

G WILLI FOOD INTERNATIONAL LTD
Form 20-F
June 28, 2010

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, 2009

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

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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:

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, 2009.

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 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 3.775 = \$ 1.00, the representative exchange rate on December 31, 2009.

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”). We initially adopted IFRS in our financial statements for the year ended December 31, 2008. Our previous financial statements were prepared in accordance with generally accepted accounting principles in Israel (“Israeli GAAP”), which included reconciliation to U.S. GAAP. 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:

- changes affecting currency exchange rates, including the NIS/U.S. Dollar exchange rate;
- payment default by, or loss of, one or more of our principal clients;
- the loss of one or more of our key personnel;
- termination of arrangements with our suppliers, and in particular Arla Foods amba;
- increasing levels of competition in Israel and other markets in which we do business;
- increase or decrease in global purchase prices of food products;
- our inability to accurately predict consumption of our products;
- we may not successfully integrate our prior acquisitions;
- our inability to anticipate changes in consumer preferences;
- product liability claims and other litigation matters;
- interruption to our storage facilities;
- our insurance coverage may not be sufficient;
- our operating results may be subject to variations from quarter to quarter;

our inability to successfully compete with nationally branded products;
our inability to protect our intellectual property rights;
our inability to meet the Nasdaq listing requirements;

significant concentration of our shares are held by one shareholder;
our management could lose a major amount of its indirect ownership of our common stock through litigation;
we are controlled by and have business relations with Willi-Food and its management;
The price of our ordinary shares may be volatile;
our inability to maintain an effective system of internal controls;
all of our assets are pledged to creditors;
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;
economic conditions in Israel;
changes in political, economic and military conditions in Israel, including, in particular, economic conditions in the Company's core markets;
difficulties in acquiring jurisdiction and enforcement liabilities against our officers and directors who are based in Israel; and
our international operations may be adversely affected by risks associated with international business.

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, 2009 and 2008 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2009, 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 as issued by the IASB.

The selected consolidated balance sheet data as of December 31, 2009 and 2008 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2009, 2008 and 2007 are included elsewhere in this Form 20-F and 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, 2007, 2006, and 2005 and the selected consolidated statements of operations data for the years ended December 31, 2006 and 2005 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 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:

Assets and liabilities measured by fair value: financial assets measured by fair value recorded directly as profit or loss.

Inventories are stated at the lower of cost and net realizable value.

Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

Liabilities to employees as described in note 2U 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
December 2009	3.815	3.772
January 2010	3.765	3.667
February 2010	3.796	3.704
March 2010	3.787	3.713
April 2010	3.749	3.682
May 2010	3.870	3.730
June 2010 (through June 21, 2010)	3.884	3.814

The representative exchange rate for NIS on December 31, 2009 was NIS 3.775 = \$1.00, and the representative exchange rate for NIS on June 21, 2010 was NIS 3.814= \$1.00.

The average exchange rate of NIS 3.9326 = USD 1.00 was for the year ended December 31, 2009, NIS 3.5878 for the year ended December 31, 2008, 4.108 for the year ended December 31, 2007, 4.457 for the year ended December 31, 2006 and 4.489 for the year ended December 31, 2005.

Income Statement Data:
In accordance with IFRS

	2009		2008		2007	
	NIS	USD	NIS	USD	NIS	USD
Revenue	303,460	80,387	289,068	76,574	201,617	53,408
Cost of sales	219,569	58,164	228,839	60,619	156,062	41,341
Gross profit	83,891	22,223	60,229	15,955	45,555	12,067
S e l l i n g expenses	35,598	9,430	31,800	8,424	20,602	5,457
General and administrative expenses	20,451	5,417	16,863	4,467	12,280	3,253
Other (Income) expenses	(5,330)	(1,411)	1,846	489	(454)	(120)
Total operating expenses	50,719	13,436	50,509	13,380	32,428	8,590
O p e r a t i n g profit	33,172	8,787	9,720	2,575	13,127	3,477
Finance income	2,744	727	(4,167)	(1,104)	2,111	559
Finance expense	1,273	337	673	178	(323)	(86)
Finance income (expense), net	1,471	390	(4,840)	(1,282)	2,434	645
Profit before taxes on income	34,643	9,177	4,880	1,293	15,561	4,122
T a x e s o n income	5,043	1,336	1,117	296	2,174	576
Profit from continuing operations	29,600	7,841	3,763	997	13,387	3,546
Profit (loss) from discontinued operations	1,928	511	(3,496)	(926)	(8,748)	(2,317)
Profit for the year	31,528	8,352	267	71	4,639	1,229
Attributable to:						
Owners of the Company	30,436	8,063	(786)	(208)	2,342	620
Non-controlling interest	1,092	289	1,053	279	2,297	609
Net Income	31,528	8,352	267	71	4,639	1,229
Basic and diluted earnings (loss) per Share from continuing	2.81	0.75	0.30	0.08	1.14	0.30

