

G WILLI FOOD INTERNATIONAL LTD
Form 20-F
March 27, 2019

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, 2018

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)

Amir Kaplan, Chief Financial Officer
4 Nahal Harif St. Northern 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

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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 13,240,913 ordinary shares, NIS 0.10 nominal value per share as of December 31, 2018.

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

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 Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

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 3.748= \$1.00, the representative exchange rate on December 31, 2018.

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, the risks set forth in “Item 3. Key Information – D. Risk Factors”, including the following:

- market risks of our portfolio of marketable securities, such as changes affecting currency exchange rates;
- 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, or changes in, arrangements with our key customers;
- termination of arrangements with our suppliers;
- 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 or 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 successfully integrate our acquisitions;
- our inability to protect our intellectual property rights;
- significant concentration of our shares are held by one shareholder;
- we are controlled by and have business relations with Willi-Food Investments Ltd. and its management;
- the price of our ordinary shares may be volatile;
- our inability to meet the Nasdaq listing requirements;
- our inability to maintain an effective system of internal controls;
- all of our assets are pledged to creditors;
- cyber-attacks on the Company's information systems;
- risks related to our new non-bank loans business activity;
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- 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; 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 – D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects – A. 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 for each of the years in the three-year period which ended December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements set forth elsewhere in this report, which have been prepared in accordance with IFRS as issued by IASB. The selected consolidated financial data for the years ended December 31, 2015 and 2014 is derived from our audited consolidated financial statements not appearing in this report. All of the financial data set forth below are in thousands (except share and per share amounts). You should read the following selected consolidated financial data in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and notes thereto appearing elsewhere herein. Historical results are not necessarily indicative of any results to be expected in any future period.

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. Dollar for the last seven months:

	High	Low
October 2018	3.72	3.62
November 2018	3.74	3.67
December 2018	3.78	3.72
January 2019	3.75	3.64
February 2019	3.66	3.60
March 2019 through March 25, 2019	3.63	3.60

The representative exchange rate for NIS on December 31, 2018 was NIS 3.748 = \$1.00, and the representative exchange rate for NIS on March 25, 2019 was NIS 3.62 = \$1.00.

The average exchange rate of NIS 3.590 = USD 1.00 was for the year ended December 31, 2018, NIS 3.599 for the year ended December 31, 2017, NIS 3.841 for the year ended December 31, 2016, NIS 3.884 for the year ended December 31, 2015 and NIS 3.577 for the year ended December 31, 2014.

Income Statement Data:
In accordance with IFRS

	For the year ended December 31							
	2018		2017		2016	2015	2014	
	NIS	USD	NIS	USD	NIS	NIS	NIS	
Revenue	338,245	90,247	311,978	83,239	294,202	312,514	328,741	
Cost of sales	240,032	64,043	237,645	63,406	217,585	237,452	249,136	
Gross profit	98,213	26,204	74,333	19,833	76,617	75,062	79,605	
Selling expenses	43,823	11,692	42,090	11,230	39,405	37,294	39,696	
General and administrative expenses	16,686	4,452	15,839	4,226	14,577	32,926	19,231	
Other Income	(69)	(18)	(361)	(96)	(112)	(2,182)	(2,943)	
Total operating expenses	60,440	16,126	57,568	15,360	53,870	68,038	55,984	
Operating profit	37,773	10,078	16,765	4,473	22,747	7,025	23,621	
Finance income	(7,212)	(1,924)	17,937	4,786	(3,425)	3,363	2,794	
Finance expense	(2,256)	(602)	3,769	1,006	3,143	978	375	
Finance income (expense), net	(4,956)	(1,322)	14,168	3,780	(6,568)	2,385	2,419	
Profit before taxes on income	32,817	8,756	30,933	8,253	16,179	9,410	26,040	
Taxes on income	(7,850)	(2,094)	(5,910)	(1,577)	(5,327)	(2,566)	(7,186)	
Profit from continuing operations	24,967	6,662	25,023	6,676	10,852	6,844	18,854	
Profit for the year	24,967	6,662	25,023	6,676	10,852	6,844	18,854	
Attributable to:								
Owners of the Company	24,967	6,662	25,023	6,676	10,852	6,844	18,854	
Net Income	24,967	6,662	25,023	6,676	10,852	6,844	18,854	
Basic and diluted earnings per Share	1.89	0.50	1.89	0.50	0.82	0.52	1.45	
Shares Used in Computing Earnings per Share	1.89	0.50	13,240,913	13,240,913	13,240,913	13,090,729	12,974,245	

Balance Sheet Data:

In accordance with IFRS

	2018		2017		2016	2015	2014
	NIS	USD	NIS	USD	NIS	NIS	NIS
Working capital	399,405	106,565	374,981	100,048	374,981	108,157	340,780
Total assets	466,413	124,444	436,922	116,575	436,922	126,023	411,349
Short-term bank debt	-	-	-	-	-	-	-
Shareholders' equity	440,879	117,631	415,581	110,881	415,581	119,868	386,066
Capital stock	13,240,913	13,240,913	13,240,913	13,240,913	13,240,913	13,240,913	12,974,245

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. 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 documentary credit arrangements (a/k/a letters of credit) for suppliers abroad, holding foreign currency reserves and initiating forward transactions and foreign currency options.

As a method of investing cash reserves, we hold a portfolio of marketable securities traded on the Tel Aviv Stock Exchange as well as other stock exchanges. This portfolio of marketable securities is subject to various market risks resulting from fluctuations in interest rates, 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.

In order to reduce these risks, the Board has adopted the procedure of regularly removing available funds in the Company's accounts for management by internal investment manager. In addition, the Board has revised the Company's investment policy, has appointed members of the Board to the investment committee and has added the Co-Chairman of the Board to such investment committee.

Our financial instruments consist mainly of cash and cash equivalents, current accounts receivable, 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 (approximately 1,250 customers, 2,500 selling points in Israel and abroad), a major part of our sales is made to a limited number of customers. Our largest customer is Shufersal Ltd. ("Shufersal"). Sales to Shufersal accounted for 14.9% of our sales in 2018. We generally do not require and do not receive collateral from the big chain supermarkets customers, although we do require and receive collateral from most of the remainder of our clients in Israel to ensure security of collecting payments. In addition we buy credit insurance for many of our customers. 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 reasonably 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 default on their 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 one major client, Shufersal, which owns, among other things, supermarket stores which accounted for approximately NIS 50,439 million of our revenue during 2018. 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. 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. Our failure to do so may significantly reduce our sales.

The failure to attract and retain key personnel could adversely affect our business.

Our success also depends in large part on our ability to continue to attract, retain, develop and motivate highly skilled professional personnel. Competition for certain employees, particularly top management, is intense. We may be unable to continue to attract and retain sufficient numbers of highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely impact our business, financial condition and results of operations.

In particular, we depend on the 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. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". The loss of either or both of Zwi Williger and/or Joseph Williger could adversely impact our business, financial condition and results of operations.

We work with a limited number of key suppliers. If these suppliers raise prices or terminate their engagement with us, our operating results could be adversely affected.

Although there is no one single company that supplies the majority of any of our products, if one or more of our suppliers raises their prices, our operating results may be adversely affected. See risk factor below - "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". 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.

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 as importers are subject. We may also face competition from potential newcomers to the local food manufacturing business as well as from existing importers and/or manufacturers not currently offering 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.

The cost of food commodities and other food products is cyclical and subject to other market factors and may fluctuate significantly. As a result, our cost in securing these products is subject to substantial increases over which we have no control. In addition, fuel costs, which represent the most significant factor affecting both utility costs at our facilities and our transportation costs, are subject to wide fluctuations. Although we are making best efforts, 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 doing so, we are likely to experience an increase in our costs which may materially reduce our margin of profitability.

Further, there is an additional lag from the date we purchase inventory from our suppliers situated outside of Israel (or commit to purchase inventory from our suppliers) until the date 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 such purchase prices.

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, dairy and dairy substitute products, edible oils, pasta and rice (and other food products, and we accumulate inventories of these products based on our prediction of the consumption of these products by our customers. If actual consumption does not meet the prediction, and the shelf life of such products expires 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 or our failure to predict the rate of consumption of our products), we will not be able to meet the needs of our customers and our potential revenues may be adversely affected.

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 involves risks such as product contamination or spoilage, misbranding, product tampering, and other adulteration of food products. Consumption of a contaminated, spoiled, misbranded, tampered with 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 facility.

We store most of our products in one main location – a logistics center warehouse situated in Yavne, Israel, used for products being distributed to customers. Any interruption to this storage facility, 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 lowering our earnings and, depending on revenues, potentially resulting in additional losses. Successful product liability claims 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 government regulations, periodic work stoppages or disruptions, changes in the rates of inflation in Israel and fluctuations in NIS/Dollar and NIS/Euro 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.

We may not successfully integrate our acquisitions.

We have made acquisitions in the past and may do so in the future. Our success will depend in part on our ability to manage the combined operations of any acquired company, to integrate the operations and personnel of such 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 operations could also place additional pressures on our management as well as on our other key personnel. The failure to successfully manage any integration could have an adverse material effect on results of our operations.

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", "Donna Rozza", "Manchow", "Gold Frost", "Tifeeret", "the Chef Dish", "Art Coffe", "Mr Chang", "Muchi", "Euro Butter", "Euro Spread", "Euro Cheese", "Euro Cream", "Euro Dessert", and "Emma". 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.

One shareholder owns a large percentage of our shares.

As of March 27, 2018, Willi-Food Investments owned approximately 62.05% of our ordinary shares (approximately 62.05% on a fully diluted basis), and as of such date B.S.D. Crown Ltd. ("BSD") held approximately 67.88% of our outstanding shares (approximately 67.88% on a fully diluted basis). In addition to its control of Willi-Food, BSD directly owns 5.83% of our ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders".

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 (the "Companies Law") or by our Articles of Association. Therefore, our major shareholders are able to control the outcome of matters requiring shareholder approval that do not require a special majority.

We 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.

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 possible detrimental effects of any such conflicts of the price of our ordinary shares may be volatile.

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.

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 market in general has, 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. For these reasons, 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 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.

Our inability to meet the Nasdaq listing requirements

We may in the future fail to comply with the Nasdaq Capital Market regulations and listing requirements as to minimum share price, 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. In addition, under Nasdaq's Listing Rules, any company whose shares have a closing bid price less than \$1.00 for 30 consecutive business days may be subject to a delisting proceeding by Nasdaq.

If we fail to meet the continued listing criteria under the Rule, our ordinary shares may be delisted from trading on the Nasdaq Capital Market.

Delisting from the Nasdaq Capital 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 in the over-the-counter market such as on the OTC Bulletin Board or on the "pink sheets". The over-the-counter market is generally considered to be a less efficient market, 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.

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 place a significant strain on our management, operational and financial resources and systems. We implemented financial and disclosure control procedures and corporate governance practices that enable us to comply with the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission, or the SEC, rules. For example, we developed 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 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 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, 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.

Substantially all of our assets are pledged to banks, which limits our ability to incur further debt.

We have pledged substantially all of our assets to Bank Leumi Le’Israel 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.

Our results of operations may be impacted by cyber-attacks on the Company's information systems.

Suspension or malfunction of internal or third-party systems, or unauthorized access, misuse, computer viruses and cyber-attacks affecting such systems, could impact our results of operations. Our businesses rely on secure processing, storage, transmission and reception of personal, confidential and proprietary information on our systems. We may become the target of attempted unauthorized access, computer viruses or malware, and other cyber-attacks designed to access and obtain information on our systems or to disrupt and cause other damage to our services. Although these threats may originate from human error or technological failure, they may also originate from the malice or fraud of internal parties, such as employees, or third parties, including foreign state actors and extremist parties. Additionally, we could also be adversely impacted if any of the third-party vendors, exchanges, clearing houses or other financial institutions to which we are interconnected are subject to cyber-attacks or other informational security breaches. Such events could cause interruptions to our systems, reputational damage, client dissatisfaction, legal liability, enforcement actions or additional costs, any and all of which could adversely affect our financial condition and operations. While we continue to devote significant resources to monitor and update our systems and implement information security measures to protect our systems, there can be no assurance that any controls and procedures we have in place will be sufficient to protect us from future security breaches. As cyber threats are continually evolving, our controls and procedures may become inadequate and we may be required to devote additional resources to modify or enhance our systems in the future.

Risks Related to Our New Non-Bank Loans Business Activity

Our credit standards and on-going credit assessment processes might not protect us from significant credit losses.

We take credit risk by virtue of making loans and extending loan commitments. We manage credit risk through a program of underwriting standards, the review of certain credit decisions and an ongoing process of assessment of the quality of the credit already extended. In addition, our credit administration function employs risk management techniques intended to promptly identify problem loans. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary and to take appropriate corrective actions, there can be no assurance that such measures will be effective in avoiding future undue credit risk, and credit losses may occur in the future.

The amount of future loan losses could be influenced by changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed current estimates. While the risk of nonpayment is inherent in providing financing, we could experience greater nonpayment levels than we anticipate. Further deterioration in the quality of our loan portfolio could cause our interest income and net interest margin to decrease and our provisions for loan losses to increase further, which could adversely affect our results of operations and financial condition.

Our allowance for loan losses may not be adequate to cover actual losses, which could materially and adversely affect our operating results.

We maintain an allowance for loan losses that we believe is appropriate to provide for any potential losses in our loan portfolio. The allowance is based upon factors such as the credit risk of specific customers, historical trends and experience, ongoing review of the quality, size and diversity of our loan portfolio, the amount and quality of collateral securing the loans, current economic conditions, geographic and industry loan concentrations and other information which we believe adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate.

Our business is subject to interest rate risk, and variations in interest rates may negatively affect financial performance.

Changes in the interest rate environment may reduce our profits. Loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We cannot ensure that we can minimize our interest rate risk. While an increase in the general level of interest rates may increase the loan yield and the net interest margin, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect the net interest spread, asset quality, loan origination volume and our overall profitability.

Over the last several years, there also has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether any regulation will be implemented or what form it will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

Risks Related to Our Location in Israel

We are subject to regulations and other policies of the Israeli government and of other countries from which we import and into which we 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, distribution and labeling of some major food products are subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Economy, 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 or buy certain of our food products into or from 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 Economy 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 food products 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. A deterioration of the economic situation in Israel, or periodic work stoppages or disruptions, 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.

We are incorporated under the laws of the State of Israel, our principle offices are located in central Israel and all of our officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel have a direct influence on us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. 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. During the winter of 2012 and the summer of 2014, Israel was engaged in an armed conflict with Hamas, a militia group and political party operating in the Gaza Strip. This conflict involved missile strikes by Hamas against civilian targets in various parts of Israel and negatively affected business conditions in Israel. We estimate that the conflict with Hamas in 2014 reduced the Company's sales by approximately NIS 16 million. Ongoing or revived hostilities related to Israel may have a material adverse effect on our business and on our share price. The political uncertainty in surrounding countries, including Egypt and Syria, are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries and have raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran is believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular.

Many of our executive officers and employees in Israel are obligated to perform annual military reserve duty in the Israeli Defense Forces and, in addition, 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.

Our commercial insurance does not cover property, asset or operational losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently reimburses for the value of direct damages that are caused by terrorist attacks or acts of war, and if certain conditions are met covers indirect damages (up to limited amounts) as well, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business.

Additionally, several Arab countries 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. From time to time pro-Arab organizations in various locations around the world promote local boycotts of products from Israel. Prompted by political, religious or other factors, these and other restrictive laws or policies directed towards Israel and Israeli businesses may affect our financial condition and results of operations.

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 the 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 against us, our directors or our officers under federal securities laws of 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 under such securities laws. It may also be difficult to enforce civil liabilities under such 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 120 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;
- global or regional economic crises;
- 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, Yavne 81106, Israel. The Company's telephone number in Israel 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.com. The information contained in its web site, or that can be accessed therefrom, does not constitute a part of this annual report and is not incorporated by reference herein. We have included our website address in this annual report solely for informational purposes.

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. for NIS 336 thousand (USD 90 thousand). Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products.

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 (\$9.8 million). Following this issuance, as of May 30, 2006, the Company held approximately 75.7% of Gold Frost's share capital. 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 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 July 27, 2009, the Company announced that it had successfully completed a tender offer for all of the issued and outstanding share capital of Gold Frost which was not already held by the Company. The Company paid an aggregate amount of approximately £370,430 (\$619,198) for all such shares and depositary interests.

On March 17, 2010, the Company raised net proceeds of approximately a \$19 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.

On May 4, 2014, Mr. Zwi Williger and Mr. Joseph Williger sold their controlling stake (approximately 58% of the outstanding shares) in Willi-Food to BSD, a company listed on the London Stock Exchange, the ultimately controlling shareholder of which was Mr. Alexander Granovsky.

On July 15, 2015, Mr. Granovsky sold his indirect controlling interest in BSD to Mr. Gregory Gurtovoy, according to public filings and information supplied to the Company.

On May 7, 2017, Mr. Joseph Williger informed Willi-Food that he is the controlling shareholder of BSD through private companies he owns, and that he is therefore the controlling shareholder of Willi-Food, and therefore the Company, as from May 5, 2017.

On June 11, 2017, a General Meeting of the Willi-Foods' Shareholders approved the appointment of the following BSD nominated directors: Messrs. Joseph Williger, Zwi Williger, Kobi Navon and Bensi Sao, and the termination of the term of office of all then current directors (other than the external directors): Mr. Ilan Admon, Gregory Gurtovoy, Eli Arad, Shalhevet Hasdiel and Arik Safran. On June 12, 2017, Willi-Foods' Board of Directors approved the appointment of Mr. Gil Hochboim as a director.

On June 20, 2017, a General Meeting of Shareholders of the company approved the appointment of the following directors: Messrs. Yoseph Williger, Zwi Williger, Gil Hochboim and David Donin and the termination of the term of office of all then current directors of the company (other than the external directors): Messrs. Ilan Admon, Gregory Gurtovoy and Ilan Cohen. On June 20, 2017 the Board of Directors of the company approved the appointment of Mr. Victor Bar as a director.

CAPITAL EXPENDITURES

Our capital expenditures were \$0.572 million, \$0.76 million and \$0.56 million for the three years ended December 31, 2018, 2017 and 2016, respectively. Our capital expenditures from January 1, 2019 until March 27, 2019 were approximately \$ 52 thousands For more information, see " – D. Property, Plants and Equipment".

B. BUSINESS OVERVIEW

Overview

The Company is an Israeli-based company engaged, directly and through subsidiaries, in the development, import, export, marketing and distribution of a wide variety of over 600 food products world-wide. In the year ended December 31, 2018, substantially all of our revenue was generated in Israel, with less than 1% of our revenue resulting from exports outside Israel.

The Company purchases food products from over 150 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Lithuania and Latvia), South America (Ecuador), the United States, Canada, Western and Central Europe (the Netherlands, Belgium, Monaco, Germany, Sweden, Switzerland, Denmark, and France) and Southern Europe (Spain, Portugal, Italy, Turkey and Greece)

The Company's products are marketed and sold to approximately 1,250 customers and 2,500 selling points in Israel and around the world (for example, to customers in the Unites States, England and France), including to supermarket chains, wholesalers and institutional consumers. The Company markets most of its products under the brand name "Willi-Food," and some of its chilled and frozen products under the brand name "Gold Frost". Certain products are marketed under brand names of other manufacturers or under other brand names. In addition, the Company distributes some of its products on an exclusive basis, as described further below.

Following changes in management in recent years, the Company continues to re-evaluate its strategic position and consider other business opportunities. As part of this re-evaluation, the Company is considering forming strategic alliances with or entering into different lines of business, expanding its product lines, and increasing product sales with existing customers while adding new customers. In addition, the Company is examining M&A opportunities to further increase its market presence.

Credit Activity

On November 14, 2018, the board of directors of the Company decided to take steps in order to enter the non-bank credit field ("credit extension activity"). This activity will be carried out and managed through W.F.D, a wholly-owned and controlled subsidiary of the Company. At this stage, the activity will be funded from the Company's and its subsidiaries' (collectively, "group") own resources and will be carried out in parallel to the existing activity of importing, marketing and distributing food products. During 2018, the Company did not commence its credit extending activity. In February 2019, the Company extended a first loan totaling NIS 18 million (USD 4.8 million) for a period of 10 months with an average duration of 6 months.

