

G WILLI FOOD INTERNATIONAL LTD
Form 20-F
May 31, 2006

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, 2005

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. 0-29256

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)

3 Nahal Snir St., Northern Industrial Zone, Yavne, 81224, Israel

(Address of principal executive offices)

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

None

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

Ordinary Shares, NIS 0.10 par value per share

(Title of Class)

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

None

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

The registrant had 8,615,000 outstanding ordinary shares, NIS 0.10 nominal value per share as of December 31, 2005.

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which 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 4.603 = \$ 1.00, the representative exchange rate on December 31, 2005.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

- changes affecting currency exchange rates, including the NIS/U.S. Dollar exchange rate,
- payment default by any of our major clients,
- the loss of one or more of our key personnel,
- 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,
- termination of arrangements with our suppliers, in particular Arla Foods a.m.a.,
- loss of one or more of our principal clients,
- increasing levels of competition in Israel and other markets in which we do business,
- changes in economic conditions in Israel, including in particular economic conditions in the Company's core markets,
- our inability to accurately predict consumption of our products,
- product liability claims,
- our inability to continue to meet the Nasdaq listing requirements.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read together with Item 5: Operating and Financial Review and Prospects and our audited consolidated financial statements and related notes included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2005 and 2004 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2005, 2004 and 2003 have been derived from our audited consolidated financial statements included elsewhere in this Form 20-F, which have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP). Israeli GAAP, as applicable to the financial statements are, in all material respects, substantially identical to generally accepted accounting principles in the United States (U.S. GAAP), except for the accounting recognition of the effects of inflation on the financial statements, which was applicable until December 2003 (see Note 2C of the Notes of the Company's consolidated financial statements), and except for presentation of cash flows. Reference is made to Notes 2 and 14 of the Notes of the Company's consolidated financial statements for a description of the significant differences between Israeli GAAP and U.S. GAAP.

The selected consolidated balance sheet data as of December 31, 2005 and 2004 and the selected consolidated statements of operations data for each of the three years in the period ended December 31, 2005, 2004 and 2003 have been audited by Brightman Almagor & Co., an independent registered public accounting firm, and a Member Firm of Deloitte Touche Tohmatsu. Their report appears in Item 18 in this Form 20-F. The selected consolidated balance sheet data as of December 31, 2003, 2002 and 2001 and the selected consolidated statements of operations data for the years ended December 31, 2002 and 2001 have been derived from our audited consolidated financial statements which are not included in this Form 20-F. Historical financial results may not be indicative of our future performance and interim results may not be reflective of the results for the fiscal year.

The Company maintains its accounts and presents its financial statements in New Israeli Shekels, by reported amounts which, until December 31, 2003, were adjusted to the Israeli Consumer Price Index (CPI) and, based on accounting standard No. 12 (Cessation of Financial Statement Adjustment) which went into effect on January 1, 2004, the Company ceased to adjust its financial statements based on the changes in the general purchasing power of the Israeli currency commencing January 1, 2004. As such, starting in 2004 the Company's financial statements are prepared in reported amounts. The data included in the financial statements relating to dates and periods up to, and including, December 31, 2003, are stated in adjusted amounts.

The reported and/or adjusted amounts of non-monetary items reflect their cost in terms of reported amounts or the cost adjusted to the changes in the CPI up to December 2003 and do not necessarily reflect their market value or value to the business. The method for determining reported amounts in the 2005 annual financial statements and in the 2004 annual financial statements for the balance sheet and the statement of operations is included in the consolidated financial statements (see Note 2 of the Notes of the Company's consolidated financial statements).

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Recent Exchange Rates of NIS to one U.S. Dollar

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

	High	Low
December 2005	4.662	4.579
January 2006	4.637	4.577
February 2006	4.719	4.664
March 2006	4.717	4.658
April 2006	4.671	4.503
May 2006 (through May 30, 2006)	4.522	4.428

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The representative exchange rate for NIS on December 31, 2005 was NIS 4.603 = \$1.00 and the representative exchange rate for NIS on May 30, 2006 was NIS 4.517 = \$1.00.