operations						
Basic and diluted earnings (loss) per Share from discontinued operations	0.15	0.04	(0.38)	(0.10)	(0.91)	(0.24)
Basic and diluted earnings (loss) per Share	2.96	0.79	(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	10,267,893	10,267,893
Dividend declared per share	-	-	-	-	-	-

Income Statement Data:

In accordance with Israeli GAAP

	2006		2005	
	NIS	USD	NIS	USD
Sales	191,460	50,718	166,282	44,048
Cost of sales	143,581	38,035	128,215	33,964
Gross profit	47,879	12,683	38,067	10,084
Sales and Marketing	21,100	5,589	15,771	4,178
General and administrative	14,151	3,749	13,544	3,588
Total Operating expenses	35,251	9,338	29,315	7,766
Operating Income	12,628	3,345	8,752	2,318
Financial Income, Net	4,925	1,305	2,501	663
Other Income, Net	18,248	4,834	35	9
Pre Tax Income	35,801	9,484	11,288	2,990
Income taxes	5,379	1,425	3,567	945
Income after taxes on income	30,422	8,059	7,721	2,045
Minority interest	1,807	479	-	-
Net Income	28,615	7,580	7,721	2,045
Earnings per Share Basic	3.17	0.84	0.90	0.24
Shares Used in Computing				
Earnings per Share	9,028,223	9,028,223	8,615,000	8,615,000
Dividend declared per share	-	-	0.55	0.15

Balance Sheet Data:

In accordance with IFRS

	2009		2008		2007	
	NIS	USD	NIS	USD	NIS	USD
Working capital	148,359	39,299	122,396	32,423	142,645	37,787
Total assets	282,719	74,893	273,342	72,408	239,452	63,431
Short-term bank debt	10,372	2,748	17,562	4,652	5,978	1,584
Shareholders' equity	206,480	54,696	185,582	49,161	190,607	50,492
Capital stock	10,267,893	10,267,893	10,267,893	10,267,893	10,267,893	10,267,893

Balance Sheet Data:

In accordance with Israeli GAAP

	2006		2005	
	NIS	USD	NIS	USD
Working capital	144,323	38,231	85,419	22,628
Total assets	219,971	58,270	137,274	36,364
Short-term bank debt	--	--	--	--
Shareholders' equity	171,739	45,494	101,867	26,985
Capital stock	10,267,893	10,267,893	8,615,000	8,615,000

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Our Business and Industry

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-à-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.

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, Shufersal Ltd. and Blue Square — Israel Ltd., accounted for 24% of our sales in 2009. 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, Shufersal Ltd. and Blue Square — Israel Ltd., both of which own, among other things, supermarket chains, who accounted for approximately 19% and 5%, respectively of our revenue during 2009. 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.

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 management 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. We do not have any key-man life insurance policy on either Zwi Williger or Joseph Williger. The loss of either or both of them could have a material adverse effect on our business and operations.

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 (57% in 2009) 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, Arla in particular, 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 and exclusive 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 this supplier raises its prices, our operating results may be adversely affected. See "Increases or decreases in global prices have in the past, and in the future 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, labor 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 may also face competition from potential newcomers to the food business as well as from 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 also face 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, labor and other resources than we have. 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.

Increases or decreases in global product prices have in the past, and in the 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. In addition, fuel costs, which represent the most significant factor affecting utility costs at our production facilities and our transportation costs are subject to wide fluctuations. 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.

Increases or decreases in global product prices in the future may have a material adverse effect on our profitability.

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 potential revenues may be adversely affected.

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We may not successfully integrate our recent acquisitions.

In light of our acquisition of Shamir Salads (2006) Ltd., our success will depend in part on our ability to manage the combined operations of this company, to integrate the operations and personnel of this company 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 this operation 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 unable to anticipate changes in consumer preferences, which may result in decreased demand for our products.