As of March, 27, 2019, the Company's principal shareholder, Willi-Food, held approximately 62.05% of our ordinary shares (approximately 62.05% on a fully diluted basis). The primary assets of Willi-Food are the Company's ordinary shares. See "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". 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" brand name and other brand names used by the Company (such as "Gold Frost" and "Tifeeret") and to increase market penetration of products through 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 ;
- to consider new fields of activity/operating segments; 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 supplier 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 penetrate new food segments within Israel through the establishment of food manufacturing factories or the establishment of business relationships and cooperation with existing Israeli food manufacturers;
 - 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 into international food markets, mainly in the U.S. and Europe, by purchasing food distribution companies, increasing cooperation with local existing distributors and/or exporting products directly to the customer; and

to penetrate new markets through the establishment of business relationships and cooperation with representatives in such markets subject to a positive political climate.

·to develop the non-bank loans business activity.

The Company has developed certain trade relationships locally, as well as in areas administered by the Palestinian Authority, although current sales volumes to Palestinian-administered areas remain low.

Principal Products

We and Gold-Frost import, a broad variety of over 600 food products. These products are sold, marketed and distributed by us. A small percentage of our products purchased from suppliers in Israel.

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 mushrooms (whole and sliced), artichoke (hearts and bottoms), beans, asparagus, capers, corn kernels, baby corn, palm hearts, vine leaves (including vine leaves stuffed with rice), sour pickles, mixed pickled vegetables, pickled peppers, an assortment of olives, garlic, roasted eggplant sun and dried tomatoes. These products are imported primarily from China, Greece, Thailand, Turkey, India, and the Netherlands.

Canned Fish: including tuna (in oil or water), sardines, anchovies, smoked and pressed cod liver, herring, fish paste and salmon. These products are primarily imported from the Philippines, Thailand, Greece, Germany and Sweden.

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

Edible Oils: including olive oil, regular and enriched sunflower oil, soybean oil, corn oil and rapeseed oil. These products are primarily imported from Belgium, Turkey, Italy, the Netherlands and Spain.

Dairy and Dairy Substitute Products: including hard and semi-hard cheeses (parmesan, edam, kashkaval, gouda, havarti, cheddar, pecorino, manchego, maasdam, rossiysky, iberico and emmental), molded cheeses (Brie, Camembert and Bloose), feta, Bulgarian cubes, goat cheese, fetina, butter, butter spreads, margarine, melted cheese, cheese alternatives, condensed milk, whipped cream and others. These products are primarily imported from Greece, France, Lithuania, Denmark, Germany, Italy and the Netherlands.

Dried Fruit, Nuts and Beans: including figs, apricots and organic apricots, chestnuts organic chestnuts, sunflower seeds, sesame seeds, walnuts, pine nuts, cashews, banana chips, pistachios and peanuts. These products are primarily imported from Greece, Turkey, India, China, Thailand and the United States.

Other Products: including, among others, instant noodle soup, frozen edamame soybeans, freeze dried instant coffee, bagels, breadstick, coffee creamers, lemon juice, halva, Turkish delight, cookies, vinegar, sweet pastry and crackers, sauces, corn flour, rice, rice sticks, pasta, organic pasta, spaghetti and noodles, breakfast cereals, corn flakes, rusks, rusks, tortilla, dried apples snacks, deserts (such as tiramisu and pastries) and light and alcoholic beverages. These products are primarily imported from the Netherlands, Germany, Italy, Greece, Belgium, the United States, Scandinavia, Switzerland, China, Thailand, Turkey, India, and South America.

Product Information

The products that generated the largest sales volume for the year ended December 31, 2018 were dairy and dairy substitute products (39% of sales), fish products (15% of sales) and canned vegetables (12% of sales).

The products that generated the largest sales volume for the year ended December 31, 2017 were dairy and dairy substitute products (39% of sales), fish products (17% of sales) and canned vegetables (13% of sales).

The allocation mentioned above does not include the product line "Other Products" in the Import segment, as this product line includes products that have no characteristic definition.

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, Badatz Edah HaChareidis, Badatz Beit Yosef, 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. For more information, see “– Government Regulation” in this section below.

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. For more information, see “– Government Regulation” in this section below.

Suppliers

We purchase food products from over 120 suppliers, including suppliers located in Israel, the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Latvia, and Lithuania), South America (Ecuador and Argentina), the United States, Canada and in Western, Northern and Southern Europe (Sweden, Denmark, Greece, Monaco, the Netherlands, Italy, Monaco, Portugal, Spain, Belgium, Germany, France, and Turkey).

In addition, we actively maintain contact with our suppliers world-wide through which we assess, on an on-going basis, world market trends, fluctuations in prices, 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 products we import are seasonal agricultural products, such as artichokes, cherries, mushrooms, eggplants and peaches. In order to ensure 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 outside of Israel is made in U.S. 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. Supply is generally made to us against letters of credit for a period of up to 90 days. No single supplier provides us with for the majority of our products, most of which we purchase from several suppliers.

On October 21, 2017, the Company announced that Gold Frost Ltd., a wholly owned subsidiary of the Company ("Gold Frost"), received a notice from Arla Foods Amba ("Arla"), a material supplier of the group in the field of dairy and dairy substitute products, whereby Arla decided not to renew the exclusive distribution agreement with Gold Frost, which was expected to expire on December 31, 2017. The end of the engagement with Arla threatened to cause a material negative impact on the group's operating results.

Representatives of Gold Frost and Arla met and reached agreements to the effect that Arla would continue supplying to Gold Frost products that would be sold by Gold Frost until October 2018.

During 2018, the Company entered into engagements with several European dairies for the supply of a range of dairy products that will replace the products that were supplied by Arla. In August 2018, the Company launched a line of dairy products under an independent brand "Euro Dairy Europe".

In addition to Arla, we purchased several products from a single supplier in 2018 and, as a result, that supplier accounted for more than 10% of our total purchases; however, purchases from this supplier were made due to economies of scale, operational efficiency and convenience, and the Company does not consider itself dependent on this supplier. The average volume of our credit balance with our suppliers in 2018 was NIS 16.2 million (US\$ 4.3 million) consisting of 24 days of suppliers credit on average, in 2017 was NIS 14.7 million (US\$ 3.9 million) consisting of 24 days of suppliers credit on average and in 2016 was NIS 15.3 million (US\$ 4.1 million) consisting of 26 days of suppliers credit on average.

Customers

The Company's products are marketed and sold to approximately 1,250 customers and 2,500 selling points throughout Israel and outside of Israel.

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

- large retail supermarket chains, and
- small retail supermarket chains, and
- other customers, including small private grocery shops, government institution, wholesalers, restaurants, hotels, hospitals and more.

The first group of customers above includes the large retail food marketing chains: Shufersal Ltd., Yenot Bitan, Rami-Levy Ltd, "Osher-Ad", Viktory, Yohanonof and others. The large retail food marketing chains usually consist of dozens of stores with nationwide deployment.

The Company contracts with those supermarket chains through the buyers in the head office of the supermarket chain, after which the Company receives orders from the supermarket chain's logistics center or directly from individual stores. Merchandise is then delivered directly to each branch or to the supermarket's chain distribution centers. The Company is not accustomed to setting fixed prices that apply to all such customers, but rather sets ad-hoc prices for a transaction or for several transactions. Simultaneous with closing of sale prices with the buyers at the chains' central

offices, quantities of the products to be supplied to the branches are routinely determined directly with the branches.

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A number of provisions of a law entitled "Promoting Competition in the Food Industry" (the "Food Law"), which went into effect on January 15, 2015, regulating the operations of food suppliers and retailers, are applicable to the Company (which is not defined as a large supplier in respect of its engagements with retailers subject to the provisions of the Food Law), including a prohibition on any interference on the part of a supplier in a retailer's determination of the consumer price that such retailer will collect on another suppliers' merchandise, or the terms of such sale; a prohibition on retailers interfering in any way in a supplier's determination regarding what products to sell other retailers and what prices to charge for those products, or the terms of such sale; a ban on suppliers transferring payments (in cash or cash equivalents) to a large retailer, other than by lowering the price per unit of a product, subject to certain exceptions; a prohibition on interfering in any way in the price per product collected by a retailer for that supplier's products, the allocation of any share of sales space for that supplier's products, the purchase of products provided by that supplier on any scale in proportion to the retailer's purchase of the product from alternative suppliers; and a prohibition on interfering in the purchase or sale of products provided to a retailer by another supplier, including quantities and purchase targets, sales space allocated to them in stores and other commercial terms. In 2018, the Company had one retail customer, Shufersal, that is considered a large supplier according to the Food Law, the scope of Company sales to which exceeded 10% of its income in 2018. As a result, the Company's interaction with this customer is required to meet certain principles for engagement, including those impacting commercial agreements, logistics and monetary collection.

The second group of customers includes the small retail chains of up to 15 stores, usually in a regional deployment

Generally, the Company's engagement with small retail chains does not involve exclusivity, or other obligatory terms of operations. Prior to entering into an engagement with such customer, the Company gauges the customer's financial stability and determines the scope of credit to assign to and the sureties to obtain from such customer. Small retail chains are generally requested to provide deferred checks as sureties, and some are requested to provide additional sureties, including promissory notes, personal guarantees and bank guarantees. In addition, the Company insures most of its small retail chains with credit insurance. In 2018, more than 80% of the Company's small retail chains were insured with credit insurance policies by credit insurance companies.

The Company undertakes toward some of its small retail chains that are not subject to the provisions of the Food Law to pay a fixed incentive in the form of a percentage of sales, or an incentive in the event the scope of sales exceeds the scope agreed upon between the parties. The Company undertakes towards a small number of small retail chains to provide discounts for the inclusion of new products, as well as limited-time discounts for the opening of new stores. Furthermore, the Company undertakes towards a small number of the small retail chains to participate in payments for the customers' advertisements, at rates determined in negotiations between the parties, and subject to the actual execution of the advertisements in various media, including in print newspapers, or in specific advertisement placed inside a customer's stores.

The sale prices to small retail chains are determined in negotiations that occur frequently, usually on a monthly basis, owing to the lack of uniformity in the purchase terms for different products from different manufacturers, and owing to variable market conditions. The Company is not accustomed to setting fixed prices that apply to all such customers, but rather sets ad-hoc prices for a transaction or several transactions.

The Company's sales by customer group for the years ended December 31, 2018, 2017 and 2016 were as follows:

Customer Groups	Percentage of Total Sales					
	Year Ended					
	December 31					
	2018	2017	2016	2018	2017	2016
large retail supermarket chains	50 %	50 %	49 %			
other customers	50 %	50 %	51 %			
	100 %	100 %	100 %			

The average aggregate debit balance of the Company's customers with the Company in 2018 was NIS 96.2 million (USD 25.7 million) and the average time period within which our accounts receivable were paid was 88 days, in 2017 was NIS 86.7 million (USD 23.1 million) and the average time period within which our accounts receivable were paid was 86 days and in 2016 it was NIS 85.6 million (USD 22.8 million) and the average time period within which our accounts receivable were paid was 90 days.

In the event that a customer in the small retail supermarket chains or other customers does not respect its financial commitments, the Company may elect to foreclose on the collateral or the promissory note given by such customer. Since 2008, the Company has made no significant use of this foreclosure power. The Company strives to minimize its credit risk 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.

Distribution, Marketing and Sales

The Company principally distributes and markets its products on its own. The Company markets its products via internal sales agents, although with sales of certain products to clients situated in different areas of Israel, the Company utilizes external distributors, with whom it does not have exclusivity agreements.

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, and in limited cases up to 110 days credit, beginning at the end of the month in which the sale took place. Most of the large retail supermarket chains 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 does not require the large retail supermarket chains 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 14 refrigeration trucks and three regular 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 logistics 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 most of our dairy and dairy substitute products is performed by external distributors, although some of these sales are made 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, direct distribution or by wholesalers.

With imported products, 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 60 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 may be sufficient to meet market requirements for more than 60 days. Products ordered by customers in full container loads are generally forwarded directly to the customers' facilities without being stored in the Company's facilities. The Company does not regularly maintain 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, 2018 amounted to NIS 49.3 million (USD 13.2 million) compared with NIS 39.9 million (USD 11.5 million) as of December 31, 2017.

The Company maintains close contact with its consumers in an effort to be attentive to market needs, market trends, and demand for certain products in various markets. 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 "Liability for Defective Products Law, 1980" and it has also purchased an insurance policy for product liability.

Seasonality

Each year as the Passover, Shavuot, and Rosh Hashana holidays 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), the Pesach (Passover) holiday (celebrated in March-April) and Shavuot (celebrated in May). 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 faces direct competition both from 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. In addition to new-comers to the food business, the Company faces potential competition from existing importers and/or manufacturers currently not offering the same lines of products as the Company.

For example, certain of the products imported by the Company, such as canned fish, corn flakes, 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, Tomer, Taaman, Solbar and Y.T.V Foods Industries Ltd with respect to edible oils, Fodor (Starkist and Yona), Posidon and Williger of the Neto Group, Filtuna, Vita Pri HaGalil and Shastowits with respect to fish products, the new Vita Pri HaGalil, Yachin-Zan laKol, Williger of the Neto Group, and Tomer with respect to canned vegetable and canned fruit products, Osem, Barila, Vita Pri HaGalil, Williger of the Neto Group, Taaman and Tomer with respect to pasta products, Tnuva, Tara, Strauss, Seyman, Gad Dairy with respect to dairy and dairy substitute products, for example) are substantially more established, have greater market recognition and have greater financial, marketing, human and other resources than those of the Company. If any of the Company's major competitors materially reduces prices, the Company would experience significantly more competitive pressure and a decrease in profitability. The Company cannot predict whether it could successfully compete with these pressures and, if it were unable to do so, the Company's business would be adversely impacted.

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

The Company endeavors to compete by reacting to the availability of competitor products and their prices, while diversifying sources of supply and setting product prices according to changing market conditions.

Intellectual Property Rights

The Company markets certain products under the trademark "Willi-Food," which was approved for registration in Israel in May 1997 for certain uses relating to the food industry. In 2015, the trademark's validity was extended for an additional ten years. The Company markets certain products under the trademark "Gold-Frost," which was registered in Israel in February 2002.

The Company also markets cheeses and cheese substitutes such as "Ha-Bulgaria", which was registered in Israel in February 2009, "EMMA", which was registered in Israel in December 2013.

The Company markets frozen edamame soybeans under the trademark "Manchow," which was registered in Israel in October 2007.

The Company markets a line of products with kosher supervision by Badatz Edah HaChareidis under the trademark "Tifeeret", which was registered in Israel in September 2010 for different uses in the food industry.

The Company also markets pasta and sauces under the trademark "Donna Rozza," which was registered in Israel in August 2005 for different uses in the food industry.

The Company also markets other products which are in the process of registration in Israel such as "Euro", "Mochi", "MR. CHANG", "Art Coffee" and "Manat Ha-Chef".

Other products marketed by the Company under their original brand name are "Completa", "Del Monte", "Danesita", "Nobelega Gaucha", "Sera", "Daawat", "Zanetti", "Ferro", "Hahne", "Pastor" and "Kolios".

The Company imports several products for the Shufersal chain under the brand name "Shufersal".

There can be no assurances as to the degree of protection registration of the Company's trademarks will afford.

The Company's investment in registering these trademarks was insignificant.

Government Regulation

The import, export, storage, distribution, manufacturing, marketing and labeling of food products is subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Finance and the Ministry of Economy and Industry. We are required to maintain our distribution processes, as well as the products imported and manufactured by us, in conformity with all applicable laws and regulations. Failure to comply with these applicable laws and regulations could subject us to civil sanctions, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on us. We believe that we comply in all material respects with the above-mentioned requirements. To the extent that the Company exports food products outside of Israel, we may be subject to quotas and other laws and regulations of the country to which we export which may limit our ability to sell certain of our food products into these countries.

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

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

The government has undertaken various efforts to reduce custom duties and charges in recent years.. In the fourth quarter of 2015, the Ministry of Finance announced a tax-free import quota program for hard cheeses (over 5,000 tons) and butter and cream (together, more than 1,250 tons) for the year 2016. In addition, new procedures were announced for quota distribution in order to increase the efficiency of the allocation and to ensure that the benefit reaches the consumer, including a competitive process exemption from certain customs duties for hard cheeses (with winners chosen by which bidder has the lowest sale price to the end consumer). The Ministry of Finance announce three more times at the end of 2016, 2017 and 2018 (for the years 2017, 2018 and 2019) a tax-free import quota for hard cheese at the same mechanism like 2015. The company won a significant share of the entire quotas for each year. For more information, see "Item 5. Operating and Financial Review and Prospectus – D. Trend Information".

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

C. ORGANIZATIONAL STRUCTURE

The Company's principal shareholder, Willi-Food, as of March 27, 2019, held approximately 62.05% of our ordinary shares (approximately 62.05% on a fully diluted basis). The primary assets of Willi-Food are the Company's ordinary shares. Willi-Food was established on November 27, 1992 and its securities have been traded on the Tel Aviv Stock Exchange since January 1993.

The Company, as of March 27, 2019, had 3 active subsidiaries, as follows:

Subsidiary	Jurisdiction of Organization	Company's Ownership Interest	
W.F.D. (import, marketing and trading) Ltd. ("WFD")	Israel	100	%
W. Capital Ltd. (Former: "B.H.W.F.I. Ltd.") (W.Capital)	Israel	100	%
Gold Frost Ltd.	Israel	100	%

The offices of our active wholly owned subsidiaries are located in Yavne, Israel, at the offices of the Company.

WFD

In November 1995, the Company incorporated a wholly-owned subsidiary, WFD. The Company occasionally imports certain products through this subsidiary, which then sells these products to the Company. In early 2019, as the Company launched its first loan by WFD, under its new credit extension activity. The Company intends to use WFD as its vehicle for the credit extension activity.

W. Capital

In June 2014, the Company incorporated a wholly-owned subsidiary, W.Capital.

Gold Frost

In May 2001, the Company acquired all the shares of Gold Frost in. Gold Frost, which was registered in 1977 in Israel, is engaged in designing, developing and distributing frozen and chilled food products. The Company purchased Gold Frost in order to take advantage of Gold Frost's know-how in importing frozen and chilled products as well as of its well known brand name in the Israeli market. Gold Frost distributes over 140 products, usually packed for private consumers (in cans, jars, containers and plastic sealed and vacuumed packages), but also for institutional consumers and labeled in Hebrew, English, and in certain cases, Arabic and Russian. Gold Frost markets certain products under the trademarks "Gold Frost" and "Willi-Food" which are registered in Israel. Gold Frost is working towards broadening the variety of products that it develops and distributes. The mission of Gold Frost is to develop low fat, low

cholesterol dairy chilled and frozen products aimed at the kosher and health conscious consumer market.

On February 28, 2006, a relationship agreement between Gold Frost, the Company and others was signed, defining the relationship between the two companies.

D. PROPERTY, PLANTS AND EQUIPMENT

The Company's principal executive offices are situated at a logistics center in the northern industrial zone of Yavne, at 4 Nahal Harif St., Israel, 35 km south of Tel Aviv. The logistics center is 8,526 square meters (approximately 92,000 square feet) and is located on a plot of 19,000 square meters (approximately 205,000 square feet).

In addition to the current logistics center, the Company makes use of so-called "free" warehouse services, mainly in the area of the Ashdod seaport. For such services, the Company is charged only for storage per container or pallet (i.e., there is no charge for rental when containers or pallets were not stored there). The Company's expenses for usage of free warehouses services were NIS 152 thousand (USD 41 thousand) for the year ended December 31, 2018, NIS 1,522 thousand (USD 406 thousand) for the year ended December 31, 2017 and NIS 264 thousand (USD 71 thousand) for the year ended December 31, 2016. In 2016 and 2015, the Company expanded its frozen storage facility at its logistics center in order to save the Company the expense of using storage services in free warehouses, as described above, and in order to improve Company's operations.

As of December 31, 2018, the Company owned four refrigeration trucks (each with a capacity of 12 tons), 10 refrigeration trucks (each with a capacity of 15 to 18 tons), 3 combined trucks (each with capacity of 26 tons) and four private cars. As of December 31, 2018, the depreciated total cost of such vehicles amounted to approximately NIS 1,589 thousand (USD 424 thousand).

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The Company was incorporated in Israel in January 1994 and started operations in February 1994.

For convenience purposes, the financial data for the years ended December 31, 2018, 2017 and 2016 has been translated into U.S. Dollars using the representative exchange rate. This rate as of December 31, 2018 was NIS 3.748= USD 1.00.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and the related notes thereto submitted in this Annual Report. The Company's financial statements as of December 31, 2018 and for the year then ended have been prepared in accordance with IFRS and interpretations issued by the IASB, which differ in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

The Company is engaged, directly and through its subsidiaries, in the design, import, marketing and distribution of a broad range of food products purchased from over 150 suppliers worldwide and marketed throughout Israel and abroad. The products imported by the Company are marketed in Israel and sold to approximately 1,250 customers and 2,500 selling points, including supermarket chains, mini-markets, wholesalers, manufacturers and institutional consumers. The Company also sells its products outside Israel to a variety of customers world-wide.