The average exchange rate of NIS 4.489 = USD 1.00 was for the year ended December 31, 2005, 4.482 for the year ended December 31, 2004, 4.548 for the year ended December 31, 2003, 4.738 for the year ended December 31, 2002 and 4.206 for the year ended December 31, 2001.

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands except per share data)

(NIS)

	2005		2004		Years ended December 31 2003		2002		2001	
	NIS	USD	NIS	USD	NIS	USD	NIS	USD	NIS	USD
Sales	166,282	36,125	170,982	37,146	137,385	29,847	128,870	27,997	133,021	28,899
Cost of Sales	128,215	27,855	130,292	28,306	110,160	23,932	101,126	21,970	102,955	22,367
Gross Profit	38,067	8,270	40,690	8,840	27,225	5,915	27,744	6,027	30,066	6,532
Sales and Marketing	15,771	3,426	15,632	3,396	11,662	2,533	10,024	2,178	10,000	2,172
General and Administrative	10,044	2,182	9,134	1,984	8,335	1,811	8,199	1,781	9,054	1,967
Bad Debt - Club Market	3,500	761	--	--	--	--	--	--	--	--
Total Operating Expenses	29,315	6,369	24,766	5,380	19,997	4,344	18,223	3,959	19,054	4,139
Operating Income	8,752	1,901	15,924	3,460	7,228	1,571	9,521	2,068	11,012	2,393
Financial Income (Expenses), Net	2,501	543	1,121	244	4,336	942	(239)	(52)	1,802	391
Other Income, Net	35	8	34	7	101	22	29	6	--	--
Pre Tax Income	11,288	2,452	17,079	3,711	11,665	2,535	9,311	2,022	12,814	2,784
Income Taxes	3,563	774	5,886	1,279	2,889	628	2,254	489	4,183	909
Net Income	7,725	1,678	11,193	2,432	8,776	1,907	7,057	1,533	8,631	1,875
Earnings per Share Basic	0.90	0.19	1.30	0.28	1.03	0.22	0.82	0.18	1.01	0.22
Shares Used in Computing Earnings per Share	8,615,000	8,615,000	8,600,000	8,600,000	8,555,000	8,555,000	8,555,000	8,555,000	8,555,000	8,555,000

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BALANCE SHEET DATA

(In thousands)

(NIS)

	2005	2004	As of December 31 2003	2002	2001
--	------	------	---------------------------	------	------

	NIS	USD	NIS	USD	As of December 31		NIS	USD	NIS	USD
					NIS	USD				
Working capital	85,423	18,557	95,986	20,853	83,861	18,219	75,732	16,453	68,614	14,906
Total assets	137,274	29,823	129,861	28,212	109,619	23,815	94,741	20,582	92,460	20,087
Short-term bank debt	--	--	2,489	541	45	10	1,052	229	2,251	489
Shareholders' equity	101,871	22,132	98,900	21,486	87,150	18,933	78,374	17,027	71,306	15,491

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our results of operations may be impacted by monetary risk. Our portfolio of marketable securities is subject to various market risks.

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

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

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

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

Our business may be materially affected if any of our major clients defaults on its payment to us.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of trade receivables. Despite our large number of clients (over 1,000 in Israel), a major and significant part of our sales are made to a limited number of customers (mainly the organized market). We generally do not require and do not receive collateral from those customers, although we do require and receive collateral from most of the remainder of its clients to ensure security of collecting payments. We maintain an allowance for doubtful debts based upon factors surrounding the credit risk of specific customers, historical trends and other information which our management believes adequately covers all anticipated losses in respect of trade receivables. There can be no assurance that this allowance will be adequate. In the event that any of our major clients defaults on its payment obligations to us (such as Club Market see Item 4. Information on the Company B. Business Overview Customers), we will not possess sufficient security to collect the entire debt.

We are dependent on our key personnel. The loss of any of our key personnel could have a material effect on our business.

