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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in BAIOO Family Interactive Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

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**BAIOO Family Interactive Limited**

**百奧家庭互動有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2100)**

**NON-EXEMPT CONNECTED TRANSACTION —  
PROPOSED GRANT OF RESTRICTED SHARE UNITS  
TO A CHIEF EXECUTIVE OF THE COMPANY  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders**



**Southwest Securities (HK) Capital Limited**

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A letter from the Independent Board Committee to the Independent Shareholders is set out on page 10 to 11 of this circular. A letter from Southwest Securities (HK) Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 12 to 21 of this circular.

A notice convening the Extraordinary General Meeting to be held at Applause Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 14 August 2015 at 3 p.m. is set out on pages 26 to 27 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.baioo.com.hk>). Whether or not you propose to attend and vote at the Extraordinary General Meeting, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting if you so desire. If you attend and vote at the Extraordinary General Meeting, the form of proxy will be revoked.

30 July 2015

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“associate”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Company”	BAIOO Family Interactive Limited (百奧家庭互動有限公司), a company incorporated in the Cayman Islands with limited liability on 25 September 2009, with its Shares listed on the Main Board of the Stock Exchange on 10 April 2014 (Stock Code: 02100)
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Xu”	Dr. XU Gang (徐剛), the chief executive officer of the Company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at Applause Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 14 August 2015 at 3 p.m., notice of which is set out on pages 26 to 27 of this circular, or any adjournment thereof
“Group”	the Company, its subsidiaries and the PRC operating entity
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, established to advise the Independent Shareholders in respect of the non-exempt connected transaction relating to the Proposed RSU Grant to Chief Executive
“Independent Financial Adviser” or “Southwest HK Capital”	Southwest Securities (HK) Capital Limited, a licensed corporation to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the non-exempt connected transaction relating to the Proposed RSU Grant to Chief Executive
“Independent Shareholders”	the Shareholders who are not required under the Listing Rules to abstain from voting at the Extraordinary General Meeting to approve the non-exempt connected transaction relating to the Proposed RSU Grant to Chief Executive
“Latest Practicable Date”	24 July 2015 being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular

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## DEFINITIONS

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“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Post-IPO RSU Scheme”	the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015. Details of the Post-IPO RSU Scheme and RSUs granted thereunder are set out in the prospectus of the Company dated 28 March 2014, and the 2013 and 2014 annual reports of the Company, the circular of the Company dated 24 April 2015 and the supplementary circular of the Company dated 14 May 2015
“Pre-IPO RSU Scheme”	the restricted share unit plan approved and adopted by the Company on 30 September 2013
“Pre-IPO Share Option Scheme”	the share option plan approved and adopted by the Company on 18 June 2010
“Proposed RSU Grant to Chief Executive”	the proposed conditional grant of 30,000,000 RSUs to Dr. Xu pursuant to the Post-IPO RSU Scheme as approved by the Board and the Remuneration Committee on 10 July 2015
“Remuneration Committee”	the remuneration committee of the Board
“RSU(s)”	restricted share unit(s), being a contingent right to receive Shares which is granted under the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) of US\$0.0000005 each in the issued share capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholders(s)”	Holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“%”	per cent

References to time and dates in this circular are to Hong Kong time and dates.



**BAIOO Family Interactive Limited**

**百奧家庭互動有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2100)**

*Executive Directors:*

Mr. DAI Jian (*Chairman*)  
Mr. WU Lili  
Mr. LI Chong  
Mr. WANG Xiaodong

*Non-executive Director:*

Mr. JI Yue

*Independent Non-executive Directors:*

Ms. LIU Qianli  
Mr. WANG Qing  
Mr. MA Xiaofeng

*Registered Office:*

Hutchins Drive  
Cricket Square  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands  
British West Indies

*Head Office:*

10G, No. 36 Jianzhong Road  
Tianhe Software Park  
Tianhe District  
Guangzhou  
Guangdong  
PRC

*Principal Place of Business  
in Hong Kong:*

Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

30 July 2015

*To the Shareholders*

Dear Sir/Madam,

**NON-EXEMPT CONNECTED TRANSACTION —  
PROPOSED GRANT OF RESTRICTED SHARE UNITS  
TO A CHIEF EXECUTIVE OF THE COMPANY  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 10 July 2015, in which the Company announced, among other things, that on 10 July 2015, the Board resolved to conditionally grant 30,000,000 RSUs to Dr. Xu under the Post-IPO RSU Scheme.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) details of the Proposed RSU Grant to Chief Executive; (ii) the advice of the Independent Financial Adviser regarding the Proposed RSU Grant to Chief Executive; (iii) the recommendation of the Independent Board Committee regarding the Proposed RSU Grant to Chief Executive; and (iv) a notice of the Extraordinary General Meeting.