On November 14 2018, the board of directors of the Company decided to take steps in order to enter the non-bank credit field. This activity will be carried out and managed through W.F.D, a wholly-owned and controlled subsidiary of the company. At this stage, the activity will be funded from the group's own resources and will be carried out in parallel to the existing activity of importing, marketing and distributing food products. During 2018, the Company did not commence its credit extending activity. In February 2019, the Company extended a first loan totaling NIS 18 million for a period of 10 months with an average duration of 6 months.

Critical Accounting Policies

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

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

Recognition of income

IFRS 15 – "Revenue from Contracts with Customers" is mandatory for reporting periods starting on January 1, 2018. The Company has opted to apply the standard with retroactive effect to contracts that have not yet been completed as of January 1, 2018. The Comparative figures relating to the year ended December 31, 2017 and to the interim period of the three months ended March 31, 2017, are presented in accordance with the provisions of IAS 18 which was effective prior to the application of IFRS 15.

The first-time application of the standard had no impact on the financial statements.

The standard determines a five-step model for the application of the standard. In accordance with the model, revenues from contracts with customers are recognized in the statement of comprehensive income when control over the goods or services is transferred to the customer. Revenue is measured and recognized at the fair value of the consideration receivable according to the terms of the contract, net of amounts collected in favor of third parties (such as taxes). Revenue is recognized in the consolidated statements of profit or loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if relevant, can be measured reliably.

Transfer of control

Control is transferred when the Company transfers to the customer possession of the goods and when the significant risks and benefits associated with ownership of the goods have been transferred to the customer. Normally, the date of delivery of goods is the date on which control was transferred. In transactions involving an intermediary, the date of transfer of control is the date on which the goods were delivered to the end-customer.

Determining the transaction price

The transaction price is determined at the fair value of the consideration receivable according to the terms of the contract, net of amounts collected in favor of third parties. When determining the transaction price, the Company estimates the amounts of credits to be given to customers and the expected returns and adjusts the amount of revenue accordingly.

The Company recognizes an asset in respect of products that its customers are expected to return to the Company and in respect of which it recognized a provision for returns. The amount of the asset is determined at the lower of cost or net realizable value.

Disaggregation of revenue in respect of contracts with customers

The Company disaggregates revenues recognized from contracts with customers by groups of products.

1. Useful lifespan of property, plant, and equipment

During every annual reporting period, the Company's management assesses the estimated useful life span of an item of property, plant and equipment. There were no changes to the estimated useful life spans of an item of property, plant and equipment during the course of the financial reporting period.

2. Employee benefits

The current value of the Company's liability for payment of severance compensation and for pension plans for its employees is based on a significant amount of data, which are determined on the basis of actuarial valuation utilizing a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions may impact the carrying amount of the Company's liabilities for payment of severance compensation and pension payments. The Company estimates the capitalization rate once per year, based on the capitalization rate of highly rated corporate bonds. Other key assumptions are determined based on the prevailing market conditions and the Company's experience. For additional details about the assumptions utilized by the Company. See Note 10 of the financial statements.

A. RESULTS OF OPERATIONS

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenues	338,245	311,978
Cost of Sales	240,032	237,645
Gross Profit	98,213	74,333
Selling Expenses	43,823	42,090
General and Administrative Expenses	16,686	15,839
Other Income	(69)	(361)
Operating profit	37,773	16,765
Financial Income (Loss), Net	(4,956)	14,168
Profit before taxes on income	32,817	30,933
Taxes on income	(7,850)	(5,910)
Net Income	24,967	25,023

Year Ended December 31, 2018 compared with Year Ended December 31, 2017

Revenues. Revenues for fiscal 2018 increased by NIS 26,267 thousand (USD 7,008 thousand), or 8.4%, to NIS 338,245 thousand (USD 90,247 thousand) from NIS 311,978 thousand (USD 83,239 thousand) recorded in fiscal year 2017. Revenues increased primarily due to a redirection of resources in favor of sales, increasing the range of the Company's products and proper inventory management.

Cost of Sales. Cost of sales for fiscal year 2018 increased by 1.0% to NIS 240,032 thousand (USD 64,043 thousand), or 71.0% of revenues, from NIS 237,645 thousand (USD 63,406 thousand), or 76.2% of revenues recorded in fiscal year 2017. The increase in cost of sales in fiscal year 2018 compared to fiscal year 2017 was primary due to an increase in sales.

Gross Profit. Gross profit for fiscal year 2018 increased by 32.1% to NIS 98,213 thousand (USD 26,204 thousand), or 29.0% of revenues, from NIS 74,333 thousand (USD 19,832 thousand), or 23.8% of revenues, recorded in fiscal year 2017. The increase in gross profit in fiscal year 2018 compared to fiscal year 2017 was primary due to the sales and the gross margin increase resulting from the Company's strategy of selling a favorable mix of products which generate a higher gross margin.

Selling Expenses. Selling expenses for fiscal year 2018 increased by 4.1% to NIS 43,823 thousand (USD 11,692 thousand), or 13% of revenues from NIS 42,090 thousand (USD 11,230 thousand), or 13.5% of revenues recorded in fiscal year 2017. The increase in selling expenses was primarily due to an increase of salary resulting from an increase in personnel in the sales department and increase of freight to customers' expenses.

General and Administrative Expenses. General and administrative expenses for fiscal year 2018 increased by 5.3% to NIS 16,686 thousand (USD 4,452 thousand), or 4.9% of revenues, from NIS 15,839 thousand (USD 4,226 thousand), or 5.1% of revenues recorded in fiscal year 2017. The increase in general and administrative expenses was primarily due to an increase in the personnel and in the management salary.

Other Income. Other income for fiscal year 2018 amounted to NIS 69 thousand (USD 18 thousand) compared to NIS 361 thousand (USD 96 thousand) recorded in fiscal year 2017. Other income for fiscal year 2018 and 2017 mainly consisted of gain from sales of property plant and Equipment.

Operating Profit. Operating profit for fiscal year 2018 increased by NIS 21,008 thousand (USD 5,602 thousand), or by 125.3%, to NIS 37,773 thousand (USD 10,078 thousand), or 11.2% of revenues, from NIS 16,765 thousand (USD 4,473 thousand), or 5.4% of revenues, recorded in fiscal year 2017. The increase in operating profit was primarily due to the increase in the gross profit.

Financing Income (expense), Net. Financing expense, net, for fiscal year 2018 amounted to NIS 4,956 thousand (USD 1,322 thousand) compared to net income of NIS 14,168 thousand (USD 3,780 thousand) recorded in fiscal year 2017. Financing Expense, net, for fiscal year 2018 consisted primarily of loss on marketable securities of NIS 13,697 (USD 3,654 thousand), interest income and dividends of NIS 6,408 thousand (USD 1,228 thousand) and an income from foreign currency differences amounted to NIS 2,867 thousand (USD 768 thousand). For more information on this non-tradeable financial asset, see "Item 8. Financial Information – Legal Proceedings".

Profit before taxes on income. Profit before taxes on income for fiscal year 2018 increased by NIS 1,884 thousand (USD 503 thousand), or by 6.1%, to NIS 32,817 thousand (USD 8,756 thousand) from NIS 30,933 thousand (USD 8,253 thousand) recorded in fiscal year 2017. The increase in profit before taxes on income was primarily due to an increase in operating profit and decrease in financial income.

Taxes on Income. Taxes on income for fiscal year 2018 increased by 32.8% to NIS 7,850 thousand (USD 2,094 thousand) from NIS 5,910 thousand (USD 1,593 thousand) recorded in fiscal year 2017. The increase in taxes on income in fiscal year 2018 compared to fiscal year 2017 was mainly due to an increase in income before taxes. For more information see Note 11a (Taxes on income) of our financial statements for the year ended December 31, 2018 included in this report.

Net profit for the year. Net profit for fiscal year 2018 remains unchanged at NIS 25.0 million (US\$ 6.7 million), or NIS 1.89 (US\$ 0.50) per share.

Year Ended December 31, 2017 compared with Year Ended December 31, 2016

Revenues. Revenues for fiscal 2017 increased by NIS 17,776 thousand (USD 5,127 thousand), or 6%, to NIS 311,978 thousand (USD 89,985 thousand) from NIS 294,202 thousand (USD 84,858 thousand) recorded in fiscal year 2016. Revenues increased primarily due to an increase in personnel in the sales and trade department and due to a strike at the Ministry of Health in the third quarter of 2016 which limited release of goods from the port and caused a decrease of NIS 6 million in sales in fiscal year 2016.

Cost of Sales. Cost of sales for fiscal year 2017 increased by 9.2% to NIS 237,645 thousand (USD 68,545 thousand), or 76.2 % of revenues, from NIS 217,585 thousand (USD 62,759 thousand), or 74% of revenues recorded in fiscal year 2016. The increase in cost of sales in fiscal year 2017 compared to fiscal year 2016 was primary due to an increase in sales.

Gross Profit. Gross profit for fiscal year 2017 decreased by 2.98% to NIS 74,333 thousand (USD 21,440 thousand), or 23.82% of revenues, from NIS 76,617 thousand (USD 22,099 thousand), or 26.04% of revenues, recorded in fiscal year 2016. The decrease in gross profit in fiscal year 2017 compared to fiscal year 2016 was primary due to reductions in the prices of certain of our products as a result of an inventory with a short expiration date that the Company had to sell with lower prices and due to an increase of inventory-storage expenses.

Selling Expenses. Selling expenses for fiscal year 2017 increased by 6.81% from fiscal year 2016 to NIS 42,090 thousand (USD 12,140 thousand), or 13.49% of revenues, from NIS 39,405 thousand (USD 11,366 thousand), or 13.39 % of revenues recorded in fiscal year 2016. The increase in selling expenses was primarily due to an increase in salary expenses resulting from an increase in personnel in the sales and trade department and due to an increase in distribution expenses related to the increase in sales.

General and Administrative Expenses. General and administrative expenses for fiscal year 2017 increased by 8.66% to NIS 15,839 thousand (USD 4,569 thousand), or 5.07% of revenues, from NIS 14,577 thousand (USD 4,204 thousand), or 4.95% of revenues recorded in fiscal year 2016. The increase in general and administrative expenses was primarily due to a NIS 1.3 million (US\$ 0.3 million) write-off in fiscal year 2016 which was canceled in fiscal year 2017, with respect to the Company's estimated exposure to Mega Retail Ltd. debts.

Other Income. Other income for fiscal year 2017 amounted to NIS 361 thousand (USD 104 thousand) compared to NIS 112 thousand (USD 32 thousand) recorded in fiscal year 2016. Other income for fiscal year 2017 and 2016 mainly consisted of gain from sales of property plant and Equipment.

Operating Profit. Operating profit for fiscal year 2017 decreased by NIS 5,982 thousand (USD 1,725 thousand), or by 26.30%, to NIS 16,765 thousand (USD 4,835 thousand), or 5.37 % of revenues, from NIS 22,747 thousand (USD 6,561 thousand), or 7.73% of revenues, recorded in fiscal year 2016. The decrease in operating profit was primarily due to the decrease in the gross profit and increase in total operating expenses.

Financing Income, Net. Financing Income, net, for fiscal year 2017 amounted to NIS 14,168 thousand (USD 4,086 thousand) compared to net loss of NIS 6,568 thousand (USD 1,894 thousand) recorded in fiscal year 2016. Financing Income, net, for fiscal year 2017 consisted primarily of gain on marketable securities of NIS 12,523 (USD 3,612 thousand), gain from non-tradeable financial assets of NIS 5,357 thousand (USD 1,545 thousand) and a loss from foreign currency differences amounted to NIS 2,708 thousand (USD 781 thousand). For more information on this non- tradeable financial asset, see "Item 8. Financial Information – Legal Proceedings".

Profit before taxes on income. Profit before taxes on income for fiscal year 2017 increased by NIS 14,754 thousand (USD 4,256 thousand), or by 91.18%, to NIS 30,933 thousand (USD 8,921 thousand) from NIS 16,179 thousand (USD 4,666 thousand) recorded in fiscal year 2016. The increase in profit before taxes on income was primarily due to increase in financial income.

Taxes on Income. Taxes on income for fiscal year 2017 increased by 10.94% to NIS 5,910 thousand (USD 1,705 thousand) from NIS 5,327 thousand (USD 1,536 thousand) recorded in fiscal year 2016. The increase in taxes on income in fiscal year 2017 compared to fiscal year 2016 was mainly due to an increase in income before taxes. For more information see Note 11a (Taxes on income) of our financial statements for the year ended December 31, 2017 included in this report.

Profit for the year. Profit for fiscal year 2017 increased by 130.57% or NIS 14,171 thousand (USD 4,087 thousand), to NIS 25,023 thousand (USD 7,217 thousand), or NIS 1.89 (USD 0.54) per share or 8.02% of revenues, from NIS 10,852 thousand (USD 3,130 thousand), or NIS 0.82 (USD 0.23) per share or 3.69% of revenues, recorded in fiscal year 2016. The increase in profit for the year was primarily due to an increase in financial income.

B. LIQUIDITY AND CAPITAL RESOURCES.

The Company's operations are funded mainly through equity and cash flows from operating activities. The Company's bank indebtedness is secured by certain liens on its share capital, goodwill and certain other assets. In general, the Company and its subsidiaries do not utilize bank indebtedness.

For fiscal 2018, cash and cash equivalents increased from NIS 113.1 million (USD 30.2 million) as of December 31, 2017 to NIS 134.2 million (USD 35.8 million) as of December 31, 2018.

During fiscal 2018, financial assets at fair value through profit or loss decreased to NIS 137.9 million (USD 36.8 million) from NIS 143.5 million (USD 38.3 million) as of December 31, 2017.

Cash flow from operating activities

For fiscal 2018, the Company generated a positive cash flow from continuing operating activities of NIS 27.0 million (USD 7.2 million) compared to positive cash flow from continuing operating activities of NIS 14.4 million (USD 3.9 million) in fiscal 2017, a change as a result of an increase in "adjustments to net cash from operating activities" of NIS 12.6 million (USD 3.4 million) from negative adjustment of NIS 10,584 thousands (USD 2,824 thousands) in fiscal 2017 to positive adjustment of NIS 2,074 thousands (USD 553 thousands) in 2018 primarily due to an adjustment of unrealized loss on marketable securities of NIS 13.7 million (USD 3.6 million) on 2018 compared to unrealized gain on marketable securities of NIS 7.8 million (USD 2.1 million) in 2017, and a gain from non-tradeable financial assets of NIS 5.4 million (USD 1.4 million) in fiscal 2017 due to an investment on non-tradeable bond. For more information see "Item 8. Financial Information – Legal Proceedings".

Cash flow from investing activities

During fiscal 2018, the Company utilized cash flow of NIS 5.8 million (USD 1.6 million) for continuing investing activities compared to net cash flow from continuing investing activities of NIS 31.0 million (USD 8.3 million) utilized in fiscal 2017 primarily due to an acquisition of marketable securities of NIS 8.1 million (USD 2.1 million) and a redemption of non-current financial assets of NIS 4.0 million (USD 1.1 million) compared to proceeds from marketable securities of NIS 30.8 million (USD 8.2 million), and redemption of non-current financial assets of NIS 2.2 million (USD 0.6 million) in fiscal 2017.

Cash flow used in financing activities

During fiscal 2018 and 2017, the Company had no cash flow from continuing financing activities.

Cash requirements

The Company's cash requirements, net, during the years ended December 31, 2018 and 2017 were met primarily through its working capital. As of December 31, 2018, the Company had working capital of NIS 399 million (USD 107 million) compared to working capital of NIS 375 million (USD 100 million) as of December 31, 2017. The Company believes that its working capital is sufficient for the Company's present requirements.

Trade receivables

The Company's trade receivables balance as of December 31, 2018 was NIS 98 million (USD 26 million) compared to the trade receivables balance as of December 31, 2017 in the amount of NIS 86 million (USD 23 million). The average time period within which our accounts receivable was paid was 88 days in 2018 compared to 86 days in 2017.

Impact of Inflation and Devaluation on Results of Operations, Liabilities and Assets

The representative rate of the U.S. Dollar was NIS 3.748 on December 31, 2018 compared to NIS 3.467 on December 31, 2017, compared to NIS 3.845 on December 31, 2016, NIS 3.902 on December 31, 2015 and NIS 3.889 on December 31, 2014. As of March 25, 2019, the representative rate of the U.S. Dollar was NIS 3.62.

The annual rates of inflation (deflation) in Israel during the years ended December 31, 2014, 2015, 2016, 2017 and 2018 were approximately (0.2%), (0.1%), (0.3%), 0.4% and 0.8%, respectively, while during such periods the revaluation (devaluation) of the NIS against the U.S. Dollar was approximately (12.1%), (0%), (1.5%), (10%) and 8.1%, respectively.

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

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

Guarantees and Pledges

Principally in connection with letters of credit issued to the Company, the Company has issued a debenture to each of Bank Leumi Le'Israel Ltd and Bank Hapoalim Ltd. The Company has pledged all of its assets (including its outstanding share capital and goodwill of the Company) in favor of Bank Leumi Le'Israel Ltd. and Bank Hapoalim Ltd. to secure its obligations or those obligations incurred by the Company jointly with third parties, including obligations with respect to letters of credit with the Company's suppliers. Bank Leumi Le'Israel Ltd. and Bank Hapoalim Ltd. have agreed among them that the pledges subject to such debentures will rank pari passu. The outstanding amount of such letters of credit as of December 31, 2018 was approximately NIS 1.0 million (USD 0.3 million).

The Company also guarantees, without limitation as to amount and for an unlimited period of time, the obligations of its subsidiary, Gold Frost, both to Bank Leumi Le'Israel Ltd.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Not applicable.

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D. TREND INFORMATION

In recent years, there has been an increase in the number of small private supermarket stores that have opened in Israel, which has resulted in greater price competition in the stores and in our business. The increased price competition resulted in an increase in our cost of sales as a percentage of total revenues. In order to maintain our gross margin at its high levels, in the past we were able to change our product mix and introduce new products with higher margins to increase our gross profit.

In June 2011, a national protest began against the rise of prices of dairy products in Israel. The national protest, as well as continued economic uncertainty, caused Israeli consumers to reduce consumption of dairy products and to demand lower prices, which resulted in decreasing the Company's revenues and profits in the second half of fiscal 2011. In the second half of 2014, cost of living protests returned to Israel, and the pressure to lower prices continued into 2017. One consequence of the protests was that the Ministry of Economy established a competitive annual process for allocating quotas for the import of duty-free hard cheese products. Candidates in the competitive process had to commit to lower sale prices to the end consumer.

The food industry is characterized by a high level of competition and limited consumer loyalty. The sector is dynamic, responding to the demands, needs and various tastes of an audience numbering millions of Israeli consumers. Various macro-economic factors and industry risks, including the rate of growth and state of the local and global economy. During 2018 there was a continued growth trend in the Israeli economy which started during the years 2016 and 2017. Economic indicators of the Israeli economy indicate an approximate 3.2% of growth in Israel's GDP in 2018 (a GDP growth rate similar to 2017) and a low unemployment, which decreased during the year to approximately 4.3% (According to data available on the Central Bureau of Statistics). Compared with most of the developed countries in the world, the aforesaid growth rate is high. In 2018, the inflation rate was moderate and the inflation increased by 0.8% (Central Bureau of Statistics' report of January 15, 2019), which is around the lower end of the Bank of Israel's target forecast, and the Bank of Israel's interest increased but still remained at a very low level of 0.25%. Israel's economy is positively affected by developments of the global economy. The global economic activity continued to grow in 2018 and this year, it is expected to grow by approximately 3.7% (In accordance with a report of the International Monetary Fund that was published in January 2019). Nevertheless, developments in the global economic environment indicate an increase in global economic risks, including risks that may impact Israel's economy. The main risks are the weakness of the global debt market and the trade war between the USA and China and monetary tightening, especially in the USA. For the potential consequences on the Company due to the changes in the Israeli economy, see Section 21 below. The Company believes that the Company's financial stability and the condition of its assets, as well as the high level of cash it generates on a current basis, will enable it to successfully deal an economic crisis and to continue funding its activities and meet its obligations.

Recent years have seen a strengthening of private brands marketed by the large supermarket chains Shufersal Ltd. ("Shufersal") and Rami Levi Hashikma Marketing Ltd. ("Rami Levy"). The marketing of these private brands strengthens competition; however, it also allows the Company to integrate into this market by marketing its products as private brands to the large supermarket chains.

