

COUNTRY GUIDE – Israel

(March 2017)

Important notes: *This guide does not override the Listing Rules (“Rules”) and is not a substitute for legal, regulatory, tax, financial or any other advice from qualified professional advisers. If there is any conflict or inconsistency between this guide and the Rules, the Rules prevail. You may consult the Listing Department on a confidential basis for an interpretation of the Rules, or this guide.*

The information contained in this guide on foreign laws, regulations and market practices is based on that provided to us by potential listing applicants, listing applicants, listed issuers, their respective advisers or officials from the relevant jurisdiction. We have not separately verified this information nor have we updated this information since its receipt. We will revise this guide to reflect changes in this information only when notified of these changes.

A new applicant for listing that is incorporated in Israel must confirm to the Exchange, with its initial application for listing, that the Israeli laws, regulations and market practices contained in this guide are still applicable, or provide us with details of any changes, and inform us of any other Israeli laws, regulations and market practices that are relevant to its circumstances.

Purpose of this Guide

This guide is one of a series that gives guidance on our treatment of listing applications from overseas issuers incorporated in a particular jurisdiction. The aim of this guide is to enhance applicants' understanding of our expectations, practices, procedures and the criteria we consider when applying the Rules for overseas issuers.

This guide should be read in conjunction with the Joint Policy Statement Regarding Listing of Overseas Companies (27 September 2013)¹. All issuers incorporated in Israel but which are not listed in Israel or offering shares to the Israeli public² can apply for one or more "common waivers" and those with, or seeking, a secondary listing³ do not need to apply for waivers of certain Rules which are automatically waived for them⁴.

Summary of our Approach

Subject to Israel incorporated companies meeting the conditions set out in this guide, we do not consider Israeli shareholder protection standards to be materially different to our own.

The Exchange's acceptance of Israel as an Acceptable Jurisdiction is limited to a foreign listed Israeli public company and to an Israeli private company which will become a foreign listed Israeli public company subject to its listing on the Exchange. The Exchange has not made any analysis on the acceptability of an Israeli public company with a listing or proposed listing on the Tel Aviv Stock Exchange.

Israel meets our international regulatory co-operation requirements because it already has adequate measures in place with Hong Kong's Securities and Futures Commission.

¹ Available on the HKEX website at:
http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/listoc/Documents/new_jps_0927.pdf

² That is, an "offer to the public" as defined in the Israeli Securities Law -1968.

³ JPS, Section 5.

⁴ JPS, paragraph 88.

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Appendix: Voting Requirements for Certain Transactions under Israeli Law

1. Background

- 1.1 The Israeli company law equivalent to the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) is the Companies Law – 1999 (the “**Companies Law**”) and the Companies Ordinance⁵ which is the most fundamental law that governs the matters related to companies (both private and public).
- 1.2 Israeli public companies⁶ whose securities are (i) listed for trading on an exchange outside of Israel; (ii) not listed on the Tel Aviv Stock Exchange (“**TASE**”) or any Israeli exchanges; and (iii) not offered to the Israel public that would be deemed a “public offer”⁷ in Israel (“**Foreign Listed Israeli Public Company**”) are subject to less stringent filing, financing reporting and disclosure requirements than Israeli public companies with a listing on TASE. They are also exempted from certain provisions of the Companies Law.

2. Application of this Country Guide

- 2.1 This Country Guide applies to primary and secondary Main Board listing applicants and primary GEM listing applicants⁸ which are Foreign Listed Israeli Public Companies.

3. International Regulatory Co-operation Measures

- 3.1 Our Joint Policy Statement Regarding the Listing of Overseas Companies (27 September 2013) (“**JPS**”) states that the statutory securities regulator of an overseas issuer’s jurisdiction of incorporation must have adequate arrangements with the Securities and Futures Commission (“**SFC**”) for regulatory co-operation⁹. This requirement is met for issuers incorporated in Israel as the Israeli Securities Authority (“**ISA**”), the statutory securities regulator in Israel, is a full signatory of the IOSCO MMOU¹⁰. In addition, the ISA has an arrangement concerning mutual assistance and exchange of information with the SFC¹¹.

⁵ Israel’s corporate law primarily comprises the Companies Law and the regulations promulgated thereunder, and the provisions of the Companies Ordinance (New Version) 1983 which were not replaced by the Companies Law.

⁶ Under Israeli law, the definition of a public company is “a company whose shares are listed for trading in TASE or were offered to the public pursuant to a prospectus as defined in the Securities Law of Israel (i.e. filed with the Israeli authority), or were offered to the public outside of Israel according to an offering document to the public as required according to the law outside of Israel, and are held by the public.”

