement.

On May 14, 2009, the Company received from the Sellers of Shamir (the "SELLERS") a notice cancelling the acquisition agreement of Shamir, and on May 18, 2009, the Company was notified of unilateral actions taken by the Sellers with respect to a change in Shamir's board composition and signatory rights and replacement of the articles of association of Shamir in an effort by the Sellers to deprive the Company of its board representation and signatory rights in Shamir.

The Company submitted an urgent application to the district court in Tel Aviv requesting, among other things, a declaratory judgment that the acquisition agreement is in full force and effect and various injunctions against the Sellers. The court issued injunction providing that the Sellers are prohibited from taking any action not in accordance with the signatory rights in Shamir in effect prior to May 18, 2009, performing any disposition of the shares of Shamir held by the Company, taking any action not in accordance with the articles of association of Shamir as in effect prior to May 18, 2009, and/or interfering with the functions of Shamir's board of directors as composed prior to May 18, 2009. In addition, pursuant to the injunction, the Sellers are prohibited from interfering with the functions of the co-CEO of Shamir nominated by the Company and/or from preventing the deputy CFO of Shamir from participating in the discussions to approve the financial statements of Shamir. The district court also required the Sellers to reimburse the Company for its court and attorney expenses in the amount of NIS 30,000 (USD 7,891) plus VAT.

For information with respect to the Company's other material contracts, see "Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions."

D. EXCHANGE CONTROLS

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of our ordinary shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect, pursuant to which currency controls can be imposed by administrative action at any time and from time to time.

E. TAXATION

The following is a summary of the material current tax laws of the State of Israel as they relate to the Company and its shareholders. This section also contains a discussion of some Israeli tax consequences to persons who hold or who will acquire our ordinary shares. This summary does not purport to be a complete analysis of all potential Israeli tax law consequences that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include tax-exempt entities, banks, certain financial companies, broker-dealers, investors that own, directly or indirectly, 10% or more of our outstanding voting rights, or foreign companies, if Israeli residents hold 25% or more of their shares or have the right to 25% or more of their income or profit, all of whom are subject to special tax regimes not covered in this discussion.

The discussion is based on legislation yet to be subject to judicial or administrative interpretation, and there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of the Shares including, in particular, the effect of any foreign, state or local taxes.

ISRAELI TAX REFORMS

On July 24, 2002, the Israeli Parliament enacted income tax reform legislation (the "2003 Tax Reform"). The Tax Reform introduced fundamental and comprehensive changes to Israeli tax laws. Most of the legislative changes took effect on January 1, 2003. The 2003 Tax Reform introduced, inter alia, a transition from a primarily territorial-based tax system to a personal-based system of taxation with respect to Israeli residents, resulted in significant amendment of the international taxation provisions, and in new provisions concerning the taxation of capital markets including the abolishment of formerly "exempt investment routes" (e.g., capital gain derived by individuals from the sale of securities traded on the Tel-Aviv Stock Exchange).

In addition, the Israeli Parliament approved on July 25, 2005 income tax reform legislation (the "2006 Tax Reform") pursuant to the recommendations of a

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committee appointed by the Israeli Minister of Finance, which incorporated additional fundamental changes to Israeli tax law. The 2006 Tax Reform includes, INTER ALIA, a gradual reduction of income tax rates for both individuals and corporations through 2010. The 2006 Tax Reform also outlines a path towards uniformity in the taxation of interest, dividend and capital gains derived from securities, which in some cases may result in the increasing of the applicable tax rate. Most of the amendments under the 2006 Tax Reform are effective as of January 1, 2006, subject to certain exceptions. Transition rules apply in certain circumstances.

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IT SHOULD BE NOTED THAT VARIOUS ISSUES RELATED TO THE 2003 TAX REFORM AND 2006 TAX REFORM REMAIN UNCLEAR IN VIEW OF THE LEGISLATIVE LANGUAGE UTILIZED. THE ANALYSIS BELOW IS THEREFORE BASED ON OUR CURRENT UNDERSTANDING OF THIS LEGISLATION.

### CORPORATE TAX STRUCTURE

#### GENERAL

In accordance with the 2006 Tax Reform, the corporate tax rate applicable in 2008 was 27%. This rate was reduced to 26% in 2009 and had been scheduled to be reduced to 25% in 2010 and beyond.

Dividend distributed by an Israeli resident corporation to another Israeli resident corporation is, generally, exempt from Israeli corporate tax.

#### CORPORATE TAXATION UNDER INFLATIONARY CONDITIONS

The Income Tax Law (Inflationary Adjustments), 1985 (the Inflationary Adjustments Law) is designed to neutralize the erosion of capital investments in businesses and to prevent tax benefits resulting from the deduction of inflationary financial expenses. The Inflationary Adjustments Law applies a supplementary set of inflationary adjustments to the normal taxable profit computed according to regular historic cost principles. Generally, the Inflationary Adjustments Law provides tax deductions and adjustments to depreciation deductions and tax loss carry forwards to mitigate the effects resulting from an inflationary economy. The Inflationary Adjustments Law is highly complex and its main features can be described as follows:

- o Where a company's equity, as calculated under the Inflationary Adjustments Law, exceeds the depreciated cost of fixed assets, as calculated under the Inflationary Adjustments Law, a deduction from taxable income is permitted equal to the excess multiplied by the applicable annual rate of inflation. The maximum deduction permitted in any single tax year is 70% of taxable income, with the unused portion permitted to be carried forward linked to the Israeli CPI.
- o Where a company's depreciated cost of fixed assets exceeds its equity, then the excess multiplied by the applicable annual rate of inflation is added to taxable income. Note that the cost of fixed assets is also calculated under the Inflationary Adjustments Law.
- o Subject to specified limitations, depreciation deductions on fixed assets and losses carried forward are adjusted for inflation based on the increase in the Israeli CPI.

Under the Inflationary Adjustments Law, results for tax purposes are

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measured in real terms in accordance with the changes in the Israeli CPI. Since a portion of our expenses accrues in dollars, the discrepancy between the change in the Israeli CPI and the change in the currency exchange rate of the NIS to the dollar, each year and cumulatively, may result in a significant difference between taxable income and the income denominated in NIS reflected in our financial statements.

On February 26, 2008, the Israeli Parliament ratified Amendment No. 20 of the Inflationary Adjustment Law, pursuant to which the Inflationary Adjustment Law was repealed as of tax year 2008, subject to transitional provisions.

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### TAXATION OF THE COMPANY SHAREHOLDERS

#### DIVIDENDS

##### ISRAELI RESIDENT

- o INDIVIDUAL - The distribution of dividend by an Israeli resident company to an Israeli resident individual will generally be subject to income tax at a rate of 20%. However, a 25% tax rate will apply if the dividend recipient is a "Significant Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with other, 10% or more of one of the Israeli resident company's means of control at the time of distribution or at any time during the preceding 12 months period).
- o CORPORATION - Dividend distributed by an Israeli resident corporation to another Israeli resident corporation will be generally exempt from income tax provided the income from which such dividend is distributed was derived or accrued within Israel.

##### NON ISRAELI RESIDENT

Under the Israeli income tax ordinance non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a "Significant Shareholder" (as defined above), those rates are subject to a reduced tax rate under an applicable double tax treaty. Thus, under the Double Tax Treaty concluded between the State of Israel and U.S. the following rates will apply in respect of dividend distributed by an Israeli resident company to a U.S. resident:

- o If the U.S. resident is a corporation which holds at the taxable year which precede the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends - the tax rate is 12.5%.
- o If both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an "approved enterprise" under the Israeli Law for the Encouragement of Capital Investments of 1959- the tax rate is 15%.
- o In all other cases, the tax rate is 25%.

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The aforementioned rates under the Israel U.S. Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

### WITHHOLDING TAX AT SOURCE FROM DIVIDEND DISTRIBUTED BY THE COMPANY

An Israeli resident company whose shares are listed in a stock exchange is obligated to withhold tax, upon the distribution of a dividend, from the amount distributed, at the following rates:

- o Israeli resident corporation - 0%.
- o Israeli resident individual - 20%.
- o Non-Israeli resident - 20% subject to a reduced tax rate under an applicable double tax treaty.

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### CAPITAL GAIN TAX

#### GENERAL

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident and on the disposal of such assets by a non-Israel resident if those assets are either (i) located in Israel; (ii) they are shares or a right to a share in an Israeli resident corporation (iii) they represent a directly or indirectly rights to assets located in Israel. The Israeli Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus". Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal.

Inflationary Surplus, that accrued until December 31, 1993, is subject to a tax rate of 10% while Inflationary Surplus that accrued after this date is exempt from any tax.

#### CAPITAL GAIN TAX APPLICABLE TO ISRAELI RESIDENT SHAREHOLDERS

The Capital gain accrued at the sale of an asset purchased on or after January 1, 2003 will be taxed as follows:

- o Individual - The real capital gain will be subject to tax at the rate of 20%. If the shareholder is a Significant Shareholder" (see aforementioned). A capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 25%.
- o Corporation - The real capital gain derived by corporation will be generally subject to tax at the rate of 25%. However, the real capital gain derived from sale of securities, as defined in Section 6 of the Inflationary Adjustment Law, by a corporation, which was subject upon August 10, 2005 to the provisions of Section 6 of the Inflationary Adjustment Law, will be taxed at the corporate tax rate (27% in 2008, 26% in 2009).

The Capital gain accrued at the sale of an asset purchased prior to January 1, 2003 will be subject to tax at a blended rate. The marginal tax rate for

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individuals (up to 47% in 2008, 46% in 2009) and the regular corporate tax rate for corporations (27% in 2008, 26% in 2009) will be applied to the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at the rates applicable to an asset purchased after January 1, 2003 (see aforementioned).

At the sale of traded securities a detailed return, including a computation of the tax due, should be filed and an advanced payment should be paid on January 31 and June 31 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder the aforementioned return should not be filed and no advance payment should be paid. Capital gain is also reportable on the annual income tax return.

### CAPITAL GAIN TAX APPLICABLE TO NON-ISRAELI RESIDENT SHAREHOLDERS

Capital gain from the sale of the Shares by a non-Israeli shareholder are exempt under the Israeli income tax ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the Shares were purchased upon or after the registration of the Shares at the stock exchange (ii) the seller doesn't have a permanent establishment in Israel to which the derived capital gain is attributed (iii) if the seller is a corporation, less than 25% of its means of control are held by Israeli resident shareholders. In addition, the sale of the Shares may be exempt from Israeli capital gain tax under an applicable tax treaty. Thus, the U.S.-Israel Double Tax Treaty exempts U.S. resident from Israeli capital gain tax in connection with such sale, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 - month period preceding such sale; and (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days at the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

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### TAXATION OF INVESTORS ENGAGED IN A BUSINESS OF TRADING SECURITIES

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income (in 2008 - 27% tax rate for a corporation and a marginal tax rate of up to 47% for individual. in 2009 - 26% tax rate for a corporation and a marginal tax rate of up to 46% for individual). If the shareholder is a non-Israeli resident then such taxation is subject to the provisions of any applicable double tax treaty.

### WITHHOLDING AT SOURCE FROM CAPITAL GAINS UPON THE SALE OF TRADED SECURITIES

Either the seller, the Israeli stockbrokers and the financial institution through which the sold securities are held are obliged, subject to the above mentioned exemptions, to withhold tax upon the sale of securities from the real capital gain at the rate of 25% in respect of corporation and 20% in respect of an individual.

### U.S. FEDERAL INCOME TAX CONSIDERATIONS

Subject to the limitations described herein, the following discussion describes the material U.S. federal income tax consequences to a U.S. holder of



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the purchase, ownership and disposition of our ordinary shares where the U.S. holder will own our ordinary shares as capital assets. A U.S. holder is a holder of our ordinary shares who is:

- o An individual citizen or resident of the United States for U.S. federal income tax purposes;
- o a corporation or partnership (or other entity taxable as a corporation or partnership for U.S. federal tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- o an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- o a trust (i) if, in general, a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

Material aspects of U.S. federal income tax relevant to a holder of our ordinary shares that is not a U.S. holder (a "NON-U.S. HOLDERS") are also discussed below. This discussion considers only U.S. Holders that will own our ordinary shares as capital assets and is not a comprehensive description of all of the tax considerations that may be relevant to each person's decision to purchase our ordinary shares.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "CODE"), current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder in light of such holder's individual circumstances. In particular, this discussion does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to U.S. holders that are subject to special treatment, including U.S. holders that:

- o are broker-dealers or insurance companies;

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- o have elected mark-to-market accounting;
- o are tax-exempt organizations or retirement plans;
- o are financial institutions or financial services entities;
- o hold their shares as part of a straddle, hedge or conversion transaction with other investments;
- o acquired their shares upon the exercise of employee stock options or otherwise as compensation;
- o are, or hold their shares through, partnerships or other pass-through entities;
- o own directly, indirectly or by attribution at least 10% of our voting

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power; or

- o have a functional currency that is not the dollar.

In addition, this discussion does not address any aspect of state, local or non-U.S. tax laws or the possible application of United States federal gift or estate tax.

### TAXATION OF DIVIDENDS PAID ON ORDINARY SHARES

Subject to the discussion below under "Tax Consequences if we were a Passive Foreign Investment Company," a U.S. holder will be required to include in gross income as ordinary dividend income the amount of any distribution paid on our ordinary shares, including any Israeli taxes withheld from the amount paid, to the extent the distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. holder's basis in our ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of our ordinary shares. The dividend portion of such distribution generally will not qualify for the dividends received deduction otherwise available to corporations.

Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15%), provided that such dividends meet the requirements of "qualified dividend income." Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders, are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code) for any year, dividends paid on our ordinary shares in such year or in the following year would not be qualified dividends. In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do; in such case the dividend will be taxed at ordinary income rates.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. holder (including any Israeli taxes withheld therefrom) will be includible in the income of a U.S. holder in a dollar amount calculated by reference to the exchange rate on the date of the distribution. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into dollars after the date of distribution will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

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U.S. holders will have the option of claiming the amount of any Israeli income taxes withheld at source either as a deduction from gross income or as a dollar-for-dollar credit against their U.S. federal income tax liability. Individuals who do not claim itemized deductions, but instead utilize the standard deduction, may not claim a deduction for the amount of the Israeli income taxes withheld, but the amount may be claimed as a credit against the individual's U.S. federal income tax liability. The amount of foreign income taxes that may be claimed as a credit in any year is subject to complex limitations and restrictions, which must be determined on an individual basis by each shareholder. These limitations include rules that limit foreign tax credits allowable for specific classes of income to the U.S. federal income taxes otherwise payable on each such class of income. The total amount of allowable foreign tax credits in any year cannot exceed the pre-credit U.S. tax liability for the year attributable to foreign source taxable income.

A U.S. holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares:

- o if the U.S. holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend; or
- o to the extent the U.S. holder is under an obligation to make related payments with respect to positions in substantially similar or related property.

Any days during which a U.S. holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period. Distributions of current or accumulated earnings and profits will be foreign source passive income for U.S. foreign tax credit purposes.

### TAXATION OF THE DISPOSITION OF ORDINARY SHARES

Subject to the discussion below under "Tax Consequences if we were a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder's basis in the ordinary shares, which is usually the cost to the U.S. holder of the shares, and the amount realized on the disposition. A disposition of shares will be considered to occur on the trade date, regardless of the holder's method of accounting. Capital gain from the sale, exchange or other disposition of our ordinary shares held more than one year will be long-term capital gain, and may, in the case of individual U.S. holders, be subject to a reduced rate of taxation. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares will be treated as U.S. source income for U.S. foreign tax credit purposes. The deductibility of a capital loss recognized on the sale, exchange or other disposition of ordinary shares is subject to limitations.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder may avoid realizing foreign currency gain or loss if he or she has elected to use the settlement date to determine its proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of

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sale) will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

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### TAX CONSEQUENCES IF WE WERE A PASSIVE FOREIGN INVESTMENT COMPANY

If we were a Passive Foreign Investment Company ("PFIC"), each U.S. holder would (unless it timely made an election to be taxed currently as a "qualified electing fund ("QEF")) be taxable on gain recognized from the disposition of ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan) and upon receipt of certain distributions with respect to ordinary shares as if such income had been recognized ratably over the U.S. holder's holding period for the ordinary shares. Tax would be computed at the highest ordinary income tax rate in effect for each other period to which income is allocated, and an interest charge on the tax as so computed would also apply. Additionally, U.S. holders who acquire our ordinary shares from decedents (other than nonresident aliens) dying before 2010 would be denied the normally-available step-up in basis for such shares to fair market value at the date of death and, instead, would have a tax basis in such shares equal to the decedent's basis, if lower.