### 2. PROPOSED RSU GRANT TO CHIEF EXECUTIVE

On 10 July 2015, the Board resolved to conditionally grant 30,000,000 RSUs to Dr. Xu under the Post-IPO RSU Scheme. The Proposed RSU Grant to Chief Executive is subject to the Independent Shareholders' approval at the Extraordinary General Meeting. As at the Latest Practicable Date, the 30,000,000 RSUs have not been granted to Dr. Xu and no notice of grant with respect to such RSUs has been issued to Dr. Xu in the manner set forth under the Post-IPO RSU Scheme. The 30,000,000 RSUs will only be granted, and the relevant notice of grant will only be issued to Dr. Xu, only (i) if the Independent Shareholders approve such grant in accordance with the requirements of Chapter 14A of the Listing Rules, and (ii) at a later date after such Independent Shareholders' approval has been obtained.

Each of these RSUs to be granted to Dr. Xu represents the right to receive a Share on the date it vests. The Proposed RSU Grant to Chief Executive is not subject to performance targets and has been approved by the Remuneration Committee and the Board. The Proposed RSU Grant to Chief Executive will be made for no consideration. The RSUs to be granted to Dr. Xu shall vest over a four-year period, of which:

- as to 20% of the RSUs vested on 5 March 2016;
- as to 20% of the RSUs vested on 5 March 2017;
- as to 30% of the RSUs vested on a quarterly basis from 5 March 2017 to 5 March 2018; and
- as to 30% of the RSUs vested on a quarterly basis from 5 March 2018 to 5 March 2019;

All Shares to be issued to Dr. Xu upon vesting and settlement of the RSUs will rank *pari passu* in all respects among themselves and with all the ordinary Shares in issue from time to time.

#### Dr. Xu's Interests in the Securities of the Company

Subject to the Independent Shareholders' approval of the Proposed RSU Grant to Chief Executive at the Extraordinary General Meeting, and assuming that no further Shares will be issued or repurchased by the Company prior to the date of the Extraordinary General Meeting, the number of Shares that may be issued to Dr. Xu in accordance with and subject to the terms of the Proposed RSU Grant to Chief Executive would be 30,000,000, representing approximately 1.07% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 1.03% of the total enlarged issued share capital of the Company.

#### Shareholding Structure of the Company

On 10 July 2015, the Company granted 65,780,000 RSUs to a total of 110 other employees and officers of the Group (the "Other Grantees") (the "RSU Grant to Other Grantees"), representing an aggregate of 65,780,000 Shares involved and approximately 2.34% of the issued share capital of the Company as at the Latest Practicable Date and approximately 2.26% of the issued share capital of the Company as enlarged by the issuance of new Shares under the Proposed RSU Grant to Chief Executive and the RSU Grant to Other Grantees as at the Latest Practicable Date. Each of the Other Grantees is an independent third party. For details of the RSU Grant to Other Grantees, please refer to the announcement of the Company dated 10 July 2015.

## LETTER FROM THE BOARD

The shareholding structure of the Company before and after the issuance of new Shares under the Proposed RSU Grant to Chief Executive and the RSU Grant to Other Grantees as at the Latest Practicable Date is set forth below:

Name	Before the issuance of new Shares under the Proposed RSU Grant to Chief Executive and the RSU Grant to Other Grantees as at the Latest Practicable Date		After the issuance of new Shares under the Proposed RSU Grant to Chief Executive and the RSU Grant to Other Grantees as at the Latest Practicable Date	
	Number of Shares	Approximate % <sup>(8)</sup>	Number of Shares	Approximate % <sup>(8)</sup>
Stmoritz Investment Limited <sup>(1)</sup>	749,460,000	26.66%	749,460,000	25.79%
Bright Stream Holding Limited <sup>(2)</sup>	447,112,000	15.91%	447,112,000	15.38%
LNZ Holding Limited <sup>(3)</sup>	203,304,000	7.23%	203,304,000	6.99%
Angel Wang Holding Limited <sup>(4)</sup>	74,544,000	2.65%	74,544,000	2.56%
Mr. DAI Jian <sup>(1)(5)</sup>	10,000,000	0.36%	10,000,000	0.34%
Ms. LIU Qianli <sup>(6)</sup>	200,000	0.01%	200,000	0.01%
Mr. WANG Qing <sup>(6)</sup>	200,000	0.01%	200,000	0.01%
Mr. MA Xiaofeng <sup>(6)</sup>	200,000	0.01%	200,000	0.01%
Mr. XU Gang	—	—	30,000,000	1.03%
Other senior Management <sup>(7)</sup>	16,000,000	0.60%	16,000,000	0.55%
<b>Sub-total</b>	<u>1,501,020,000</u>	<u>53.40%</u>	<u>1,531,020,000</u>	<u>52.68%</u>
Public Shareholders	<u>1,309,642,000</u>	<u>46.60%</u>	<u>1,375,422,000</u>	<u>47.32%</u>
<b>Total</b>	<u><b>2,810,662,000</b></u>	<u><b>100.00%</b></u>	<u><b>2,906,442,000</b></u>	<u><b>100.00%</b></u>