On January 15, 2015, the Food Law went into effect. Designed to advance and increase competition in the food industry in order to reduce prices to the consumer, the Food Law is divided into three main sections:

(i) provisions related to increasing the transparency of prices at large retailers ("Large Retailer", as defined therein) – the Food Law requires that large food retail chains advertise on the internet the current prices of their products in each branch, which will enable the development of internet sites to compare prices between food stores close to a consumer's residence.

(ii) provisions related to addressing regional concentration for food retailers – the industry is characterized by high concentration of food retail chains in a single geographic area. These chains force competitors from the same region and limit competition. The Food Law prohibits, among other things, the large food retail chains that control a specific region from opening new stores without the consent of the Israel Antitrust Commissioner. In addition, the anti-trust court may require these retailers to sell branches suffering from high concentration and low competition.

(iii) provisions related to advancement of competition and arrangement of fair competition in the food retail industry – the food industry is characterized by a small number of dominant suppliers, most of which have been declared monopolies. In addition, anti-competitive arrangements have been established in the industry whose purpose is to force products of medium-sized and small suppliers from the shelves and to hurt competition. The Food Law prohibits various anti-competitive arrangements by large suppliers and large food retailers, such as involvement of a supplier in the manner of arrangement of products in the stores, and in setting of prices of products from other suppliers.

In addition, the law includes a temporary order to limit the shelf space of very large suppliers (defined as retailers whose annual sales exceed NIS 1 billion) to 50% of the shelf space at large stores (defined as stores with more than 250 square meters) of larger retailers. The purpose is to enable medium-sized and small suppliers, such as the Company, to obtain shelf space at the large food retailers and thereby increase competition and lower prices for the end customer. The Company is not currently on the list of large suppliers maintained by the Anti-Trust Authority. A large supplier is defined as a supplier with revenues to retailers, or through retailers, in Israel of more than NIS 300 million, or a supplier who is a monopoly as defined in the Israel anti-trust law, with respect to a particular food products for which it was declared a monopoly.

The Company expects that in the long term the Food Law could positively affect the financial results of the Company because it may provide more shelf space to the small and medium size suppliers such as the Company and lessen the influence of our largest competitors.

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

In May 2014, the Ministry of Finance announced the implementation of a government decision to open free of duty import quotas for hard cheeses (over 6,500 tons), yogurt (over 1,500 tons) and butter and cream (together, more than 1,250 tons). This decision revoked an earlier decision which determined an import duty on these products. Pursuant to this decision, the Company and Goldfrost won quotas for imports of a variety dairy products. Another announcement of the Ministry of Finance formulated new procedures for the distribution of duty-free quotas in order to increase the efficiency of the market and in order to ensure that the benefit reaches the consumer and that the program will operate to support small dairies in order to increase competition in the domestic market. In late 2014, the Ministry of Finance announced the opening of the competitive process for hard cheese import quotas exempt from customs duties, while the winning importers would be obligated to sell products at a lower selling price to the end consumer. The Company and Goldfrost did not participate in this process. In late 2015, the Ministry of Finance announced an additional competitive process for tax free import quotas for cheeses under the same conditions to the lowest bidder for prices to the final consumers, The Company and Goldfrost received more than 1,000 tons of cheeses and 500 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. In late 2016, the Company and Goldfrost received more than 1,450 tons of cheeses and 600 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. In late 2017 and in the early 2018, the Company and Goldfrost received more than 1,790 tons of cheeses and 1,250 tons of butter for import fully exempt from customs duties in addition to other exemptions from custom duties on other products. In late 2018 and in early 2019, the Company and Goldfrost received a full exemption from import custom duties for up to 960 tons of cheese and up to 575 tons of butter, and other exemptions from custom duties on additional products. The Company believes that the effect of these reductions and procedures for the Company and Goldfrost in 2019 will be material and will contribute substantially to the development and growth in a variety of sales.

OFF-BALANCE SHEET ARRANGEMENTS

Not applicable.

F. TABULAR DISCLOSURE OF CONTRACTURAL OBLIGATIONS

Not applicable.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Joseph Williger	62	Director, Co-Chairman of the Board
Zwi Williger	64	Director, Co-Chairman of the Board
Victor Bar(1)(2)	54	Director
Gil Hochboim	49	Director
David Donin (1)	62	Director
Michael Luboschitz	57	Chief Executive Officer
Amir Kaplan	39	Chief Financial Officer
Einav Brar (1)(2)	47	External Director
Idan Ben-Shitrit (1)(2)	44	External Director

(1)Members of the Company's Audit Committee

(2)Members of the Company's Compensation Committee

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

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

Joseph Williger has served as the active Co-Chairman of the board of the company (together with his brother Mr. Zwi Williger) and as a director of Willi-Food the controlling shareholder of the Company since June 20, 2017 and June 12, 2017 respectively. From January 1994 until September, 2011 he served as the Chief Executive Officer of the Company and from September 2011(when he ceased serving as Chief Executive Officer of the Company) until January, 2016 he served as president of the Company. Mr. Williger has also served as a director of the Company since January, 1994 until January, 2016 and the Chairman of the company's subsidiaries, WFD and Gold Frost, since 1996 and 2001 until January 2016 respectively. Mr. Williger attended Business Administration studies in California State University, Northridge, Los Angeles and attended Business Administration studies in Bar Ilan University, Ramat-Gan, Israel.

Zwi Williger has served as the active Co-Chairman of the board of the company (together with his brother Mr. Joseph Williger) and as a Chairman of the board of Willi-Food the controlling shareholder of the Company since August 13, 2017 and June 12, 2017 respectively. In addition, From January 1994 until January 2016 he served as an active chairman of the board of the Company and a director and a CEO of Willi-Food the controlling shareholder of the Company. Prior to that and from inception of the Company in 1994 until 1997, he had served as a director and Manager of Marketing Development of the Company. In addition, Mr. Williger served as Chief Operating Officer of the Company from 1997 until 2011. Mr. Williger attended Fresno University in California

Victor Bar, has served as independent director of the Company since June 2017. In addition, Mr. Bar is director in his own company "Victor bar consultant LTD". Since 2015 Mr. Bar providing financial and other economy services includes value estimation opinions for companies and entities. Between 2014 and 2016, Mr. Bar served as a CFO of "Edriel Israel assets Ltd", public company traded in Tel Aviv stock exchange working in Real Estate. Between 2011 and 2014 Mr. Bar served as CFO of "P2W Ltd" Company that working in water treatment and purification for gold mines in Africa. Between 2007 and 2011 Mr. Bar served as a CFO of "New Horizon Group Ltd" public company traded in Tel Aviv stock exchange working in Real Estate in east Europe, Latvia and U.S.A. Mr. Bar holds a B.A. in accounting and economy from Bar Ilan University and C.P.A license in Israel since 1992.

Gil Hochboim has served as director of the Company and Willi-Food, the controlling shareholder of the Company, since June 2017. He also serves as a director of B.S.D, the company parent, since May 2017. Mr. Hochboim serves as a CFO at S.R. Accord Ltd, a public company active in the non-bank credit field. Mr. Hochboim served as the CEO of the Company and Willi-Food between 2011 and until 2015. Mr. Hochboim is a certified public accountant (Israel) and holds a B.A in Business Management and accounting from the Academic College of Management, Tel-Aviv, Israel.

David Donin has served as independent director of the Company since June 20, 2017. He also serves as founder and CEO of Biconix International, a business solution services company. David earned his Bachelor of Economics and Accounting from Bar Ilan University and his Master's Degree, magna cum laude, in Business Administration from Pace University in New York.

Michael Luboschitz has served as the Company Chief Executive Officer since January 1, 2018. Prior to being appointed CEO, Mr. Luboschitz served since January 2012 as the VP Commerce & Sales of S. Schestowitz Ltd., an Israeli company which represents, imports, markets and distributes international and local brands in consumer goods and cosmetic. Prior to that, from 2008 until December 2011, Mr. Luboschitz served as Chairman of the Board of Directors and CEO of MANA Ltd, an Israeli company founded by Mr. Luboschitz specializing in producing rice cakes, soup additives and a wide variety of salty snacks. In addition, Mr. Luboschitz established a culinary brand called "Master Chef". From 1984 until 2008, Mr. Luboschitz served in various positions at Sano Ltd., an Israeli company that manufactures, distributes and markets detergent products in Israel and worldwide. His last position at Sano was VP Marketing, Sales & Operation, and CEO of all of Sano's subsidiaries.

Amir Kaplan has served as Chief Financial Officer of the Company and Willi-Food since October 15 2017. Prior to being appointed CFO, Mr. Kaplan served as the CFO of RSL Electronics Ltd., an Israeli public company whose shares are traded on the Tel Aviv Stock Exchange since July 2011. Mr. Kaplan is a certified public accountant (Israel) and holds a BA (Accounting & Economic) from Haifa University and MBA (Business Administration) from Tel-Aviv University.

Einav Brar has served as external director of the Company since August 2018. Since 2015, Mrs. Brar has served as owner and CEO of TLV Medical Center, and from 1994 until 2015, she served as founder and former CEO of DPL - Disposable Hygienic Products LTD. Einav Brar earned her bachelor's degree (BA) in Business Administration from Roppin Academic Center.

Idan Ben-Shitrit has served as external director of the Company since August 2018. He has served, since 2009, as a self-employed portfolio manager at Meitav Co. & Altris Co. Mr. Idan earned his bachelor of arts (BA) in Mathematics and Economics from Tel-Aviv University and MBA (Finance) from IDC Herzliya.

Termination of Office

Sigal Grinboim served as an external director of the Company from July 2015 until July 2, 2018.

Menashe Arnon served as an external director of the Company from August 2015 until August 30, 2018.

B. COMPENSATION

The table below reflects the compensation granted to our five most highly compensated office holders (as defined in the Companies Law) during or with respect to the year ended December 31, 2018. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives." For purposes of the table below, "compensation" includes amounts accrued or paid in connection with management fees, salary cost, consultancy fees, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation. All amounts reported in the table are in terms of cost to the Company, as recognized in our financial statements for the year ended December 31, 2018, plus compensation paid to such Covered Executives following the end of the year in respect of services provided during the year. Each of the Covered Executives was covered by our D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law and our articles of association.

Name and Principal Position	Salary (1)	Other Benefit (5)	Management Fees (2)	Bonus (3)	Total
	NIS Thousands				
Zwi Williger (4) Co-Chairman of the board and a chairman of the board of Willi-Food	-	158	720	720	1,598
Joseph Williger (4) Co-Chairman of the board and a director of Willi-Food	-	116	720	720	1,556
Michael Luboschitz CEO of the company and Willi-Food	-	62	876	260	1,198
Ran Aharoni VP Sales of the company.	596	65	-	112	773
Amir Kaplan (6) Chief Financial Officer of the company and Willi-Food	517	54	-	120	691

(1) The aggregate of gross monthly salaries or other payments with respect to the Company's Executive Officers for 2018 exclude annual bonus and other benefits as car and mobile phone.

(2) Management fees includes also tax gross-up payments.

(3) Annual profit-related bonuses for 2018 to Zwi Williger and Joseph Williger Represents annual bonuses granted to the Covered Executive based on formulas set forth in the Company's compensation policy approved by shareholders in October 2017 (the "Amended Compensation Policy") and the agreements with each of the Covered Executive.

(4) For additional information on Zwi Williger's and Joseph Williger's compensation arrangements with the Company, see - "Management Service Agreements" with Zwi Williger and Joseph Williger", below.

(5) Vehicle cost, and mobile phone

(6) On March 27, 2019, the Company approved to Mr. Amir Kaplan a discretionary bonus of approximately NIS 17 thousand.

Terms of Service of Mr. Zwi Williger and Mr. Joseph Williger

On August 13, 2017 and on August 17, 2017, the Company's Compensation Committee and Board, respectively, unanimously approved the following terms of office of each of the co-Chairmen, which were approved by the Company's shareholders on October 17, 2017.

According to the Management Services Agreements, each of the co-Chairmen will serve as an active co-Chairman of the Board of Directors of the Company in a part time position (60% of a full-time position).

The main terms and conditions of each of the Management Services Agreement are as follows:

- (a) Monthly service fees of 60,000 (currently approximately USD 16,009) (excluding VAT).

In addition to the monthly service fees, the co-Chairman will be entitled to annual remuneration, remuneration for participation in meetings of the Board of Directors and/or its committees according to the “minimum amount” as set forth in the Israeli Companies Regulations (Rules Regarding Compensation and expenses of an External Director), 5760-2000 (the “Compensation Regulations”) and in accordance with the level of equity of the Company as defined in the Compensation Regulations (as amended from time to time).

- (b) Profit Related Bonus - an annual bonus determined according to measurable quantitative criteria:

Payment of the Measurable Bonus will be subject to achieving an operating profit target before bonuses to all Company’s officers (the “Bonuses”) of at least NIS 15 million (currently approximately USD 4.0 million) (the “Minimum Operating Profit before Bonuses”).

Achieving or exceeding the Minimum Operating Profit before Bonuses the co-Chairman will entitle to receive a bonus in the following manner: (i) a Bonus of 2% of the actual operating profit before Bonuses up to and including NIS 10 million (currently approximately USD 2.7 million); (ii) a Bonus of 3% of the actual operating profit before Bonuses above NIS 10 million and up to and including NIS 15 million (currently approximately USD 4 million); (iii)) a Bonus of 4% of the actual operating profit before Bonuses above NIS 15 million and up to and including NIS 20 million (currently approximately USD 5.3 million); (iv) a Bonus of 5% of actual operating profit before Bonuses exceeding NIS 20 million.

The maximum annual Measurable Bonus to be paid to the co-chairman will not exceed NIS 720 thousand (currently approximately USD192 thousand).

- (c) The Company may terminate the Management Service Agreements at any time, and for any reason, by prior written notice of at least three months in the first year of acting as co-Chairman and by prior written notice of at least four months after the first year.

The co-Chairman may terminate their respective Management Service Agreement at any time, and for any reason, by prior written notice of at least three months.

During the notice period, the co-Chairman must fulfill his duties in order to ensure the continued and smooth operation of the Company, unless the Board decides to conclude his service before the end of the Notice Period.

- (d) Upon termination of Management Services Agreement by the Company, the co-Chairman will be entitled to a retirement grant in an amount equal to six (6) monthly service fees (provided that the Company did not terminate the Management Services Agreement in circumstances specified in the agreement), and three (3) monthly service fees following termination of the Management Services Agreement by the applicable co-Chairman.

The co-Chairman will be entitled to a retirement grant described above, provided the co-Chairman has been acting as co-Chairman the Company for at least one (1) year.

- (e) The Company will provide the co-Chairman with use of a vehicle, the value of which will not exceed the amount of NIS 400,000 (currently approximately USD 107,724). The Company will cover all the operating expenses of the Company car (excluding fines), including grossing up the related tax. In case, at the request of the co-Chairman, the value of the vehicle will exceed the amount of NIS 400,000, the co-Chairman will reimburse the Company with any amount exceeding NIS 400,000.

(f) Benefits in general, including the social benefits of the co-Chairman and income tax payments, national insurance payments and other payments due to employees in respect of their employment, are to be paid for at the sole expense of the co-Chairman's Management Company. The co-Chairman's Management Company has undertaken to indemnify the Company with respect to any claims against the Company with respect to employer/employee relations.

(g) On February 11 2019 and February 17 2017, respectively, the Company's Remuneration Committee decided to approve changes to the remuneration policy, remuneration terms and scope of position of the joint chairpersons for a three-year period starting on January 1, 2019. In order to approve the changes, the Company sent to its shareholder a notice to convene a General Meeting of the Company's shareholders. The meeting is scheduled for on April 3, 2019. The recommended changes are expected to increase the scope of the joint chairpersons' position from 60% to 100%; as a result of the said changes, each of the joint chairpersons will be entitled to monthly management fees of NIS 100,00 plus VAT. The changes also include an increase of the maximum annual bonus payable to each of the joint chairpersons to NIS 1.5 million (plus VAT).

(h) Furthermore, as part of the meeting to be held of April 3, 2019, the Company's shareholders will be asked to approve the amendment of the management services agreement whereby as from January 1, 2019 and for a three-year period as from that date, the measurable bonus will be paid subject to meeting an operating profit target of at least NIS 20 million (before bonuses).

Terms of Office and Employment of Michael Luboschitz, CEO of the Company and Willi-Food

The Board appointed Mr. Michael Luboschitz as CEO effective as of January 1, 2018.

On December 5, 2017 and December 13, 2017 the Compensation Committee of the Company and the Board, respectively, unanimously approved the following terms of office of Mr. Luboschitz. On August 2, 2018, the shareholders meeting approved the terms of office and employment of Mr. Luboschitz, effective from the date of his appointment (collectively the "Terms of Office and Employment of Mr. Luboschitz"):

Monthly Payment – For 100% of a full time position, monthly service fees of NIS 73,000 plus VAT (currently approximately USD 19,477, plus VAT) ("Monthly service fees");

Vehicle - In addition to the monthly service fees, NIS 5,000 (currently approximately USD 1,334) per month for vehicle, and the vehicle's operating expenses (including insurance, fuel, tolls and fees);

Profit Related Bonus - an annual bonus determined according to measurable quantitative criteria (the "Measurable Bonus") as follows:

The Measurable Bonus mechanism:

A Measurable Bonus will only be paid if the Company's annual consolidated operating profit before bonuses for all Company officers ("Annual Operating Profit Before Bonuses") is at least NIS 15 million (currently approximately USD 4.0 million).

Achieving or exceeding the Minimum Operating Profit before Bonuses will entitle Mr. Luboschitz to receive a bonus in the following manner: (i) a Bonus of 0.5% of the actual operating profit before Bonuses up to and including the Minimum Operating Profit before Bonuses; and (ii) a Bonus of 0.75% of the actual operating profit before Bonuses exceeding the Minimum Operating Profit before Bonuses.

The maximum annual Measurable Bonus to be paid to Mr. Luboschitz will not exceed NIS 330,000, plus VAT (currently approximately USD 88,046, plus VAT).

Equity based compensation - in the event the Company decides to grant equity based compensation, the Company may grant Mr. Luboschitz Company securities as determined by the Company's compensation committee and board of directors, and subject to the receipt of all other approvals required by the applicable law.

Termination, Notice Period and Retirement Term –

Each of the Company and Mr. Luboschitz may terminate the Management Service Agreement at any time, and for any reason, by prior written notice of 30 days in the first six months of service and 60 days during the rest of the period. During the notice period Mr. Luboschitz must fulfill his duties in order to ensure the continued and smooth operation of the Company, as well as the handing over of Mr. Luboschitz's duties to such person(s) as will be designated by the Board, unless the Board decides to conclude his service before the end of the notice period. Each of the Company and Mr. Luboschitz may terminate the Management Service Agreement at any time, and for any reason, by prior written notice of 30 days in the first six months of service and 60 days during any time thereafter. During the notice period Mr. Luboschitz must fulfill his duties in order to ensure the continued and smooth operation of the Company, as well as the handing over of Mr. Luboschitz's duties to such person(s) as will be designated by the Board, unless the Board decides to stop his service before the end of the notice period.

Absence of employer/employee relations -

Benefits in general, including the social benefits of the CEO and income tax payments, national insurance payments and other payments due on account of the services to be provided under the Management Services Agreement, are to be at the sole expense of Mr. Luboschitz Management Company. Mr. Luboschitz' Management Company has undertaken to indemnify the Company with respect to any claims against the Company with respect to employer/employee relations.

Mr. Luboschitz will be included in the D&O insurance policy available to the Company and its subsidiaries under the same terms as other officers of the Company, and will be entitled to an exemption and indemnification letter, which is identical to the form of exemption and indemnification approved by the General Meeting of Shareholders on July 20, 2005 for all directors and officers of the Company.

Terms of Office and Employment of Ran Aharoni, VP sales of the company

Mr. Aharoni has served as VP sales of the Company since August 2, 2017. Mr. Aharoni is entitled to a monthly salary in accordance with the terms of his employment agreement as approved by the certified organs of the Company, including salary, car, mobile phone and accepted social conditions. In addition, Mr. Aharoni is included in the insurance policy for directors and officers of the Company, and is also entitled to exemption and indemnification from the Company. Pursuant to his employment agreement, Mr. Aharoni is entitled to a bonus based on the Company's operating profit.