Generally, we would be a passive foreign investment company, or a "PFIC", for a taxable year if (taking into account certain "look-through" rules with respect to the income and assets of our subsidiaries) either 75% or more of our gross income for such taxable year is passive income or the average percentage (by value) of our passive assets during such taxable year is at least 50 percent. We believe that because we are and intend to remain an operating business for the foreseeable future, it is very unlikely that we will be deemed a PFIC.

### TAX CONSEQUENCES FOR NON-U.S. HOLDERS OF ORDINARY SHARES

Except as described in "Information Reporting and Back-up Withholding" below, a non-U.S. holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares, unless:

- o the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or in the case of an individual, a fixed place of business, in the United States;
- o the non-U.S. holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and does not qualify for an exemption; or
- o the non-U.S. holder is subject to tax under the provisions of U.S. tax law applicable to U.S. expatriates.

### INFORMATION REPORTING AND BACK-UP WITHHOLDING

U.S. holders generally are subject to information reporting requirements with respect to dividends paid in the United States on, or proceeds from the disposition of, our ordinary shares. In addition, a U.S. holder may be subject, under certain circumstances, to backup withholding at a rate of up to 28% with

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respect to dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. A holder of our ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the holder's federal income tax liability, provided the required information is furnished to the IRS.

Non-U.S. holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares, provided that the non-U.S. holder provides a taxpayer identification number, certifies to its foreign status, or establishes another exemption to the information reporting or back-up withholding requirements.

### F. DIVIDENDS AND PAYING AGENTS

Not applicable.

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### G. STATEMENTS BY EXPERTS

Not applicable.

### H. DOCUMENTS ON DISPLAY

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers and fulfills the obligation with respect to such requirements by filing reports with the Securities and Exchange Commission. You may read and copy any document we file with the Securities and Exchange Commission without charge at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the Securities and Exchange Commission at such address, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, Directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

### I. SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**EXCHANGE RATE RISK:** The Company regularly assesses currency rate risks to minimize any adverse effects on the Company's business as a result of currency fluctuations.

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The Company's foreign currency exposure gives rise to market risk associated with exchange rate movements of the NIS, the Company functional and reporting currency, against the USD and Euros. Most of the Company's purchases are denominated in USD and Euros, whereas its income and other expenses are denominated mostly in NIS. Consequently, devaluation of the NIS against the other currencies may cause a negative impact on the Company profit margins.

The Company strives to minimize market risks arising from exchange rates and the cost of imported goods, especially by opening wide documentary credits for suppliers abroad and holding foreign currency surpluses, initiates forward transactions and foreign currency options.

**CREDIT RISK:** Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Despite the Company's large number of clients (over 1,500 in Israel and around the world), a major and significant part of its sales are made to only a limited number of customers (mainly in the organized market). The Company generally does not require and does not receive collateral from those major customers. However, it does require and receive collateral from most of the remainder of its clients to insure security of collecting payments. The Company maintains an allowance for doubtful debts, based upon factors surrounding the credit risk of specific customers, historical trends and other information which management believes adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of the Company's major clients defaults on its payment obligations to us, the Company will not possess sufficient collateral to collect the entire debt. The Company strives to minimize the credit risks by constantly reviewing the credit it extends to customers versus the collateral it receives. As a result, the Company has ceased selling products to certain customers and considerably reduced sales to other customers, and may continue to do so in the future.

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**INTEREST RATE RISK:** The Company Invest part of its cash reserves in instruments that bear fixed interest rate. The company as part of its investing policy invests part of its cash reserves in bonds and convertible debentures that bears fixed interest rate as a result the company is espoused to changes in interest rates.

The table below details the sensitive analysis in respect to exposure relating to investment in instruments with fix interest rate:

	Gain (loss) from interest change	Fair value	Gain (loss) from interest change	
	-----	-----	-----	
Change in Interest as % of interest rate	(10)%	(5)%	5%	10%
Increase\decrease in financial Income	10	5	1,526	(5) (10)

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Not applicable.

ITEM 15T. CONTROLS AND PROCEDURES

(a) DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2008. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to meet these objectives.

(b) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- o pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- o provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- o provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or override of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect all misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management (with the participation of the CEO and CFO) assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Tread way Commission. Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2008 based on these criteria.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. - AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that Ariel Herzfeld is the "Audit Committee Financial Expert" for the Company, as such term is defined in Item 16A of Form 20-F. Mr. Herzfeld serves on the Company's Audit Committee of the Board of Directors. All the members of the Audit Committee are "Independent Directors" as defined in the Nasdaq listing standards applicable to us.

ITEM 16B. - CODE OF ETHICS

On June 23, 2004, the Company's Board of Directors adopted a Code of Ethics for the Company that applies to all directors, officers and other employees of the Company. A copy of the Code of Ethics is available for review on the Company's website at [www.willi-food.co.il](http://www.willi-food.co.il).



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### ITEM 16C. - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees for professional services and other services rendered by Brightman Almagor Zohar & Co. in Israel, a member of firm of Deloitte Touche Tomhatsu to the Company in 2008 and 2007.

	NIS 2008 -----	NIS 2007 -----	USD 2008 -----	USD 2007 -----
Audit Fees (1)	400,000	240,000	105,208	63,125
SOX Fees, (2)	-	154,000	-	40,505
Tax Fees (3)	-	10,000	-	2,630
TOTAL	400,000	404,000	105,208	106,260

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

(2) SOX Fees include fees billed for services for Sarbanes Oxley ("SOX") readiness and compliance including risk assessment and project plan, and process documentation accordingly to the SOX requirements including gap analysis and remediation plan.

(3) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authority.

The non audit fees Brightman Almagor Zohar & Co. charged the Company in 2007 (including tax fees and SOX fees as mentioned above) were approved before by the Audit Committee of the Company.

### ITEM 16D. - EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

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### ITEM 16E. - PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Below is a list of purchases of the Company's ordinary shares by affiliated purchasers during calendar year 2008 and from January 1, 2009 to June 22, 2009. There were no purchases by the Company of the Company's ordinary shares during such periods.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER PLANS OR PROGRAMS
-----	-----	-----	-----	-----
		WILLI FOOD		

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January 4, 2008- January 28, 2008	412,800	5.274	N/A	N/A
October 28, 2008- October 31, 2008	10,710	1.688	N/A	N/A
November 3, 2008- November 25, 2008	142,187	1.724	N/A	N/A
December 2, 2008- December 31, 2008	76,438	1.386	N/A	N/A
January 6, 2008- January 30, 2008	32,365	1.439	N/A	N/A
February 2, 2008- February 18, 2008	66,065	1.443	N/A	N/A
ZWI WILLIGER				
March 18, 2009	367,000	*	N/A	N/A
April 16, 2009- April 30, 2009	39,275	1.528	N/A	N/A
May 1, 2009- May 29, 2009	42,799	1.926	N/A	N/A
June 1, 2009- June 22, 2009	75,437	2.201	N/A	N/A
JOSEPH WILLIGER				
March 17, 2009- March 24, 2009	39,945	1.028	N/A	N/A
April 6, 2009- April 20, 2009	1,000	1.378	N/A	N/A
May 4, 2009- May 29, 2009	27,410	1.974	N/A	N/A
June 1, 2009- June 22, 2009	17,800	2.179	N/A	N/A

\* According to a loan agreement signed on September 1, 2008, Mr. Zwi Williger provided a loan to Mr. Arie Bar Lev (Arcadi Gaydamak) in the amount of approximately USD 4.5 million. This loan was secured, among others, by a lien on the 367,000 shares acquired by Mr. Arie Bar Lev (Arcadi Gaydamak) on May 28, 2008. The maturity date of the loan was October 16, 2008, and it was not repaid. Under the loan agreement, the shares were foreclosed by Mr. Zwi Williger on March 18, 2009.

ITEM 16F. - CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

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### ITEM 16G. - CORPORATE GOVERNANCE

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies under the listing standards of the Nasdaq:

- o EXECUTIVE SESSIONS - Under Nasdaq rules, U.S. domestic listed companies, must have a regularly scheduled meetings at which only independent directors are present. We do not have such executive sessions.
- o COMPENSATION OF OFFICERS - Under Nasdaq rules, executive compensation must be determined or recommended to the Board for determination by a compensation committee comprised solely of independent directors or by independent directors constituting a majority of the Board's independent directors. Not all of our executive compensation is determined in this manner.
- o NOMINATIONS OF DIRECTORS - Under Nasdaq rules, U.S. domestic listed companies, must have a nominations committee comprised solely of independent directors and must have director nominees selected or recommended by a majority of its independent directors. Our directors are not nominated in this manner.
- o NOMINATIONS COMMITTEE CHARTER OR BOARD RESOLUTION - Under Nasdaq rules, U.S. domestic listed companies, must adopt a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under the federal securities laws. We do not have such a formal written charter or board resolution.
- o AUDIT COMMITTEE CHARTER - Under Nasdaq rules, U.S. domestic listed companies, must adopt a formal written audit committee charter, and that the audit committee must review and assess the adequacy of the charter on an annual basis. We do not have such an audit committee charter, although we expect to adopt one in the near future.
- o QUORUM - Under Nasdaq rules, U.S. domestic listed companies by-laws provide for a quorum of at least 33 1/3 percent of the outstanding shares of the company's common voting stock. According to our articles our quorum should be at least 25 percent of the outstanding shares of our common voting stock.

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### PART III

#### ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this Item.

#### ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this annual report, beginning on page F-1.

## ITEM 19. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
+1.1	Memorandum of Association of the Company, as amended (1)
1.2	Articles of Association of the Company, as amended (4)
2.1	Specimen of Certificate for ordinary shares (2)
4.1	Share Option Plan (2)
+4.2	Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated June 1, 1998 (3)
+4.3	Amendment to the Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated August 1, 2005 (4)
+4.4	Management Agreement between the Company and Zwi W. & Co. Ltd., dated June 1, 1998 (3)
+4.5	Amendment to the Management Agreement between the Company and Zwi W. & Co., Ltd., dated August 1, 2005 (4)
+4.6	Lease of Company's premises with Titanic Food Ltd., dated November 23, 1998 (3)
+4.7	Services Agreement between the Company and Willi Food, dated April 1, 1997 (3)
+4.8	Transfer Agreement between the Company and Gold Frost dated February 16, 2006 (4)
+4.9	Lease agreement for Logistics Center between the Company and Gold Frost dated February 16, 2006 (4)
4.10	Relationship Agreement between the Company, Gold Frost, Willi Food, Zwi Williger and Joseph Williger dated February 28, 2006 (4)
4.11	Placing Agreement between the Company, Gold Frost, certain officers of Gold Frost and Corporate Synergy dated March 2, 2006 (4)
4.12	Lock In Agreement, between the Company, Gold Frost, Corporate Synergy and certain officers of Gold Frost, dated March 2, 2006 (4)
4.13	Securities Purchase Agreement, dated as of October 25, 2006, among the Company and the investors identified on the signature pages thereto. (5)
4.14	Registration Rights Agreement, dated as of October 25, 2006, among the Company and the investors signatory thereto. (5)
4.15	Asset Purchase Agreement, dated as of January 19, 2007, by and among the Company, WF Kosher Food Distributors, Ltd., Laish

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- Israeli Food Products Ltd. and Arie Steiner. (6)
- +4.16 Agreement, dated February 11, 2007, between the Company and Mr. Ya'acov Baron, Ms. Hedva Baron, Mr. Li'or Baron, Ms. Gozlan Or'na and Ms. Michal Baron Sha'hak. (6)
- +4.17 Agreement, dated January 2, 2008, between the Company and Mr. Jacob Ginsberg, Mr. Amiram Guy and Shamir Salads 2006 Ltd. (7)
- 4.18 Share Purchase Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)
- 4.19 Shareholders Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)
- 4.20 Co-operation Agreement, dated January 1, 2008, between Kirkeby Cheese Export A/S, Haarby Mejeri/Kirkeby Dairy ApS and Kirkeby International Foods A/S. (7)

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- 8 Subsidiaries of the Company (4)
- 8.1 Subsidiaries of the Company (7)
- 12.1 Certification of CEO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 12.2 Certification of CFO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 13.1 Certification of CEO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 13.2 Certification of CFO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 15.(a).1 Consent of Independent Registered Public Accounting Firm\*

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+ English translations from Hebrew original.

- (1) Incorporated by Reference to the Registrant's Annual Report on Form 20-F for the Fiscal year ended December 31, 1997.
- (2) Incorporated by reference to the Company's Registration Statement on Form F-1, File No. 333-6314.
- (3) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2001.
- (4) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005.

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- (5) Incorporated by reference to the Company's Registration Statement on Form F-3, File No. 333-138200.
- (6) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2006.
- (7) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.
- \* Filed Herewith

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G. WILLI-FOOD INTERNATIONAL LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2008

G. WILLI-FOOD INTERNATIONAL LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2008

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# Edgar Filing: G WILLI FOOD INTERNATIONAL LTD - Form 20-F

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND  
SHAREHOLDERS OF G. WILLI-FOOD INTERNATIONAL LTD.

We have audited the accompanying consolidated balance sheets of G. WILLI-FOOD INTERNATIONAL LTD. ("the Company") and its subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such 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, 2008 and 2007 and the consolidated results of their operations and their consolidated cash flows for each of the two years in the period ended December 31, 2008, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

BRIGHTMAN ALMAGOR ZOHAR & CO.  
CERTIFIED PUBLIC ACCOUNTANTS  
A MEMBER FIRM OF DELOITTE TOUCHE TOMHATSU

Tel-Aviv, Israel  
April 30, 2009

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(NIS IN THOUSANDS)

NOTE  
-----

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ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	4a
Financial assets carried at fair value through profit or loss	4b
Trade receivables	4c
Other receivables	4d
Current tax assets	
Inventories	4e
 Total current assets	
 NON-CURRENT ASSETS	
Property, plant and equipment	
Less -Accumulated depreciation	
	7
 Prepaid expenses	
Goodwill	8a
Intangible assets	9a
Deferred taxes	
 Total non-current assets	
 TOTAL ASSETS	
 EQUITY AND LIABILITIES	
CURRENT LIABILITIES	
Short-term bank credit	11a
Trade payables	10a
Accruals	
Current tax liabilities	
Other payables and accrued expenses	10b
Employees Benefits	13a
 Total current liabilities	
 NON-CURRENT LIABILITIES	
Long-term bank loans	
Deferred taxes	
Warrants to issue shares	
Employees Benefits	
 Total non-current liabilities	
 COMMITMENTS AND CONTINGENT LIABILITIES	
 SHAREHOLDERS' EQUITY	
Share capital	
Premium	
Capital fund	
Foreign currency translation reserve	
Retained earnings	
Noncontrolling interest	



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TOTAL EQUITY AND LIABILITIES

(\*) Convenience Translation into U.S. Dollars.