⁷ A “public offer” (as defined under the Israeli Securities Law) requires generally (1) approval of a prospectus by the Israeli Securities Authority (“**ISA**”) or a permit from the ISA to conduct such “public offer” without filing a prospectus in Israel, and (2) additional conditions (generally, reporting or documentary obligations) which would depend on the type of “public offer” being conducted.

⁸ We do not accept applications for secondary listing on GEM.

⁹ JPS, paragraphs 42 to 44.

¹⁰ International Organisation of Securities Commission’s Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

¹¹ The arrangement is under a Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information signed by SFC and ISA in March 2006 which is available at the SFC’s website.

- 3.2 If a listing applicant is incorporated in Israel but its place of central management and control¹² is elsewhere, similar international co-operation arrangements must generally also be in place with that jurisdiction.

4. JPS Shareholder Protection Standards

- 4.1 Subject to Israel incorporated applicants demonstrating¹³ how their practices with respect to the matters set out below conform to the JPS requirements, we do not consider Israeli shareholder protection standards to be materially different to our own¹⁴. We have set out below details of the differences between these practices and the JPS requirements. Where we have in the past accepted a practice, we have stated this below.

Matters requiring a super-majority vote

- 4.2 JPS requires the following resolutions of an overseas company to be approved by a super-majority vote of members or by a simple majority vote of members plus a significantly higher quorum¹⁵:
- (a) changes to the rights attached to any class of shares (votes by members of that class);
 - (b) material changes to an overseas company's constitutional documents, however framed; and
 - (c) voluntary winding up of an overseas company.
- 4.3 Under Israeli law, the resolutions referred to in paragraphs 4.2(a)-(b), and under certain circumstances also the resolutions referred to in paragraph 4.2(c) above, only require simple majority votes from members, but allow the company's constitutional documents to modify the requirements.

Our Approach

- 4.4 To conform to the JPS requirements, Israel incorporated applicants need to modify their constitutional documents to specify that resolutions for changing class rights, material changes to the constitutional documents, and their voluntary winding-up must be approved by a super-majority vote of members (i.e. a special 75% majority). In addition, the constitutional documents should not provide for a fixed duration of the applicant's existence. We have adopted this approach in a previous case.

¹² JPS, paragraph 45.

¹³ We list the key shareholder protection standards with which applicants must demonstrate equivalence in Section 1 of the JPS.

¹⁴ Notes to Main Board Rules 19.05(1) and 19.30(1) and JPS, paragraphs 27 and 28.

¹⁵ JPS, paragraphs 31-33.

Individual members to approve increase in member's liability

- 4.5 Under the JPS, there should not be any alteration in an overseas company's constitutional document to increase an existing member's liability to the company unless such increase is agreed by such member in writing¹⁶. Under Israeli law, any amendment to a company's constitutional documents which requires a member to purchase additional shares of the company or to otherwise increase the liability of the member, shall not be binding without that member's consent. However, there is no requirement that the consent is in writing.

Our Approach

- 4.6 To conform to the JPS requirement, Israel incorporated applicants need to modify their constitutional documents to provide that such members' consent to increase the liability of the member will only be valid if provided in writing. We have adopted this approach in a previous case.

Appointment and remuneration of auditors

- 4.7 Under the JPS, the appointment, removal and remuneration of auditors must be approved by a majority of an overseas company's members or other body that is independent of the board of directors.
- 4.8 Under Israeli law:
- (a) appointment of auditors requires the approval of members, but the auditor may, if so allowed under the company's constitutional documents, serve as an auditor until the end of the third annual general meeting ("**AGM**") after the AGM in which he was appointed as an auditor; and
 - (b) the remuneration of the auditors for the provision of audit services must be approved by an ordinary majority of members or by the board of directors if: (a) the members authorise the board of directors to make such decision and in accordance with the terms of such authorisation; or (b) it is prescribed under the constitutional documents and in accordance with the terms prescribed therein. When the auditors' remuneration for audit services is approved by the board of directors, it has to report to the AGM on such remuneration.

Our Approach

- 4.9 To conform to the JPS requirement, Israel incorporated issuers need to modify their constitutional documents to provide that: (a) an auditor's appointment must be no longer than one year ending with the next AGM; and (b) the auditors' remuneration is required to be approved by members. We have adopted this approach in a previous case.

¹⁶ JPS, paragraph 34.