Each party may terminate the agreement by giving 60 days advance notice

Terms of Office and Employment of Amir Kaplan, CFO and Secretary of the Company and Willi-Food

Mr. Kaplan has served as CFO of the Company since October 15, 2017. Mr. Kaplan is entitled to a monthly salary in accordance with the terms of his employment agreement as approved by the certified organs of the Company, including salary, car, mobile phone and accepted social conditions. In addition, Mr. Kaplan is included in the insurance policy for directors and officers of the Company, and is also entitled to exemption and indemnification from the Company. Pursuant to his employment agreement, Mr. Kaplan is entitled to a bonus based on the Company's operating profit.

Each party may terminate the agreement by giving 60 days advance notice.

Aggregate Compensation of Directors and Officers

The aggregate compensation paid by the Company to its directors and officers as a group for the fiscal year 2018 was approximately NIS 5.5 million (USD 1.5 million), excluding bonuses in an aggregate amount of approximately NIS 2 million (USD 0.5 million) paid to Messrs. Joseph and Zwi Williger and other officers. These amounts include all contingent or deferred compensation payable to directors or officers during fiscal 2018. These amounts also include payments to non-executive directors in the aggregate amount of approximately NIS 368 thousand (USD 98 thousand) during fiscal 2018.

The foregoing includes amounts expended by the Company for motor vehicles made available to its officers. The Company provides motor vehicles to key employees and certain officers, at the Company's expense.

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

Management Service Agreements

On August 13, 2017 and on August 17, 2017, the Company's Compensation Committee and Board, respectively, unanimously approved the terms of office of each of the co-Chairmen Zwi and Joseph Williger, which were approved by the Company's shareholders on October 17, 2017. (See also "Item 6 A-"Directors and senior management"- "Terms of Service of Mr. Zwi Williger and Mr. Joseph Williger")

Compensation Policy

Pursuant to Amendment No. 20 to the Companies Law and following approval of the Compensation Committee and Board, a Compensation Policy was approved by shareholders on November 28, 2013 and a revised Compensation Policy was approved by shareholders on October 17, 2017 (the "October 2017 Compensation Policy"). The objective of the October 2017 Compensation Policy is to achieve the goals and work plans of the Company, including its long-term best interests by: (i) creating a reasonable and appropriate set of incentives for the Company's executives; (ii) providing the tools necessary for recruiting, motivating and retaining talented and skilled executives; (iii) putting an emphasis on performance based compensation; and (iv) creating proper balance between the various compensation components (such as fixed versus variable components and short-term versus long-term).

Pursuant to Amendment No. 20 to the Companies Law, a compensation policy must be reviewed and re-approved every three years, whether or not it has been amended. An amendment to the October 2017 Compensation Policy and its approval for a period of additional 3 years is proposed to the shareholders in the meeting to be held on April 3, 2019.

C. BOARD PRACTICES

Terms of Office

Except as to External Directors, who are discussed below, Directors are elected by the shareholders at the annual general meeting of the shareholders, except in certain cases where Directors are appointed by the Board of Directors, and their appointment is later ratified at the first annual general meeting of the shareholders thereafter. Except for External Directors, Directors serve until the next annual general meeting of the shareholders.

Alternate Directors

The Articles of Association of the Company provide that any director (except for External Directors) may, by written notice to the Company, appoint another person to serve as an alternate director. Under the Israeli Companies Law, the directors of the Company cannot appoint an incumbent director or an incumbent alternate director as an alternate director. The term of appointment of an alternate director may be for a specified period, or until notice is given of the termination of the specified period or of the appointment. A Director on a Board Committee may appoint anyone to be his Alternate subject to the potential alternate not being a member of such committee.

Audit Committee

Nasdaq Requirements

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

Companies Law Requirements

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

- chairman of the board of directors;
- controlling shareholder or his relative;
- any director employed by or who provides services to the company on a regular basis.
- any director employed by the controlling shareholder or by any corporation controlled by the controlling shareholder or who provides services to the controlling shareholder on a regular basis; and
- any director whose principal livelihood comes from the controlling shareholder.

The Chairman of the audit committee must be an external director.

The responsibilities of the audit committee under the Israeli Companies Law include, among others, identifying irregularities in the management of the company's business, approving related party transactions as required by law, approving "actions" or "transactions" (as such terms are defined in the Israeli Companies Law), overseeing the business management practices of the Company in consultation with the Company's internal auditor and independent auditors (and making recommendations to the Board to improve such practices) and approving transactions with affiliates. In addition, the audit committee has certain powers with regard to transactions with a controlling shareholder or with a person or entity the controlling shareholder has a personal interest in, including the power to require a competitive or other procedure in some cases prior to entering into such a transaction and the power to establish a procedure for approving such a transaction in some cases if the transaction is not de minimis to the Company.

Compensation Committee

Companies Law Requirements

Einav Brar (Chair), Idan Ben-Shitrit and Victor Bar are members of the Board's Compensation Committee. All of our Compensation Committee members have been determined to be eligible to be members of a compensation committee in accordance with the recent amendments to the Companies Law.

Under the Companies Law, which provide for new procedures relating to the approval of the terms of office and employment of Office Holders of and the formulation of a compensation policy applicable to Israeli public companies, the compensation committee of a public company, such as the Company, is required to consist of at least three members and all of the external directors must be members of the committee (one of which to be appointed as the chairperson) and a majority of members of the committee must be independent. The remaining members must be directors who qualify to serve as members of the audit committee as defined in the Companies Law. In addition to its other roles, under the amendments to the Companies Law the compensation committee of a public company such as the Company is required:

- 1) to recommend to the board of directors the compensation policy for the company's Office Holders to be adopted by the company and to recommend to the board of directors, once every three years, regarding any extension or modifications of the current compensation policy that had been approved for a period of more than three years;
- 2) from time to time to recommend to the board of directors any updates required to the compensation policy and examine the implementation thereof;
- 3) to determine, with respect to the company's Office Holders, whether to approve their terms of office and employment in situations that require the approval of the compensation committee in accordance with the Companies Law; and
- 4) in certain situations, described in the Companies Law, to determine whether to exempt the approval of terms of office of the CEO of the company from the requirement to obtain shareholder approval.

According to the Companies Law, terms of service and employment (including cash and equity-based compensation, exemption from liability, indemnification, D&O insurance and other benefits and payments related to the service and employment) of a public company's Office Holders must be approved also by the board as a whole and, with respect to terms of service and employment of the CEO or a director, also by the company's shareholders in accordance with the majority requirements of the Companies Law.

Independent Directors

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

External Directors under the Israeli Companies Law/Financial Experts

The Israeli Companies Law requires that the Company have at least two external directors on its Board of Directors. The election of an external director under the Israeli Companies Law must be approved by a general meeting of shareholders provided that either: (a) the majority of shares voted at the meeting, including at least a majority of the shares of non-controlling shareholders and who do not have a personal interest in the appointment (excluding a personal interest which did not result from the shareholder's relation with the controlling shareholder) voted at the meeting, vote in favor of such arrangement (not including abstentions) or (b) the total number of shares voted against such arrangement does not exceed two percent of the aggregate voting rights in the company.

A “Controlling Shareholder” is defined in the Israeli Companies Law as a shareholder with the ability to control the actions of the company, whether by majority ownership or otherwise, and for the purpose of transactions with related parties, it may include a shareholder who holds at least 25% of the voting rights in the Company, provided that there is no other shareholder who holds more than 50% of the voting rights in the company. Regarding the holdings, two or more shareholders that holds voting rights in the Company and that each one has a personal interest with the approval of that transaction presented for approval of the company, will be seen as holding together. The Israeli Companies Law further requires that at least one external director have financial and accounting expertise, and that the other external director(s) have professional competence, as determined by the company’s board of directors. A director having financial and accounting expertise is a person who, due to his or her education, experience and talents is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him or her to understand in depth the company’s financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the regulations, a director having professional competence is a person who has an academic degree in either economics, business administration, accounting, law or public administration or an academic degree in an area relevant to the company’s business, or has at least five years experience in a senior position in the business management of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the field of the company’s business.

An External Director is appointed for a period of three consecutive years and may be re-appointed for two additional three-year periods only, subject to certain conditions (including approval by shareholders at a general meeting) as provided under Israeli regulations. Under the Companies Law, any committee of the Board of Directors to which the Board of Directors has delegated its powers in whole or in part must include at least one External Director. Under the Israeli Companies Law, the Audit Committee and the Compensation Committee must include all the External Directors.

The External Directors of the Company are Ms. Einav Brar and Mr. Idan Ben-Shitrit. Ms. Brar was elected by shareholders on August 2, 2018 to serve for a period of three years, and was determined by the Board to have “financial and accounting expertise” under Companies Law. Mr. Ben-Shitrit was elected by shareholders on August 2, 2018 to serve for a period of three years, and was determined by the Board to have “professional expertise” under the Israel Companies law.

Internal Auditor

Under the Israeli Companies Law, Israeli companies whose securities are publicly traded are also required to appoint an internal auditor, as recommended by the audit committee. The role of the internal auditor is to examine, inter alia, whether the Company's actions comply with the law, integrity and orderly business procedures. Mr. Doron Yunisy, the internal auditor, works in accordance with an annual audit plan approved by the Audit Committee.

Indemnification

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

Exemption

In May 2005, the Board of Directors and Audit Committee of the Company approved an exemption in advance to any Director or Officer from any liability to the Company attributed to damage or loss caused by breach of the Director's or Officer's duty of care owed to the Company, except for such breach of duty of care in distribution (as such term is defined in the Israeli Companies Law). Also, the Board of Directors, the Audit Committee and shareholders approved an irrevocable indemnification of the Officers by the Company with respect to any liability or expense paid for by the Officer or that the Officer may be obligated to pay.

In accordance with the Companies Law, an agreement with a controlling shareholder, such as the Company's exemption and indemnification letter to its controlling shareholders, must be approved every three years by the Company's Audit Committee or Compensation Committee (as the case may be), Board of Directors and by a special majority of the General Meeting of Shareholders.

All current officers and directors of the Company have received exemption and indemnification letters including Joseph Williger and Zwi Williger, Gil Hochboim, David Donin and Victor Bar, Einav Brar and Idan Ben-Shitrit.

Directors and officers liability insurance policy

In accordance with the Companies Law, an agreement with a controlling shareholder, such as the Company's directors' and officers' liability insurance policy for its controlling shareholders, must be approved every three years by the Company's Audit Committee or Compensation Committee (as the case may be), Board of Directors and by a special majority of the General Meeting of Shareholders, unless approved in accordance with Article 1B(5) of the Israeli Companies Regulations (Relief with Respect to Transactions with Interested Parties), 2000 (the "Relief Regulations"). On October 17, 2017 the General Meeting of Shareholders approved an insurance policy for Zwi Williger and Joseph Williger for a three years period which is on the same terms such policy applies to the other directors and officers of the Company.

Approval of Related Party Transactions under the Israeli Companies Law

Office Holders

The Companies Law codifies the fiduciary duties that office holders owe to a company. An office holder is defined as a general manager, chief executive officer, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person's title and director or manager directly subordinate to the general manager. Each person listed in the table under "Item 6. Directors, Senior Management and

Employees – A. Directors and Senior Management” is an office holder under the Companies Law.

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Fiduciary duties. An office holder's fiduciary duties consist of a duty of loyalty and a duty of care. The duty of loyalty requires the office holder to act in good faith and for the benefit of the company, and includes, among other things, the duty to avoid any conflict of interest between the office holder's position in the company and his/her personal affairs. In addition, the duty of loyalty proscribes any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantage for him or herself or others. This duty also requires disclosure to the company of any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information pertaining to these actions.

Compensation. The Companies Law requires that the terms of service and engagement of the chief executive officer, directors or controlling shareholders (or a relative thereof) receive the approval of the compensation committee, board of directors, and shareholders, subject to limited exceptions. Similarly, the terms of service and engagement of any officer other than the CEO must receive the approval of the compensation committee and board of directors. However, shareholder approval is only required if the compensation of such officer other than the CEO is not in accordance with the compensation policy. This compensation policy is required to take into account, among other things, providing proper incentives to directors and officers, taking into account the risk management of the company, the officer's contribution to achieving corporate objectives and increasing profits, and the function of the officer or director. Following the approval of the Compensation Committee and Board, a newly revised Compensation Policy was approved by the shareholders on October 17, 2017 at a special meeting of shareholders. For more information on the Company's Compensation Policy, see " – B. Compensation". In accordance with the Companies Law, as amended, the compensation policy must be re-approved every three years, in the manner described above. The Compensation Committee is responsible for reviewing from time to time the compensation policy and determining whether or not there are any circumstances that require adjustments to the current compensation policy.

The Companies Law provides that a compensation policy requires shareholder approval by a special majority vote. Notwithstanding the above, the compensation committee and the board of directors may approve the compensation policy of a company, even if the shareholders do not approve such terms, provided that:

- 1) the compensation committee and after the Board decide, on the basis of detailed reasons and re-discussion of the compensation policy, the approval of the compensation policy despite the shareholders' objection is in favor of the company; and
- 2) the company is not a "Public Pyramid Held Company", which is a public company controlled by another public company (including by a company that only issued debentures to the public), which is also controlled by another public company (including a company that only issued debentures to the public) that has a controlling shareholder.

As of March 27, 2019, the Company is a "public pyramid held company", with the parent Company, Willi-Food, a public company traded on the Tel-Aviv Stock Exchange, and BSD, Willi-Food's parent company, a public company traded on the London Stock Exchange.

Disclosure of personal interest. The Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. "Personal interest", as defined by the Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporate body in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager. "Personal interest" does not apply to a personal interest stemming merely from the fact that the office holder is also a shareholder in the company. "Personal interest" also includes (1) personal interest of a person who votes via a proxy for another person, even if the other person has no personal interest, and (2) personal interest of a person who gives a proxy to vote even if the person who votes on his or her behalf has no personal interest, regardless of whether the discretion of how to vote lies with the person voting or not.

The office holder must make the disclosure of his or her personal interest promptly and, in any event, no later than the first meeting of the company's board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an "extraordinary transaction". The Companies Law defines an extraordinary transaction as a transaction not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities, and defines a relative as a spouse, sibling, parent, grandparent, descendent, and spouse's descendant, and includes a sibling, parent and spouse of any of the foregoing.

Approvals. The Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest may not be approved if it is adverse to the company's interest. In addition, such a transaction generally requires board approval, unless the transaction is an extraordinary transaction or the articles of association provide otherwise. If the transaction is an extraordinary transaction, or if it concerns exculpation, indemnification or insurance of an office holder, then in addition to any approval stipulated by the articles of association, approval of the Company's Audit Committee or Compensation Committee (as the case may be) and Board of Directors, in that order, is required, and may also require special majority approval by shareholders. In accordance with the Companies Law, approval by both the compensation committee and the board of directors is required for all arrangements regarding terms of service, including cash and equity based compensation, exemption from liability, indemnification, D&O insurance and other benefits and payments related to the service and employment of an Office Holder. Except for certain specific exemptions under the Companies Law, matters referred to herein with respect to the CEO of a public company or a director of a company (including engagement with respect to employment terms of a director in a position other than as a director) also require shareholder approval.

With respect to the CEO of a public company, or with respect to a director who is a controlling shareholder, shareholder approval must be by a special majority vote. With respect to transactions described above with the CEO, the compensation committee may determine that such transaction does not require shareholders approval, provided that: (i) the CEO is considered to be "independent" based on criteria set forth in the Companies Law; (ii) the compensation committee determined, based on detailed reasons, that bringing the transaction to the approval of the shareholders may compromise the entering into the transaction; and (iii) the terms of the transaction are consistent with the company's compensation policy.

In order to be approved, the terms of employment of Office Holders of a public company must be consistent with the company's compensation policy. However, the compensation committee and the board of directors may, under special circumstances, approve terms of employment which are not in accordance with the company's compensation policy if:

the compensation committee and the board of directors have taken into consideration the mandatory considerations 1) and criteria which are specified in the Companies Law for a compensation policy and the respective employment terms include such mandatory considerations and criteria; and

2) the company's shareholders approved such terms of employment, subject to a special majority requirement.

Notwithstanding the above, the compensation committee and the board of directors may approve terms of employment of Office Holders (other than CEO or directors) that are not in accordance with the company's compensation policy, even if the shareholders' do not approve such terms, provided that:

1) both the compensation committee and the board of directors re-discussed the transaction and decided to approve it despite the shareholders' objection, based on detailed reasons; and

2) the company is not a "Public Pyramid Held Company", which is a public company controlled by another public company (including by a company that only issued debentures to the public), which is also controlled by another public company (including a company that only issued debentures to the public) that has a controlling shareholder.

As of March 27, 2019, the Company is a "public pyramid held company", with its parent Company named Willi-Food, which it is a public company traded on the Tel-Aviv Stock Exchange, and BSD, Willi-Food's parent company is a public company traded on the London Stock Exchange.

Under the Companies Law, as amended, changes of the terms of a current arrangement regarding service and employment terms of an Office Holder (other than a director) may require only the approval of the compensation committee if the compensation committee determines that such changes are not material.

A director who has a personal interest in a matter that is considered at a meeting of the board of directors, compensation committee or audit committee may not attend that meeting or vote on that matter. However, if the chairman of the board of directors or the chairman of the compensation committee or audit committee determines that the presence of an office holder with a personal interest is required for the presentation of a matter, such officer holder may be present at the meeting. Notwithstanding the foregoing, a director who has a personal interest may be present at the meeting and vote on the matter if a majority of the board of directors, compensation committee or audit committee also has a personal interest in the matter. If a majority of the board of directors, compensation committee or audit committee has a personal interest in the transaction, shareholder approval also would be required.

Shareholders

The Companies Law imposes the same requirements regarding disclosure to the company of a personal interest, as described above, on a controlling shareholder of a public company that it imposes on an office holder. For these purposes, a controlling shareholder is any shareholder who has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

Unless approved in accordance with the Relief Regulations, approval of the audit committee, board of directors and our shareholders, in that order, is required, among others, for:

extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest; and

the terms of an engagement by the company, directly or indirectly, with a controlling shareholder or a controlling shareholder's relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company, regarding his or her terms of employment.

The shareholder approval must include the majority of shares voted at the meeting. In addition, either:

the majority of the shares of the voting shareholders who have no personal interest in the transaction must vote in favor of the proposal (shares held by abstaining shareholders shall not be considered); or

the total shareholdings of those who have no personal interest in the transaction and who vote against the transaction must not represent more than 2% of the aggregate voting rights in the company.

Furthermore, any extraordinary transaction with a controlling shareholder or in which a controlling shareholder has a personal interest with a term of more than three years requires the abovementioned approval every three years, unless, with respect to transactions not involving the receipt of services or compensation, the audit committee or compensation committee (as the case may be) determines that a longer term is reasonable under the circumstances.

In accordance with the recent amendments to the Companies Law, approval by both the compensation committee and the board of directors is required for all arrangements regarding terms of service. Except for certain specific exemptions under the Companies Law, matters referred to herein with respect to the CEO of a public company or a director of a company (including engagement with respect to employment terms of a director in a position other than as a director) also require shareholder approval. With respect to the CEO of a public company, or with respect to a director who is a controlling shareholder, shareholder approval must be by a special majority vote, provided that either:

- 1) such majority includes a majority of the total votes of shareholders who have no personal interest in the approval of the transaction and who participate in the voting, in person, by proxy or by written ballot, at the meeting (abstentions not taken into account); or
- 2) the total number of votes of shareholders mentioned above that vote the transaction do not represent more than 2% of the total voting rights in the company.

The Companies Law requires that every shareholder who participates in person, by proxy or by voting instrument in a vote regarding a transaction with a controlling shareholder must indicate either in advance or on the ballot whether or not that shareholder has a personal interest in the vote in question. Failure to so indicate will result in the invalidation of that shareholder's vote.

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and to refrain from abusing his or her power in the company including, among other things, when voting in a general meeting of shareholders or in a class meeting on the following matters:

- any amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

A shareholder has a general duty to refrain from depriving any other shareholder of their rights as a shareholder. In addition, any controlling shareholder, any shareholder who knows that he/she possesses the power to determine the outcome of a shareholder vote, and any shareholder who has the power to appoint or prevent the appointment of an office holder in the company is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty of fairness except to state that the remedies generally available for breach of contract would also apply in the event of a breach of the duty to act with fairness toward the company.

D.EMPLOYEES

As of December 31, 2018, the Company, including its subsidiaries, employed a total of 157 persons (all of them are located in Israel), four of whom were in management, 32 of whom were in accounting and importing positions, 35 of whom were involved in the Company's sales and marketing departments and 86 of whom were employed in logistics networks (warehousing and transportation). This compares with 137 employees as of December 31, 2017, four of whom were in management, 30 of whom were in accounting and importing positions, 30 of whom were involved in the Company's sales and marketing departments and 73 of whom were employed in logistics networks (warehousing and transportation).