Our success depends in part on our ability to anticipate the tastes and eating habits of consumers and to offer products that appeal to their preferences. Consumer preferences change from time to time and our failure to anticipate, identify or react to these changes could result in reduced demand for our products, which would adversely affect our operating results and profitability.

We may be subject to product liability claims for misbranded, adulterated, contaminated or spoiled food products.

We sell food products for human consumption, which involve risks such as product contamination or spoilage, misbranding, product tampering, and other adulteration of food products. Consumption of a contaminated, spoiled, misbranded, tampered or adulterated product may result in personal illness or injury. We could be subject to claims or lawsuits relating to an actual or alleged illness or injury, and we could incur liabilities that are not insured or that exceed our insurance coverage. Even if product liability claims against us are not successful or fully pursued, these claims could be costly and time consuming and may require management to spend time defending the claims rather than operating our business. A product that has been actually or allegedly misbranded or becomes adulterated could result in: product withdrawals, product recalls, destruction of product inventory, negative publicity, temporary plant closings, and substantial costs of compliance or remediation. Any of these events, including a significant product liability judgment against us, could result in a loss of confidence in our food products, which could have an adverse effect on our financial condition, results of operations or cash flows.

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, used for products being distributed to customers. Any interruption to these storage facilities, whether by power failure, flooding or other event, would have a material impact on our ability to trade in the ordinary course.

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 our 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.

Our branded products may not be able to compete successfully with nationally branded products.

For sales of our branded products to retailers, the principal competitive factors are price, product quality and quality of service. For sales of branded products to consumers, the principal competitive factors are price and product quality. In many cases, competitors with nationally branded products may have a competitive advantage over our products primarily due to name recognition.

Competition to obtain shelf space for our branded products with retailers is primarily based on the expected or historical performance of our product sales relative to our competitors. The principal competitive factors for sales of our branded products to consumers are brand recognition and loyalty, product quality and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

Competitive pressures or other factors could cause us to lose market share, which may require us to lower prices, increase marketing expenditures, and/or increase the use of discounting or promotional programs, each of which would adversely affect our margins and could result in a decrease in our operating results and profitability.

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.

If our ordinary shares are delisted 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 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 delist 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 \$7.10 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 delisting proceeding instigated by Nasdaq. We now satisfy this requirement as our stock price is well above \$1.00 per share. If we fail to meet the continued listing criteria defined under the Rule, our ordinary shares may be delisted from trading on the Nasdaq Global Market.

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 delisting 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. Delisting 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 delisting 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 delisting 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 52.84% 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, held, as of June 21, 2010, approximately 21.48% of the outstanding shares of Willi-Food (approximately 21.72% 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, held, as of June 21, 2010 approximately 34.54% of the outstanding shares of Willi-Food (approximately 34.93% 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 majority of the shareholders present and voting unless another majority is required by the Israeli Companies Law or by our Articles of Association.

Our management could lose a major amount of its indirect ownership of our ordinary shares through litigation.

In 2008, Mr. Arcadi Gaydamak ("Gaydamak") borrowed approximately NIS 76 million (US \$20 million) from companies owned by Messrs. Zwi Williger and Joseph Williger (the "Williger Brothers"). These loans were secured by Gaydamak's equity securities of Willi-Food, the parent company to G. Willi Food ("Parent"). The loans included a provision whereby the Williger Brothers had a call option to acquire the Parent equity if Gaydamak defaulted under the loans. In September 2008, Gaydamak defaulted under these loans, and accordingly the Williger Brothers increased their ownership of the Parent by exercising their call option to acquire such interests; Zwi Williger by 21.65% and Joseph Williger by 21.65%.

Gaydamak filed a lawsuit in Israel in September 2009 against the Williger Brothers and others, claiming, among other things, that the Williger Brothers did not rightfully exercise the call option. The Company is not a party to the lawsuit. The Williger Brothers have informed us that their legal counsel has advised them that the lawsuit is without merit, and that they intend to vigorously contest the dispute. The Williger Brothers indicated that their attorneys advised that, according to all the information and documents presented to them, that the Williger Brothers exercised the call options in a rightful and bona fide manner. We have been further advised that the loan agreements were breached by Gaydamak and, at the time of the breach, Gaydamak also declared that he had no intention of paying his debts to the Williger Brothers. At the same time, other creditors submitted significant claims against the assets of Gaydamak and placed attachments on his assets, and therefore a real risk arose that the Willi-Food securities would also be attached. Under these circumstances, in addition to the breach of the loan agreement, by not presenting all the required securities and other breaches, there was also a definite anticipatory breach of the loan payment and a real risk to the securities. Under these circumstances, management believes that the Williger Brothers clearly had the full right to exercise the call option and the lawsuit is without merit.