-----  
 CHIEF FINANCIAL OFFICER      CHIEF EXECUTIVE OFFICER      CHAIRMAN OF THE BOARD OF DIRECTORS

Approval date of the financial statements: 30 April, 2009

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

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
 CONSOLIDATED INCOME STATEMENT  
 (NIS IN THOUSANDS)

	NOTE	YEAR ENDED DECEMBER 31	
		2008	2007
		NIS	
		(IN THOUSANDS)	
Revenue	19a	349,227	249,693
Cost of sales	19b	281,651	198,961
<b>GROSS PROFIT</b>		<b>67,576</b>	<b>50,732</b>
<b>OPERATING COSTS AND EXPENSES</b>			
Selling expenses	19c	33,759	24,263
General and administrative expenses	19d	23,127	18,869
Other (income) expenses	20	2,195	(470)
Goodwill Impairment		1,067	3,054
		<b>60,148</b>	<b>45,716</b>
<b>OPERATING PROFIT</b>		<b>7,428</b>	<b>5,016</b>
Finance income		(4,095)	2,362
Finance costs	21	1,612	88
<b>Finance income (costs), net</b>		<b>(5,707)</b>	<b>2,274</b>
<b>PROFIT BEFORE TAX</b>		<b>1,721</b>	<b>7,290</b>
Income tax charge	14a	1,454	2,651
<b>PROFIT FOR THE PERIOD</b>		<b>267</b>	<b>4,639</b>
<b>ATTRIBUTABLE TO:</b>			

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Equity holders of the Company	22a	(786)	2,342
Noncontrolling interest		1,053	2,297
		-----	-----
NET INCOME		267	4,639
		=====	=====
EARNINGS (LOSS) PER SHARE - (IN NIS)			
Basic earnings (loss) per share		(0.08)	0.23
Diluted earnings (loss) per share		(0.08)	0.23
Shares used in computation of basic EPS		10,267,893	10,267,893
		=====	=====
Shares used in computation of diluted EPS		10,267,893	10,267,893
		=====	=====

(\*) Convenience translation into U.S. Dollars.

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

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(NIS IN THOUSANDS)

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL FUND	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	RETAINED EARNING
	-----	-----	-----	-----	-----
BALANCE - JANUARY 1, 2007	1,113	59,056	-	-	109,89
Noncontrolling interests in newly acquired subsidiary	-	-	-	-	
Purchase of noncontrolling interest	-	-	-	-	
Currency translation differences	-	-	-	(414)	
Profit for the year	-	-	-	-	2,34
	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2007	1,113	59,056	-	(414)	112,23
Noncontrolling interests in newly acquired subsidiary	-	-	-	-	
Purchase of noncontrolling interest	-	-	247	-	
Currency translation differences	-	-	-	783	
Dividend paid to noncontrolling interests	-	-	-	-	
Profit for the year	-	-	-	-	(78
	-----	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2008	1,113	59,056	247	369	111,44
	=====	=====	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(NIS IN THOUSANDS)

	YEAR ENDED DECEMBER	
	2 0 0 8	2 0 0 7
	NIS	
	(IN THOUSANDS)	
CASH FLOWS - OPERATING ACTIVITIES		
Profit for the year	267	4,639
Adjustments to reconcile net profit to net cash used in operating activities (Appendix A)	18,613	3,303
NET CASH FROM OPERATING ACTIVITIES	18,880	7,942
CASH FLOWS - INVESTING ACTIVITIES		
Acquisition of property plant and equipment	(3,315)	(11,259)
Proceeds from sale of property plant and Equipment	249	16
Additions to intangible assets	(300)	-
Additions to prepaid expenses	(1,579)	-
Long term deposit, net	61	(131)
Proceeds from realization (purchase) of marketable securities, net	16,714	(17,378)
Purchase of additional shares in subsidiary	(9,250)	(182)
Purchase of subsidiaries	(5,664)	(15,400)
NET CASH USED IN INVESTING ACTIVITIES	(3,084)	(44,334)
CASH FLOWS - FINANCING ACTIVITIES		
Short-term bank credit, net	(475)	-
Repayment of loans	(4,734)	-
Proceeds of loans	6,803	6,781
Dividend paid to noncontrolling interests	(269)	-
NET CASH USED IN FINANCING ACTIVITIES	1,325	6,781
INCREASE IN CASH AND CASH EQUIVALENTS	17,121	(29,611)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	61,649	91,398
NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS	(21)	(138)
CASH AND CASH EQUIVALENTS OF THE END OF THE FINANCIAL PERIOD	78,749	61,649

(\* ) Convenience Translation into U.S. Dollars.

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

G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES  
APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS  
(NIS IN THOUSANDS)

	YEAR ENDED D	
	2008	2007
	NIS	
	(IN THOUS	
A. ADJUSTMENTS TO RECONCILE NET PROFIT TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Revaluation of loans from banks and others	963	
Deferred income taxes	(505)	(4
Unrealized loss (gain) on marketable securities	5,186	
Depreciation and amortization	6,174	5,5
Capital loss (gain) on disposal of property plant and equipment	264	(
Employees benefit, net	545	(1
Change in value of warrants to issue shares	(1,035)	(7
CHANGES IN ASSETS AND LIABILITIES:		
Increase in trade receivables and other receivables	(4,179)	(11,6
Increase in inventories	(377)	(2,5
Increase in trade and other payables, and other current liabilities	11,577	13,2
	18,613	3,3
	18,613	3,3
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	835	1
Income tax paid	3,736	7,6

(\*) Convenience Translation Into U.S. Dollars.

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

G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. DESCRIPTION OF BUSINESS

G. Willi-Food International Ltd. ("the Company") was incorporated in

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Israel in January 1994 and is engaged in the import, export, marketing and distribution of food products.

The Company is a subsidiary of Willi-Food Investments Ltd. ("the parent company"). The shares of the parent company are registered for trade on the Tel-Aviv Stock Exchange.

The financial statements are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

### B. DEFINITIONS:

THE COMPANY	-	G. WILLI-FOOD INTERNATIONAL LTD.
THE GROUP	-	the Company and its Subsidiaries, a list of which is presented in Note 5.
SUBSIDIARIES	-	companies in which the Company exercises control (as defined by IAS 27), and whose financial statements are fully consolidated with those of the Company.
RELATED PARTIES	-	as defined by IAS 24.
INTERESTED PARTIES	-	as defined in the Israeli Securities law and Regulations, 1968.
CONTROLLING SHAREHOLDER	-	as defined in the Israeli Securities law and Regulations, 1968.
NIS	-	New Israeli Shekel.
CPI	-	the Israeli consumer price index.
DOLLAR	-	the U.S. dollar.
EURO	-	the United European currency.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. APPLYING INTERNATIONAL ACCOUNTING STANDARDS (IFRS)

##### (1) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

##### (2) FIRST TIME IFRS STANDARDS ADOPTION

According to standard No. 29 "Adoption of International Financial Reporting Standards" - IFRS ("standard No. 29"), the Company applies International Financial Reporting Standards and interpretations of the committee of the International Accounting Standard Board (IASB) Starting January 1, 2008.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### A. APPLYING INTERNATIONAL ACCOUNTING STANDARDS (IFRS) (CONT)

###### (2) FIRST TIME IFRS STANDARDS ADOPTION (CONT)

According to standard No. 29 "Adoption of International Financial Reporting Standards" - IFRS ("standard No. 29"), the Company applies International Financial Reporting Standards and interpretations of the committee of the International Accounting Standard Board (IASB) Starting January 1, 2008.

In compliance with the mentioned above, the financial statements, as of December 31, 2008 and for the year then ended, including all previous reporting periods have been prepared in accordance with International Financial Reporting Standards and interpretations published by the International Accounting Standard Board (IASB).

In these financial statements the Company applied IFRS 1 "First time Adoption of International Financial Reporting Standards" ("IFRS No. 1"), which determines instructions for first time implementation of IFRS.

According to IFRS No. 1 the transition date for the purpose of implementing IFRS standards commenced January 1, 2007.

The Company has applied in a retroactive manner the IFRS standards for all reporting periods presented in the financial statements. The Company implemented the IFRS standards which have been published as of the preparation date of the Financial Statements and expected to be effective as of December 31, 2008. While applying the said transition instructions the Company chose to apply two relieves allowed under IFRS 1. See note 30.

Until the adoption of IFRS the Company conducted the Financial Reporting in accordance with the Israeli GAAP. The annual financial statements as of December 31, 2007 and for the periods then ended were prepared under the Israeli GAAP standards. The comparative financial statements were represented in the financial statements in accordance to the IFRS standards. See note 30 for the relevant material adjustments between the Israeli GAAP and the IFRS.

##### B. BASIS OF PREPARATION

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceased to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

- o Assets and liabilities measured by fair value: financial assets

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measured by fair value recorded directly as profit or loss.

- o Non-current assets are measured at the lower of their previous carrying amount and fair value less costs of sale.
- o Inventories are stated at the lower of cost and net realizable value.
- o Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.
- o Liabilities to employees as described in note 12.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### C. FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in New Israeli Shekel the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are also presented in the New Israeli Shekel ("NIS"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. (Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they accrue.

##### (1) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional, currency'). The consolidated financial statements are presented in 'NIS', which is the company's functional and the group's presentation currency.

##### (2) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the

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transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### D. CASH AND CASH EQUIVALENTS

Cash equivalents include unrestricted liquid deposits, maturity period of which, as at the date of investments therein, does not exceed three months.

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## G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### E. BASIS OF CONSOLIDATION

##### (1) GENERAL

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full.

For the effect of the issuance of IAS 27 (revised) "Consolidated and Separate Financial Statements" see note 2Y below.

##### (2) NONCONTROLLING INTEREST

In instances that the Group acquires noncontrolling interest, the excess of cost of acquired interest over the carrying value is recognized as goodwill. In cases of excess of carrying value over the cost, such amount is recorded in earnings.

When the Group interest is reduced, without loss of control (either by sale or by issuance of shares by the subsidiary) the differences between the consideration received and the book value of the Group's sold is recognized in income statements.

The group applies a policy of treating transactions with noncontrolling interests as transactions with parties external to the group. Disposals to noncontrolling interests result in gains and losses for the group and are recorded in the income statement. Purchases from noncontrolling interests result in



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goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### F. BUSINESS COMBINATION

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### G. GOODWILL

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and

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then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### H. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the cost model.

Under the cost method - a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the assets acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the asset over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any extension period, where the Company intends to exercise such option, or their useful life.

The annual depreciation and amortization rates are:

	%	
	-----	
construction	4	
Motor vehicles	15-20	(mainly 20%)
Office furniture and equipment	6-15	(mainly 15%)
Computers	20-33	(mainly 33%)
Machinery and equipment	10	

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### I. INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets acquired in a business combination are identified and recognised separately from goodwill

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where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

An intangible asset with an indefinite useful life shall not be amortized.

In accordance with IAS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:

- (a) annually, and
- (b) whenever there is an indication that the intangible asset may be impaired.

Intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Amortization is charged according to the straight-line method over their estimated useful life. See also Note 9

Useful lives of Intangible assets:

	YEARS -----
INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION:	
Technology knowledge	10
Customers relationship	15
Trade name	25
OTHER INTANGIBLE ASSET:	
Trade name	7

### J. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of

future cash flows have not been adjusted.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

J. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL  
(CONT.)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

K. INVENTORIES

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production overheads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost determined as follows:

Raw material, components and packaging	- by the "first-in, first-out" method;
Processing goods	- cost of materials plus labor
finished products	- on the basis of standard cost which approximates actual production cost (materials, labor and indirect manufacturing costs).
Products	- weighted average method

L. FINANCIAL ASSETS

(1) GENERAL

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- o Financial assets 'at fair value through profit or loss' (FVTPL)
- o Loans and receivables

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. FINANCIAL ASSETS (CONT.)

(2) FINANCIAL ASSETS AT FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- o it has been acquired principally for the purpose of selling in the near future; or
- o it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- o it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(3) LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest

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method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### (4) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, an objective evidence of impairment could include:

- o Significant financial difficulty of the issuer or counterparty; or
- o Default or delinquency in interest or principal payments; or
- o It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

M. FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

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### (1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### (2) Convertible debentures

The component parts of convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible debentures as a whole. This is recognized and included in equity and is not subsequently remeasured.

### (3) CONSUMER PRICE INDEX FINANCIAL LIABILITIES

The Company has Consumer Price Index ("CPI")-linked financial liabilities that are not measured at fair value through profit or loss. For those liabilities, the Company determines the effective interest rate as a real rate plus linkage differences according to the actual changes in the CPI up to the balance sheet date.

## N. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into a certain derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Further details of derivative financial instruments are disclosed in note 25.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12

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months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### O. EMBEDDED DERIVATIVES

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

##### P. FORWARDS

Changes in the fair value of forwards transactions are recorded in profit or loss immediately as they occurred.

##### Q. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

###### (1) SALE OF GOODS

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- o The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- o The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- o The amount of revenue can be measured reliably;
- o It is probable that the economic benefits associated with the transaction will flow to the entity; and
- o The costs incurred or to be incurred in respect of the transaction can be measured reliably.

###### (2) INTEREST REVENUE

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.



(3) DIVIDEND REVENUE

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

R LEASING

(1) GENERAL

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(2) THE GROUP AS LESSEE

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

S PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the

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obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### T. SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognized at the current fair value determined at each balance sheet date.

Through the liability settlement, the Company shall re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in the fair value is to be recognized in profit or loss for the period.

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### U. TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### (1) CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### (2) DEFERRED TAX

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### U. TAXATION (CONT.)

#### (2) DEFERRED TAX (CONT.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (3) CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

## V. EMPLOYEE BENEFITS

### (1) POST-EMPLOYMENT BENEFITS

The Group's POST-EMPLOYMENT BENEFITS include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as DEFINED BENEFIT PLANS.

Expenses in respect of a DEFINED BENEFIT PLAN are carried to the income statement in accordance with the PROJECTED UNIT CREDIT METHOD, while using actuarial estimates that are performed at each balance sheet date. The current value of the Group's obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are recognized in earning when incurred.

The Group's liability in respect of the DEFINED BENEFIT PLAN which is presented in the Group's balance sheet, includes the current value of the obligation in respect of the defined benefit, net of the fair value of the DEFINED BENEFIT PLAN assets.

### (2) SHORT TERM EMPLOYEE BENEFITS

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term company benefits include the company's liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

W. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed with regard to income or loss attributable to the Company's ordinary shareholders, and is calculated for income (loss) from continuing operations attributable to the ordinary shareholders of the reported entity, should such be presented. Basic earnings per share is to be computed by dividing income(loss) attributed to holders of ordinary shares of the Company (numerator), by the weighted average of the outstanding ordinary shares (denominator) during the period.

In the computation of diluted earnings per share, the Company adjusted its income (loss) attributable to its ordinary shareholders for its share in income (loss) of investees by multiplying their diluted EPS by the Company's holding in the investees including its holding in dilutive potential ordinary share of the investee and the weighted average of the outstanding shares for the effects of all the dilutive potential ordinary shares of the Company.

X. EXCHANGE RATES AND LINKAGE BASIS

(1) Balances in foreign currency or linked thereto are included in the financial statements based on the representative exchange rates, as published by the Bank of Israel, that were prevailing at the balance sheet date.

(2) Following are the changes in the representative exchange rate of the U.S. dollar vis-a-vis the NIS and in the Israeli CPI:

AS OF:	REPRESENTATIVE EXCHANGE RATE OF THE EURO (NIS PER 1)	REPRESENTATIVE EXCHANGE RATE OF THE DOLLAR (NIS PER \$1)	CPI "IN RESPECT OF" (IN POINTS)
	-----	-----	-----
December 31, 2008	5.2973	3.802	110.44
December 31, 2007	5.6592	3.846	106.40
INCREASE (DECREASE) DURING THE:	%	%	%
	-----	-----	-----
Year ended December 31, 2008	(6.4)	(1.14)	3.8
Year ended December 31, 2007	1.71	(8.97)	3.4

Y. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

(1) STANDARDS AND INTERPRETATIONS WHICH ARE EFFECTIVE AND HAVE BEEN APPLIED IN THESE FINANCIAL STATEMENTS.

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period, these

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are:

- o IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007);
- o IFRIC 12 Service Concession Arrangements (effective 1 January 2008);
- o IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The adoption of the Interpretations has not led to any changes in the Group's accounting policies.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

##### Y. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONT.)

- (2) STANDARDS AND INTERPRETATIONS WHICH HAVE NOT BEEN APPLIED IN THESE FINANCIAL STATEMENTS WERE IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates the following Interpretations were in issue but not yet effective:

##### IAS 1 (AMENDED) "PRESENTATION OF FINANCIAL STATEMENTS"

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the "report of comprehensive income", and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

At this stage, the management of the Group is examining the influence of this standard on the Company's financial statements.