All the Company's employees are party to written employment contracts.

The Company has complied with and is in compliance with all material respects with all laws and other legal requirements relating to the employment of labor (including, without limitation, provisions thereof relating to wages, hours, equal opportunity, collective bargaining and the payment of social pension benefits and the payment or withholding of payroll or similar taxes for employees, or any other applicable law or regulation concerning the employees of the Company).

The Extension Order for Mandatory Pension Insurance and the Extension Order for Increasing the Allocations to Pension Insurance (the "Extension Orders") that apply to the Company, require the maintenance of pension insurance for the benefit of its employees (the "Pension Insurance"). The Extension Orders settle the contribution of certain percentages of the employee's monthly insured salary to a Pension Insurance that may be one of the two following types: pension fund or insurance fund. The contribution is made by both the Company and its employees.

Each month, the employee contributes an amount equals to 6% of his insured salary, and the Company contributes an additional amount equals to 12.5% or 14.83% of the employee's insured salary. The contributions made by the Company to the pension fund cover 72% or 100% of the Company's severance liability towards its employees in case of termination (the differences in coverage depends on the amount the Company contributes to the severance part of the Pension Insurance). In the event that the Company contributes amounts to the severance part of the pension insurance that cover only 72% of the Company's severance liability, then in the case of termination of employment relations that entitle the employee to a payment of full severance pay under the law, the Company shall pay to the employee a supplementary amount. Furthermore, Israeli employees and employers are required to pay predetermined sums to the Israeli National Insurance Institute (which is similar, to some extent, to the United States Social Security Administration). The payments thereto range from 6.95% to 18.75% of wages; the employee's share range from 3.5% to 12% (depending on the marginal level of wages) and the employer's share range from 3.45% to 6.75%.

SHARE OWNERSHIP

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

Employee Share Option Plans

In previous years, the Company adopted plans to award options to buy Company's shares and shares of Willi-Food to senior office holders and to Company's employees. From December 2015 and as of the date of this Annual Report, the Company does not have any active options award plans and no options are exercisable into Company shares by any Company's officer or Company's employee.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth, as of March 27, 2019, the number of Ordinary Shares beneficially owned by each shareholder known to the Company to own more than 5% of the Ordinary Shares and (ii) all directors and officers as a group. The information presented in the table is based on 13,217,015 Ordinary Shares outstanding as of March 27, 2019.

Name and Address	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares	
Willi-Food Investments Ltd. (1)	8,200,542	62.05	%
B.S.D. Crown Ltd. (2)	8,971,617	67.88	%
Joseph and Zwi Williger (3) (4)	9,252,745	70.01	%
Brian Gaines (5)	1,289,329	9.76	%

(1) Willi-Food's securities are traded on the Tel Aviv Stock Exchange. The principal executive offices of Willi-Food are located at 4 Nahal Harif St., Northern Industrial Zone, Yavne, 8122216 Israel.

Includes (i) 8,200,542 Ordinary Shares held by Willi-Food, and (ii) 771,075 Ordinary Shares held by B.S.D. (2) Crown Ltd. ("BSD"). Willi-Food is controlled by its majority shareholder, BSD, and BSD may be deemed to beneficially own all of the shares owned by Willi-Food.

Based on a Schedule 13D filed on November 5, 2018, and on information provided to the Company by Joseph Williger and Zwi Williger, Willi-Food is controlled by its majority shareholder, BSD, which directly owns 771,075 Ordinary Shares of the Company. BSD is controlled by Joseph Williger, who owns directly 1.01% of BSD's outstanding shares (excluding dormant shares) and owns through YMDHI (a company held 100% by him) 14.96% of BSD's outstanding shares (excluding dormant shares), and owns through YWMI (a company held 100% by him) 9.08% of BSD's outstanding shares (excluding dormant shares), and collectively 25.04% of BSD's outstanding shares (excluding dormant shares) and holds the right to vote those shares. In addition, Zwi Williger is the brother of Joseph Williger and owns directly 6.38% of BSD's outstanding shares (excluding dormant shares) and owns through Zvi V and Co. Ltd. (a company held 100% by him) 15.92% of BSD's outstanding shares (excluding dormant shares) and holds the right to vote those shares, and collectively 22.30% of BSD's outstanding shares (excluding dormant shares) and holds the right to vote those shares. which if combined with Joseph Williger holdings', constitutes a 47.34% holding of BSD. In addition, Joseph Williger owns directly 12,000 Ordinary shares of the Company, and Zwi Williger owns directly 269,128 ordinary shares of the Company. Accordingly, Joseph Williger and Zwi Williger may each be deemed to beneficially own 9,252,745 Ordinary Shares (comprised of 8,200,542 Ordinary Shares held directly by Willi-Food, 771,075 Ordinary Shares held directly by BSD, 12,000 shares held directly by Joseph Williger and 269,128 shares held by Zwi Williger), or approximately 70.01% of the outstanding Ordinary Shares. Based on a Schedule 13D filed on November 5, 2018, Joseph Williger and Zwi Williger may be deemed to constitute a "group" for purposes of Section 13(d) of the Exchange Act; however, Zwi Williger and Joseph Williger have not acted in concert in connection with the transactions described herein and have not been, nor are they currently, parties to any voting or other arrangement with respect to their holdings in BSD, and they disclaim the existence of any such group.

(4) Based on information provided to us, all of the Company's directors and officers as a group hold 9,252,745 Ordinary Shares representing 70.01% of our total shares outstanding.

Based on a Schedule 13G filed February 07, 2019, this amount consists of 1,120,779 Ordinary Shares (representing 8.48% of our total shares outstanding) directly held by Springhouse Capital (Master), L.P. (the "Fund"), and 128,959 Ordinary Shares owned by Mr. Gaines for his own account and an additional 39,951 Ordinary Shares held by immediate family members in accounts Mr. Gaines controls, and that Mr. Gaines may be deemed to beneficially own (in total representing 1.28% of our total shares outstanding). Mr. Gaines serves as managing member of (5) Springhouse Capital Management G.P., LLC ("Springhouse") and as a director of Springhouse Asset Management, Ltd. (the "General Partner") and, as a result, may be deemed to beneficially own shares owned by the Fund. Springhouse is the general partner of Springhouse Capital Management, L.P. ("Management") and, as a result, may be deemed to beneficially own shares owned by the Fund. Management is the investment manager of the Fund and as a result, may be deemed to beneficially own shares owned by the Fund. The General Partner is the general partner of the Fund, and, as a result, may be deemed to beneficially own shares owned by the Fund.

Controlling Party

On May 7, 2017, Mr. Joseph Williger informed the parent Company that he is the controlling shareholder of B.S.D Crown Ltd. (the controlling shareholder of the parent company) through private companies he owns, and that he is therefore the controlling shareholder of the parent Company as from May 5, 2017.

On June 11, 2017, a General Meeting of the parent Company's shareholders approved the appointment of the following B.S.D nominated directors: Messrs. Joseph Williger, Zwi Williger, Jacob Navon and Benzi Sao, and the termination of the term of office of all then current directors (other than the external directors): Mr. Ilan Admon, Gregory Gurtovoy, Eli Arad, Shalhevet Hasdiel and Arik Safran. On June 12, 2017, the parent Company's Board of Directors approved the appointment of Mr. Gil Hochboim as a director.

On June 20, 2017, an Annual and Special Meeting of Shareholders of the Company approved the appointment of the following directors: Mr. Yoseph Williger, Mr. Zwi Williger, Mr. Gil Hochboim and Mr. David Donin. and the termination of the term of office of all then current directors of the company (Mr. Gregory Gurtovoy, Mr. Ilan Admon, Mr. Ilan Cohen, and Mr. Emil Bodilovski) other than the external directors of the parent company (Mrs. Sigal Grinboim and Mr. Menashe Arnon) who remained in office. On June 20, 2017 the board of directors approved the appointment of Mr. Victor Bar as a director.

All of the shareholders of the Company (including Willi-Food) have the same number of votes for each Ordinary Share held. Accordingly, the major shareholder of the Company, Willi-Food, does not have voting rights that are different from those of the Company's other shareholders. The Company believes that, as March 27, 2019, 2,674,941 Ordinary Shares (approximately 20.23% of its outstanding Ordinary Shares) were held by persons who were not officers, Directors or the owners of 5% or more of the Company's outstanding Ordinary Shares. As of March, 27, 2019, there were 12 holders of Ordinary Shares of record registered with a United States mailing address, including banks, brokers and nominees. These holders of record, including a part of the Company's shares held by Willi-Food through brokers, represented as of March 27, 2019 approximately 74.32 % of the total outstanding Ordinary Shares. Because these holders of record include banks, brokers and nominees, the beneficial owners of these Ordinary Shares may include persons who reside outside the United States.

B. RELATED PARTY TRANSACTIONS

Management Service Agreements.

For information regarding Management Services Agreements with Messrs. Zwi and Joseph Williger through Williger Management Companies, see "Item 6. Directors, Senior Management and Employees – B. Compensation – Management Service Agreements".

Services to Willi-Food

The Company has been providing certain services to Willi-Food on an on-going basis since the Company's commencement of operations, including office space and certain management, financial and administrative services. Effective May 19, 1997, the effective date of the Company's initial public offering, the Company entered into a service agreement with Willi-Food. This agreement was updated on October 2, 2017.

Pursuant to this agreement, Willi-Food is entitled to manage its operations from the Company's executive offices in Yavne, including use of an office space and facilities and certain management, financial, accounting, legal, administrative and secretarial services.

Pursuant to this agreement, Willi-Food is to pay the Company a monthly amount of NIS 10,000 for these services and for external services that are provided at the same time to the Company and to the subsidiary by the same third party, such as legal services, auditing services, etc., but excluding unique and specific services that are provided to the Company or to Willi-Food. This agreement will be effective for a three-year period through October 18, 2020.

In light of the enactment of Amendment No. 16, an agreement with a controlling shareholder, such as the Company's service agreement with Willi-Food, must be approved every three years by the Audit Committee, Board of Directors and by a special majority of the General Meeting of Shareholders. Willi-Food is the parent company of the Company and is the controlling shareholder of the Company. On October 18, 2017 following the unanimous approval of the Company's Audit Committee and Board of Directors, the General Meeting of Shareholders of the Company approved the extension of the above service agreement, for a three-year period ending October 18, 2020.

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

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Dividend Policy

On November 22, 2016, the Company announced that it had adopted a dividend policy of issuing a regular annual dividend at a rate of at least 25% of its annual after-tax revenues (out of earnings generated after December 31, 2013). On April 29, 2018, the Board of Directors decided to suspend the current dividend policy and to consider adopting a new policy in the future.

Legal Proceedings

On July 23, 2017, Mr. Iram Graiver, former CEO of the Company and Willi-Food (hereinafter - "Mr. Graiver") filed a lawsuit to the Regional Labor Court in Tel Aviv Jaffa (hereinafter - "the Labor Court") claiming payment of social rights and different compensations at the total amount of NIS 2,377,305 (USD 634 thousand). On November 26, 2017, the Company filed a statement of defense. On July 27, 2017, the company filed a lawsuit to the Labor Court against Mr. Graiver, demanding that he repays funds that he has taken unlawfully from the Company, amounting to NIS 1,694,325 (USD 452 thousand). According to the Company, throughout his term of employment as an office holder in the Company, the defendant has unlawfully taken from the company salary, bonus in respect of 2016 and reimbursement of expenses. According to the Company, Mr. Graiver has done so while breaching his fiduciary (1) duty and his duty of care towards the Company as well as the cogent provisions of the Companies Law, 5759-1999, whereby it is mandatory that payments of the type taken from the Company by Mr. Graiver are approved by the General Meeting of the Company's shareholders; according to the Company, Mr. Graiver has not obtained such an approval. On November 26, 2017, Mr. Graiver filed a statement of defense. On November 2, 2017, a resolution was issued to join the hearings pertaining to the two proceedings described above. A preliminary hearing was held on March 7, 2018. The parties are in the process of document discovery and review. Proof hearings were held for December 18, 2019 and January 15, 2020. At this preliminary stage of the proceedings, it is not yet possible to assess the result of the proceedings.

On January 2015, a lawsuit was lodged in the court of first instance in Valencia, Spain against Gold Frost Ltd. (hereinafter – “Gold Frost”) and against the Company (hereinafter – “the Companies”) by a Spanish food manufacturer (hereinafter – “the Plaintiff”), with whom the Companies entered into an agreement for the production of Kosher food (2) products in Spain and for the sale of these products by Gold Frost. The lawsuit was lodged in connection with a financial dispute in respect of a debt which was allegedly not paid to the Plaintiff; the Plaintiff also demands that the Companies compensate it for products it had produced and which, according to the statement of claim, were not collected by the Companies, and as a result the Plaintiff had to destroy them.

On July 7, 2015, the Companies were served by post with judicial documents in the Spanish language. These judicial documents pertained to service of a legal procedure in the court of first instance in Valencia. A further service of process was carried out in December 2015. In this case as well, the judicial documents were in the Spanish language.

On March 3, 2016, the court of first instance in Valencia, Spain approved the lawsuit against the Companies in an ex parte proceeding and ruled payment by the Companies of app. Euro 530 thousand (hereinafter – “Spanish Ruling”).

In April 2016, the Companies received the Spanish Ruling in the Spanish language as well as a translation of the Spanish Ruling into English. In December 2017, an enforcement order in the Spanish language was received at the Company’s offices. In the order, which was issued on November 22, 2017, the Companies are asked to provide details of assets and/or bank accounts for the purpose of enforcing the ruling in Spain.

On October 1st, 2018, the Parties signed a compromise agreement whereby Gold Frost shall pay a total of € 150,000 in consideration for the withdrawal of all of the Plaintiff’s claims against it. In October 22, 2018, the Court of First Instance in Valencia approved the compromise agreement as a Court ruling.

On January 18, 2018, the Tel Aviv District Attorney’s Office (Taxation and Economics) served indictments against (3) Alexander Granovsky and Gregory Gurtovoy, former (indirect) controlling shareholders and office holders of the parent Company and of companies under its control and against Joseph Schneerson, former officer holder of the parent Company and of companies under its control (hereinafter jointly: “the Defendants”).

The Defendants are accused of offenses of theft by manager, fraudulent receipt of goods or services under aggravated circumstances, fraud and breach of trust in a corporation, false registration in corporate documents, reporting offenses under the Securities Law, non-compliance with the provisions of the Securities Regulations with the intent of misleading a reasonable investor and offenses under Section 4 of the Prohibition on Money Laundering Law.

As mentioned above, the Defendants were former (indirect) controlling shareholders through their control in B.G.I or senior office holders in, among others, BGI and B.S.D., the parent Company and the company. Under the pretext of depositing the said companies' funds with different banks abroad, the Defendants agreed with the said banks that the companies' funds shall be used to secure loans to be extended to foreign private companies related to the Defendants. Under the indictment, approximately \$60 million of the said companies' funds (mostly BGI and B.S.D) were extracted in this manner. A total of \$3 million out of the said amount was transferred in January 2016 from a company controlled by the company to an investment that was recorded in the Company's accounts as an investment in bonds of a hotel in the Czech Republic, while the investment was actually used to secure the repayment of a loan extended to a company, which is related to Granovskyi and Gurtovoy.

The Investment was carried out by W. Capital Ltd. (Former: "B.H.W.F.I. Ltd"), a wholly owned subsidiary of the Company ("W. Capital"), pursuant to subscription forms to purchase 300 bonds (225 actually purchased) with a nominal value of USD 10,000 each ("Subscription Forms"). The Bonds bear an annual interest rate of 6%, payable semi-annually on June 30 and December 31 of each year as of the issue date until the final maturity date of December 31, 2018. The issuer has the right to repay the Bonds with prior notice of 30 days without penalty. On June 30, 2016, the Issuer paid the first interest on account of the bond actually purchased by W. Capital in accordance with the terms thereof.

On December 30, 2016, W. Capital and the Issuer signed an agreement (the "Agreement") for an early redemption of the bonds for a total of USD 1.8 million that was to be paid by February 15, 2017. Similarly, as part of the terms of the Agreement, the Issuer waived all its claims against W. Capital, including an alleged obligation to make an additional investment in bonds up to an aggregate amount of USD 5 million (as stated above, an amount of USD 2.25 million was invested in the past).

On March 21, 2017, a first payment in the amount of USD 200 thousand was received. In view of the uncertainty relating to the collection of the remaining balance of the debt, the Company recorded a loss of USD 1.6 million in the financial statements for the year 2016.

On July 6, 2017, a second payment in the amount of USD 400 thousand was received and therefore the Company recorded in its financial statements a finance income at an amount equal to the amount of the Second Payment.

On March 26, 2018, a third payment in the amount of USD 1,145 thousand was received by the Company, and therefore, the Company recorded in its financial statements a finance income at an amount equal to the amount of the third Payment.

Further to the above, on January 7, 2019, the Court was served with a plea agreement under an amended indictment (hereafter – the "Plea Agreement"), which was approved by the Tel Aviv-Jaffa District Court. Under the Plea Agreement, Gregory Gurtovoy and Joseph Schneerson were convicted of offenses of aiding theft by manager, fraud and breach of trust in a corporation, false registration in corporate documents, multiple offenses pursuant to (4) Section 423 of the Penal Law, non-compliance with the provisions of Section 36 of the Securities Law, 1968 (hereafter – the "Securities Law"), the annual reports regulations and the immediate reports regulations; fraudulent receipt of goods or services under aggravated circumstances pursuant to Section 415 of the Penal Law and offenses of managers in a corporation. Furthermore, the Plea Agreement includes a 36-month imprisonment to Joseph Schneerson and 31-month imprisonment to Gregory Gurtovoy. Furthermore, Gregory Gurtovoy will also pay a fine of NIS 1.2 million.

On February 24, 2016, a motion to certify a derivative action (hereinafter - the "Motion") was received at the parent Company's offices. The Motion was filed with the District Court (Economic Department) in Tel Aviv by Yaad Peer (5) Management Services Ltd. (hereinafter - the "Applicant"), that holds shares of the parent Company. The motion was filed against all directors and office holders in the Company. The parent Company and the company were added as respondents to the Motion.

The Motion deals with the Applicant's claim for damages suffered by the parent Company, which is estimated by the Applicant, as of the filing of the Motion, at approximately \$ 3 million, due to an alleged violation of the directors' and officers' fiduciary duty, duty of care and duty of expertise towards the parent Company in connection with a \$3 million investment in a company registered in the Czech Republic and which holds an inactive hotel in the Czech Republic. According to the Applicant, the investment is not related in any way to the activity of the Company and is probably used to assist the controlling shareholder of the parent Company in other matters or to cover his other obligations.

As a result of the investigation that was conducted by the Securities Authority (the "Authority"), inter alia, regarding matters that have arisen as part of this litigation, restrictions were imposed as part of this investigation that prevent the former parent Company office holders, who are respondents to the Motion, from conversing with the attorneys of the parent Company. As part of the Motion – the date for submission of the parent Company's response to the Motion has been postponed. On September 27, 2016, the Authority filed a notice updating the Court, in which it requested that the restrictions that it imposed remain in effect for further 6 months. On October 5, 2016, the parent Company filed a response to the Authority's update notice, in which it requested an extension of the deadline for submission of the parent Company's response to the Motion to 60 days after the restrictions imposed by the Authority are removed. On January 22, 2017, the Court ruled that in light of the restrictions placed by the Authority, at this stage, the deadline for filing of the parent Company's response must be postponed. On May 10, 2017 after the court re-considered the Applicant's claim, the Court decided that the deadline for filing of the parent Company's response will be at least 60 days from the date on which the restrictions imposed by the Authority are removed. On July 2 2017, the Authority informed the Court that the restrictions have not yet been removed. On July 3, 2017, the Court ruled that the Authority will file a further update to its notice until September 15, 2017. On September 14, 2017, the Authority filed an update notice to the Court, to the effect that the restrictions had not yet been removed. On September 14, 2017, the Court ruled that the Authority would file an additional update to the Court until December 7, 2017.

At the beginning of January 2018, the Authority filed a notice stating that the respondents to the Motion may reply to the Motion, provided that no meetings will be held with the attorneys that are attended by more than one person who is subject to restrictions as part of the criminal proceedings. On January 11 2018, the Court instructed the respondents to reply to the Motion within 60 days, i.e., no later than March 20, 2018.

On January 15, 2018, the Authority served indictments against Alexander Granovskyi, Gregory Gurtovoy and Joseph Schneerson.

On February 18, 2018, some of the respondents filed an application for stay of proceedings relating to the Motion, until the finalization of the criminal proceedings, and alternatively until all restrictions, which were placed on the respondents by the Authority are removed.