There are also currently criminal proceedings pending against Gaydamak in Israel for money laundering. Gaydamak left Israel a year and a half ago and the Company's management believes he resides in Russia. According to the judge in these proceedings, it is probable that he will not return to Israel. He was also convicted of a crime in France and sentenced to six years in prison. Israel has an extradition treaty with France, while Russia does not. Therefore, if he were to return to Israel he could face criminal penalties in Israel and France. The Williger Brothers have indicated to us that their lawyers advised them that if Gaydamak does not return to Israel to testify in the lawsuit, there is a very good chance that the lawsuit will be rejected by the court since Gaydamak failed to testify. Again, according to the Williger Brothers' legal counsel, such lawsuit is presumably baseless and has a very low chance of success.

However, in the event the lawsuit is ruled against the Williger Brothers, their ownership interest in Willi-Food would be reduced (Zwi Williger from approximately 34.54% to approximately 17.04% and Joseph Williger from approximately 21.48% to approximately 3.98%) and Gaydamak would own a significant indirect interest in our company.

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 34.54% 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 21.48% 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.

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.

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.

Also, the financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices of public companies have been and continue to be extremely volatile. Volatility in the price of our ordinary shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our ordinary shares may be adversely affected.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We are a relatively young company with limited accounting personnel and other resources with which to address our internal controls and procedures. In addition, we must implement financial and disclosure control procedures and corporate governance practices that enable us to comply, on a stand alone basis, with the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission, or the SEC, rules. For example, we will need to further develop accounting and financial capabilities, including the establishment of an internal audit function and development of documentation related to internal control policies and procedures. Failure to quickly establish the necessary controls and procedures would make it difficult to comply with SEC rules and regulations with respect to internal control and financial reporting. We will need to take further actions to continue to improve our internal controls. If we are unable to implement solutions to any weaknesses in our existing internal controls and procedures, or if we fail to maintain an effective system of internal controls in the future, we may be unable to accurately report our financial results or prevent fraud and investor confidence and the market price of our ordinary shares may be adversely impacted.

Our auditors will be required to attest to our evaluation of internal controls over financial reporting. Unless we successfully design and implement changes to our internal controls and management systems, or if we fail to maintain the adequacy of these controls as such standards are modified or amended from time to time, we may not be able to comply with Section 404 of the Sarbanes-Oxley Act of 2002. As a result, our auditors may be unable to attest to the effectiveness of our internal controls over financial reporting. This could subject us to regulatory scrutiny and result in a loss of public confidence in our management, which could, among other things, adversely affect the price of our ordinary shares and our ability to raise additional capital.

All of our assets are pledged to creditors.

We have pledged substantially all of our assets to Bank Leumi Le'Israel, Bank Mizrahi-Tefahot Ltd. and Bank Hapoalim Ltd. in order to secure credit lines from each of these banks. If we were to utilize these credit lines, we expect that the proceeds from the sale of any of these assets may be used to prepay the principal amount owed on the credit lines secured by these pledges. As a result of these arrangements, our ability to dispose of pledged assets may require the consent of these banks, and our ability to incur further debt (whether secured or unsecured) is limited.

Risks Related to Our Location in Israel

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 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.

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, reducing 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 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.

Additionally, boycotts of products, prompted by political, religious or other factors, may affect our financial condition and results of operations. For example, the recent war on Gaza and the United Nations fact-finding mission on the Gaza conflict at the start of 2009, commonly known as the "Goldstone Report," have found evidence that both Israeli forces and Palestinian militants committed serious war crimes and breaches of humanitarian law, which may amount to crimes against humanity. The Goldstone Report and the Gaza conflict has resulted in grass root boycott movements all over the world on Israeli products or boycotts on products that are distributed by Jews. If such boycott movements were to become widespread, it could have a significant impact on our revenues.

It will be extremely difficult to acquire jurisdiction and enforce liabilities against us, our officers and directors who are based in Israel.