##### IAS 23 (AMENDED) "BORROWING COSTS"

The standard stipulates the accounting treatment of borrowing

costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

IAS 27 (AMENDED) "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS"

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The noncontrolling interest in the losses of a subsidiary, which exceed its share in shareholders' equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Y. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONT.)

- (2) STANDARDS AND INTERPRETATIONS WHICH HAVE NOT BEEN APPLIED IN THESE FINANCIAL STATEMENTS WERE IN ISSUE BUT NOT YET EFFECTIVE

IFRS 3 (AMENDED) "BUSINESS COMBINATIONS"

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly

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connected with the business combination will be recorded to the statement of operations when incurred. Noncontrolling interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

### IFRIC 13, CUSTOMER LOYALTY PROGRAMS

The clarification stipulates that transactions for the sale of goods and services, for which the company confers reward grants to its customers, will be treated as multiple component transactions and the payment received from the customer will be allocated between the different components, based upon the fair value of the reward grants. The consideration attributed to the grant will be recognized as revenue when the reward grants are redeemed and the company has made a commitment to provide the grants.

The directives of the clarification apply to annual reporting periods commencing on January 1, 2009. Earlier implementation is permissible.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

### AMENDMENT TO IAS 32, FINANCIAL INSTRUMENTS: PRESENTATION, AND IAS 1, PRESENTATION OF FINANCIAL STATEMENTS

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

### IFRS 1 "FIRST TIME ADOPTION OF IFRS" AND IAS 27 "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS"



The amendment states, among other things, the method in which the measurement of the investments in subsidiaries, associated entities and joint control entities should be applied at first time adopting IFRS, and the method in which income from dividends received should be recognized.

The amendment is effective for annual periods commencing January 1, 2009.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION

A. GENERAL

In the application of the Group's accounting policies, which are described in Note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. SIGNIFICANT JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the significant judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

- o Useful lives of property, plant and equipment - As described at 2H above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.
- o Impairment of goodwill - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 3,829 thousand (USD 1,007 thousand).

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- o Deferred taxes- the company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.
- o Measurement of obligation for employee benefits.

NOTE 4 - CURRENT ASSETS

A. CASH AND CASH EQUIVALENTS - COMPOSITION

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Cash in bank	6,611	11,343	1,739
Short-term bank deposits	72,138	50,306	18,974
Total cash	78,749	61,649	20,713

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 4 - CURRENT ASSETS (CONT.)

B. OTHER FINANCIAL ASSETS

	CURRENT		
	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)			
Non-derivative financial assets designated as at FVTPL			
Shares	882	3,726	232
Governmental loan and other bonds	1,526	11,475	401
Certificate of participation in mutual fund	6,959	16,066	1,831

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DERIVATIVES	77	-	20
	-----	-----	-----
	9,444	31,267	2,484
	-----	-----	-----

C. TRADE RECEIVABLES

(1) COMPOSITION

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Open accounts	56,655	42,488	14,901
Credit cards company	97	261	26
Checks receivable	24,005	23,731	6,314
	-----	-----	-----
	80,757	66,480	21,241
Less - allowance for doubtful accounts	1,158	2,682	305
	-----	-----	-----
	79,599	63,798	20,936
	=====	=====	=====

The average credit period on sales of goods is 81 days. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

Of the trade receivables balance at the end of the year, NIS 8.3 million (2007: NIS 7.2 million) is due from Company A, the Group's largest customer. There are no other customers who represent more than 10% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of NIS 0.7 million which are past due at the reporting date for which the Group has not provided allowance for doubtful accounts as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 4 - CURRENT ASSETS (CONT.)

C. TRADE RECEIVABLES

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### (2) AGING OF PAST DUE BUT NOT IMPAIRED

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
0-120 days	587	447	154
120-150 days	137	395	36
150 days and above	-	2,882	-
<b>Total</b>	<b>724</b>	<b>3,724</b>	<b>190</b>

### (3) MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Balance at beginning of the year	2,682	206	705
Increase relating to subsidiary consolidated for the first time	164	-	43
Amounts written off as uncollectible	(2,482)	-	(652)
Change in allowance doubtful debts	794	2,476	209
<b>Balance at end of the year</b>	<b>1,158</b>	<b>2,682</b>	<b>305</b>

#### D. OTHER RECEIVABLES

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Prepaid expenses	438	647	116
Income receivables	377	41	99
Derivatives at fair value	77	-	20
Government authorities	613	554	161
Advances to suppliers	597	370	157
Others	1,885	-	496
	<b>3,987</b>	<b>1,612</b>	<b>1,049</b>

#### E. INVENTORIES

DECEMBER 31,

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	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Raw and auxiliary materials	2,573	-	677
Finished products and goods in process	29,082	29,166	7,649
	31,655	29,166	8,326
	=====	=====	=====
Advances to suppliers	2,762	1,854	726
	=====	=====	=====
	34,417	31,020	9,052
	=====	=====	=====

The inventories are presented net of impairment provision.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 4 - CURRENT ASSETS (CONT.)

F. OTHER RECEIVABLES

BREAKDOWN BASED ON LINKAGE CONDITIONS:

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
MONETARY ITEMS:			
CPI linked	5,349	9,489	1,407
Linked or denominated in foreign currency	22,339	25,051	5,876
Not linked	145,435	123,731	38,252
	-----	-----	-----
	173,123	158,271	45,535
	-----	-----	-----
NON-MONETARY ITEMS	35,452	31,983	9,325
	208,575	190,254	54,860
	=====	=====	=====

NOTE 5 - INVESTMENTS IN SUBSIDIARIES

A. CONSOLIDATED SUBSIDIARIES

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The consolidated financial statements as of December 31, 2008, include the financial statements of the following Subsidiaries:

	OWNERSHIP AND CONTROL
	AS OF DECEMBER 31, 2 0 0 8
	%
Gold Frost Ltd ("GOLDFROST")	89.99
Shamir Salads (2006) Ltd ("SHAMIR SALADS")	51.00
WF Kosher Food Distributors Ltd. ("WF")	100.00
Y.L.W. Baron international trading Ltd. ("BARON")	50.10
W.F.D. Ltd.	100.00
Willi-food frozen products Ltd.	100.00
Goldfrost's subsidiary	
Dairy distributor in Denmark ("THE DISTRIBUTOR")	51.00

### NOTE 6 - PREPAID LONG-TERM LEASE

The Company entered into a long term lease agreement with the ILA with respect to a parcel of land which its facilities were constructed. The prepaid lease payments amounted to NIS 10,741 in thousands, and are amortized over the lease period.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

### NOTE 7 - PROPERTY PLANT AND EQUIPMENT

	BUILDING	MACHINERY AND EQUIPMENT	MOTOR VEHICLES	LEASEHOLD IMPROVEMENTS
CONSOLIDATED				
COST:				
Balance - January 1, 2007	27,485	755	6,784	311
Changes during 2007				
Additions	3,431	255	1,891	-
Dispositions	-	-	(105)	(311)
Balances relating to subsidiary consolidated for the first time	-	-	-	-
Effect of foreign currency exchange differences	-	-	-	-
Balance - December 31, 2007	30,916	1,010	8,570	-
Changes during 2008:				
Additions	610	1,934	487	8

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Dispositions	-	-	(583)	-
Balances relating to subsidiary consolidated for the first time	-	6,142	1,696	348
Effect of foreign currency exchange differences	-	-	(6)	-
	-----	-----	-----	-----
Balance - December 31, 2008	31,526	9,086	10,164	356
	-----	-----	-----	-----
ACCUMULATED DEPRECIATION:				
Balance - January 1, 2007	-	-	4,104	307
Changes during 2007:				
Additions	842	64	1,048	4
Dispositions	-	-	(105)	(311)
	-----	-----	-----	-----
Balance - December 31, 2007	842	64	5,047	-
Changes during 2008:				
Additions	1,420	763	1,362	36
Dispositions	-	-	(304)	-
Balances relating to subsidiary consolidated for the first time	-	830	251	2
Effect of foreign currency exchange differences	-	-	10	-
	-----	-----	-----	-----
Balance - December 31, 2008	2,262	1,657	6,366	38
	=====	=====	=====	=====
Net book value:				
December 31, 2008	29,264	7,429	3,798	318
	=====	=====	=====	=====
December 31, 2007	30,074	946	3,523	-
	=====	=====	=====	=====
Net book value (Dollars in thousands):				
December 31, 2008	7,697	1,954	999	84
	=====	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 8 - GOODWILL

A. COMPOSITION

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	-----	-----	-----
	NIS		US DOLLARS
	-----		
	(IN THOUSANDS)		
	-----		
COST			
Balance at beginning of year	4,884	-	1,284

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Additional amounts recognised from business combinations occurring during the year	3,101	4,848	815
Additional amounts recognized from acquiring additional shares in subsidiary	-	36	-
	-----	-----	-----
BALANCE AT END OF YEAR	7,985	4,884	2,099
	-----	-----	-----
ACCUMULATED IMPAIRMENT LOSSES			
Balance at beginning of year	3,089	-	812
Impairment losses recognized in the year	1,067	3,054	280
Effect of foreign currency exchange differences	-	35	-
	-----	-----	-----
Balance at end of year	4,156	3,089	1,092
	-----	-----	-----
CARRYING AMOUNT			
At the beginning of the year	1,795	-	472
	-----	-----	-----
At the end of the year	3,829	1,795	1,007
	=====	=====	=====

### B. ANNUAL TEST FOR IMPAIRMENT

During 2008, the Group assessed the recoverability of goodwill, and determined that goodwill associated with the Group's overseas marketing of refrigerated products activity was not recoverable and was written off in the amount of NIS 1,067 thousands. There were no other impairments to any of the other cash-generating units in the year 2008.

### C. ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- o Export activity ( Baron that was acquired in the year 2007).
- o Export activity (WF that was acquired in the year 2007).
- o Salad production and marketing activity (Shamir Salads that was acquired in the year 2008).
- o Overseas marketing of refrigerated products activity (The distributor that was acquired in the year 2008).

Before recognition of impairment losses, the carrying amount of goodwill was allocated to the following cash-generating units:

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	-----	-----	-----
	NIS		US DOLLARS
	-----		-----
	(IN THOUSANDS)		
	-----	-----	-----
Marketing activity of chilled and frozen products (Goldfrost)	36	36	9
Export activity (Baron)	1,893	1,759	498



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Export activity (WF)	3,089	3,089	812
Salad production and marketing activity (Shamir salads)	1,900	-	500
Overseas marketing of refrigerated products activity (the Distributor)	1,067	-	280

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 8 - GOODWILL (CONT.)

D. ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

EXPORT ACTIVITY (BARON)

The recoverable amount of this cash-generating unit was determined based on the projected cash flow forecast approach for the coming years, which is based on the activity's budget for the years 2009-2012. The key assumptions used in calculating the usage value are:

- o Operating profit rate - the operating profit during the years 2009-2012 should increase by 5% per annum. This assessment is based on an increase in the turnover, while the operating expenses should remain essentially at the same level. During the subsequent period, and during a period of another 15 years, the operating profit should increase by 3% per annum.
- o Changes in the working capital - the working capital at the end of each year should represent 7% of the annual operating profit.
- o Fixed assets and depreciation - the periodic investments in fixed assets should approximate the aggregate of the depreciation costs.
- o The period of the estimate - 20 years. The residual value at the end of that period should approximate the present value of the working capital at that time.
- o The capitalization rate - the following risk factors were taken into account in the determination of the capitalization rate - the competition from local manufacturers in the United States, which benefit from the advantage of proximity to the market; the Jewish population in the United States, which constitutes the activity's principal customer base, grew at a very slow pace, while the ultra-orthodox Jewish population in the United States (to which the activity also sells) increased at a rapid pace, however, this community has its own rabbis, who do not always trust the kashrut supervision in Israel; as well as a significant dependence on the existing management. The composition of the financing was also taken into account - 65% equity and 35% external financing. According to these assumptions, the weighted average interest rate that was taken into account in respect of the cash flow is 17%.

EXPORT ACTIVITY (WF)

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The recoverable amount of this cash-generating unit was determined based on the projected cash flow forecast approach for the coming years, which is based on the activity's budget for the years 2008-2012. The key assumptions used in calculating the usage value are:

- o Total sales - the assumption was that in 2008, the sales would increase by 25% compared with 2007, by 5% during the years 2009 - 2012, by 3% during the subsequent five years, while regarding an additional ten-year period, a fixed cash flow was assumed at the height of the cash flow in 2017.
- o Operating profit rate - the operating profit rate during the years 2009-2012 should be negligible (from a negative rate of 1.1% in 2008 up to a positive rate of 1.4% in 2012). As of the year 2013, an operating profit rate of 4% was assumed. This assessment is based on an increase in the turnover, while the operating expenses should remain essentially at the same level. During the subsequent period, and for an additional period of 15 years, the operating profit should increase by 3% per annum.
- o Changes in the working capital - the assumption is that the working capital should increase each year at the same rate as the rate of the increase in the turnover.
- o Fixed assets and depreciation - the fixed assets of this activity are immaterial, and no significant investments are anticipated in the future; therefore, the assumption is that the total depreciation costs should be similar to the total periodic purchase costs.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 8 - GOODWILL (CONT.)

##### D. ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS (CONT.)

###### EXPORT ACTIVITY (WF) (Cont.)

- o The period of the estimate - 20 years. The residual value at the end of that period should approximate the present value of the working capital at that time.
- o The capitalization rate - the following risk factors were taken into account in the determination of the capitalization rate - the Management's forecast involves significant uncertainty, including with regard to the rate of the increase in the volume of activity, and the pace of the improvement to profitability. In addition, in 2007, the activity suffered heavy losses. Furthermore, the sector in which it operates - trade in kosher food - is subject to stiff competition, and it is unclear whether the activity has a relevant advantage over its competitors, especially since the ultra-orthodox population, which the activity also targets, is counseled by its own rabbis, and this community could have its own marketing channels. In terms of the

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financing structure - the assumption was that the long-term financing structure of the activity should include 50% shareholders' equity and 50% bank loans. Accordingly, the weighted average interest rate that was taken into account (excluding the residual value) was 15%. A capitalization rate of 7% was taken into account in relation to the residual value, considering the chance that the activity can be realized as a going concern. It should be noted that the goodwill in respect of this activity was written off in its entirety in 2007.

### SALAD PRODUCTION AND MARKETING ACTIVITY (SHAMIR SALADS)

The recoverable amount of this cash-generating unit was determined based on the projected cash flow forecast approach for the coming years, which is based on the activity's budget for the year 2009. The key assumptions used in calculating the usage value are:

- o The sales turnover - the sales turnover was calculated based on the activity's budgeted sales turnover for 2009, with an annual increment at the rate of 2.5% during the years 2010-2011, which represents mainly the expected increase in the population during this period, and 3.5% as of the year 2012 and the subsequent years, according to the anticipated long-term rise in the standard of living.
- o Operating profit rate - the operating profit rate was calculated based on the operating profit rate budgeted for 2009, which is likely to increase concurrent with the increase in the turnover, mainly due to the significant proportion of fixed expenses out of the total operating expenses. Nonetheless, the competition in the sector could lead to a slow improvement in the operating profit.
- o Changes in the working capital - the assumption is that the working capital should increase during the coming years at the same rate as the rate of the increase in the turnover.
- o Fixed assets and depreciation - this activity has material fixed assets, the majority being comprised of machinery, equipment and vehicles. The assumption is that in the coming years the need for significant investments in fixed assets should diminish. The assumptions adopted in relation thereto are that the sums of the investments in fixed assets will be NIS 1,200 thousand during the years 2009 and 2010, while in subsequent years, the total investment should increase by some 3% per annum. The balance of the activity's fixed assets as on December 31, 2008 shall be amortized at equal annual sums over the next seven years. The average depreciation in respect of purchases subsequent to January 1, 2009 should be at the rate of 12.5% per annum.
- o The period of the estimate - 20 years. The residual value at the end of that period should approximate the present value of the working capital at that time.