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

We are subject to regulations and other policies of the Israeli government and of other countries into which we import. 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, storage, marketing, distribution and labeling of food products are subject to extensive regulation and licensing by various Israeli government and municipal agencies, principally the Ministry of Health, the Ministry of Trade and Industry, the Ministry of Agriculture and the Ministry of Finance. To the extent that the Company has imported, or will import, food products outside of Israel, we may be subject to quotas and other import laws and regulations which may limit our ability to sell certain of our food products into these countries. We are required to maintain our distribution processes in conformity with all applicable laws and regulations. In the event that such laws and regulations change, or we fail to comply with such laws and regulations, we may be prevented from trading within Israel or another part of the world.

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

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

We are dependent on Arla Foods amba, or Arla, and we also work with a limited number of other key suppliers. If these suppliers raise prices or terminate their engagement with us, our operating results could be adversely affected.

We are dependent on Arla, which supplies a high percentage of our dairy and dairy substitute products, although we are not dependent on any single supplier in respect of a majority of our products. Terminating the engagement with any supplier, in particular Arla, or a material change in the engagement terms for purchasing products from those suppliers may have an adverse affect on the Company's results of operations. We have a distribution agreement with Arla pursuant to which the Company serves as Arla's sole agent and distributor in Israel of certain products for a five-year period beginning in March 2005. See Item 4. Information on the Company B. Business Overview Suppliers. 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 depend on a small number of principal clients who have in the past bought our products in large volumes. We cannot assure that these clients or any other client will continue to buy our products in the same volumes, on the same terms or at all.

Despite our wide dispersion of clients, we have two major clients as described in Item 4. Information on the Company B. Business Overview Customers. We do not have long term purchase contracts with our clients, and our sales arrangements with our clients do not have minimum purchase requirements. We cannot assure that our major clients will continue to buy our products at all or in the same volumes or on the same terms as they have in the past. Their failure to do so may significantly reduce our sales. Losing one or more of them may adversely affect our business results. In addition, we cannot assure that we will be able to attract new customers.

We may not be able to successfully compete with larger competitors who have greater operations, financial, marketing, human and other resources than we have.

The food distribution business in Israel is highly competitive. We face competition from existing competitors in respect of imported as well as locally manufactured food products. Local producers are not subject to the financial risks of importing food products or to governmental policies regarding taxation of imported food products to which we are subject. We believe that we may also face competition from potential newcomers to the food business as well as from existing importers and/or manufacturers not currently involved in the same lines of products as us. In addition, in the event we further expand our activity in the international food markets, we will face also competition from manufacturers

and/or distributors from the locations in which we expand our activity. Certain of our current and potential competitors are substantially more established, benefit from substantially greater market recognition and have greater financial, marketing, human and other resources, than us. If any of our competitors materially reduces prices, we may be required to reduce our prices in order to remain competitive. Such reductions, if effected, could have a material adverse effect on our financial condition and results of operations.

Economic conditions in Israel affect our financial performance.

Substantially all 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 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.

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We may be affected by political, economic and military conditions in Israel and the Middle East.

Political, economic and military conditions in Israel have a direct influence on us because our operations are located there. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially and adversely affect our operations. We cannot assure that ongoing or revived hostilities related to Israel will not have a material adverse effect on our business and on our share price. Several Arab countries still restrict business with Israeli companies and these restrictions may have an adverse impact on our operating results, financial condition or the expansion of our business. We could be adversely affected by restrictive laws or policies directed towards Israel and Israeli businesses. Despite the progress towards peace between Israel and its Arab neighbors prior to 2000, the future of these peace efforts is uncertain. Since October 2000, there has been a significant deterioration in Israel's relationship with the Palestinian Authority, and a series of armed clashes between Israel and the armed forces of the Palestinian Authority. These events have at times caused considerable damage to the Israeli economy. As a result of the political and military situation, Israel's economy has suffered considerably and unemployment was high. Although we have recently seen encouraging signs of an improved economy, we cannot guarantee that such improved economic environment will continue.

Generally, all male adult citizens and permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform up to 36 days of military reserve duty annually. Additionally, all Israeli residents of this age are subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. Although the Company has operated effectively under these requirements since it began operations, management cannot assess the full impact of these requirements on its workforce or business if political and military conditions should change, and management cannot predict the effect on it of any expansion or reduction of these obligations.

Our results of operations may be adversely affected if we do not accurately predict the rate of consumption of our products.

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