

Corporate Governance

••• INTRODUCTION

The Board of Directors supports a high standard of corporate governance set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority (the "Combined Code").

••• THE BOARD AND ITS COMMITTEES

The Board

The Board comprises the Chairman, Mr. Yaacov Kotlicki; the Chief Executive Officer, Dr. Avigdor Shachrai; the Chief Financial Officer, Mr. Yair Naaman and three non-executive Directors: Mr. Walter Goldsmith, Mr. Anthony McCann and Ms. Bat Sheva Levi. The Board's non-executive directors are independent of management and have extensive understanding of corporate governance, business operations and finance issues. The Board does not consider the Executive Chairman, Yaacov Kotlicki, to be independent as he is a founder, controlling shareholder and an Executive Director of the Company. The Board retains full responsibility and effective control over the Company's strategy and policies, including fundamental issues, plans and budgets. All directors are responsible equally for the company's affairs. Responsibility for managing the business and implementation of business policies is delegated to the executive directors.

The members of the Board receive a memorandum on the responsibilities and liabilities of directors on their appointment to the Board. There are also presentations to the directors on the activities of the Company and visits to the Company premises and its manufacturing facilities. Once a month each director receives a "flash report" and information on the performance of the Company. At every Board meeting a report on the trading and applicable results of the Company are provided. Once a year a budget is discussed and approved by the Board for the following year. All directors are properly briefed on issues arising at Board meetings and further information requested by a director is always made available.

The directors may take independent professional advice at the Company's expense in furtherance of their duties. Independent outside counsel is always present at board meetings.

The Board has met 12 times this Financial Year (some of the meetings were conducted by correspondence). The meetings were attended by all Board members, except one meeting when one member was absent.

Board Committees

The Board has two Standing Committees. The Audit Committee and the Remuneration Committee are each comprised of the three non-executive directors. The Secretary to these standing committees is the Company Secretary.

Audit Committee

The Audit Committee is comprised of the three non-executive directors, and is chaired by Mr. Walter Goldsmith. The Audit Committee meets at least three times year and the Company's external auditors also attend the meetings. The Audit Committee adheres to the functions and requirements prescribed to it by the Israeli Companies Law, save for the requirement for three non-executive Board members.

Under its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external and internal auditors, to review the Company's preliminary results, interim results and financial statements, to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted and to approve transactions with interested parties. During 2007 the Audit Committee met on four occasions.

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Remuneration Committee

The Remuneration Committee is comprised of the three non-executive directors, and is chaired by Mr. Anthony McCann. The Remuneration Committee approves the remuneration of all executive directors in the Company. The Committee is responsible for making recommendations to the Board on the Company's framework of executive director's remuneration and for determining on behalf of the Board the remuneration package for each executive director.

The remuneration of non-executive directors is determined by the entire Board, but the non-executives do not participate in Board discussions or vote on matters relating to their own fees. The Remuneration Committee met two times during the year 2007.

••• RELATIONS WITH SHAREHOLDERS

The Company welcomes dialogue with its shareholders and communicates with them through its interim and annual reports and website. Regular meetings are held with institutional investors. Any shareholder concerns can be conveyed to the independent non-executive directors. At the AGM, shareholders can question the directors. Notice of the AGM and related papers will be sent to shareholders at least 21 days in advance of the Meeting.

••• INTERNAL CONTROL

Internal Auditor

The Board of Directors has overall responsibility for ensuring that the Company maintains adequate systems of internal control. To this end, in accordance with Israeli Company Law requirements, the Company's Board of Directors appointed Mr. Yossef Ginosar, CPA, from Fahn Kanne Control Management Ltd. (Grant Thornton), as an independent internal auditor, after he was interviewed and recommended by the Audit Committee, as prescribed by Israeli Companies Law. The internal auditor reports to the Audit Committee, and is responsible for ensuring that the Company is run according to good corporate practice.

Control Risk Management

A "Control Risk" assessment was conducted between November 2004 and January 2005 by the internal auditor. The internal auditor examined the various controls set up by management to protect the organization from exposure to risks that could cause damage to the organization should the risks be realized. This Control Risk assessment was conducted in order to assist the internal auditor in the goal of focusing on the specific areas of risk which management should address in order to maximize the benefit to the Company.

During 2007, as a result of management recommendation and the decision of the Audit Committee, the internal auditor examined the Group's Payroll and H&R and no material inadequacies were found. All of his recommendations were accepted.

The internal auditor submitted his report and recommendations in March 2008 to the audit committee and to the management.

Financial information and control

The key features of the financial controls of the Company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures. The Board of the Company is furnished with detailed financial information on a monthly basis.

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••• REVIEW OF EFFECTIVENESS

One of the Board's roles is to provide entrepreneurial leadership for the Company within the framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Each director continues to contributing effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The non-executive directors are responsible for performance evaluation of the chairman, taking into account the views of executive directors.