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### NOTE 8 - GOODWILL (CONT.)

#### D. ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS (CONT.)

##### SALAD PRODUCTION AND MARKETING ACTIVITY (SHAMIR SALADS) (CONT.)

- o The capitalization rate - the following risk factors were taken into account in the determination of the capitalization rate - the competition in the sector, which is liable to have an impact on the profitability; the significant deficit in the Company's working capital; and its problematic liquidity situation. The composition of the financing was also taken into account - as of December 31, 2008, 75% of the Company's financing is from bank credit. The assessment is that financing will not continue at this ratio in the long term, so that, the financing from bank credit in the long-term should be 50% of the activity's total financial means. According to these assumptions, the weighted average interest rate taken into account in respect of the cash flow, including the residual value, is 14%.

##### OVERSEAS MARKETING OF REFRIGERATED PRODUCTS ACTIVITY

The recoverable amount of this cash-generating unit was determined based on the projected cash flow forecast approach for the coming years, which is based on the activity's budget for the year 2009. The key assumptions used in calculating the usage value are:

- o The sales turnover - the sales turnover was calculated based on the activity's budgeted sales turnover for 2009, with an annual increment at the rate of 3%, which represents mainly the expected increase in the population that generates the demand for the activity's products.
- o Operating profit rate - the operating profit rate was calculated based on the operating profit rate budgeted for 2009, which is likely to increase concurrent with the increase in the turnover, mainly due to the significant proportion of fixed expenses out of the total operating expenses. Nonetheless, the competition in the sector could lead to a slow improvement in the operating profit.
- o Fixed assets and depreciation - the fixed assets of this activity are immaterial, and no significant investments are anticipated in the future; therefore, the assumption is that the total annual investments in fixed assets will be similar to the total annual depreciation expenses.
- o The period of the estimate - 20 years. The residual value at the end of that period should approximate the present value of the working capital at that time.
- o The capitalization rate - the following risk factors were taken into account in the determination of the capitalization rate - the competition in the sector, which is liable to have an impact on the profitability; the operating results during the report year, which indicates poor profitability. The composition of the financing was also taken into account, and it was decided that in the long-term the basic financing structure of the activity should be 60% shareholders' capital and 40% external credit. According to these assumptions, the weighted average interest rate that was taken into account in respect of the cash flow (excluding the residual value) is 17.5%. The capitalization rate of 12% was taken into account in relation to the residual value.

G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

## NOTE 9 - INTANGIBLE ASSETS

## A. COMPOSITION:

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
<b>COST</b>			
Suppliers relationship	120	120	32
Customers relationship	1,404	40	369
Brand name	3,570	-	938
technological know-how	439	-	115
	-----	-----	-----
	5,533	160	1,454
	-----	-----	-----
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT</b>			
Suppliers relationship	34	17	9
Customers relationship	131	40	34
Brand name	143	-	38
technological know-how	44	-	11
	-----	-----	-----
	352	57	92
	-----	-----	-----
<b>AMORTIZED COST</b>	<b>5,181</b>	<b>103</b>	<b>1,362</b>
	=====	=====	=====

## B. AMORTIZATION RATES - see note 2J.

## NOTE 10 - DETAILS OF CURRENT LIABILITIES

## A. TRADE PAYABLES

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Open accounts	39,206	30,539	10,312
Accrued expenses	832	369	219
Checks payables	13,690	3,422	3,601

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-----	-----	-----
53,728	34,330	14,132
=====	=====	=====

(\*) Average days of credit for trade payables are 62 days.

B. OTHER PAYABLES AND ACCRUED EXPENSES

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
	-----	-----	-----
Derivatives at fair value	-	166	-
Government authorities	297	-	78
Customer advances	169	188	45
Deferred income	346	-	91
Related parties	1,690	3,945	445
Accrued expenses	1,958	292	515
Other	511	401	134
	-----	-----	-----
	4,971	4,992	1,308
	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 10 - DETAILS OF CURRENT LIABILITIES (CONT.)

C. CURRENT LIABILITIES - BREAKDOWN BASED ON LINKAGE CONDITIONS:

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
	-----	-----	-----
Monetary commitments:			
CPI linked	456	-	120
Linked or denominated in foreign currency	36,652	28,651	9,640
Not linked	48,429	18,770	12,738
	-----	-----	-----
	85,537	47,421	22,498
	=====	=====	=====
Non-monetary commitments:	515	188	136
	=====	=====	=====
	86,052	47,609	22,634

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=====

NOTE 11 - BANK LOANS AND OTHER CREDIT PROVIDERS

A. Loans and other credits Comprised as follows:

	INTEREST RATE	LIABILITIES			
		CURRENT		NON-CURRENT	
		AS OF DECEMBER 31,		AS OF DECEMBER 31,	
		2 0 0 8	2 0 0 7	2 0 0 8	2 0 0 7
	ANNUAL	NIS IN THOUSAND		NIS IN THOUSAND	
	%				
Banks:					
Overdraft	P+1-P+6.65	5,837	-	-	-
Loans:					
CPI linked	5.91	456	-	-	-
In U.S dollars	L+1	3,296	5,978	-	-
Not linked	P+1-6.95	7,657	-	-	-
Others:					
CPI linked	3.75-9.81	316	-	267	-
		17,562	5,978	267	-

B. DUE DATES AS OF DECEMBER 31, 2008

	THOUSAND NIS
First year - Current portion	2,324
Second year	267
Total	2,591

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 12 - LIABILITIES UNDER FINANCE LEASE ARRANGEMENTS

A. CAPITAL LEASES:

(1) GENERAL

The Company's subsidiary entered into several finance leasing arrangements of cars for time periods varies between 3 - 3.33 years with a purchase possibility for a total amount of NIS 81 in

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thousand. The group's commitment for lease payments is assured by the legal ownership of the lessor.

(2) CAPITAL LEASE ASSETS:

NET BOOK VALUE OF THE COMPANY'S CAPITAL LEASE ASSETS:

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Vehicles	734	-	193
	734	-	193

NOTE 13 - EMPLOYEE BENEFITS

A. COMPOSITION

	DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
POST EMPLOYMENT BENEFITS:			
Benefits to retirees	994	163	261
SHORT TERM EMPLOYEE BENEFITS:			
Accrued payroll and related expenses	1,989	1,160	523
Liability for vacation pay	555	248	146
	2,544	1,408	669

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. DEFINED BENEFIT PLANS

The principal assumptions used for the purposes of the actuarial valuations were as follows:

VALUATION AT



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	2 0 0 8	2 0 0 7
Discount rate	4.2%-4.7%	5.8%
Expected return on the plan assets	1.75%-4.7%	2.6%-5.8%
Rate of increase in compensation	4%	4%
Expected rate of termination:		
0-1 years	35%-60%	30%
1-2 years	30%	20%
2-3 years	20%	15%
3-4 years	10%-15%	5%
4-5 years	10%	5%
5 years and more	7.5%	5%

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Current service cost	961	502	252
Interest cost	126	85	33
Expected return on the plan assets	(111)	(76)	(29)
Employer contribution	(841)	(446)	(221)
Interest losses on severance payment allocated to remuneration benefits	25	-	7
Actuarial losses (gains) recognized in the year	478	(80)	126
Benefit paid during the year	(93)	(107)	(25)
	545	(122)	143

The expense included in the P&L is as follows:

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Cost of sales	155	-	41
Selling expenses	224	(60)	59
General and administrative expenses	166	(62)	43
	545	(122)	143

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 13 - EMPLOYEE BENEFITS (CONT.)

B. DEFINED BENEFIT PLANS (CONT.)

Movements in the present value of the defined benefit obligation in the current period were as follows:

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Opening defined benefit obligation	1,521	1,002	400
Current service cost	961	502	252
Interest cost	126	85	33
Actuarial gains (losses)	(138)	175	(36)
Benefits paid	(268)	(243)	(71)
Change relating to subsidiary consolidated for the first time	604	-	159
Closing defined benefit obligation	2,806	1,521	737

Movements in the fair value of the defined benefit assets in the current period were as follows:

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Opening defined benefit assets	1,358	717	357
Expected return on the plan assets	111	76	29
Actuarial gains (losses)	(616)	255	(162)
Employer contribution	841	446	221
Benefits paid	(175)	(136)	(46)
Acquisition of subsidiary consolidated for the first time	318	-	84
Interest losses on severance payment allocated to remuneration benefits	(25)	-	(7)
Closing defined benefit assets	1,812	1,358	476

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

### NOTE 14 - INCOME TAXES

#### A. COMPOSITION

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Current taxes	1,959	3,422	515
Taxes in respect of prior years	-	(338)	-
Deferred taxes (D. below)	(505)	(433)	(133)
	1,454	2,651	382
	1,454	2,651	382

#### B. RECONCILIATION OF THE STATUTORY TAX RATE TO THE EFFECTIVE TAX RATE

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Income before income taxes	1,721	7,290	453
	1,721	7,290	453
Statutory tax rate	27%	29%	27%
Tax computed by statutory tax rate	465	2,114	122
TAX INCREMENTS (SAVINGS) DUE TO:			
Non-deductible expenses	1,180	130	310
Deferred tax in respect of losses for which valuation allowance was provided	1,110	2,364	292
Tax exempt income	(367)	(182)	(96)
Permanent differences	329	-	87
Temporary differences for which deferred taxes were not provided	(1,295)	-	(341)
Effect of decrease in tax rate on deferred taxes assets	5	(13)	1
Differences in the definition of capital and non-monetary items for tax purposes and financial reporting purposes	(22)	(1,227)	(6)
Previous year taxes	-	(338)	-
Other	49	(197)	13
	1,454	2,651	382
	1,454	2,651	382

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 14 - INCOME TAXES (CONT.)

C. DEFERRED TAXES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Balance as of beginning of year	238	(195)	62
Charged to the consolidated income statements	510	420	134
Tax rate changes	(5)	13	(1)
Change relating to subsidiary consolidated for the first time	(74)	-	(19)
Balance as of end of year	669	238	176
	=====	=====	=====

DEFERRED TAXES ARISE FROM THE FOLLOWING:

Allowance for doubtful accounts	294	104	77
Employees benefits	391	190	103
Carry forward tax losses	747	-	196
Depreciable fixed assets	(893)	-	(234)
Unrealized profits	-	32	-
Financial assets carried at fair value through profit or loss	130	(88)	34
	-----	-----	-----
	669	238	176
	=====	=====	=====

For 2008 - Deferred taxes were computed at rates between 26%-25%, primarily - 26%.

D. REDUCTION OF CORPORATE TAX RATES

In July 2005, the Israeli Knesset passed the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which commencing in 2006 the corporate income-tax rate would be gradually reduced, for which a 31% tax rate was established, through 2010, in respect of which a 25% tax rate was established..

E. The Company and its subsidiaries were not assessed for Income Taxes. According to section 145 of the Tax Ordinance assessments for the years 2001 and backward are considered final.

F. On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ("Inflation Adjustments") (Amendment 20) (Limitation of Term of Validity) - 2008 (hereinafter: "The Amendment"), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

1. Commitments

- a. The Company has agreed to pay the large supermarket retail chains in the organized market and to certain of the customers in the private sector incentives calculated as a fixed percentage of the annual sales to such customer or incentives based on the increase in volume of sales to such customers in excess of a certain agreed amount with respect to the year 2008. The extent of such incentives varies between 0.5%-8.5% of the annual sales turnover of each relevant customer (depending on the agreement with each customer) and are usually awarded as part of a written annual framework agreement.
- b. As of June 1, 1998, the Company entered into certain management services agreements with certain companies controlled by each of Messrs. Joseph and Zwi Williger, respectively (collectively, the "Williger Management Companies"), pursuant to which Messrs. Joseph and Zwi Williger are to provide management services on behalf of the Williger Management Companies to the Company (the "Management Services Agreements").

The Management Services Agreements were for a period of four years commencing on June 1, 1998 (the "Management Services Period"), were automatically renewed on June 1, 2002 for two years and were automatically renewed for an additional period of two years in June 2004.

Each of the Management Services Agreements provided for monthly services fees equal to \$24,500 (excluding VAT) and an annual bonus at a rate of 3% of the Company's consolidated pre-tax annual profits, if such profits are equal to or less than NIS 3.0 million (approximately USD 0.8 million), or at a rate of 5% if such profits exceed such level.

On May 4, 2005 the Company's Audit Committee and Board of Directors decided to amend the terms of the abovementioned agreements, mainly extending the management services period for an unlimited period, with an option to terminate them by the Company's advance notice of 18 months and the Management Companies' advance notice of 180 days. The General Meeting of the Company's shareholders ratified these amendments on July 20, 2005.

On February 15, 2006 the Company's board of directors resolved, in light of the expressed position of the Israeli Securities Authority, to set those agreements for a five-year period following ratification by the Company's shareholders General Meeting, i.e., until July 19, 2010.

On January 2, 2008 the Audit Committee and the Board of Directors unanimously approved the amendment of the Management Services Agreements with Messrs. Zwi Williger and Joseph Williger. In accordance to the new Management Services Agreements the terms were amended as follows:

- (1) The current monthly services fees according to the Management Services Agreements will cease to be linked to the US Dollar and will be translated to NIS 102,900 (excluding VAT) linked to changes in the Israeli consumer price index.
- (2) The terms of the Management Services Agreements are to be extended indefinitely, subject to clause (3) below; provided however that in the event the Williger Management Company provides the management services to the Company without the presence of Messrs. Zwi Williger or Joseph Williger, as the case may be, and/or in the case of the death and/or permanent disability of Messrs. Zwi Williger or Joseph Williger, the Company will be entitled to terminate the Management Services Agreement immediately.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

1. Commitments

b. Cont.

- (3) Each of the parties to the Management Services Agreements may terminate the agreement at any time, and for any reason, by prior written notice which will be delivered to the other party as follows:

The Company may terminate the agreement at any time, and for any reason, by prior written notice of at least 36 months.

The Williger Management Company may terminate the agreement at any time, by prior written notice of at least 180 days.

- (4) If a Williger Management Company is to terminate the Management Services Agreement, the Williger Management Company would be entitled to receive the management fees for a period of twelve (12) months, which would begin after the prior notice period, whether or not it provides the Company with any management services during such twelve-month period.

In addition, the Management Services Agreements contain provisions entitling each of Messrs. Zwi Williger and Joseph Williger to 30 vacation days per year, during which days the applicable Williger Management Company will not provide management services to the Company. Unused vacation days may be accumulated and paid for in lieu of taking such days as vacation.

- c. On April 1, 1997, the Company entered into an agreement to provide the Parent Company administrative services pursuant to which the Company may provide office facilities leased by the parent company for a monthly fee of NIS 5,480 (USD 1,441) to be adjusted annually for changes in the Israeli CPI.
- d. The Company does not generally enter into written agency or other agreements with its suppliers. However, the Company has written agreements with sixteen foreign suppliers that confirm the exclusive appointment of the Company as the sole agent and/or distributor of such suppliers either with respect to a specific product or with respect to a line of products, within the State of Israel.
- e. Shamir Salads signed distribution agreements with 25 distributors, that distributes Shamir Salads products all over Israel for a commission that range between 6% to 16% of the distributor sales, depending of the customer. Shamir Salads has no commitment to any of those distributors for ongoing relationship.
- f. Shamir Salads leases two joined buildings for its operation (factory, logistics and head office) - the first is 2,512 squared meters, the monthly rent is NIS 40,432 (linked to the CPI from December 2005) and the lease ends on January 2012. The second is 2,192 squared meters, the monthly rent is NIS 41,141 (linked to the CPI from December 2005) and the lease ends on January 2012.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

2. Contingent liabilities

1. On November 24, 2003 the Israeli custom issued the Company and Gold Frost a notice for total payment of NIS 381 thousand claiming that the tariff on a certain product imported by the Company was wrong. The Company and Gold Frost didn't agree to the notice and on November 25, 2004 they filed a lawsuit against the state of Israel to have the notice be declared void. The summaries from both sides have been submitted and the Company is waiting for the verdict of the court. A reserve of NIS 308 thousand is included in the Company's 2008 financial statements.
2. A lawsuit was filed in December 2001 against 29 importers/producers of food products, including the Company, for

an amount totalling NIS 500 million. Concurrently, the plaintiffs filed a request for an exemption from the court fee. Following the court's rejection of the plaintiffs' request for the noted fee exemption and their failure to pay such fee, the court dismissed the case. In January 2004 the abovementioned plaintiffs filed a new lawsuit against the 29 noted importers/producers for NIS 1 billion. Again, a request was made concurrently for an exemption from the court fee. This request was rejected by the registrar of the court, and the action was dismissed without prejudice in November 2006.