Material Interest in a Transaction

- 4.10 The Rules require members of an issuer who are interested in a transaction to abstain from voting at a general meeting to approve the transaction and controlling shareholders must abstain from voting in favour of certain matters in a general meeting¹⁷. An issuer's constitutional documents must state that where any member is restricted by the Rules from voting on any particular resolution, any votes cast must not be counted¹⁸.
- 4.11 The JPS requires that members' right to speak and vote at a general meeting must take into account members with a material interest in a transaction or arrangement must abstain from voting in such transaction or arrangement¹⁹.
- 4.12 Under Israeli law, except for certain instances specially provided for under Israeli law, every member is entitled to participate and vote in general meetings, subject to the provisions of the constitutional documents, regarding the voting rights attached to each share.
- 4.13 There are some instances in which Israeli law requires: (a) the resolution to be approved by a disinterested majority (excluding the controlling shareholder²⁰); and/ or (b) members are required to declare the presence or absence of a personal interest (see Appendix for a list of these instances).
- 4.14 Under these instances, participation in discussions by interested members is allowed, but votes which are not accompanied by a prescribed declaration of absence or presence of personal interest would be ignored and not counted.
- 4.15 There are therefore some matters in which the Rules are more stringent than the Israeli law with respect to transactions requiring approval by members in a general meeting with no material interest in such transactions and/ or controlling shareholders abstaining from voting in favour of certain transactions.

Our Approach

- 4.16 Israel incorporated applicants need to modify their constitutional documents to provide for a voting mechanism to achieve an outcome substantially equivalent to that under the Rules as regards voting by disinterested members in a general meeting as follows:
- (a) the applicant appoints its compliance adviser or another independent financial or

¹⁷ Principle in Main Board Rule 2.15 applied specifically in Main Board Rules 6.12(1), 6.13, 7.19(6)(a), 7.19(7), 7.19(8), 7.21(2), 7.24(5)(a), 7.24(6), 7.24(7), 7.26A(2), 13.36(4)(a), 13.36(4)(b), 17.04(1), and transactions under Chapter 14 and 14A of the Main Board Rules.

¹⁸ Appendix 3 to the Main Board Rules, paragraph 14.

¹⁹ JPS, paragraph 38.

²⁰ Controlling shareholder is defined under Israeli law as a person as having the ability to control a company, i.e. if he owns 50% of more of the shares or has rights to appoint the CEO or at least half of the directors. In many of the instances where controlling shareholder's vote is not counted, the Company Law broadens the definition of controlling shareholder to include any member holding over 25% of the voting rights (if no other member holds over 50% of the voting rights) and counts together multiple shareholders who share an interest in the same agenda item.

legal adviser to review the votes counted by the share registrar and they confirm that the resolution would have been successfully passed if the votes cast had excluded the votes of members that would be required to abstain under the Rules;

- (b) the transaction agreement contains a condition precedent that the issuer obtains the confirmation described in (a) above; and
- (c) the applicant conducts the transaction only if the condition precedent is satisfied.

Israel incorporated applicants will need to cooperate with HKSCC Nominees Limited to finalise a voting procedure that facilitates the sending of a declaration regarding absence or presence of personal interest under Israeli law. Appropriate disclosure should be made in the listing document regarding the voting arrangements. We have adopted this approach in a previous case.

Notice of general meetings

4.17 Under the JPS, an overseas company must give its members reasonable written notice of its general meetings²¹. Israeli law generally requires a minimum of 21 days' notice to members prior to an AGM, but such notice may vary to 14 days for a Foreign Listed Israeli Public Company under certain circumstances.

Our Approach

4.18 In a previous case, the Exchange accepted an Israeli incorporated applicant amending its constitutional document to provide for a 21 day notice period to members for any AGM, subject to a longer notice period where the relevant matter to be proposed at the AGM requires a longer notice period under Israeli law.

5. Practical and Operational Matters

5.1 Reference is made to Section 4 of the JPS which contains guidance on an overseas company's ability to comply with Hong Kong's rules and regulations; the eligibility of securities; cross-border clearing and settlement; Hong Kong depositary receipts; taxation; and stock name identifications. Applicants are encouraged to notify the Listing Department if they envisage difficulties in complying with such matters, where applicable.

Eligibility of securities for deposit, clearance and settlement in CCASS

5.2 Paragraph 69 of the JPS provides that all listing applicants must make arrangement with Hong Kong Securities Clearing Company Limited ("**HKSCC**"), a recognised clearing house in Hong Kong, to ensure their securities are accepted as eligible for deposit, clearance and settlement in Central Clearing and Settlement System

²¹ JPS, paragraph 37.

("CCASS") in accordance with the General Rules of CCASS ("CCASS Rules"). This is the requirement for "Eligible Securities" under the Listing Rules²².