Notes:

- (1) The entire share capital of Stmoritz Investment Limited is wholly-owned by DAE Holding Investments Limited and ultimately owned by TMF (Cayman) Ltd. as the trustee of the DAE Trust, which is a discretionary trust set up by Mr. DAI Jian (“**Mr. DAI**”) on 27 December 2013 for the benefit of himself and his family members, and Mr. DAI is a settlor and protector. Mr. DAI (as founder of the DAE Trust), DAE Holding Investments Limited and TMF (Cayman) Ltd. are taken to be interested in 749,460,000 Shares held by Stmoritz Investment Limited (without taking into account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and pursuant to the Post-IPO RSU Scheme) pursuant to Part XV of the SFO. Mr. DAI is the chairman of the Board and an executive Director.
- (2) The entire share capital of Bright Stream Holding Limited is wholly-owned by WHEZ Holding Ltd. and ultimately owned by TMF (Cayman) Ltd. as the trustee of the WHZ Trust, which is a discretionary trust set up by Mr. WU Lili (“**Mr. WU**”) on 27 December 2013 for the benefit of himself and his family members, and Mr. WU is a settlor and protector. Mr. WU (as founder of the WHZ Trust), WHEZ Holding Ltd. and TMF (Cayman) Ltd. are taken to be interested in 447,112,000 Shares held by Bright Stream Holding Limited (without taking into account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and pursuant to the Post-IPO RSU Scheme) pursuant to Part XV of the SFO. Mr. WU is an executive Director.

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## LETTER FROM THE BOARD

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- (3) The entire share capital of LNZ Holding Limited is owned by Golden Water Management Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of The Zhen Family Trust, which is a discretionary trust set up by Mr. LI Chong (“**Mr. LI**”) on 27 December 2013 for the benefit of himself and his family members, and Mr. LI is a settlor and protector. Mr. LI (as founder of The Zhen Family Trust), Golden Water Management Limited and TMF (Cayman) Ltd. are taken to be interested in 203,304,000 Shares held by LNZ Holding Limited (without taking into account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and pursuant to the Post-IPO RSU Scheme) pursuant to Part XV of the SFO. Mr. LI is an executive Director.
- (4) The entire share capital of Angel Wang Holding Limited is owned by Charlotte Holding Limited, which is wholly-owned by TMF (Cayman) Ltd. as the trustee of the WSW Family Trust, which is a discretionary trust set up by Mr. WANG Xiaodong (“**Mr. WANG**”) on 27 December 2013 for the benefit of himself and his family members, and Mr. WANG is a settlor and protector. Mr. WANG (as founder of the WSW Family Trust), Charlotte Holding Limited and TMF (Cayman) Ltd. are taken to be interested in 74,544,000 Shares held by Angel Wang Holding Limited (without taking into account any Shares to be issued upon exercise of any share options under the Pre-IPO Share Option Scheme and pursuant to the Post-IPO RSU Scheme) pursuant to Part XV of the SFO. Mr. WANG is an executive Director.
- (5) Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As of the Latest Practicable Date, 200,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 10,000,000 Shares underlying the RSUs are held by ZEA Holding Limited (“**ZEA**”) as the nominee of The Core Services Limited, the trustee of a trust established by our Company under the Pre-IPO RSU Scheme. ZEA is our connected person for being an associate of our Directors by holding the Shares underlying the RSUs granted to our Directors.
- (6) Each of Ms. LIU Qianli (“**Ms. LIU**”), Mr. WANG Qing and Mr. MA Xiaofeng (“**Mr. MA**”) is an independent non-executive Director. Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Ms. LIU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Mr. WANG Qing is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Mr. WANG Qing were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Mr. MA were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such an aggregate of 600,000 Shares underlying the RSUs granted to our independent non-executive Directors are held by ZEA.
- (7) The senior management of the Company is interested in 20,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 20,000,000 Shares subject to vesting. As of the Latest Practicable Date, 4,000,000 RSUs granted to him were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme and the underlying 4,000,000 Shares were exercised and sold to the market. The remaining 16,000,000 Shares underlying the RSUs are held by ZEA.
- (8) The aggregate percentage may not add up to 100% due to rounding.