On February 26, 2018, the said respondents filed an application for deferral of the date of filing the reply to the Motion to 60 days after the issuance of a ruling in the application for stay of proceedings or after removal of all restrictions placed by the Authority as described above.

In its ruling from February 26, 2018, the court granted the extension as above.

On March 4, 2018, the Company filed a notice stating that it does not oppose to the motion and that the Court should rule according to its discretion.

On April 12, 2018, the Authority filed a notice stating that it has decided not to express its opinion regarding the Motion.

On August 16 2018, the company filed a notice whereby it intends to lodge a lawsuit against the office holders in connection with the events which are the subject matter of the derivative action and therefore it is no longer needed to discuss the motion to approve a derivative action. In view of company's notice, the said motion was stricken out and by a court ruling on October 4, 2018 and the case was closed.

Further to what is described in legal section e above On November 4, 2018 the company filed a NIS 4,183,208 lawsuit against the Company's former controlling shareholder – Mr. Gregory Gurtovoy and against five (former) Company directors and senior office holder - Israel Joseph Schneerson, Pavel Buber, Iram Ephraim Graiver, Ilan Menachem Admon and Zalman Vigler (hereafter jointly: the "Defendants").

According to the Company, the Defendants conspired to cause the use of millions of NIS of the company funds as collaterals to loans extended to foreign private companies related to the Company's controlling shareholders on dates which are relevant to the lawsuit, without obtaining the required approvals from the Company's organs and without issuing the required report to the Company's shareholders.

The lawsuit is based on the claim that an agreement signed by the Company, whereunder it has allegedly invested in the bonds of a Czech company, is not a genuine agreement; rather, it is claimed, the purpose of the agreement was to assist the then controlling shareholders (Gregory Gurtovoy and others) to secure private loans extended by the Austrian bank Meisl, while using the company's funds for their concealed and inappropriate purposes.

The Company demands that the Defendants compensate it for the funds that were not refunded to the Company (in NIS values) plus a compensation at the rate of the alternative yield, and a compensation equal to the amounts paid by the Company to enable the refund of the funds.

A preliminary hearing was held on January 31, 2019 at the Central District Court. During the hearing, the parties were given procedural directives and a further preliminary hearing was scheduled for May 13, 2019.

On January 24, 2019 the Defendants filed statements of defense, various motions (to dismiss in limine and/or delay the proceedings) and a counterclaim against Willi-food and against the Company as part of this proceeding.

In their counterclaim the Defendants claims that they are entitled for funding of their legal defense and/or for indemnification and exemption from the Company in respect of the lawsuit and request the Court to order the Company to fund their legal defense against the company's lawsuit.

Since the Defendants are accused of breaching their fiduciary duty to the Company, company's management is of the opinion that their claims on this matter will be rejected. In view of the preliminary stages of the proceedings the company's chances of prevailing in the lawsuit could not be assessed.

A lawsuit and a motion to approve it as a class action was filed on January 3, 2018, against the Company and another company to the Tel Aviv District Court for allegedly not complying with the food labelling regulations in connection with one of its products thereby misleading its customers. At this stage, the amount of the lawsuit is (8) NIS 2.7 million, since the plaintiff does not have sufficient data regarding the amount of the damage. The Company and the plaintiff reached a compromise agreement whereby the plaintiff will withdraw the lawsuit and it will be stricken out at a cost which is immaterial to the Company. On July 18, 2018, the Court approved the compromise agreement and struck out the lawsuit.

A lawsuit and a motion to approve it as a class action was filed on March 26, 2018 against the Company to the Tel Aviv District Court for allegedly breaching some of its consumer protection duties in connection with one of its (9) products, thereby misleading its customers. At this stage, the amount of the lawsuit is NIS 2.7 million, since the plaintiff does not have sufficient data regarding the amount of the damage. A preliminary hearing was held on December 19, 2018. In view of the preliminary stage of the proceedings, it is not yet possible to assess the result of the lawsuit.

A lawsuit and a motion to approve it as a class action was filed on July 22, 2018, against Gold Frost Ltd. (through the company) (hereafter – “Gold Frost”) and eight other companies to the Jerusalem District Court for allegedly not complying with the food labelling regulations in connection with one of its products and thereby misleading (10) consumers. At this stage, the amount of the lawsuit is NIS 4 million, since the plaintiff does not have sufficient data regarding the amount of the damage. On November 16 2018, the plaintiff filed a motion to withdraw the lawsuit, including payment compensation and attorneys' fees at amounts that are immaterial to the Company. As of the date of this report, the Court has not yet issued a ruling approving the withdrawal of the lawsuit.

On October 29, 2009, the Company and the subsidiary Gold-Frost Ltd. (hereafter – the “Companies”) filed to the Rishon-LeZion Magistrates Court a lawsuit demanding the refund of import permit fees at the total amount of (11) approximately NIS 1.3 million. The fees were paid to the Ministry of Health in respect of early registration for food import permits with the national food service between the years 2002-2009; the Companies claim that those fees were collected unlawfully.

In a ruling issued on May 13 2015, the Rishon-LeZion Magistrates Court accepted the position of the Companies to the effect that the fees in respect of early registration for food import permits were collected unlawfully and that the Companies and other food importers have an independent cause to demand the repayment of the fees that were paid, by virtue of the Unjust Enrichment Law, 1979 (hereafter – the “Law”). In addition, a partial exemption from refund was determined in accordance with Section 2 of the Law in respect of an amount equivalent to 30% of the amounts of fees claimed and proven, due to the Ministry of Health's mechanism for regulating imported food, which granted the Companies protection from criminal and civil lawsuits in respect of damage caused to consumers from damaged imported food. As a result of the ruling, the Company received a total of approximately NIS 1.1 million.

After the Ministry of Health appealed against the ruling, on 19.4.17 a partial ruling was issued that upholds the rulings of the Magistrates Court unchanged in connection with the refund of fees and the rate of fees to be refunded; however, the question relating to the threshold for proving the damage remained outstanding.

On November 15 2015, the Companies filed a second lawsuit against the Ministry of Health for the refund of early registration fees for food import permits at the total amount of approximately NIS 2 million, which were paid by the Companies in 2009-2016. This lawsuit is pending until the appeal against the ruling in the first lawsuit is resolved.

On December 1 2013, the Companies filed to the Rishon-LeZion Magistrates Court a lawsuit against the Ministry of Health, demanding the refund of customs clearance fees at the total amount of approximately NIS 2.1 million. The fees were paid to the Ministry of Health in respect of clearance of food products from the port, which, according to the Companies, was in effect carried out by the Customs Authorities and therefore the fees were collected unlawfully.

Mediation process regarding the lawsuits

The parties agreed to enter into a mediation process on all issues included in the appeal and the three pending lawsuits. In December, the mediator sent to the parties a suggested compromise plan. As of the date of publication of this report, the Companies are negotiating the compromise according to the plan issued by the mediator together with other importers of food products, which lodged lawsuits against the Ministry of Health in respect of the issue in question.

In the opinion of the Companies legal advisors, even if a compromise is not reached by the parties as part of the mediation process, the Companies' chances of prevailing in the lawsuit are higher than 50%.

As of the date of this report, the Company did not recognize a contingent asset in its financial statements regarding the lawsuits aforementioned.

B. SIGNIFICANT CHANGES

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

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares have been traded on the Nasdaq Capital Market since May 19, 1997. On March 15, 2006, the ticker symbol of our ordinary shares was changed from "WILCF" to "WILC".

On March 25, 2019, the last reported closing price of our Ordinary Shares on The Nasdaq Global Market was \$8.25 per share.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

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

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES ON THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

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

On March 20, 2014, shareholders approved an amendment to Article 6 of our articles of association changing the objectives of the Company from engaging in importing, exporting and marketing of products and other commodities to engaging in any lawful activity. Our Board of Directors is empowered to embark on or withdraw from any business in which we deal. Under our articles of association, our Board of Directors is entitled to donate reasonable amounts to worthy causes, even if such donation is not within the framework of our business considerations.

The Powers of Directors

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

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

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

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

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

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

Rights Attached to Shares

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

Dividend Rights

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

Voting Rights

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

Under the Articles of Association, the Directors (who are not External Directors) are elected annually by the registered shareholders at the annual meeting. Such directors hold office until the conclusion of the next annual meeting or until their earlier removal or resignation. In addition, at least two (2) External Directors who comply with the qualifications described in the Israeli Companies Law must serve on the Board of Directors. External Directors are appointed by a majority vote at a general meeting, provided that: (i) the majority vote includes at least a majority of the shares of non-controlling shareholders who do not have a personal interest in the appointment (excluding a personal interest not resulting from the shareholder's relation with the controlling shareholder), as described in the Israeli Companies Law, voted at the meeting, with abstentions not taken into consideration in calculating the total number of the non-controlling shareholders, and (ii) the total number of shares of such non-controlling shareholders referred to in clause (1) voting against the resolution appointing an External Director is not more than two percent (2%) of the overall voting rights in the Company. External Directors are appointed for a term of three (3) years and their office may be extended by a resolution of the general meeting for an additional two-three (3) years. An External Director may be removed from office only in accordance with the relevant provisions of the Israeli Companies Law.

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

Rights in the Company's Profits

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

Rights in the Event of Liquidation

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

Liability to Further Capital Calls by the Company

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

Changing Rights Attached to Shares

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

class or with the approval of a resolution duly passed at a class meeting of the holders of such class of shares.

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Annual and Special Meetings

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

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

Limitations on the Rights to Own Securities

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

Changes in the Company's Capital

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

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

C. MATERIAL CONTRACTS

For information with respect to the Company's material contracts, see "Item 6. Directors, senior management and employees – B. Compensation.

D. EXCHANGE CONTROLS

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

E. TAXATION

The following is a discussion of certain material Israeli tax consequences to purchasers of our ordinary shares. The discussion also contains a description of certain relevant material provisions of the current Israeli income tax system applicable to companies in Israel, with special reference to its effect on us. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

This discussion applies to shareholders that hold our ordinary shares as capital assets and does not address all of the tax consequences that may be relevant to holders of our ordinary shares in light of their particular circumstances or certain types of holders of our ordinary shares subject to special tax treatment. Because individual circumstances may differ, shareholders should consult their tax advisor to determine the applicability of the rules discussed below to them, including the application of Israeli or other tax laws. The discussion below is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

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

Taxation of Israeli Companies

General Corporate Tax Structure

Israeli companies are generally subject to corporate tax on their taxable income at the rate of 23% for the 2018 tax year.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli resident companies, by non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. In calculating capital gain, the law distinguishes between real gain and inflationary surplus. The inflationary surplus is the portion of the total capital gain equal to the increase in the relevant asset's value that is attributable to the increase in the Israeli CPI between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus. A non-resident that invests in taxable assets with foreign currency, or any individual who holds securities the price of which is stated in foreign currency, may elect to calculate the amount of inflationary surplus in that foreign currency.

Taxation of Israeli Residents

An individual is subject to a tax at a rate of 25% on real capital gains derived from the sale of shares, as long as the individual is not a "substantial shareholder" (generally a shareholder with 10% or more of the right to profits, right to nominate a director or voting rights) in the company issuing the shares.

An individual who is a substantial shareholder is subject to tax at a rate of 30% in respect of real capital gains derived from the sale of shares issued by the company in which he or she is a substantial shareholder. The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he or she had been a substantial shareholder.

An additional income tax at a rate of 3% will be imposed on high earners individuals whose annual income or capital gain in 2018 exceeds NIS 641,880 (USD 171,259).

Israeli companies are generally subject to the corporate tax rate (see above) on capital gains derived from the sale of shares listed on a stock market.

Different taxation rules may apply to shareholders who purchased the Shares prior to January 1, 2009 or prior to the listing on the Tel Aviv Stock Exchange or the Nasdaq Global Market. Such Shareholders should consult with their own tax advisors for the tax consequences upon sale.

In general, a partnership will be a transparent entity for tax purposes and the investors will be subject to tax with respect to their share in accordance with the tax rate applies individually.

In general, under the Israel Tax Ordinance, public institutions are exempt from tax.

Taxation of Non-Israeli Residents

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares in an Israeli corporation publicly traded on the Tel Aviv Stock Exchange and/or on a foreign stock exchange, provided such gains do not derive from a permanent establishment of such shareholders in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption would not be available to non-Israeli residents dealing in securities in Israel which would be subject to Israeli tax at the rates applicable to business income (at the corporate tax rate for a corporation (24% in 2017 and 23% in 2018) and the marginal tax rate, of up to 50% for an individual in 2017 and in 2018.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the Convention Between the Government of the United States of America and the Government of the State of Israel with respect to Taxes on Income, as amended, or the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares by a shareholder who (i) is a U.S. resident (for purposes of the treaty); (ii) holds the shares as a capital asset; and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if, among other things: (i) the capital gain arising from such sale, exchange or other disposition is treated as industrial or commercial profits attributed to a permanent establishment in Israel, subject to certain conditions; (ii) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital of the corporation during any part of the 12-month period preceding the disposition, subject to certain conditions; (iii) the capital gain arising from such sale, exchange or disposition is treated as royalties; or (iv) such U.S. resident is an individual and was present in Israel for 183 days or more during the relevant taxable year. In such case, the sale, exchange or disposition of our securities would be subject to Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, the taxpayer would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to Israeli withholding tax.

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Taxation of Dividends Paid on Our Ordinary Shares

Taxation of Israeli Residents

The following Israeli tax consequences shall apply in the event of actual payment of any dividends on the Shares.

As of January 1, 2012, dividends, other than bonus shares (stock dividends), paid to Israeli resident individuals who purchased our Shares will generally be subject to income tax at a rate of 25% for individuals, or 30% if the dividend recipient is a Significant Shareholder (as defined above) at any time during the 12-month period preceding such distribution. Dividends paid to Israeli resident companies will not be included in their tax liability computation.

Taxation of Non-Israeli Residents

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25% unless the recipient is a significant shareholder at any time during the 12-month period preceding the distribution in which case the applicable tax rate will be 30%. The company distributing the dividend is required to withhold tax at the source at the rate of 25%.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by such non-Israeli resident.

Taxation of Residents of the United States under the US Treaty

Residents of the United States generally will be subject to withholding tax in Israel on dividends paid, if any, on Shares. Generally, under the Convention Between the Government of the United States of America and the Government of the State of Israel with Respect to Taxes on Income (the "US Treaty"), the maximum rate of withholding tax on dividends paid to a holder of Shares who is a resident of the United States (as defined in the US Treaty) will be 25%. Under the US Treaty, the withholding tax rate on dividends will be reduced to 12.5% if (i) the shareholder is a U.S. resident corporation which holds during the portion of the taxable year which precedes the date of payment of the dividend, and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and (ii) not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year consists of certain types of interest or dividends.

The US Treaty exempts from taxation in Israel any capital gains realized on the sale, exchange or other disposition of Shares provided that the following cumulative conditions are met: (a) the seller is a resident of the United States for purposes of the US Treaty; (b) the seller owns, directly or indirectly, less than 10% of our voting stock at all times during the 12-month period preceding such sale, exchange or other disposition; (c) the seller, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (d) the capital gain from the sale was not generated through a permanent establishment of the seller in Israel.

Subject to the exemptions from capital gains prescribed in the Israeli Income Tax Ordinance (as described above), purchasers of Shares who are residents of the United States and who hold 10% or more of the outstanding ordinary shares at any time during such 12-month period will be subject to Israeli capital gains tax. However, under the US Treaty, residents of the United States (as defined in the US Treaty) generally would be permitted to claim a credit for this tax against US federal income tax imposed on the sale, exchange or other disposition, subject to the limitations in US laws applicable to the utilization of foreign tax credits generally.

The application of the US Treaty provisions to dividends and capital gains described above is conditioned upon the fact that such income is not effectively connected with a permanent establishment (as defined in the US Treaty) maintained by the non-Israeli resident in Israel.

United States federal income taxation

The following is a description of the material United States federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the United States federal income tax consequences to holders of our ordinary shares and that will hold such ordinary shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- certain former citizens or long-term residents of the United States;
- persons that received our shares as compensation for the performance of services;
- persons that will hold our shares as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- holders that will hold our shares through a partnership or other pass-through entity;
- U.S. Holders (as defined below) whose “functional currency” is not the U.S. Dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more, of the voting power or value, of our shares.

Moreover, this description does not address the United States federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of our ordinary shares.

This description is based on the United States Internal Revenue Code, 1986, as amended (the “Code”) existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “U.S. Holder” is a beneficial owner of our ordinary shares that, for United States federal income tax purposes, is:

• a citizen or resident of the United States;

• a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;

• an estate the income of which is subject to United States federal income taxation regardless of its source; or

• a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of our ordinary shares that is neither a U.S. Holder nor a partnership (or other entity treated as a partnership for United States federal income tax purposes).

If a partnership (or any other entity treated as a partnership for United States federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences of acquiring, owing and disposing of our ordinary shares.

Distributions

Subject to the discussion below under “Passive foreign investment company considerations,” if you are a U.S. Holder, the gross amount of any distribution made to you with respect to your ordinary shares, before reduction for any Israeli taxes withheld therefrom, other than certain distributions, if any, of our ordinary shares distributed pro rata to all our shareholders, will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. Subject to the discussion below under “Passive foreign investment company considerations,” non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ordinary shares applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. Moreover, such lower rate of taxation shall not apply if we are a PFIC for the taxable year in which we pay a dividend, or if we were a PFIC for the preceding taxable year. However, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under “Passive foreign investment company considerations,” to the extent, if any, that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in your ordinary shares and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles and, therefore, if you are a U.S. Holder you should expect that the entire amount of any distribution generally will be reported as dividend income to you.

If you are a U.S. Holder, Israeli tax withheld on dividends paid to you with respect to your ordinary shares may be deducted from your taxable income or credited against your U.S. federal income tax liability. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit. Subject to certain exceptions, dividends paid to you with respect to your ordinary shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. However, for periods in which we are a “United States-owned foreign corporation”, a portion of dividends paid by us may be treated as U.S. source solely for purposes of the foreign tax credit. We would be treated as a United States-owned foreign corporation if more than 50% of the total value or total voting power of our stock is owned, directly, indirectly or by attribution, by United States persons. To the extent any portion of our dividends is treated as U.S. source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Israeli withholding taxes payable in respect of our dividends may be limited. A U.S. Holder entitled to benefits under the United States-Israel Tax Treaty may, however, elect to treat any dividends as foreign source income for foreign tax credit purposes if the dividend income is separated from other income items for purposes of calculating the U.S. Holder’s foreign tax credit. U.S. Holders should consult their own tax advisors about the impact of, and any exception available to, the special sourcing rule described in this paragraph, and the desirability of making, and the method of making, such an election.

The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute “passive category income,” or, in the case of certain U.S. Holders, “general category income.” A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements.

Subject to the discussion below under “Backup withholding tax and information reporting requirements,” if you are a Non-U.S. Holder, you generally will not be subject to United States federal income (or withholding) tax on dividends received by you on your ordinary shares, unless you conduct a trade or business in the United States and such income is effectively connected with that trade or business (or, if required by an applicable income tax treaty, the dividends are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

Sale, exchange or other disposition of ordinary shares

Subject to the discussion below under “Passive foreign investment company considerations,” if you are a U.S. Holder, you generally will recognize gain or loss on the sale, exchange or other disposition of your ordinary shares equal to the difference between the amount realized on such sale, exchange or other disposition and your adjusted tax basis in your ordinary shares. Such gain or loss will be capital gain or loss. If Israeli tax is imposed on the sale, exchange or other disposition of our ordinary shares, a U.S. Holder's amount realized will include the gross amount of the proceeds of the deposits before deduction of the Israeli tax. The adjusted tax basis in an ordinary share generally will be equal to the cost of such ordinary share. Except as discussed below with respect to foreign currency gain or loss, if you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ordinary shares is generally eligible for the preferential rate of taxation applicable to long-term capital gains if your holding period for such ordinary shares exceeds one year (i.e., such gain is long-term capital gain). The deductibility of capital losses for United States federal income tax purposes is subject to limitations.

Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes. Because gain for the sale or other disposition of our ordinary shares will be so treated as U.S. source income; and you may use foreign tax credits to offset only the portion of U.S. federal income tax liability that is attributed to foreign source income; you may be unable to claim a foreign tax credit with respect to the Israeli tax, if any, on gains. You should consult your tax advisor as to whether the Israeli tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources.