The plaintiffs then filed an appeal with the District court of the registrar's November 2006 decision. This request was rejected by the registrar of the District court. The plaintiffs then filed an appeal with the Supreme Court, and requested an exemption from the court fee for the appeal and from the requisite security deposit. The next hearing in this appeal is scheduled for June 15, 2009.

Although the proceedings are still at a preliminary stage, the Company's management and legal counsel believe that the plaintiffs' likelihood of success in the proceedings is low.

3. In or about October, 2005, Vitarroz Corp. commenced an action in the Superior Court of the State of New Jersey, against Willi USA Holdings, Inc. (a subsidiary of the Company), the Company and Zwi Williger (collectively, the "Defendants") due to a dispute concerning a press release announcing the termination of the proposed acquisition of the Vitarroz business by the Company. On September 2005, the Company removed the matter from the Superior Court of New Jersey to the United States District Court for the District of New Jersey. The complaint was subsequently amended and, as amended, alleged, inter alia, breach of contract, defamation, breach of covenants of good faith and fair dealing, fraudulent inducement and tortious interference with contractual relations and prospective economic advantage. Defendants did not respond to the complaint as an agreement was reached to arbitrate all disputes between the parties and certain third parties. Not only did the parties agree to submit the claims which are the subject of the amended complaint to binding arbitration but they agreed to submit to arbitration (i) claims that defendants have against plaintiff and related third parties, and (ii) claims which the Company asserted against Vitarroz in an action that was then pending in Israel regarding the alleged breach of an agreement executed by the Company and Vitarroz, pursuant to which Vitarroz was to supply food products to the Company. Although there was no discovery taken in the then pending Court matters, Vitarroz claimed in correspondence to the District Court that it sustained, inter alia, damage: to its financial reputation; that suppliers refused to extend favorable credit and delivery terms; that there were lost profits of approximately USD 500,000; and that its sale to IDT realized a sales price of approximately USD 3 million less than what was expected; and that there are additional damages resulting from defendants' actions which are claimed to exceed USD 3.5 million.. During the course of discovery, Vitarroz submitted the reports of its financial expert claiming damages in excess of USD 6.6 million. The Company has submitted the report of its financial expert claiming damages in excess of \$10 million. The attributing hearings were in May 2008 and the on August 25 2008, the arbitration panel has granted an award against the Company in the amount of approximately USD 0.6 million). Among other things, the panel found that the press



release issued by the Company announcing the termination of the proposed acquisition of the Vitarroz business by the Company constituted a breach of contract and violation of the covenant of good faith and fair dealing. In addition, the panel rejected the Company's counterclaims. On October 13, 2008 the Company filed a motion to the Superior Court of the State of New Jersey New to vacate the award. A reserve on the full award is included in the Company's 2008 financial statements.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

2. Contingent liabilities

4. On February 21, 2007, a lawsuit was filed against Gold Frost by Cukierman & Co. Investment House Ltd. in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 273,852, claiming non payment of fees for professional services rendered. A statement of defense was filed. Given the early stage of these proceedings, the Company is unable at this point to assess the risks involved.
5. In September 2007, Thurgeman Construction Co. Ltd. ("Thurgeman") filed a claim against the Company in the District Court of Tel Aviv the amount of NIS 4,449,340 (plus VAT) regarding a dispute in connection with the construction of the Company's logistics center in Yavne (the "Project") pursuant to a contract between the parties, dated as of September 9, 2005. Under the terms of the contract, Thurgeman was to serve as the operating contractor for the construction of the frame and the surrounding portions for the construction of the Project.

During the course of construction on the Project, the parties raised several claims against each other in connection with the progress of construction on the Project. The Company claimed that Thurgeman grossly violated the terms of the contract by continuous delays in the completion of the Project, and by performing the construction work in a negligent and unprofessional manner and with inferior quality. Thurgeman counterclaimed that it performed the construction work according to the terms of the contract and that any delays in the work were not caused through any fault of Thurgeman. Furthermore, Thurgeman claimed that the Company withheld certain payments to which Thurgeman was entitled for additional work on the Project, causing Thurgeman damages.

At the end of November 2007, the Company filed a statement of defense, which included a counterclaim against Thurgeman and its executive, Dotan Thurgeman, which contained among other things, a claim of defamation, a claim for damages caused by the delay in delivery of the completed Project, and damages caused by Thurgeman's poor and careless work on the Project. The sum of the damages claimed by the Company in the counterclaim was NIS 5 million. In February 2008, Thurgeman filed a response to the counter claim. The parties started performing the preliminary

proceedings.

At the current preliminary stage of the dispute, the Company's management and legal counsel cannot assess the chances of the parties.

6. On June 18, 2006, the Company filed a claim against Filiz and Ash-Bar in the amount of NIS 4,473,878 for breach of contract. The complaint was served on Filiz and Ash-Bar through Ash-Bar's chief executive officer. Filiz then filed a request to cancel the complaint, claiming that Ash-Bar is not authorized to accept service of process on its behalf. The request was denied by the court's registrar.

On November 4, 2007, Filiz filed an appeal of the registrar's decision and requested an extension for filing its defense to the complaint pending a decision on the appeal. The appeal was denied and the service of process was accepted by the court.

Notwithstanding the fact that the proceedings are still at a preliminary stage, the Company's legal counsel believes that the complaint is based on sound legal arguments, and that there is a reasonable possibility that a not insignificant portion of the arguments will be sustained by the court.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

2. Contingent liabilities

7. On July 7, 2008, WF filed a lawsuit in the Supreme Court of the State of New York, Country of New York, against Laish Israeli Food Ltd., Laish Dairy Ltd., 860 Nostrand Associates Llc., Arie Steiner, Eli Biran (WF's former CEO) and others. The plaintiffs assert claims, inter alia, of fraud, conversion and breach of contract against the seller and former principal of Laish Israeli Food and related parties. Certain defendants have filed motions to dismiss the claim. On August 27, 2008, 860 Nostrand Associates Llc. filed a lawsuit against the Company claiming that the defendant is liable to it as a guarantor of a certain lease that was supposedly signed by WF. Damages are being sought. These matters are in the early stage of discovery.
8. On September 22, 2008, a lawsuit was filed against the Company, WF and one of the Company's officers by several Israeli's WF's vendors in the Tel Aviv-Jaffa Magistrates Court in the amount of NIS 1,349,899, claiming non payment of WF for food products that they allegedly supplied to WF. A statement of defense was filed. Even at the early stage of these proceedings, the Company's management and legal counsel believe that the lawsuit against Company and the Company's officer are without merit, and they intend to vigorously defend against such claims.
9. On November 2008, a purported class action lawsuit had been filed

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by an individual against Shamir Salads. The complaint, which has not been recognized as a class action, alleges that Shamir Salads misled its customers by writing on certain of its products that such products were "home production" while those products were manufactured in Shamir Salad's industrial factory. The complaint alleges damages of approximately NIS 7.45 million. Shamir Salads believes that the complaint is without merit and intends to vigorously defend against the litigation.

### NOTE 16 - RECLASSIFICATION

The Group reclassified the sum of NIS 1,854 thousand (USD 488 thousand) from the "Other receivables" item to the "Inventory" item. This reclassification derives from an adjustment of the comparative figures to the manner by which certain transactions are presented in the Group's financial statements as on December 31, 2008.

The Group reclassified the sum of NIS 369 thousand (USD 97 thousand) from the "Other payables and accrued expenses" item to the "Trade payables" item. This reclassification derives from an adjustment of the comparative figures to the manner by which certain transactions are presented in the Group's financial statements as on December 31, 2008.

The Group reclassified the sum of NIS 238 thousand (USD 63 thousand) from the "Other payables and accrued expenses" item and the sum of NIS 70 thousand (USD 18 thousand) from the "Trade receivables" item to the "Accruals" item. This reclassification derives from an adjustment of the comparative figures to the manner by which certain transactions are presented in the Group's financial statements as on December 31, 2008.

The Group reclassified the sum of NIS 1,408 thousand (USD 370 thousand) from the "Other payables and accrued expenses" item to the "Employees benefits" item. This reclassification derives from an adjustment of the comparative figures to the manner by which certain transactions are presented in the Group's financial statements as on December 31, 2008.

The Group reclassified the sum of NIS 593 thousand (USD 156 thousand) from the "Other payables and accrued expenses" item to the "Current tax liabilities" item. This reclassification derives from an adjustment of the comparative figures to the manner by which certain transactions are presented in the Group's financial statements as on December 31, 2008.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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### NOTE 16 - RECLASSIFICATION (CONT.)

	AS PREVIOUSLY REPORTED -----	MODIFICATION -----	AS REPORTED IN CURRENT STATEMENTS -----
AS OF DECEMBER 31, 2007			
Trade receivables	63,728	70	63,798
Other receivables	4,374	(1,854)	2,520

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Inventory	29,166	1,854	31,020
Trade payables	33,961	369	34,330
Other payables and accrued expenses	7,600	(2,608)	4,992
Accruals	-	308	308
Employees benefits	-	1,408	1,408
Current tax liabilities	-	593	593

NOTE 17 - SHAREHOLDERS' EQUITY

COMPOSITION:

	ORDINARY SHARES OF NIS 0.1 PAR VALUE EACH	
	DECEMBER 31	
	2 0 0 8	2 0 0 7
Authorized share capital	50,000,000	50,000,000
Issued and outstanding	10,267,893	10,267,893

NOTE 18 - OPTIONS PLANS

On January 2005 the Parent Company's audit committee and Board of Directors adopted a Stock Incentive Plan. The Parent Company was authorized to grant up to 138,000 options to 9 of the Group's employees (93,000 of the options to the Company's employees). The issuance of the options was ratified by the Parent Company's Board of Directors and the audit committee on February 27, 2005.

The options granted vest in three equal annual installments commencing January 2006 and will expire in 2.5, 3.5 and 4.5 years, respectively. The purchase price per share payable upon exercise of an option is NIS 14 (USD 3.7) per share, linked to the changes in the Consumer Price Index, and subject to adjustments.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 18 - OPTIONS PLANS (CONT.)

A summary of the status of the Company's stock option plans as of December 31, 2008, 2007 and changes during the years then ended, is presented below:

	NUMBER OF OPTIONS			
	YEAR ENDED DECEMBER 31			
	2 0 0 8		2 0 0 7	
	WEIGHTED AVERAGE	NUMBER OF	WEIGHTED AVERAGE	NUMBER OF
NUMBER OF	EXERCISE	OPTIONS	EXERCISE	OPTIONS
OPTIONS	PRICE		PRICE	

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		(NIS)		(NIS)
		-----		-----
Balance at the beginning of the year	27,000	13.43	42,000	13.55
Exercised	-		11,000	13.10
Forfeited	8,000		4,000	
	-----	-----	-----	
Balance at the end of the year	19,000	14.04	27,000	13.43
	=====	=====	=====	
Options exercisable at the year end	19,000		8,000	
	=====	=====	=====	

NOTE 19 - SELECTED CONSOLIDATED STATEMENTS OF OPERATIONS DATA

A. REVENUES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	-----	-----	-----
	NIS		US DOLLARS
	-----	-----	-----
	(IN THOUSANDS)		
	-----	-----	-----
Sale of products manufactured by the group	70,248	-	18,477
Sale of other products	278,784	249,693	73,325
Income from services provided	52	-	14
Commissions	143	-	37
	-----	-----	-----
	349,227	249,693	91,853
	=====	=====	=====

B. COST OF SALES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	-----	-----	-----
	NIS		US DOLLARS
	-----	-----	-----
	(IN THOUSANDS)		
	-----	-----	-----
Purchases	247,418	190,779	65,076
Materials consumed	9,123	-	2,400
Salaries and related expenses	5,673	-	1,492
Loss on firmly committed orders	3,500	-	921
Transportation	2,364	2,866	622
Depreciation and amortization	2,587	1,020	680
Maintenance and rent	8,408	4,066	2,211
Other manufacturing costs and expenses	2,169	2,273	570
	-----	-----	-----
	281,242	201,004	73,972
Change in raw materials	(986)	-	(259)
Change in finished goods and in goods in process,	1,395	(2,043)	367
	-----	-----	-----
	281,651	198,961	74,080
	=====	=====	=====

G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

## NOTE 19 - SELECTED CONSOLIDATED STATEMENTS OF OPERATIONS DATA (CONT.)

## C. SELLING EXPENSES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Salaries and related expenses	14,106	12,432	3,710
Sales commissions	4,648	-	1,223
Maintenance and rent	3,871	3,920	1,018
Vehicles	5,168	3,711	1,359
Advertising and promotion	2,666	1,983	701
Depreciation and amortization	1,544	812	406
Others	1,756	1,405	462
	-----	-----	-----
	33,759	24,263	8,879
	=====	=====	=====

## D. GENERAL AND ADMINISTRATIVE EXPENSES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Salaries and related expenses	10,769	8,001	2,832
Office maintenance	1,812	2,604	477
Professional fees	4,059	3,261	1,068
Vehicles	618	442	163
Depreciation and amortization	976	688	257
Bad and doubtful debts	3,161	2,303	831
Communication	385	380	101
Other	1,347	1,190	354
	-----	-----	-----
	23,127	18,869	6,083
	=====	=====	=====

## E. EMPLOYEES BENEFIT COSTS

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)

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	NIS		US DOLLARS
	(IN THOUSANDS)		
Payroll	30,003	20,555	7,891
Employee Benefit Plan expenses	545	(122)	143
	30,548	20,433	8,034
	=====	=====	=====

F. DEPRECIATION AND AMORTIZATION

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Depreciation of fixed assets	4,202	2,329	1,105
Amortization of Intangible assets	295	57	78
Amortization of prepaid rental expenses	610	134	160
Impairment of Goodwill	1,067	3,054	280
	6,174	5,574	1,623
	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 20 - OTHER INCOME AND EXPENSES

A. OTHER INCOME

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Capital gain on fixed assets realization	85	16	22
Other	50	454	13
	135	470	35
	=====	=====	=====

B. OTHER EXPENSES

YEAR ENDED DECEMBER 31,

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	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Loss from statutory suit	1,981	-	521
Capital loss from fix assets realization	349	-	91
	2,330	-	612

NOTE 21 - FINANCE INCOME AND EXPENSES

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
<b>A. FINANCING INCOME:</b>			
Interest income:			
Short-term bank deposits	1,475	2,251	388
Changes in value of debentures held for trading	348	193	92
Other	198	77	52
Total interest income	2,021	2,521	532
Other:			
Changes in fair value of financial assets at fair values	(4,836)	(68)	(1,272)
Realized gain on derivatives	243	-	64
Foreign currency differences	(1,602)	(267)	(421)
Dividends	8	176	2
Other	71	-	18
TOTAL FINANCING INCOME	(4,095)	2,362	(1,077)
<b>B. FINANCING EXPENSES:</b>			
Interest expenses:			
Bank credit	343	-	90
Short-term loans	236	366	62
long-term loans	130	-	34
Lease obligations	52	-	14
Other	82	104	22
TOTAL INTEREST EXPENSE	843	470	222
Other:			
Decrease in values of warrants to issue shares	(1,035)	(767)	(272)
Realized loss on derivatives	-	102	-
Foreign currency differences	1,096	(38)	288
Bank fees	703	317	185
Other	5	4	1
TOTAL OTHER COSTS	769	(382)	202