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## LETTER FROM THE BOARD

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The conditional approval from the Stock Exchange for the granting of the listing of, and permission to deal in, the new Shares which underlie the RSUs to be granted under the Post-IPO RSU Scheme has been received by the Company on 10 July 2015.

### **Market Value**

Based on the closing price of HK\$0.66 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the market value of the underlying Shares in relation to the RSUs under the Proposed RSUs Grant to Chief Executive amounts to approximately HK\$19.8 million.

### **Background of Dr. Xu**

XU Gang (徐剛), aged 43, was appointed as our chief executive officer on 5 March 2015. He is responsible for the overall management, corporate development and strategic planning of the Company.

Dr. Xu has more than nineteen years of experience in the telecommunication industry and the mobile internet. Prior to joining the Group, he held various management positions at a number of subsidiaries of China Mobile Communications Corporation (“CMCC”), a Chinese state-owned telecommunication company, since 1996. During his service at CMCC, he planned and executed a number of key initiatives involving new business setup, technology innovation, business development, marketing and brand building. In 2003, he was involved in the development of monthly package brands GoTone (“全球通”), M-Zone (“動感地帶”), and Easy Own (“神州行”) in Guangdong Province and helped drive a number of significant achievements in terms of user base and revenue growth of CMCC. In 2005, he built a business unit that focused on developing CMCC’s internet business-to-business services. He then joined Guangdong Mobile Communication Co. Ltd. Zhuhai Branch in 2010 as its General Manager. In this position, he managed more than 1,100 team members. Most recently, he was the Deputy General Manager of the Marketing Department of CMCC, where he was responsible for formulating overall marketing strategies in China.

Dr. Xu obtained a doctorate degree in communication and information systems from South China University of Technology in 2008, an EMBA degree from Jinan University in 2007, and both a bachelor’s and master’s degree in communication and information systems from Xidian University in 1993 and 1996 respectively.

### **Information about the Company**

The Company is principally engaged in the business of online entertainment for children. The Company’s web portal page, 100bt.com, serves as a platform for the Company’s content that is designed for children of ages six through fourteen. The Company recently acquired 74.9% equity interest in Bumps to Babes Limited, a Hong Kong’s leading maternity product provider, to leverage on its extensive experience in the children’s market and technological capabilities to expand its offerings to include mother and baby products via e-commerce.

### **Reasons and Benefits of the Proposed RSU Grant to Chief Executive**

Dr. Xu is responsible for the overall management, corporate development and strategic planning of the Company, leading the Group in its next stage of development. The purpose of the Proposed RSU Grant to Chief Executive is to recognize Dr. Xu’s contribution to the Group and to incentivize and motivate him to remain with, and to strive for the future development and expansion of the Group through further aligning his interests with the Company. With Dr. Xu’s extensive experience in leading the development of the mobile internet in China during his services at CMCC, the Company

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## LETTER FROM THE BOARD

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believes that Dr. Xu will keep leading the Group's ongoing focus on enhancing user experience and its expanding portfolio of mobile products to secure a larger user base in the future.

The number of RSUs to be granted to Dr. Xu was determined by the Company and Dr. Xu upon arm's length negotiation taking into account all of the aforementioned factors.

In addition, the market value of the underlying Shares in relation to the RSUs under the Proposed RSU Grant to Chief Executive is immaterial as compared to the Group's financial condition for the most recent financial year. Furthermore, the dilutive effect of Proposed RSU Grant to the Chief Executive to the interests of the existing public Shareholders is insignificant and there will be no substantial cash outflow by the Company under the Proposed RSU Grant to Chief Executive. Accordingly, under his current service contract as the chief executive officer of the Company, Dr. Xu is entitled to the annual salary of RMB2.3 million and entitled to a discretionary bonus on a yearly basis subject to the approval of the remuneration committee of the Company with reference to the remuneration policy of the Company.

The Directors (including independent non-executive Directors) consider that the terms of the Proposed RSU Grant to Chief Executive are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Listing Rules Implications**

As Dr. Xu is a chief executive of the Company, and therefore a connected person of the Company under Rule 14A.07 of the Listing Rules, the Proposed RSU Grant to Chief Executive constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and the Independent Shareholders' approval requirements.

Pursuant to Chapter 14A of the Listing Rules, Dr. Xu and his associates are required to abstain from voting on the resolution at the Extraordinary General Meeting to approve the Proposed RSU Grant to Chief Executive. Accordingly, Dr. Xu shall abstain from voting at the Extraordinary General Meeting on the resolution approving the Proposed RSU Grant to Chief Executive with respect to all the Shares he holds. As at the Latest Practicable Date, save as Dr. Xu's interests in the underlying Shares, under the Proposed RSU Grant to Chief Executive, Dr. Xu does not have any equity interest in the Company. To the best of the Directors' knowledge, information and belief, Dr. Xu and his associates are not interested in any other Shares as disclosed herein, and there are no Shareholders having any material interest in the Proposed RSU Grant to Chief Executive. Accordingly, no Shareholders other than Dr. Xu are required to abstain from voting at the Extraordinary General Meeting on the resolution approving the Proposed RSU Grant to Chief Executive under the Listing Rules.