Our Approach

- 5.3 Israel incorporated applicants must demonstrate that Israeli law and the applicants recognise the CCASS model²³, including recognising HKSCC Nominees Limited as holding legal title to the shares and how this will be evidenced. In a previous case, the applicant amended its constitutional document to provide that it will recognise the holder of record, including HKSCC Nominees Limited, as the holder of legal title to the relevant shares.

Compliance with Code on Takeovers and Mergers ("Takeovers Code")

- 5.4 There are differences between the requirements for takeover procedures under the Hong Kong and Israeli laws in relation to a mandatory general offer:
- (a) Under Israeli Companies Law, a person who wishes to acquire shares of a public Israeli company and who would as a result of such acquisition holds over 90% of the company's voting rights or the company's issued share capital, is required to make a tender offer to all the company's shareholders for the acquisition of all the issued shares of a company ("**Full Tender Offer**");
 - (b) Rule 26 of the Takeovers Code provides that a mandatory general offer must only be conditional upon the offeror having received acceptances in respect of voting rights which, together with the voting rights acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding more than 50% of the voting rights ("**50% Acceptance Condition**");
 - (c) A conflict arises where a mandatory general offer is triggered under the Takeovers Code and which may result in the offeror holding more than 90% of the voting rights or issued share capital of the company, thereby also triggering the Full Tender Offer requirements. In such a case, Rule 26 of the Takeovers Code requires that the only condition to the mandatory general offer to be the 50% Acceptance Condition, while the Full Tender Offer requirements impose certain acceptance conditions ("**Israeli Acceptance Conditions**")²⁴ in order to allow the offeror to increase its shareholding to more than 90% of the issued share capital of the company.

²² Main Board Rule 8.13A requires the securities for which listing is sought must be Eligible Securities and an issuer shall ensure that its securities remain as Eligible Securities). Main Board Rule 9.21) requires for a written notification issued by HKSCC stating that the securities will be Eligible Securities before listing.

²³ For checking compatibility with the CCASS model, applicants are required to complete the relevant CCASS Admission Form (for New Listing of Shares or New Listing of Depositary Receipts) referred to in item 5 of Attachment I to HKEX-GL55-13.

²⁴ The Israeli Acceptance Conditions are the two alternative acceptance conditions for a Full Tender Offer: (a) acceptance by an ordinary majority of offerees without personal interest and a maximum of non-acceptances (i.e. refusals and abstentions) no greater than 5%; or (b) a maximum of non-acceptance no greater than 2% of the issued share capital.

- (d) In addition, if the Israeli Acceptance Conditions are not satisfied, the offeror may only acquire such shares for the accepting shareholders which will not result in the offeror owning more than 90% of the issued share capital of the company.
- (e) However, under the Takeovers Code, once the 50% Acceptance Condition is satisfied, the offeror is required to acquire all the shares in respect of which acceptances are received and payment for such shares is required to be made within seven business days following the date on which the offer becomes or is declared unconditional and the date of receipt of a duly completed acceptance.

Our Approach

- 5.5 The SFC has indicated in a previous case that the issue can be resolved by an Israeli applicant (if accepted for listing by the Exchange) including disclosure in its listing document to the following effect:

“Notice to all shareholders and potential investors

Shareholders and potential investors in the [Subject Company] should be aware that any person contemplating an offer for the shares of the [Subject Company] will need to comply with both the requirements relating to offers under the Takeovers Code and the requirements relating to full tender offers under the Israeli Companies Law.

In case of a mandatory general offer in relation to the [Subject Company], there is a conflict between the requirements under Rule 26 of the Takeovers Code which permits a mandatory general offer to be subject only to the 50% acceptance condition and the full tender offer requirements under the Israeli Companies Law which impose restrictions on the ability of an offeror to acquire more than 90% of the voting rights in the [Subject Company] unless the Israeli Acceptance Conditions are satisfied.

In this regard, any potential offeror must not acquire any shares or voting rights in the [Subject Company] which would give rise to a requirement to make a mandatory general offer under the Takeovers Code unless it is satisfied that the making or implementation of such an offer would comply with the provisions of the Takeovers Code and the Israeli Companies Law. Failure to do so would result in (a) a breach of the Takeovers Code unless dispensation(s) under the Takeovers Code is granted by the Executive Director of the Corporate Finance Division of the SFC or his delegate (“**Executive**”), which will be granted only in exceptional circumstances; and (b) a breach of the Israeli Companies Law. There is no assurance that the Executive will grant such dispensation(s). In case of any doubt, the Executive should be consulted at the earliest opportunity and in any event before a mandatory general offer is triggered.”