We are organized under the laws of the State of Israel. The majority of our officers and present directors reside outside of the United States and most of our operations and assets, and assets of these persons are located outside the United States. As a result, it may not be possible for United States investors to enforce their legal rights, to effect service of process or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties against us, our directors or our officers under Federal securities laws. Moreover, we have been advised that Israel does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States. Further, it is unclear if extradition treaties now in effect between the United States and Israel would permit effective enforcement of criminal penalties of the Federal securities laws. It may also be difficult to enforce civil liabilities under United States federal securities laws in actions initiated in Israel.

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, but are not limited to:

varying regulatory restrictions on sales of our products to certain markets and unexpected changes in regulatory requirements;

tariffs, customs, duties, quotas and other trade barriers;

difficulties in managing foreign operations and foreign distribution partners;

longer payment cycles and problems in collecting accounts receivable;

fluctuations in currency exchange rates;

political risks;

foreign exchange controls which may restrict or prohibit repatriation of funds;

export and import restrictions or prohibitions, and delays from customs brokers or government agencies;

seasonal reductions in business activity in certain parts of the world; and

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.

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. The Company's corporate headquarters and principal executive offices are located at 4 Nahal Harif Street, Northern Industrial Zone, Yavneh, 81106, Israel. The Company's telephone number in Israel is (972) 8-9321000.

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 89 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).

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 9.7 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 aggregate holdings of up to 90% of Gold Frost's share capital.

On October 5, 2006 the Company raised \$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 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 owned a 50.1% interest in Baron, and the Baron family owned 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 were executed under the new entity, and Baron was engaged in the food export activities performed until then by the Baron family. On September 2, 2009, the Company signed an agreement to sell all of its holdings in Baron and to assign all of its rights and obligations to the Baron family. In exchange for the sale of shares and the assignment of rights and obligations, the Baron family agreed to pay US\$ 937,500, which was paid to the Company on the date of execution of the agreement. As a result of the sale of the shares of Baron, the Company recognized a capital loss of NIS 1.5 million (USD 0.4 million). See "Item 10. Additional Information – 10C. Material Contracts".

Since April 2007, the Company operates from a 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 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 51% interest from the owners of a dairy distributor in Denmark Kirkeby International Foods A/S ("Kirkeby"), and the former owner remained with the remaining interest. In June 2009, Gold Frost signed an agreement to sell its 51% interest in Kirkeby to Kirkeby and/or to the former owner for \$400,000. According to the terms of the agreement, an amount equal to the balance of outstanding invoices owed by Gold Frost to Kirkeby would be deducted as a down payment, and the remainder would be paid by deducting the purchase price by a pre-determined amount for each shipment of goods that Gold Frost would purchase from Kirkeby or from the former owner, and the balance of the consideration, if any, would be paid in April 2011. 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 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. On July 27, 2009, the Company announced that it had successfully completed the second tender offer. As of the time of expiration of the tender offer, an aggregate of 2,706,388 Gold Frost shares and depositary interests were duly tendered. Such shares and depositary interests constituted, together with the shares held by the Company, more than 95% of the issued and outstanding share capital of Gold Frost. In accordance with Israeli law, the Company purchased all of the issued and outstanding Gold Frost shares and depositary interests which were not owned by the Company (including those not tendered in the tender offer) at the tender offer price and paid an aggregate amount of approximately £370,430 for all such shares and depositary interests.

On March 17, 2010, the Company raised a \$20.0 million through a public offering of its ordinary shares. The Company issued a total of 3,305,786 ordinary shares at a purchase price of \$6.05 per share, and the Company also granted to the underwriter an option, exercisable within 30 days from the date of the public offering, to purchase up to an additional 330,579 ordinary shares. This option expired without the underwriter's exercise of such option. After deducting closing costs and fees, the Company received net proceeds of approximately \$19.0 million. See "Item 10. Additional Information – 10C. Material Contracts".

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 \$0.5 million, \$0.8 million and \$2.9 million for the three years ended December 31, 2009, 2008 and 2007, respectively. See "Item 4D. Property, Plants and Equipment" for a description of the logistic center.

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

B. BUSINESS OVERVIEW

Overview

The Company is an Israeli-based company engaged, directly and through subsidiaries, in the development, import, export, manufacturing, marketing and distribution of a wide variety of over 1,000 food products world-wide. Most of

the Company's sales are made in Israel with widespread demand in the Israeli marketplace, as well as products which cater to more select groups.

The Company purchases food products from over 250 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Eastern Europe (Hungary, Poland, Latvia 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).