No Director is considered to be interested in the Proposed RSU Grant to Chief Executive and therefore none of them abstained from voting on the relevant Board resolution.

### **Independent Board Committee and Independent Financial Adviser**

The Independent Board Committee, comprising Ms. LIU Qianli, Mr. WANG Qing and Mr. MA Xiaofeng, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Proposed RSU Grant to Chief Executive. Southwest HK Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Proposed RSU Grant to Chief Executive are fair and reasonable and in the interests of the Company so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting. The letter from the Independent Board Committee to the Independent Shareholders is set out on page 10 to 11 of this circular. The letter from Southwest Securities (HK) Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 21 of this circular.

### 3. RECOMMENDATION

The Directors (including the Independent non-executive Directors) are of the opinion that the proposed resolution set out in the notice of the Extraordinary General Meeting are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the proposed resolution.

### 4. GENERAL

Your attention is drawn to the general information set out in the Appendix to this circular.

### 5. EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Extraordinary General Meeting is set out on pages 26 to 27 of this circular. At the Extraordinary General Meeting, resolution will be proposed to approve the Proposed RSU Grant to Chief Executive under the Post-IPO RSU Scheme.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the proposed resolution will be put to vote by way of poll at the Extraordinary General Meeting.

An announcement on the poll vote results will be made by the Company after the Extraordinary General Meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.baioo.com.hk>). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting if you so desire.

Yours faithfully,  
For and on behalf of the Board  
**BAIOO Family Interactive Limited**  
**DAI Jian**  
*Chairman and Executive Director*



**BAIOO Family Interactive Limited**

**百奧家庭互動有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2100)**

30 July 2015

*To the Independent Shareholders*

Dear Sir/Madam,

**NON-EXEMPT CONNECTED TRANSACTION —  
PROPOSED GRANT OF RESTRICTED SHARE UNITS  
TO A CHIEF EXECUTIVE OF THE COMPANY**

We refer to the circular of the Company dated 30 July 2015 (the “**Circular**”) to its Shareholders of which this letter forms part. Terms defined in the circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise you in relation to the proposed grant of 30,000,000 RSUs to Dr. Xu (or the Proposed RSU Grant to Chief Executive); whether such Proposed RSU Grant to Chief Executive are fair and reasonable and in the interests of the Company and the Shareholder as a whole; and how to vote on the resolution regarding the Proposed RSU Grant to Chief Executive, taking into account the recommendations from the Independent Financial Adviser.

Southwest Securities (HK) Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Proposed RSU Grant to Dr. Xu are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote on the relevant resolution.

Your attention is drawn to:

- (a) the letter from the Board set out on pages 3 to 9 of this circular which contains its recommendation to the Independent Shareholders and the additional information set out in the Appendix to this circular; and
- (b) the letter from the Independent Financial Adviser set out on pages 12 to 21 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the advice from the Independent Financial Adviser, we are of the view that the terms of the Proposed RSU Grant to Chief Executive are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Proposed RSU Grant to Chief Executive to be presented at the Extraordinary General Meeting.

Yours faithfully,  
For and on behalf of the Board  
**Ms. LIU Qianli, Mr. WANG Qing and  
Mr. MA Xiaofeng**  
*Independent Non-Executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from Southwest Securities (HK) Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed RSU Grant to Chief Executive for the purpose of inclusion in this circular.*



Suite 1601, 03-08  
16F Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong

30 July 2015

*To: The independent board committee and the independent shareholders  
of BAIOO Family Interactive Limited*

Dear Sirs

### **NON-EXEMPT CONNECTED TRANSACTION PROPOSED GRANT OF RESTRICTED SHARE UNITS TO A CHIEF EXECUTIVE OF THE COMPANY**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed RSU Grant to Chief Executive, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 30 July 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 10 July 2015, the Board resolved to conditionally grant 30,000,000 RSUs to Dr. Xu under the Post-IPO RSU Scheme. The Proposed RSU Grant to Chief Executive has been approved by the Remuneration Committee and the Board. Dr. Xu is a chief executive of the Company, and therefore a connected person of the Company under Rule 14.07 of the Listing Rules, and the Proposed RSU Grant to Chief Executive constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to reporting, announcement and the Independent Shareholders’ approval requirements.