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TOTAL FINANCING COSTS	=====	=====	=====
	1,612	88	424
	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 22 - EARNING PER SHARE

A. BASIC EARNINGS PER SHARE

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Profit (loss) for the year attributable to equity holders of the parent	(786)	2,342	(206)
Earnings used in the calculation of total basic earnings per share	(786)	2,342	(206)
Earnings used in the calculation of basic earnings per share from continuing operations	(786)	2,342	(206)

B. DILUTED EARNINGS PER SHARE

	AS OF DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
PROFIT USED TO COMPUTE BASIC EARNING PER SHARE	(786)	2,342	(206)
Adjustments:			
Options	-	-	-
PROFIT USED TO COMPUTE DILUTED EARNING PER SHARE	(786)	2,342	(206)
Weighted average number of shares used in computing basic earnings per share	10,267,893	10,267,893	10,267,893
Adjustments:			
Options	-	-	-
Weighted average number of shares used in computing diluted earnings per share	10,267,893	10,267,893	10,267,893

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- C. The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

561,982 as of December 31, 2008 and 2007.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 23 - ACQUISITION OF SUBSIDIARIES

A. SUBSIDIARIES ACQUIRED

	PRINCIPAL ACTIVITY	DATE OF ACQUISITION	PROPORTION OF SHARES ACQUIRED	COST OF ACQUISITION
	-----	-----	-----	-----
2008				
Shamir salads	Producing and marketing salads	1/1/2008	51%	5,000
The Distributor	Marketing food products	1/1/2008	51%	1,454
2007				
Baron	Marketing food products	13/2/2007	50.1%	-
WF	Marketing food products	19/1/2007	100%	15,400

B. ANALYSIS OF ASSETS AND LIABILITIES ACQUIRED

	SHAMIR SALADS		
	BOOK VALUE	FAIR VALUE ON ADJUSTMENT	FAIR VALUE ON ACQUISITION
	-----	-----	-----
CURRENT ASSETS:			
Cash & cash equivalents	31	-	31
Trade & other receivables	15,651	-	15,651
Inventories	3,099	-	3,099
NON-CURRENT ASSETS:			
Property, Plant & equipment	7,331	-	7,331
Prepaid expenses	818	-	818
Intangible assets	-	3,373	3,373
CURRENT LIABILITIES:			
Bank credit and short term loan	(10,225)	-	(10,225)
Trade & other payables	(13,640)	-	(13,640)
NON-CURRENT LIABILITIES:			
Deferred tax liabilities	(74)	-	(74)
Severance pay, net	(286)	-	(286)
	-----	-----	-----
	2,705	3,373	6,078
NONCONTROLLING INTEREST			(2,978)

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GOODWILL ON ACQUISITION	1,900
	-----
TOTAL	5,000
	=====

	THE DISTRIBUTOR BOOK VALUE	
	-----	
CURRENT ASSETS:		
Cash & cash equivalents	759	
	-----	
NONCONTROLLING INTEREST	(372)	
GOODWILL ON ACQUISITION	1,067	
	-----	
TOTAL	1,454	
	=====	

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 23 - ACQUISITION OF SUBSIDIARIES (CONT.)

B. ANALYSIS OF ASSETS AND LIABILITIES ACQUIRED (CONT.)

	WF KOSHER FOOD DISTRIBUTORS LTD		
	-----	-----	-----
	BOOK VALUE	FAIR VALUE ON ADJUSTMENT	FAIR VALUE ON ACQUISITION
	-----	-----	-----
CURRENT ASSETS:			
Trade & other receivables	5,402	-	5,402
Inventories	8,142	-	8,142
NON-CURRENT ASSETS:			
Property, Plant & equipment	208	-	208
Prepaid expenses	89	-	89
CURRENT LIABILITIES:			
Trade & other payables	(1,530)	-	(1,530)
	-----	-----	-----
	12,311	-	12,311
GOODWILL ON ACQUISITION			3,089
	-----	-----	-----
TOTAL	12,311	-	15,400
	=====	=====	=====

C. FAIR VALUES DETERMINED ON A PROVISIONAL BASIS

A valuation was performed for the purpose of allocating the acquisition cost of Shamir Salads and of the Danish company. The valuation determined, inter alia, that the entire excess cost in the

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acquisition of the Danish company should be allocated to goodwill (the goodwill was written off entirely in examination of its recoverability), while the acquisition cost of Shamir Salads was allocated as follows - the value of NIS 1,570 thousand was allocated to the brand name, the value of NIS 1,364 thousand was allocated to customer relations, and the value of NIS 439 thousand was allocated to technological know-how. The value of the goodwill was determined accordingly - NIS 1,900 thousand.

### D. COST OF ACQUISITION

The cost of the joint establishment of the Danish distribution company was paid in cash. The acquisition cost of Shamir Salads was contingent upon the sum of the audited net profit, after neutralizing capital gains that Shamir Salads shall present in its audited financial statements for the year 2008, being multiplied by 2.55. As of December 31, 2008, and according to the total net profit that Shamir Salads presented for the year ended December 31, 2008, the sum of the compensation was calculated on the sum of the advance.

### E. NET CASH OUTFLOW ON ACQUISITION

	YEAR ENDED DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
Total purchase consideration	6,454	15,400	1,698
Compensation paid in cash	6,454	15,400	1,698
Less: cash and cash equivalent balances acquired	(790)	-	(208)
	=====	=====	=====
	5,664	15,400	1,490

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

#### NOTE 23 - ACQUISITION OF SUBSIDIARIES (CONT.)

### F. GOODWILL ARISING ON ACQUISITION

Goodwill was recognized during the acquisition of Shamir Salads, because the compensation that was paid within the scope of the business combination includes sums relating to the expected benefits from the synergy (cooperation), income growth, and future developments that are anticipated in the markets of both companies. These benefits are not recognized separately from the goodwill, since the future economic benefits deriving from them cannot be reliably measured. Furthermore, the compensation includes sums relating to benefits expected from Shamir Salad's experienced manpower; meaning, the costs that Shamir Salads saved (and that Willi-Food saved indirectly) due to

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the fact that Shamir Salads has existing manpower, which eliminated the need for a general recruitment of employees and job training (assembled workforce).

Goodwill was recognized during the acquisition of the Danish distribution company because the compensation that was paid within the scope of the business combination includes sums relating to the expected benefits from the synergy (cooperation), increased export income, and the receipt of licenses to export to the United States.

### NOTE 24 - NON-CASH TRANSACTION

During 2008 the group has made a commitment to pay royalties for a brand name in the amount of NIS 2,000 in thousands over a three years period. As of December 31, 2008 the amount not yet paid in cash is NIS 1,700 in thousands.

### NOTE 25 - FINANCIAL INSTRUMENTS

#### A. SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

#### B. CATEGORIES OF FINANCIAL INSTRUMENTS

	AS OF DECEMBER 31,		
	2 0 0 8	2 0 0 7	2 0 0 8 (*)
	NIS		US DOLLARS
	(IN THOUSANDS)		
<b>FINANCIAL ASSETS</b>			
Held for trading	9,444	31,267	2,484
Trade and other receivables (including cash and cash equivalents)	163,679	127,004	43,051
<b>FINANCIAL LIABILITIES</b>			
Held for trading	5	1,206	1
Amortized cost	85,804	47,255	22,568

#### C. OBJECTIVES OF MANAGING FINANCIAL RISKS

The finance departments of the Group provide services to the business activity, enable access to local and international financial markets, supervise and manage the financial risks relating to the Group's activities using internal report that analyze the extent of the risk exposure according to degree and intensity. These risks include market risks (including currency risk, fair value risk in respect of the interest rates, price risk and cash flow risk in respect of the interest rates), credit risk and liquidity risk.

The Group reduces the impact of the aforesaid risks from time to time by using derivative financial instruments in order to hedge the risk exposures, such derivatives are not designated as hedges for accounting purposes. Derivatives are used according to the Group's

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policy, which was approved by the boards of directors. The policy prescribes principles regarding: management of currency risk, interest rate risk, credit risk, the use of derivatives and of non-derivative financial instruments, and investment of liquidity surplus. The compliance with policy and the exposure levels are reviewed by the internal auditor on a continuing basis.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 25 - FINANCIAL INSTRUMENTS (CONT.)

C. OBJECTIVES OF MANAGING FINANCIAL RISKS (CONT.)

The financial management departments of the Group report to the investment committee of the Group and to the board of directors of the Company about the risks and about implementation of the assimilated policy in order to minimize the risk exposures.

D. MARKET RISK

The Group's activity exposes it mainly to financial risks of fluctuations in the exchange rates of foreign currency and/or changes in the prices of the imported products and/or changes in the interest rates. The Group purchases forward foreign-currency swap contracts, as needed, opens documentary credit to suppliers, and carries out orders for imported goods.

During the report period, no change occurred in the exposure to market risks or in the way by which the Group manages or measures the risk

E. LIQUIDITY RISK MANAGEMENT

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

MATURITY PROFILE OF OUTSTANDING FINANCIAL LIABILITIES'

	1 YEAR -----	1-5 YEARS -----	TOTAL -----
2008			
Interest free	65,813	2,166	67,979
Lease agreement liability	333	271	604
Instruments bearing variable interest	17,322	-	17,322
	-----	-----	-----
Total	83,468	2,437	85,905
	=====	=====	=====

2007

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Interest free	40,565	1,752	42,317
Instruments bearing variable interest	-	5,978	5,978
	-----	-----	-----
Total	40,565	7,730	48,295
	=====	=====	=====

F. EXCHANGE RATE RISK

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at reporting date are as follows:

	LIABILITIES		ASSETS	
	2 0 0 8	2 0 0 7	2 0 0 8	2 0 0 7
	-----	-----	-----	-----
	NIS	NIS	NIS	NIS
	-----	-----	-----	-----
USD	30,464	27,683	17,465	21,400
EUR	2,347	968	870	3,650
DKK	3,841	-	4,004	-
Other	-	-	-	1

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

NOTE 25 - FINANCIAL INSTRUMENTS (CONT.)

F. EXCHANGE RATE RISK (CONT.)

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

USD IMPACT	EUR IMPACT
-----	-----
2008	2008

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	----- NIS -----	----- NIS -----
Profit or loss (1)	1,300	148
	USD IMPACT	EUR IMPACT
	----- 2007 -----	----- 2007 -----
	NIS	NIS
	-----	-----
Profit or loss (1)	629	(269)

(1) This is mainly attributable to the exposure outstanding on receivables, cash and payables at year end in the Group, and forward foreign exchange contracts.

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions, which are treated as non hedging instruments. The resulting gain or loss is recognized in profit or loss immediately.

The following table details the forward foreign currency (FC) contracts outstanding as at reporting date:

	AVERAGE EXCHANGE RATE		FOREIGN CURRENCY		CONTR
	----- 2008 -----	----- 2007 -----	----- 2008 -----	----- 2007 -----	----- 2008 -----
	NIS	NIS	CURRENCY THOUSANDS	CURRENCY THOUSANDS	NIS THOUSANDS
	-----	-----	-----	-----	-----
CASH FLOWS HEDGES					
PURCHASE OF USD SELL NIS	3.5878	4.1081	900	6,000	3,349
PURCHASE OF EUR SELL NIS	5.2585	5.6243	-	300	-

G. FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial instruments of the Group consist of derivative and non derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include short-term bank credit, trade payables, other current liabilities and long-term loans from banks and others. Derivative assets and liabilities include mainly foreign exchange forward contracts (2007 - also included index swap contracts). Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

The fair value of the long-term loans approximates their carrying value, since they bear interest at rates close to the prevailing market rates.



G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 26 - BUSINESS AND GEOGRAPHIC SEGMENTS

## A. DATA REGARDING BUSINESS SEGMENTS

YEAR ENDED DECEMBER 31, 2008

	NON-PRESERVED PRODUCTS -----	PRESERVED PRODUCTS -----	TOTAL -----
YEAR ENDED DECEMBER 31, 2008:			
REVENUES	258,855	90,372	349,227
	=====	=====	=====
OPERATING INCOME (LOSS) BY SEGMENT	28,690	5,127	33,817
	=====	=====	
Less - unallocated general and administrative expenses			23,127
Other expense			2,195
Goodwill impairment			1,067
Financial costs, net			(5,707)
			-----
PROFIT BEFORE INCOME TAXES			1,721
Income taxes			1,454
			-----
PROFIT FROM CONTINUING OPERATIONS			267
DECEMBER 31, 2008:			
TOTAL SEGMENT ASSETS	22,215	12,202	34,417
	=====	=====	
UNALLOCATED ASSETS			238,925
			-----
			273,342
			=====
SEGMENT LIABILITIES	-	-	-
	=====	=====	
UNALLOCATED LIABILITIES			87,760
			-----
			87,760
			=====

YEAR ENDED DECEMBER 31, 2007

	NON-PRESERVED PRODUCTS -----	PRESERVED PRODUCTS -----	TOTAL -----
YEAR ENDED DECEMBER 31 2007:			
REVENUES	157,986	91,707	249,693

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OPERATING INCOME (LOSS) BY SEGMENT	=====	=====	=====
	18,544	7,925	26,469
	=====	=====	
Less - unallocated general and administrative expenses			18,869
Other income			(470)
Goodwill impairment			3,054
Financial income, net			2,274
			-----
PROFIT BEFORE INCOME TAXES			7,290
Income taxes			2,651
			-----
PROFIT FROM CONTINUING OPERATIONS			4,639
DECEMBER 31 2007:			
TOTAL SEGMENT ASSETS	19,625	11,395	31,020
	=====	=====	
UNALLOCATED ASSETS			208,432
			-----
			239,452
			=====
SEGMENT LIABILITIES	-	-	-
	=====	=====	
UNALLOCATED LIABILITIES			48,845
			-----
			48,845
			=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 26 - BUSINESS AND GEOGRAPHIC SEGMENTS (CONT.)

B. DATA REGARDING GEOGRAPHICAL SEGMENTS

	REVENUES BY GEOGRAPHICAL MARKETS		
	-----		
	YEAR ENDED DECEMBER 31,		
	-----		
	2 0 0 8	2 0 0 7	2 0 0 8(*)
	-----	-----	-----
	NIS		US DOLLARS
	-----		-----
	(IN THOUSANDS)		
	-----		
Israel	281,973	199,064	74,164
North America	35,931	41,989	9,451
Europe	29,462	7,158	7,749
Others	1,861	1,482	489
	-----	-----	-----
	349,227	249,693	91,853
	=====	=====	=====





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1. The Company commenced a tender offer on February 5, 2009 (that was extended on March 5, 2009) to purchase from the holders of shares and/or depositary interests of Gold Frost all of the issued and outstanding share capital of Gold Frost not already held by the Company for a price of 5 pence per share or per depositary interest in cash has expired. The tender offer had been subject to the condition that the number of shares and depositary interests duly tendered constitute, upon expiration of the offer period and together with the shares held by the Company at such time, more than 95 per cent of the issued and outstanding share capital of Gold Frost. Such condition was not met. As a result, the Company will not purchase any of the Gold Frost shares that have been tendered.
2. On April 16, 2009 a purported class action lawsuit had been filed against the Company. The complaint alleges that the Company misled its customers by illegal marking of a product that the Company imports and sells as "sugar free", according to The Israeli Consumer Protection Law, 1981.

The group, which the lawsuit desires to represent are any Israeli resident who bought this product due to such person's preference for a sugar free or a reduced sugar product (the "GROUP"). According to the plaintiff, the Group consists of 2,000 customers. The plaintiff appraises its own damages at NIS 2,000 (approximately USD 500) and the damages of the entire Group to be NIS 4 million (approximately USD 1 million).

At this preliminary stage, the Company is examining the plaintiff's alleged claims, and it will respond and relate to the allegations, to the extent necessary, after its examination and after consulting with its legal advisors.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S)

##### A. GENERAL

Following the publication of Accounting Standard No. 29, "the Adoption of International Financial Reporting Standards (IFRS)" in July 2006, the Company adopted IFRS starting January 1, 2008.