The Company's products are marketed and sold to over 1,500 customers in Israel and around the world (for example — to the United States, England, Belgium, France, Switzerland, Russia etc.), including supermarket chains, wholesalers and institutional consumers. The Company markets most of its products under the brand name "Willi-Food," 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, the Company distributes some of its products on an exclusive basis, as described further below.

During the last three years, the Company has acquired controlling interests in several businesses and has formed joint ventures with other businesses. Some of these businesses were not successful and, accordingly, the Company sold them at prices similar to the original acquisition costs. The Company continues to re-evaluate its strategic position and to consider other business opportunities. As part of this re-evaluation, the Company is also considering forming strategic alliances with or entering into different lines of business. The Company has no current plans, arrangements or agreements with respect to any mergers, acquisitions, or additional financing.

As of June 21, 2010, the Company's principal shareholder, Willi-Food, held approximately 52.84% 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:

- to promote the "Willi-Food" and "Shamir Salads" brand names and to increase market penetration of products that are currently sold through, among other things, marketing efforts and advertising campaigns;

- to expand its current food product lines and diversify into additional product lines, as well as to respond to market demand; and

- 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:

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

- 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;

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

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

In addition, the Company has:

promoted the value of the “Willi-Food” brand and introduced additional food products to the Israeli marketplace under the brand name “Willi-Food”;

initiated sales in the U.S. and Europe; and

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.

Segments

We import, manufacture, market and distribute two kinds of line segments: import segment and manufacturing segment.

Import Segment

We import, market and distribute a broad variety of over 600 food products. Sales of import segment products accounted for approximately 76% of our sales in 2009. These products are sold by us and by Gold Frost.

We aim to broaden the variety of products we import. We expect to launch additional new products into our product lines in the near future while continuing to develop new and innovative food products.

The principal products in the import segment 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.

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

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, and South America (including Argentina).

Manufacturing Segment

We manufacture, market and distribute a broad line of over 400 Mediterranean style chilled salads. The products are manufactured in our logistics center at the industrial zone in Barkan, Israel and are distributed across the country and to several clients abroad. Sales of manufacturing segment products accounted for approximately 24% of our sales in 2009. These products are sold in a variety of sizes and types of receptacles and are intended for use by the individual consumer as well as by the institutional consumer food markets.

We aim to broaden the variety of manufacturing products we distribute.

The principal products in the manufacturing segment product line are Chilled Salads: including hummus, tehina, avocado, eggplant, potato, carrot, tomato, egg, red beet, hot pepper, cabbage, olive, tuna, mushrooms, cherub, coleslaw and ikra salads.

Export Segment

We recently shut down our export segment after selling our holdings in Baron and selling Gold Frost's holdings in Kirkeby. The operating data of the export segment is presented as a discontinued operation in our financial statements.

Products

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2009 were chilled salads (24% of sales), dairy and dairy substitute products (18% of sales) and canned vegetables (17% of sales).

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2008 were chilled salads (24% of sales), dairy and dairy substitute products (17% of sales) and canned vegetables (16% of sales).

The products (import and manufacturing segment) that generated the largest sales volume for the year ended December 31, 2007 were dairy and dairy substitute products (24% of sales), canned vegetables (24% of sales), canned fish (15% of sales) and edible oils (13% of sales).

Most of the products that we import and market 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".

Our 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 our instructions and requirements and in accordance with applicable law. See "Government Regulation".

Suppliers

Import Segment

We are not a manufacturer in the import segment; we purchase final food products only. We purchase food products from over 150 suppliers, including suppliers located in Israel, the Far East (China, India, the Philippines and Thailand), Eastern Europe (Hungary, Poland, Latvia and Bulgaria), South America (Argentina, Ecuador and Costa Rica), 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, we actively maintain contact with approximately 150 suppliers world-wide through which we assess, on an on-going basis, world market trends, fluctuations in prices, international trends, and other issues relevant to our business. Our management and personnel visit food trade fairs world-wide on a regular basis and endeavor to create new business relationships with potential suppliers.

Certain of the import segment products we import are seasonal agricultural products, such as artichokes, cherries, mushrooms and peaches. In order to assure ourselves a continued supply of these seasonal items, we generally make 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 our purchases from suppliers in the import segment is made in US Dollars (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 us against letters of credit for a period of up to 90 days.

Manufacturing Segment

In the case of the manufacturing segment, Shamir manufactures all of the chilled salads. In the manufacturing segment, we purchase raw ingredients from over 60 non-exclusive local suppliers to manufacture the chilled salads. Most of those purchases are denominated in NIS.