The Independent Board Committee comprising Ms. Liu Qianli, Mr. Wang Qing and Mr. Ma Xiaofeng (all being independent non-executive Directors) has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Proposed RSU Grant to Chief Executive and in the interests of the Company and the Shareholders as a whole; and how to vote on the resolution regarding the Proposed RSU Grant to Chief Executive. We have been appointed, and approved by the Independent Board Committee, as the Independent Financial Adviser. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders on (i) whether the terms of the Proposed RSU Grant to Chief Executive are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed RSU Grant to Chief Executive is in the interests of the Company and the Independent Shareholders as a whole; and (iii) how the Independent Shareholders should vote in favour of the resolutions to approve the Proposed RSU Grant to Chief Executive and the transactions contemplated thereunder at the Extraordinary General Meeting.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS OF OUR OPINION

Other than this appointment as the Independent Financial Advisor, we were not aware of any relationships or interests between Southwest HK Capital and the Company or any other parties that could be reasonably regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed RSU Grant to Chief Executive.

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have interviewed with Dr. Xu and reviewed, *inter alia*, Dr. Xu's employment contract, the rule of the Post-IPO RSU Scheme, the Group's business introduction materials, the Company's announcements and the Company's annual report for the year ended 31 December 2014 (the "**2014 Annual Report**"). We have also relied on the information and facts contained in the Circular and all information supplied to us by the Company, the information and representations expressed by the management of the Group and the research results performed by us. We have assumed that all information, facts and representations that have been provided by the Group's management, for which they are fully responsible, in all material aspects, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Group's management in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions and representations expressed by the Company and its advisers, which have been provided to us. Our opinion is based on the representation and confirmation of the Group's management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed RSU Grant to Chief Executive.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

Having completed the abovementioned work done, we consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent verification and in-depth investigation into the documents provided by the Company as well as the business and affairs of the Group or its subsidiaries or associates, we have also not considered the taxation implication on the Group or the Shareholders as a result of the Proposed RSU Grant to Chief Executive. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is our responsibility to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent verification and in-depth investigation or into the accuracy and completeness of those information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed RSU Grant to Chief Executive, we have taken into consideration the following principal factors and reasons:

#### 1. Background of the Group and the Post-IPO RSU Scheme

##### *Background of the Group*

The Company is one of China's largest online entertainment destinations designed for children with more than 40% market share in terms of children's web game spending in 2014. The Group's web portal page, 100bt.com, serves as a platform for its content that is designed for children of ages six through fourteen, and allows them to explore the Group's virtual worlds, purchase its virtual currency, interact with other users, access its e-learning and cartoon products and communities, and participate in a variety of other activities. The Group has developed, commercially launched and currently operate seven virtual worlds, namely, Aobi Island, Aola Star, Dragon Knights, Light of Aoya, Legend of Aoqi, Clashes of Aoqi, and Magic Fighter.

##### *Background of the Post-IPO RSU Scheme*

The Company's shares were listed on the Main Board of the Stock Exchange on 10 April 2014. The Post-IPO RSU Scheme was approved by the Shareholders on 18 March 2014 and took effect on 10 April 2014. The Post-IPO RSU Scheme is the only share-based incentive scheme after the listing of the Shares. The purposes of the Post-IPO RSU Scheme are (i) to recognize the contributions by grantees and to give incentives thereto in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. Pursuant to Post-IPO RSU Scheme, the total number of Shares underlying the RSUs that may be granted under the Post-IPO RSU Scheme initially had a scheme mandate limit of 2% of the total number of Shares in issue, which is subject to annual refreshment by Shareholders' approval. On 19 June 2015, a resolution in relation to amendment of the Post-IPO RSU Scheme was absolutely passed at an annual general meeting to increase the scheme mandate limit from 2% to 4% of the total number of Shares in issue with the annual limit of 2% of the total issued share capital.

#### 2. Reasons for and terms of the Proposed RSU Grant to Chief Executive

The Company is one of China's largest online entertainment platform designed for children, in view of the need to continue growing the Company's own talent pools, there is a pressing need for the Company to grant RSUs to incentivize its employees and to align their interests with that of the Group by providing them with the opportunity to obtain equity interests in the Company. The Post-IPO RSU Scheme may assist the Company in retaining competent management resources for the Group's future development and expansion.