6. Constitutional Documents

- 6.1 Applicants should contact the Listing Department if Israeli law or the applicants’ constitutional documents cannot meet the standards under Appendix 3 to the Main Board Rules/ Appendix 6 of GEM Rules.

7. Status as a Foreign Listed Israeli Public Company

- 7.1 The Exchange's acceptance of Israel as an Acceptable Jurisdiction is limited to a Foreign Listed Israeli Public Company, and to an Israeli private company which will become a Foreign Listed Israeli Public Company subject to its listing on the Exchange. The Exchange has not made any analysis on the acceptability of an Israeli public company with a listing on TASE.

Our Approach

- 7.2 A Foreign Listed Israeli Public Company must provide an undertaking to the Exchange that it will not (a) obtain a listing of its shares (whether on a primary or secondary basis) on TASE or other exchanges in Israel and (b) conduct any "public offer" of its shares in Israel which would affect its ability to comply with the Rules and the General Rules of CCASS, without the prior written consent of the Exchange. In addition, the applicant must disclose the terms of the undertaking in the listing document and include the terms of the undertaking in its constitutional document. We have adopted this approach previously.

8. Accounting and Auditing Related Requirements

- 8.1 We normally require the accountants' reports and financial statements of overseas issuers seeking a primary or secondary listing to conform to the Hong Kong Financial Reporting Standards or the International Financial Reporting Standards²⁵.

²⁵ Main Board Rules 4.11 to 4.13, 19.13, 19.39 and Notes 2.1 and 2.4 to paragraph 2 of Appendix 16. See also JPS, paragraphs 56 to 62.

Voting Requirements for Certain Transactions under Israeli Law referred to in paragraphs 4.13 and 4.14

- I. Appointment of outside directors²⁶ in a public company requires approval by (a) a majority of votes of members in a general meeting excluding those from a controlling shareholder or other members who have an interest related to the controlling shareholder, or (b) total votes opposing the appointment do not exceed 2% of total voting rights in the company²⁷.

- II. Matters that require approval by (a) a majority of votes of members in a general meeting excluding those from a controlling shareholder or any member with an interest in the approval, or (b) total votes opposing the appointment do not exceed 2% of total voting rights in the company²⁸:
 - (i) The executive remuneration policy in a public company;
 - (ii) Approval for the chief executive officer (“**CEO**”) to act as chairman of the board of directors, or vice versa, in a public company;
 - (iii) The terms of engagement with a public company officer other than a director which are not in accordance with the remuneration policy, and approval of CEO remuneration (even in accordance with the remuneration policy);
 - (iv) Terms of engagement with a director or in another capacity, not in accordance with the remuneration policy;
 - (v) Any transaction outside the ordinary course of business, with a controlling shareholder or any entity related thereto, or the renewal or such transaction after 3 years;
 - (vi) Amendments to the Articles of a public company, in which the controlling shareholders is also an officer, to include provisions for indemnification and insurance for company officers.

- III. Matters that require any member participating in such vote to disclose to the general meeting whether that member has an interest in a transaction; failing which, that member’s votes shall not be counted²⁹:
 - (i) Voting on all matters referred to in I and II above;

 - (ii) The terms of engagement with a director, whether in his/ her capacity as director or in another capacity, in accordance with the remuneration policy;

²⁶ Outside directors under Israeli law are similar to independent directors under the Rules.

²⁷ Sections 239 and 245 of the Companies Law.

²⁸ Sections 267A, 121, 272(c)(2), 272(c1)(1), 273(b), 275(a)-(a1) of the Companies Law

²⁹ Sections 273(a), 274, 276 of the Companies Law.

Voting Requirements for Certain Transactions under Israeli Law referred to in paragraphs 4.13 and 4.14

- (iii) A private offer by a public company which issues 20% of the voting rights (on a pre-issue basis) for which the consideration is not in cash or in publicly traded securities or which is not on market terms, and which will result in a member increasing his holdings over 5%, and
 - (iv) A merger (as described in IV below).
- IV. Mergers: A merger of one company (company A) with another company (company B) is generally subject to approval by an ordinary majority of each company. However, if in company A, any of the shares in company A are held by company B or by an entity which holds at least 25% of the shares in company B (i.e. the interested shareholders), then the merger is subject to approval by a majority of votes of company A, excluding abstentions and the votes of the interested shareholders. In addition, all voting shareholders must declare whether they are or are not an interested shareholder and if they fail to do so, their votes will not be counted.