Subject to the discussion below under “Backup withholding tax and information reporting requirements,” if you are a Non-U.S. Holder, you generally will not be subject to United States federal income or withholding tax on any gain realized on the sale or exchange of such ordinary shares unless:

• such gain is effectively connected with your conduct of a trade or business in the United States; or

• you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive foreign investment company considerations

A non-United States corporation will be classified as a “passive foreign investment company,” or a PFIC, for United States federal income tax purposes in any taxable year in which, after applying certain look-through rules, either

• at least 75% of its gross income is “passive income”; or

• at least 50% of the average value of its gross assets (which may be determined, in part, by the market value of our ordinary shares, which is subject to change) is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our ordinary shares. If a non-United States corporation owns at least 25% by value of the stock of another corporation, the non-United States corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income.

We believe that we were not classified as a PFIC for the taxable year ended on December 31, 2016. Because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the 2017 taxable year until after the close of the year. Moreover, we must determine our PFIC status annually based on tests which are factual in nature, and our status in future years will depend on our income, assets and activities in those years. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were a PFIC, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime will apply to both (a) any “excess distribution” by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distributions received by you in the shorter of the three preceding years or your holding period for our ordinary shares) and (b) any gain realized on the sale or other disposition of the ordinary shares. Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (i) the excess distribution or gain had been realized ratably over your holding period, (ii) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (iii) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, dividend distributions made to you will not qualify for the lower rates of taxation applicable to long-term capital gains discussed above under “— Distributions.”

Certain elections are available to U.S. Holders of shares that may serve to alleviate some of the adverse tax consequences of PFIC status described above. If we agreed to provide the necessary information, you could avoid the interest charge imposed by the PFIC rules by making a qualified electing fund (a “QEF”) election, in which case you generally would be required to include in income on a current basis your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gains as long-term capital gain. We do not expect to provide to U.S. Holders the information needed to report income and gain pursuant to a QEF election, and we make no undertaking to provide such information in the event that we are a PFIC.

Under an alternative tax regime, you may also avoid certain adverse tax consequences relating to PFIC status discussed above by making a mark-to-market election with respect to your ordinary shares annually, provided that the shares are “regularly traded” on a “qualified exchange.” Shares will be marketable if they are regularly traded on certain United States stock exchanges (including Nasdaq) or on certain non-United States stock exchanges. For these purposes, the shares will generally be considered regularly traded during any calendar year during which they are traded, other than in negligible quantities, on at least 15 days during each calendar quarter. U.S. Holders should be aware, however, that if we are determined to be a PFIC, the interest charge regime described above could be applied to indirect distributions or gains deemed to be attributable to U.S. Holders in respect of any of our subsidiaries that also may be determined to be a PFIC, and the mark-to-market election generally would not be effective for such subsidiaries.

If you choose to make a mark-to-market election, you would recognize as ordinary income or loss each year in which we are a PFIC an amount equal to the difference as of the close of the taxable year between the fair market value of your ordinary shares and your adjusted tax basis in your ordinary shares. Losses would be allowed only to the extent of net mark-to-market gain previously included by you under the election for prior taxable years. If the mark-to-market election were made, then the PFIC rules described above relating to excess distributions and realized gains would not apply for periods covered by the election. If you do not make a mark-to-market election for the first taxable year in which we are a PFIC during your holding period of our ordinary shares, you would be subject to interest charges with respect to the inclusion of ordinary income attributable to each taxable year in which we were a PFIC during your holding period before the effective date of such election.

If we were a PFIC, a holder of ordinary shares that is a U.S. Holder must file United States Internal Revenue Service Form 8621 with respect to the company for each tax year in which the U.S. Holder owns the ordinary shares, generally with such U.S. Holder's federal income tax return for that year. If we were a PFIC for a given taxable year, then you should consult your tax adviser concerning your annual filing requirements.

Backup withholding tax and information reporting requirements

United States backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a United States payor or United States middleman, to a holder of our ordinary shares, other than an exempt recipient (including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a United States payor or United States middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the beneficial owner's United States federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (or certain specified entities) are required to report information relating to an interest in our common shares by attaching a complete United States Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, to their tax return for each year in which they hold our common shares, subject to certain exceptions (including an exception for our common shares held in accounts maintained by financial institutions in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of our common shares.

3.8% Medicare Tax On "Net Investment Income"

Certain U.S. Holders who are individuals, estates or trusts are subject to the requirement to pay a 3.8% tax on, among other things, dividends and capital gains from the sale or other disposition of shares of common stock.

The following description is not intended to constitute a complete analysis of all tax consequences relating to our prior units and our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the information reporting requirements of the Exchange Act, applicable to foreign private issuers, and under those requirements, we file reports with the SEC. Our filings with the SEC are available to the public through the SEC's website at <http://www.sec.gov>.

As a foreign private issuer, we are exempt from the rules under the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act, to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we are required to comply with the informational requirements of the Exchange Act, and, accordingly, file current reports on Form 6-K, annual reports on Form 20-F and other information with the SEC.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The table below details the sensitivity analysis in respect to exposure relating to exchange rate risk:

	Gain (loss) from exchange rate change NIS thousands		Fair net NIS thousands	Gain (loss) from exchange rate change NIS thousands	
Change in exchange rate USD	(10)%	(5)%	18,807	5 %	10 %
	(1,880)	(940)		940	1,880
Change in exchange rate EURO	(10)%	(5)%	3,402	5 %	10 %
	(340)	(170)		170	340

Credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Despite the Company's large number of clients (approximately 1,250) a major and significant part of its sales are made to only a limited number of customers (mainly in large retail supermarket chains). The Company generally does not require and does not receive collateral from those major customers. However, it does require and receive collateral from most of the remainder of its clients to insure security of collecting payments. The

Company maintains an allowance for doubtful debts, based upon factors surrounding the credit risk of specific customers, historical trends and other information which management believes adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of the Company's major clients defaults on its payment obligations to us, the Company will not possess sufficient collateral to collect the entire debt. The Company strives to minimize the credit risks by constantly reviewing the credit it extends to customers versus the collateral it receives. As a result, the Company has ceased selling products to certain customers and considerably reduced sales to other customers, and may continue to do so in the future.

Interest rate risk: The Company invests part of its cash reserves in instruments that bear fixed interest rate. The Company, as part of its investing policy, invests part of its cash reserves in bonds and convertible debentures that bears fixed interest rate; as a result, the Company is espoused to changes in interest rates.

The table below details the sensitivity analysis in respect to exposure relating to investments in instruments with fix interest rates:

	Gain (loss) from interest change NIS thousands		Fair value NIS thousands	Gain (loss) from interest change NIS thousands	
Change in Interest as % of interest rate	(10)%	(5)%		5 %	10 %
Increase\decrease in financial Income	(5,937)	(2,967)	59,347	2,967	5,937

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our CEO and CFO as of December 31, 2018. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to meet these objectives.

(b) Management's Annual Report on Internal Control over Financial Reporting.

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

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

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

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

Our management (with the participation of the CEO and CFO) assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In conducting its assessment of internal control over financial reporting, management used the criteria established in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2018 based on these criteria.

(c) This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting.

Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

(d) Changes in Internal Control over Financial Reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. -- AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Board of Directors has determined that Einav Brar, Idan Ben-Shitrit, David Donin and Victor Bar are the "Audit Committee Financial Experts" for the Company, as such term is defined in Item 16A of Form 20-F. Mrs. Brar, Mr. Ben-Shitrit, Mr. Donin and Mr. Bar each serve on the Company's Audit Committee and is an "Independent Directors" as defined in the Nasdaq listing standards applicable to us.

ITEM 16B. -- CODE OF ETHICS

A copy of the Code of Ethics for the Company that applies to all directors, officers and other employees of the Company is available for review on the Company's website at www.willi-food.com.

ITEM 16C. -- PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees for professional services and other services rendered by Brightman Almagor Zohar & Co. ("Brightman") in Israel, a member of firm of Deloitte Touche Tomhatsu, to the Company in 2017.

	NIS	USD
	2018	2018
Audit Fees and Tax fees (1)(2)	70,000	18,676
TOTAL	70,000	18,676

Since June 5, 2018, the relationship between the Company and Brightman, acting as its external auditors, has ceased due to an inability from Brightman to satisfy auditor "independence" requirements. Brightman also ceased its client-auditor relationship with Willifood Investments Ltd., the parent of the Company (the "Parent"), and of BSD Crown Ltd., the controlling shareholder of the Parent.

Following the resignation from Brightman, the Board of Directors of the Company recommend that the shareholders of the Company appoint BDO Israel as the new independent public accountant of the Company. On August 2, 2018, the shareholders approved the appointment of BDO Ziv Haft, as our new independent accounting firm for the year ending December 31, 2018 and for the period until our next annual general meeting, and authorized our board of directors, upon recommendation of our audit committee, to determine their remuneration.

The following table presents the aggregate fees for professional services and other services rendered by BDO Ziv Haft ("BDO ") in Israel, to the Company in 2018.

	NIS 2018	USD 2018
Audit Fees and Tax fees(1)(2)	240,000	64,034
TOTAL	240,000	64,034

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

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

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

Not applicable.

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

The Board of Directors of the Company authorized a share repurchase program on the November 15, 2018. The aforementioned program permits the Company to repurchase the Company's Ordinary Shares over the next six months following the Board's decision with an aggregate purchase price of up to US\$ 1 million.

The Ordinary Shares may be repurchased from time to time in open market transactions or privately negotiated transactions at the Company's discretion. The timing and number of shares repurchased will be determined by the Company's management based on its evaluation of market conditions, the trading price of the Company's shares and other factors, and subject to the restrictions relating to volume, price and timing under applicable law, including Rule 10b-18 under the Securities Exchange Act of 1934. The repurchase program may be increased, suspended or discontinued at any time.

Pursuant to this repurchase program, from January 1, 2019 to March 27, 2019 , the Company repurchased 23,898 Company's ordinary shares, in the amount of USD 169,800.

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

On June 5, 2018, the Company was notified by its independent public accountant, Brightman Almagor Zohar & Co. Certified Public Accountants, Member of Deloitte Touche Tohmatsu Limited ("Former Auditor"), that the client-auditor relationship between the Company and the Former Auditor has ceased. The Former Auditor also ceased its client-auditor relationship with Willifood, the parent of the Company (the "Parent"), and of BSD Crown Ltd. the controlling shareholder of the Parent ("BSD").

The notification of the cessation of the client-auditor relationship resulted from the Former Auditor's conclusion that it was not independent with respect to the Company as the result of the notice the Former Auditor received from BSD stating that the Board of Directors of BSD had resolved to file a claim against the Former Auditor and others based on the causes of action included in the application for a derivative action filed in July 2016 against BSD, the former controlling shareholders of BSD, directors and managers of BSD (none of whom is currently a director or officer of the Company or the Parent) and the auditors of BSD.

The Company chose BDO Ziv Haft (the "New Auditor") as auditor for the Company after taking into account its experience, fees and other terms of engagement.

On June 20, 2018 following approval by the board of directors of the Company, the Company approved the engagement with the New Auditor as the Company's new independent Auditor, subject to shareholders' approval (which was obtained on August 2, 2018). The New Auditor was also retained by the Parent and BSD to serve as their independent accountants.

During the two fiscal years ended December 31, 2017 and December 31, 2016 and the subsequent interim period preceding the date of this report, the Former Auditor has not issued any report on the financial statements that contained an adverse opinion or disclaimer of opinion, nor were the reports of the Former Auditor qualified or modified in any manner.

During the two fiscal years ended December 31, 2017 and December 31, 2016 and the subsequent interim period preceding the date of this Report, there was no disagreement with the Former Auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, or any reportable event as described in Item 16F(a)(1)(iv) of Form 20-F.

During the two fiscal years ended December 31, 2017 and December 31, 2016 and the subsequent interim period preceding the date of this Report, we did not consult with the New Auditor for any matters regarding either:

the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to the consolidated financial statements of the Company; or

any matter that was the subject of a disagreement as defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to that Item or a “reportable event” as described in Item 16F (a)(1)(v) of Form 20-F.

The Company has provided the Former Auditor with a copy of the disclosures given above and has requested the Former Auditor to furnish the Company with a letter addressed to the Commission stating whether it agrees with the statements made by the Company in response to Item 16F (a), and if not, stating the respects in which it does not agree. A copy of the letter dated March 27, 2019 from the Former Auditor addressed to the Commission, is filed as an exhibit to this Annual Report on Form 20-F.

ITEM 16G. -- CORPORATE GOVERNANCE

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

Executive Sessions – Under Nasdaq rules, U.S. domestic listed companies, must have a regularly scheduled meeting at which only independent directors are present. We do not have such executive sessions.

Compensation of Officers - Under Nasdaq rules, the Company must adopt a formal written compensation committee charter addressing the scope of the compensation committee's responsibilities, including structure, processes and membership requirements, among others. We do not have such a formal written charter.

Nominations of Directors - Under Nasdaq rules, U.S. domestic listed companies, must have a nominations committee comprised solely of independent directors and must have director nominees selected or recommended by a majority of its independent directors. Our directors are not nominated in this manner.

Nominations Committee Charter or Board Resolution - Under Nasdaq rules, U.S. domestic listed companies, must adopt a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under the federal securities laws. We do not have such a formal written charter or board resolution.

Quorum - Under Nasdaq rules, U.S. domestic listed company's by-laws provide for a quorum of at least 33 1/3 percent of the outstanding shares of the company’s common voting stock. According to our articles our quorum should be at least 25 percent of the outstanding shares of our common voting stock.

Review of Related Party Transactions: Under Nasdaq Listing Rules, domestic listed companies must conduct an appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the company's audit committee or another independent body of the board of directors. Although Israeli law requires us to conduct an appropriate review and maintain oversight of all related-party transactions similar to the Nasdaq Listing Rules, we follow the definitions and requirements of the Companies Law in determining the kind of approval required for a related-party transaction, which tend to be more rigorous than the Nasdaq Listing Rules.

Shareholder Approval of Certain Equity Compensation: Under Nasdaq Listing Rules, shareholder approval is required prior to an issuance of securities in connection with equity-based compensation of officers, directors, employees or consultants. The Company has indicated that it will receive shareholder approval as required by Israeli law, including upon issuance of options to directors or to controlling shareholders.

ITEM 16H. -- MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

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ITEM 19. EXHIBITS

Exhibit Number	<u>Description</u>
†1.1	<u>Memorandum of Association of the Company, as amended (4)</u>
1.2	<u>Articles of Association of the Company, as amended on March 20, 2014 (4)</u>
2.1	Specimen of Certificate for ordinary shares (1)
†4.3	<u>Transfer Agreement between the Company and Gold Frost dated February 16, 2006 (2)</u>
†4.4	<u>Lease agreement for Logistics Center between the Company and Gold Frost dated February 16, 2006 (2).</u>
4.5	<u>Registration Rights Agreement, dated as of October 25, 2006, among the Company and the investors signatory thereto. (3)</u>
†4.6	<u>Agreement between G. Willi-Food International Ltd., Zvi V. & Co. Company Ltd. and Yossi Willi Management and Investment Ltd., dated April 24, 2018 (5)</u>
8.1	<u>Subsidiaries of the Company (*)</u>
12.1	<u>Certification of CEO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)</u>
12.2	<u>Certification of CFO of the Company pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)</u>
13.1	<u>Certification of CEO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)</u>
13.2	<u>Certification of CFO of the Company pursuant to Rule 13a-14(b), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)</u>
16.1	<u>Letter of Former Auditor addressed to SEC pursuant to Item 16F</u>

† English translations from Hebrew original.

(1) Incorporated by reference to the Company's Registration Statement on Form F-1, File No. 333-6314.

(2) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005.

(3) Incorporated by reference to the Company's Registration Statement on Form F-3, File No. 333-138200.

(4) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013.

(5) Incorporated by reference to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2017.

(*) Filed Herewith

G. WILLI-FOOD INTERNATIONAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

G. WILLI-FOOD INTERNATIONAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors of

G. Willi-Food International Ltd.

Yavne, Israel

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of G. Willi-Food International Ltd (the “Company”) and subsidiaries as of December 31, 2018, and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and cash flows for the year, ended, December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of their operations and their cash flows for year, ended December 31, 2018, in conformity with International Financial Reporting standards as issued by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 21(c) of the financial statements describing a Plea Agreement served under an amended indictment against former controlling shareholders of the Company. Under the Plea Agreement, the former controlling shareholders were convicted. Similarly, we draw attention to Note 21(f) of the financial statements describing ongoing lawsuit, against the Company's former directors and former officers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ziv Haft

Ziv Haft

Certified Public Accountants (Isr)

BDO Member Firm

We have served as the Company's auditor since 2018.

Tel Aviv, Israel

March 27, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
G. Willi-Food International Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of G. Willi-Food International Ltd. and subsidiaries (the "Company") as of December 31, 2017 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 21(b) of the financial statements describing an indictment served against former controlling shareholders of the Company. According to the indictment, the defendants fraudulently transferred USD 3 million from a bank account of a subsidiary of the Company in favor of an investment in bonds of a European company, while the investment was used to secure the repayment of a loan extended to companies affiliated with the defendants. Similarly, we draw attention to Note 21(d) of the financial statements describing a motion to certify a derivative action which was filed in February 2016 against the Company's directors and officers.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Tel Aviv, Israel

April 29, 2018

We began serving as the Company's auditor in 1994. In 2018, we became the predecessor auditor.
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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(NIS in thousands)

		December 31,		2 0 1 8
	Note	2 0 1 8	2 0 1 7	(*)
		NIS	NIS	US
				Dollars
Assets				
Current assets				
Cash and cash equivalents	4a	134,287	113,062	35,829
Financial assets at fair value through profit or loss	4b	137,904	143,514	36,794
Trade receivables	4c	98,017	85,943	26,152
Other receivables and prepaid expenses	4d	3,744	5,996	999
Inventories	4e	49,289	39,899	13,151
Current tax assets		862	6,760	230
Total current assets		424,103	395,174	113,155
Non-current assets				
Property, plant and equipment		79,611	78,598	21,241
Less -accumulated depreciation		40,219	37,389	10,731
	6	39,392	41,209	10,510
Goodwill	7	36	36	10
Deferred taxes	10c	2,882	503	769
Total non-current assets		42,310	41,748	11,289
Total assets		466,413	436,922	124,444

(*) Convenience Translation into US Dollars.

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

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G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(NIS in thousands)

(Cont.)

	December 31,		2 0 1 8
	Note	2 0 1 8	2 0 1 7
		NIS	NIS
			(*)
			US
			Dollars
Equity and liabilities			
Current liabilities			
Trade payables	8a	16,239	12,800
Employees Benefits	9b	2,577	2,147
Other payables and accrued expenses	8b	5,882	5,246
Total current liabilities		24,698	20,193
Non-current liabilities			
Retirement benefit obligation	9b	836	1,148
Total non-current liabilities		836	1,148
Shareholders' equity	12		
Share capital		1,425	1,425
Additional paid in capital		128,354	128,354
Capital fund		247	247
Retained earnings		311,476	286,509
Capital Fund measurement of the net liability in respect of defined benefit		(623)	(954)
Equity attributable to Shareholders' of the Company		440,879	415,581
Total equity and liabilities		466,413	436,922

(*) Convenience Translation into US Dollars.

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

The financial statements were approved by the board of directors of the company on March 27, 2019.

G. WILLI-FOOD INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(NIS in thousands)

	Note	Year ended December 31,			
		2 0 1 8 NIS	2 0 1 7 NIS	2 0 1 6 NIS	2 0 1 8 (*) US Dollars
Revenue	13a	338,245	311,978	294,202	90,247
Cost of sales	13b	240,032	237,645	217,585	64,043
Gross profit		98,213	74,333	76,617	26,204
Operating costs and expenses					
Selling expenses	13c	43,823	42,090	39,405	11,692
General and administrative expenses	13d	16,686	15,839	14,577	4,452
Other Income	14	(69)	(361)	(112)	(18)
		60,440	57,568	53,870	16,126
Operating profit		37,773	16,765	22,747	10,078
Finance Income	15a	(7,212)	17,937	(3,425)	(1,924)
Finance expense	15b	(2,256)	3,769	3,143	(602)
Finance Income (expense), net		(4,956)	14,168	(6,568)	(1,322)
Profit before taxes on Income		32,817	30,933	16,179	8,756
Taxes on Income	10a	(7,850)	(5,910)	(5,327)	(2,094)
Net Income		24,967	25,023	10,852	6,662
Earnings per share:					
Basic earnings per share		1.89	1.89	0.82	0.50
Diluted earnings per share		1.89	1.89	0.82	0.50
Shares used in computation of basic EPS		13,240,913	13,240,913	13,240,913	13,240,913
Shares used in computation of diluted EPS					