On 5 March 2015, the Board announced that Dr. Xu was appointed as the chief executive officer of the Company and he would be responsible for the overall management, corporate development and strategic planning of the Company. Under Dr. Xu's service contract as the chief executive officer of the



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company, Dr. Xu is entitled to an annual salary of RMB2,300,000 and entitled to a discretionary bonus on a yearly basis subject to the approval of the remuneration committee of the Company with reference to the remuneration policy of the Company. On 10 July 2015, the Board resolved to conditionally grant 30,000,000 RSUs to Dr. Xu under the Post-IPO RSU Scheme in order to recognize Dr. Xu's contribution to the Group and to incentivize and motivate him to remain with, and to strive for the future development and expansion of the Group as well as leading the Group in its next stage of development through aligning his interests with the Group. Each of these RSUs to be granted to Dr. Xu represents the right to receive a Share on the date it vests. The RSUs to be granted to Dr. Xu shall vest over a four-year period, of which:

- 6,000,000 RSUs (representing 20% of the total RSUs granted) shall vest on 5 March 2016;
- 6,000,000 RSUs (representing 20% of the total RSUs granted) shall vest on 5 March 2017;
- 9,000,000 RSUs (representing 30% of the total RSUs granted) shall vest on quarterly basis from 5 March 2017 to 5 March 2018; and
- 9,000,000 RSUs (representing 30% of the total RSUs granted) shall vest on quarterly basis from 5 March 2018 to 5 March 2019.

The Proposed RSU Grant to Chief Executive will be made for no consideration and is not subject to performance targets.

### 3. Background of Dr. Xu

According to the Board Letter and Dr. Xu's Employment Contract, Dr. Xu was appointed as the chief executive officer of the Company on 5 March 2015 with a term of four years ending on 4 March 2019. He is responsible for the overall management, corporate development and strategic planning of the Group. Dr. Xu has more than 19 years of experience in the telecommunication industry and the mobile value-added services. Prior to joining the Group, he held various management positions at a number of subsidiaries of China Mobile Communications Corporation ("CMCC"), a Chinese state-owned telecommunication company, since 1996. During his service at CMCC, he planned and executed a number of key initiatives involving new business setup, technology innovation, business development, marketing and brand building.

In 2003, he was involved in the development of the popular monthly package brands such as GoTone ("全球通"), M-Zone ("动感地带"), and Easy Own ("神州行") in Guangdong Province and helped drive a number of significant achievements in terms of increasing different target user bases and revenue growth of CMCC. In 2005, he built a business unit that focused on developing CMCC's on-line business-to-business services. He then joined Guangdong Mobile Communication Co. Ltd. Zhuhai Branch in 2010 as its General Manager. In this position, he managed more than 1,100 team members. Most recently, he was the Deputy General Manager of the Marketing Department of CMCC, where he was responsible for formulating overall marketing strategies in China.

Dr. Xu obtained a doctorate degree in communication and information systems from South China University of Technology in 2008, an EMBA degree from Jinan University in 2007, and a bachelor's and master's degree in communication and information systems from Xidian University in 1993 and 1996, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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#### 4. To continue develop the Group's on-line gaming business and explore opportunities in e-commerce business

##### *On-line gaming business*

Having reviewed the 2014 China Gaming Industry Report issued by China New Gaming Research Center in 2015, we note that the gross market value of the PRC's gaming industry increased from approximately RMB18.6 billion in 2008 to approximately RMB114.5 billion in 2014, with compound annual growth rate ("CAGR") of approximately 35.4%. Mobile game is the fastest growing sector in the PRC gaming industry, its market value increased significantly from approximately RMB1.5 million in 2008 to approximately RMB274.9 million in 2014, with CAGR of approximately 138.2% and its share in the China gaming industry increased significantly from approximately 0.8% in 2008 to approximately 24.1% in 2014, with CAGR of approximately 76.2%. Gaming industry is now playing a more important role in China's economy, and mobile game is expected to be a trend of the China gaming industry in the foreseeable future. We understand from the Group's management that the Group has recognized the opportunities provided by the growing PRC gaming industry and connected mobile devices, they will continue allocate resources to develop its existing gaming business with special focus on mobile game business. In the meantime, they plan to leverage on the Company's existing resources including, not limited to, the intellectual properties developed by the Company, its extensive understanding and experience in the children's market as well as its existing user base, to develop innovative entertainment and educational on-line game play for children, an adapted sandbox game with global title as well as to extend its business to e-commerce business.

##### *E-commerce business*

According to the Company's announcement dated 11 May 2015, the Company had acquired 74.9% stake in Bumps to Babes Limited which primarily engages in sells of mother and baby products through both physical stores and door-to-door delivery. Having discussed with the Group's management, we understand that the Company entered into this new venture in view of the increasing growth in attention in maternity product safety by the PRC consumers. The Group plans to leverage on Bumps to Babes Limited's experience and understanding of the mother and baby market in combination with the Group's extensive experience in the technological capabilities and children's market to develop a cross boarder e-commerce platform for offering popular mother and baby products to mid-end to high-end customers in the PRC.