General

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 part of the import segment. A distribution agreement between us and Arla grants us an exclusive and non-transferable right to market and distribute cheese and butter products manufactured by Arla and its affiliated companies in Israel. Our exclusivity is subject to our purchase 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 under certain circumstances, including in the case of the death or permanent incapacity of Zwi Williger or his ceasing to be involved in our business or if we fail to satisfy its minimum purchase requirements under the agreement.

We do not generally enter into written agency or other agreements with our suppliers. However, we have written agreements with 18 foreign suppliers from the import segment that confirms 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 periods of 12 – 24 months and are automatically extendable unless terminated by either party upon prior notice, and in certain cases are conditioned upon our compliance with certain minimum purchase requirements. The suppliers from which we received such letters of confirmation accounted for 28% and 27% of our purchases in 2009 and in 2008, respectively. 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.

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 2009 and 2008:

Supplier	2009	2008
Arla	*	12%
		* less than 10%

The average volume of our credit balance with our suppliers amounted in 2009 to NIS 47.3 million (US\$12.5 million) consisting of 79 days of suppliers credit on average, in 2008 to NIS 48.6 million (US\$12.9 million) consisting of 62 days of suppliers credit on average and in 2007 to NIS 31.0 million (US\$8.2 million) consisting of 58 days of suppliers credit on average.

Customers

The Company's products (import and manufacturing segments) are marketed and sold to over 1,500 customers throughout Israel and outside of Israel.

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

large retail supermarket chains in the organized market, and

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) Shufersal Ltd. (including the chains: Shufersal Deal, Shufersal Big, Shufersal Sheli, Shufersal, 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, 2009 and 2008 are as follows:

Customer Groups	Percentage of Total Sales Year Ended December 31			
	2009		2008	
Supermarket Chains in the organized market	28	%	23	%
Private Supermarket Chains, mini-markets, wholesalers, manufacturers, institutional consumers and the customers in the Palestinian Authority	72	%	77	%
	100	%	100	%

The Company's largest customer (a supermarket chain in the organized market) accounted for 19% and 20% of the Company's sales in 2009 and 2008, respectively.

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.

These incentives typically range from 5% to 7.5% 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, 2009, 2008 and 2007, we paid and/or are obligated to pay approximately NIS 3,970 thousand (USD 1,052 thousand), NIS 4,686 thousand (USD 1,241 thousand) and NIS 3,774 thousand (USD 1,000), 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 2009 to NIS 74.8 million (USD 19.8 million) and the average time period within which our accounts receivable were paid was 91 days, in 2008 to NIS 83.3 million (USD 22.1 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 17.9 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 2007-2009, 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 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 Shufersal, subject to several conditions. As of September 1, 2005, Club Market's activities were substantially transferred to Shufersal. This merger of two of the three largest food chains in Israel strengthened Shufersal's buying power with local food suppliers (such as the Company) and the dependency of local food suppliers on Shufersal 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 1.5 million), as of July 13, 2005. As of the date of this Annual Report, the Company has received approximately NIS 2.6 million (USD 0.69 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 1.48 million), including the NIS 2.6 million (USD 0.69 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.

The Company's bad debt expenses for the years ended December 31, 2009, 2008 and 2007 amounted to NIS 456 thousand (USD 121 thousand), NIS 702 thousand (USD 186 thousand) and NIS 129 thousand (USD 34 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, though in cases of sales of certain products to clients situated in different areas of Israel, the Company distributes products through external distributors with whom it does not have exclusivity agreements. Sales by 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 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 network (including 11 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.

In the import segment, 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. In the manufacturing segment, 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 20 days. The Company does not regularly maintain a significant backlog of orders from customers; orders received by customers are generally filled within one week. The Company's inventory as of December 31, 2009 amounted to NIS 44.8 million (USD 11.9 million) compared with NIS 34.4 million (USD 9.1 million) as of December 31, 2008.

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.

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 world-wide, including by attending food exhibitions and maintaining close relations with manufacturers and suppliers world-wide.

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

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, the new Vita Pri HaGalil and Shastowitz with respect to fish products, the new Vita Pri HaGalil, Yachin-Zan laKol, Williger of the Neto Group, Alaska and Johnson with respect to canned vegetable and canned fruit products, Osem, Barila, the new Vita Pri HaGalil, 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, Mashani 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 expe