

## Annex A.14 Continuing Connected Transactions

| Applicant  | Background and Decision   |
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| <p data-bbox="165 327 328 461"><b>Company A</b><br/>(MB applicant)<br/>(2010)</p> <p data-bbox="165 501 296 636">Rule reference:<br/>MB Rule 14A.53(1)</p> | <p data-bbox="357 327 513 358"><i>Background</i></p> <ol data-bbox="357 398 1449 842" style="list-style-type: none"> <li>1. Company A was granted a 20-year licence by the local government for its operation. The unexpired licence term was over 10 years when Company A applied for listing.</li> <li>2. Company A proposed to continue with the corresponding licence agreement with its parent company (“<b>Parentco</b>”) for the use of certain intellectual property rights (which were crucial to Company A’s business) for an indefinite term for a monthly royalty fee based on Company A’s gross revenues.</li> <li>3. Company A applied for a waiver from the requirement to set a monetary annual cap under MB Rule 14A.53(1) such that it would be allowed to set the annual cap to be set as a percentage of its gross revenues. Company A also indicated that it would restructure the terms of the licence agreement with Parentco to meet the Exchange’s criteria for granting the waiver.</li> </ol> <p data-bbox="357 882 469 913"><i>Decision</i></p> <ol data-bbox="357 954 1449 2051" style="list-style-type: none"> <li>4. Company A was granted a waiver from MB Rule 14A.53(1) and allowed to express its annual cap as a percentage of its gross revenues on the following basis:             <ol data-bbox="414 1057 1449 2051" style="list-style-type: none"> <li>(i) The non-monetary annual cap waiver granted would be for a fixed term with the Parentco corresponding with the remaining licence term of the agreement with the local government (instead of the proposed indefinite term). Upon expiry of the waiver, the license agreement would only continue if approved by Company A. Company A had to comply with the Listing Rules or obtain a new waiver;</li> <li>(ii) Parentco would need Company A’s prior consent if it wanted to terminate the licence agreement. Overlapping directors must not vote on any resolution to give consent to the termination;</li> <li>(iii) The listing document would clearly disclose the basis of the royalty fee calculation during the track record period and going forward. Company A would separately disclose the same and related amounts in its future interim and annual financial statements;</li> <li>(iv) Any change to the basis of calculating the gross revenues would be subject to shareholders’ approval;</li> <li>(v) The setting of the non-monetary annual cap was reviewed by an independent appraisal agent using market comparables;</li> <li>(vi) The directors of Company A (including independent non-executive directors) confirmed that the long duration of the licence agreement and the non-monetary annual cap were fair and reasonable to Company A and shareholders as a whole; and</li> <li>(vii) The sponsor confirmed in the listing document that:                 <ol data-bbox="472 2020 1449 2051" style="list-style-type: none"> <li>(a) The non-monetary annual cap was fair and reasonable and in the interests</li> </ol> </li> </ol> </li> </ol> |

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|           | <p>of the shareholders as a whole;</p> <p>(b) It was normal business practice for licence agreements to have a long duration; and</p> <p>(c) The terms of the licence agreement were in the ordinary and usual course of Company A's business, on normal commercial terms, and the terms were fair and reasonable and in the interest of shareholders as a whole, and it was normal business practice.</p> |