Pursuant to the provisions of IFRS 1, which deals with the first-time adoption of IFRS, and considering the date in which the Company elected to adopt these standards for the first time, the financial statements which the Company must draw up in accordance with IFRS rules, are the consolidated financial statement as of December 31, 2008, and for the year ended on that date. The date of transition of the Company to reporting under IFRS, as it is defined in IFRS 1, is January 1, 2007 (hereinafter: "the transition date"), with an opening balance sheet as of January 1, 2007 (hereinafter: "Opening Balance").

Under the opening balance sheet, the Company performed the following

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reconciliations:

- o Recognition of all assets and liabilities whose recognition is required by IFRS.
- o De-recognition of assets and liabilities if IFRS do not permit such recognition.
- o Classification of assets, liabilities and components of equity according to IFRS.
- o Application of IFRS in the measurement of all recognized assets and liabilities.

IFRS 1 states that all IFRS shall be adopted retroactively for the opening balance sheet. At the same time, IFRS 1 includes 14 relieves, in respect of which the mandatory retroactive implementation does not apply. The Company chose to implement two relieves. See note 29f.

Changes in the accounting policy which the Company implemented retroactively in the opening balance sheet under IFRS, compared to the accounting policy in accordance with Generally Accepted Accounting Principles in Israel, were recognized directly under Retained Earnings or another item of Shareholders' Equity, as the case may be.

This note is formulated on the basis of International Financial Reporting Standards and the notes thereto as they stand today, that have been published and entered into force or that may be adopted earlier as at the Group's first annual reporting date according to IFRS, December 31, 2008.

Listed below are the Company's consolidated balance sheets as of January 1, 2007, and December 31, 2007, and the consolidated statement of income and the shareholders' equity for the year ended on December 31, 2007 prepared in accordance with International Accounting Standards. In addition, the table presents the material reconciliations required for the transition from reporting under Israeli GAAP to reporting under IFRS.

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G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S) (CONT.)

B. RECONCILIATION OF BALANCE SHEETS FROM ISRAELI GAAP TO IFRS

DECEMBER 31, 2007			
ISRAELI GAAP	EFFECT OF TRANSITION TO IFRS	IFRS	ISRAELI GAAP
NIS IN THOUSANDS			

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ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	61,649		61,649	91,398
Marketable securities	31,267		31,267	13,945
Trade receivables	63,798		63,798	48,233
Other receivables	2,776	(256)	2,520	2,585
Inventories	31,020		31,020	21,015
	-----	-----	-----	-----
Total current assets	190,510	(256)	190,254	177,176
	-----	-----	-----	-----
NON-CURRENT ASSETS				
Property, plant and equipment	55,310	(10,741)	44,569	49,213
Less -Accumulated depreciation	8,355		8,355	6,442
	-----	-----	-----	-----
	46,955	(10,741)	36,214	42,771
Goodwill	1,795		1,795	-
Intangible assets	103		103	-
Prepaid rental expenses	208	10,607	10,815	-
Deferred taxes	115	156	271	94
	-----	-----	-----	-----
Total non-current assets	49,176	22	49,198	42,865
	=====	=====	=====	=====
TOTAL ASSETS	239,686	(234)	239,452	220,041
	=====	=====	=====	=====
EQUITY AND LIABILITIES				
CURRENT LIABILITIES				
Short-term bank credit	5,978		5,978	-
Trade payables	34,330		34,330	20,772
Other payables and accrued expenses	7,013	288	7,301	12,081
	-----	-----	-----	-----
Total current liabilities	47,321	288	47,609	32,853
	-----	-----	-----	-----
NON-CURRENT LIABILITIES				
Employees Benefits	460	(297)	163	347
Warrants to issue shares	-	1,040	1,040	348
Deferred taxes	-	33	33	-
	-----	-----	-----	-----
Total non-current liabilities	460	776	1,236	695
	-----	-----	-----	-----
Noncontrolling interest	18,613	(18,613)	-	14,754
	-----	-----	-----	-----
CAPITAL AND RESERVES				
Share capital	1,113		1,113	1,113
Premium	61,350	(2,294)	59,056	61,350
Foreign currency translation reserve	(414)		(414)	-
Retained earnings	111,243	990	112,233	109,276
Noncontrolling interest	-	18,619	18,619	-
	-----	-----	-----	-----
	173,292	17,315	190,607	171,739
	=====	=====	=====	=====

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TOTAL EQUITY AND LIABILITIES	239,686	(234)	239,452	220,041
	=====	=====	=====	=====

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G. WILLI-FOOD INTERNATIONAL LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (NIS IN THOUSANDS)

NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S) (CONT.)

C. RECONCILIATION OF INCOME STATEMENTS FROM ISRAELI GAAP TO IFRS

	YEAR ENDED DECEMBER 31, 2007		
	ISRAELI GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
	NIS IN THOUSANDS		
	-----	-----	-----
Revenue	249,693		249,693
Cost of sales	198,827	134	198,961
	-----	-----	-----
GROSS PROFIT	50,866	134	50,732
	-----	-----	-----
OPERATING COSTS AND EXPENSES			
Selling expenses	24,404	(141)	24,263
General and administrative expenses	18,963	(94)	18,869
Other (income) expenses	-	(470)	(470)
Goodwill Impairment	3,054		3,054
	-----	-----	-----
	46,421	(705)	45,716
	-----	-----	-----
OPERATING PROFIT	4,445	571	5,016
Finance income	1,856	506	2,362
Finance expenses	-	88	88
Other income	470	(470)	-
	-----	-----	-----
PROFIT BEFORE TAX	6,771	519	7,290
Income tax charge	2,517	134	2,651
	=====	=====	=====
PROFIT FOR THE PERIOD	4,254	385	4,639
	=====	=====	=====
Attributable to:			
Equity holders of the Company	1,967	375	2,342
Noncontrolling interest	2,287	10	2,297
	-----	-----	-----
NET INCOME	4,254	385	4,639
	=====	=====	=====



G. WILLI-FOOD INTERNATIONAL LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(NIS IN THOUSANDS)

## NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S") (CONT.)

## D. EQUITY RECONCILIATION

	SHARE CAPITAL	PREMIUM	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
	-----	-----	-----	-----	-----
YEAR ENDED DECEMBER 31, 2007					
ISRAELI GAAP	1,113	61,350	(414)	111,243	173,292
	=====	=====	=====	=====	=====
EFFECT OF TRANSITION TO IFRS UNDER IFRS RULES	-	(2,294)	-	990	(1,304)
	=====	=====	=====	=====	=====
BALANCE - JANUARY 1, 2007					
ISRAELI GAAP	1,113	61,350	-	109,276	171,739
	=====	=====	=====	=====	=====
EFFECT OF TRANSITION TO IFRS UNDER IFRS RULES	-	(2,294)	-	615	(1,669)
	=====	=====	=====	=====	=====

## E. ADDITIONAL INFORMATION

## 1. DEFERRED TAXES

In accordance with generally accepted accounting principles in Israel, deferred tax assets or liabilities were classified as current or non-current assets or liabilities depending on the classification of the assets or liabilities in respect of which they were created.

Pursuant to IAS 1, deferred tax assets or liabilities are classified as non-current assets or liabilities, respectively.

Consequently, amounts of NIS 289 thousand and NIS 94 thousand which were previously presented under accounts payable and under non-current assets, respectively, were reclassified to deferred taxes under non-current liabilities as of January 1, 2007.

As of December 31, 2007, amounts of NIS 256 thousand and NIS 133 thousand which were previously presented under accounts receivable and under accounts payable, respectively, were reclassified to deferred taxes under non-current liabilities in the amount of NIS 33 thousand and to deferred taxes under non-current assets in the amount of NIS 271 thousand.

## 2. LEASE FROM THE ISRAELI LAND AUTHORITY ("ILA")

Leasehold rights In accordance with Previous GAAP: Though

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December 31, 2006, leasehold rights were presented under property, plant and equipments.

In accordance with IFRSs: Leasehold rights are presented within prepaid expenses.

The effect on the balance sheet as of January 1, 2007 was an increase in prepaid expenses of NIS 10,741 thousand against decrease of NIS 10,741 thousand in property, plant and equipments.

The effect on the balance sheet as of December 31, 2007 was an increase in prepaid expenses of NIS 10,607 thousand and decrease in property, plant and equipment in the amount of NIS 10,741 thousand. The change in the year 2007 of NIS 134 thousand has been attributed to the P&L in Cost of sales.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

#### NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S") (CONT.)

##### E. ADDITIONAL INFORMATION (Cont.)

##### 3. WARRANTS TO ISSUE SHARES

Under Israeli GAAP warrants with exercise price linked to the CPI can be treated as permanent equity.

Under IFRS IAS 32, if terms of a derivative financial instrument are such that it is not settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments it should be classified as liability, carried at fair value with changes in fair values recorded in earnings.

Hence, warrants with exercise price linked to the CPI with fair values of NIS 1,459 and NIS 1,040 as of January 1, 2007 and December 31, 2007 respectively has been recognized as liability. As a result of that classification changes in fair values of NIS 2,294 were recorded in retained earnings balance as of January 1, 2007 and changes in fair values of NIS 419 were recorded in earnings for the year ended December 31, 2007.

##### 4. NONCONTROLLING INTEREST

In accordance with Previous GAAP: Noncontrolling interest was presented in the balance sheet between the liabilities and shareholders' equity as a quasi-equity item.

The minority share in results of subsidiary was presented as income (expense) within the Group's consolidated income statements.

In accordance with IFRSs: Noncontrolling interest is presented

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within the shareholders' equity. The Minority share in result of subsidiaries is not included in the consolidated income statements as income (expense) but rather the total profit (loss) is attributed to the Company and the minority.

The effect on the balance sheet as of January 1, 2007 was an increase in Shareholders' equity of NIS 13,071 thousand against decrease of NIS 14,750 thousand in liabilities.

The effect on the balance sheet as of December 31, 2007 was an increase in Shareholders' equity of NIS 17,315 thousand and decrease in liabilities in the amount of NIS 18,619 thousand.

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### G. WILLI-FOOD INTERNATIONAL LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (NIS IN THOUSANDS)

NOTE 30 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS'S) (CONT.)

#### E. ADDITIONAL INFORMATION (CONT.)

##### 5. EMPLOYEES BENEFITS

In accordance with generally accepted accounting principles in Israel, the Company's liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment.

Pursuant to IAS 19, the provision for severance pay is calculated according to an actuarial basis taking into account the anticipated duration of employment, the value of time, the expected salary increases until retirement and the possible retirement under conditions not entitling severance pay.

Discount rate used in the calculations was based on yields on governmental bonds as the Company believes that there is no deep market for high quality corporate bonds. The issue of deep market is still under consideration and the decision regarding deep market may be changed. The use of market yields on highly rated corporate bond would have the effect of decreasing the Company's obligation since the discount rate would have been higher than the governmental bond yields used under the assumption of no deep market.

As of December 31, 2007, the nominal discount rate used in the calculations was 5.8% and was determined in reference to Shachar governmental bond.

In addition, under Israeli GAAP, deposits made with regular policies or directors' insurance policies which are not in the employee's name, but in the name of the employer, were also deducted from the Company's liability.

Under IFRS, regular policies or directors' insurance policies as aforesaid, which do not meet the definition of plan assets under IAS 19, will be presented in the balance sheet under a separate

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item and will not be deducted from the employer's liability.

The impact of the aforesaid on the balance sheet is decrease employee benefit obligation in the amounts of NIS 62 thousand and NIS 297 thousand as of January 1, 2007 and December 31, 2007, respectively.

The Company adopted a policy to recognize actuarial gains and losses immediately in earnings.

### F. RELIEFS WITH RESPECT TO THE RETROACTIVE IMPLEMENTATION OF IFRS ADOPTED BY THE COMPANY

IFRS 1 includes several reliefs, in respect of which the mandatory retroactive implementation does not apply. The Company elected to adopt in its opening balance sheet under IFRS as of January 1, 2007 (hereinafter: "the opening balance sheet") the reliefs with regards to:

Business Combinations, in accordance to the relief, the Company chose not to retroactively implement the provisions of IFRS 3 regarding to business combination which occurred before January 1, 2007.

Consequently goodwill and adjustments due to fair value of subsidiaries that where acquired before January 1, 2007 are treated in accordance to generally accepted accounting principles in Israel.

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### SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

G. WILLI-FOOD INTERNATIONAL LTD.

By: /s/ Joseph Williger

-----  
Joseph Williger  
Chief Executive Officer

Date: June 29, 2009

### EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
+1.1	Memorandum of Association of the Company, as amended (1)
1.2	Articles of Association of the Company, as amended (4)

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- 2.1 Specimen of Certificate for ordinary shares (2)
- 4.1 Share Option Plan (2)
- +4.2 Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated June 1, 1998 (3)
- +4.3 Amendment to the Management Agreement between the Company and Yossi Willi Management Investments Ltd., dated August 1, 2005 (4)
- +4.4 Management Agreement between the Company and Zwi W. & Co. Ltd., dated June 1, 1998 (3)
- +4.5 Amendment to the Management Agreement between the Company and Zwi W. & Co., Ltd., dated August 1, 2005 (4)
- +4.6 Lease of Company's premises with Titanic Food Ltd., dated November 23, 1998 (3)
- +4.7 Services Agreement between the Company and Willi Food, dated April 1, 1997 (3)
- +4.8 Transfer Agreement between the Company and Gold Frost dated February 16, 2006 (4)
- +4.9 Lease agreement for Logistics Center between the Company and Gold Frost dated February 16, 2006 (4)
- 4.10 Relationship Agreement between the Company, Gold Frost, Willi Food, Zwi Williger and Joseph Williger dated February 28, 2006 (4)
- 4.11 Placing Agreement between the Company, Gold Frost, certain officers of Gold Frost and Corporate Synergy dated March 2, 2006 (4)
- 4.12 Lock In Agreement, between the Company, Gold Frost, Corporate Synergy and certain officers of Gold Frost, dated March 2, 2006 (4)
- 4.13 Securities Purchase Agreement, dated as of October 25, 2006, among the Company and the investors identified on the signature pages thereto. (5)
- 4.14 Registration Rights Agreement, dated as of October 25, 2006, among the Company and the investors signatory thereto. (5)
- 4.15 Asset Purchase Agreement, dated as of January 19, 2007, by and among the Company, WF Kosher Food Distributors, Ltd., Laish Israeli Food Products Ltd. and Arie Steiner.(6)
- +4.16 Agreement, dated February 11, 2007, between the Company and Mr. Ya'acov Baron, Ms. Hedva Baron, Mr. Li'or Baron, Ms. Gozlan Or'na and Ms. Michal Baron Sha'hak. (6)
- +4.17 Agreement, dated January 2, 2008, between the Company and Mr. Jacob Ginsberg, Mr. Amiram Guy and Shamir Salads 2006 Ltd. (7)
- 4.18 Share Purchase Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)

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- 4.19 Shareholders Agreement, dated February 13, 2008, between Gold Frost and Kirkeby Cheese Export A/S. (7)
- 4.20 Co-operation Agreement, dated January 1, 2008, between Kirkeby Cheese Export A/S, Haarby Mejeri/Kirkeby Dairy ApS and Kirkeby International Foods A/S. (7)
- 8 Subsidiaries of the Company (4)
- 
- 8.1 Subsidiaries of the Company (7)
- 12.1 Certification of CEO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 12.2 Certification of CFO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 13.1 Certification of CEO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 13.2 Certification of CFO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 15.(a).1 Consent of Independent Registered Public Accounting Firm\*
- 
- + English translations from Hebrew original.
- (1) Incorporated by Reference to the Registrant's Annual Report on Form 20-F for the Fiscal year ended December 31, 1997.
- (2) Incorporated by reference to the Company's Registration Statement on Form F-1, File No. 333-6314.
- (3) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2001.
- (4) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005.
- (5) Incorporated by reference to the Company's Registration Statement on Form F-3, File No. 333-138200.
- (6) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2006.
- (7) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2007.
- \* Filed Herewith