Having reviewed the 2014 China Maternal & Baby Industry E-Commerce Report issued by iResearch, we note that the gross market value of China's maternal and baby market reached RMB1.43 trillion in 2013, and is expected to surpass RMB1.92 trillion in 2015 and RMB3.02 trillion in 2018, with a CAGR of approximately 15.8% for the period from 2013 to 2015, and a CAGR of approximately 16.3% for the period from 2015 to 2018. Within the market, e-commerce transactions accounted for approximately 6.0%, at RMB86 billion, with a projected CAGR of 30.0% going into 2017. Further, we note from the research article published by Hong Kong Trade Development Council in February 2014 that the PRC had the world's largest on-line population with approximately 618 million users as at 31 December 2013 and the number of online shoppers was increased from approximately 108 million in 2009 to approximately 302 million in 2013, with CAGR of approximately 29.3%. The overall social and economic role of the on-line shopping is affirmed and the consumption potential is expected to be explored and unleashed. If the Group is able to take advantages of the growth of e-commerce business as well as the unleashed consumption potential in the PRC, it will likely to bring long-term shareholder value to the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For our further due diligence purpose, we have interviewed with Dr. Xu in respect of his academic background and working experience. We note that Dr. Xu (i) obtained a number of academic qualifications which are closely related to the communication and information systems businesses; (ii) has an extensive experience in managing more 1,100 team members in Guangdong Mobile Communication Co. Ltd. Zhuhai Branch; and (iii) was in charged and involved in a number of key initiatives of CMCC's mobile businesses involving new business setup, technology innovation, business development, marketing and brand building. Specifically he was the mastermind in the deployment of the popular mobile value-added service namely Monternet (“移動夢網”) which was embedded in the monthly packages of CMCC (details of Dr. Xu's educational background and working experience are set out in the sub-section headed “Background of Dr. Xu” of this letter). In view of Dr. Xu's qualification and working experience, we concur with the Company that Dr. Xu is a key personnel for the Group's future development in the Group's on-line gaming business and the e-commerce platform for maternity products due mainly to his valuable management experience and proven abilities in strategy formulation and building up the user base, revenue and brand names for mobile phone monthly packages embedded with different mobile value-added services during his employment tenure with CMCC.

We understand from the Group's management that the Post-IPO RSU Scheme is part of the Company's remuneration system, the purpose of which is to closely align the interests and benefits of and risks sharing among the Shareholders, the Company and the employees in order to maximize the motivation of the executive Directors and senior management to make contribution to the Group. The Proposed RSU Grant to Chief Executive aims to provide sufficient incentives to attract, retain and motivate Dr. Xu to participate in the strategy formation, continuing operation and long-term business development of the Group. We believe that the utmost important asset in the information technology sector is having adequate and competent human resources. Having reviewed the annual reports and/or prospectus of Hong Kong and United States listed companies (as classified under Video Game Software category under Bloomberg Industry Classification System) under which generate majority of revenue from their gaming business (including, Boyaa Interactive International Limited (00434.HK), Changyou.com Limited (NASDAQ: CYOU), Linekong Interactive Co. Ltd. (08267.HK), Netdragon Websoft Inc. (00777.HK), NetEase, Inc. (NASDAQ: NTES), and Ourgame International Holdings Limited (06899.HK)), we note that share incentive plan, which are similar to the Post-IPO RSU Scheme, are commonly adopted by the companies engaging in the online gaming business. In light of this, we are of view that the Proposed RSU Grant to Chief Executive, which aims at providing sufficient incentives to attract, retain and motivate Dr. Xu to formulate and execute the Group's strategy and to align his interests with that of the Group, is justifiable.

### **5. Potential dilution of the shareholding interests of the existing public Shareholders**

The number of RSUs to be granted to Dr. Xu was determined by the Company and Dr. Xu upon arm's length negotiation. Assuming Dr. Xu becomes fully entitled to all RSUs after the vesting period, the number of Shares to be issued during the four-year period would be limited to 30,000,000 Shares, or approximately 1.07% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 1.03% of the total enlarged issued share capital of the Company assuming all Shares

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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underlying the Granted RSUs have been issued and no further Shares have been issued or repurchase by the Company. Since the potential dilution effect of the Proposed RSU Grant to the Chief Executive to the existing public Shareholders' interests is insignificant and there will be no substantial cash outflow by the Company under the Proposed RSU Grant to Chief Executive, we consider that the Proposed RSU Grant to the Chief Executive is acceptable in view of the potential economic benefits to be brought by Dr. Xu to the Group.

### **6. Effective cost of the Proposed RSU Grant to Chief Executive**

The Proposed RSU Grant to Chief Executive will generally vest over a four-year period with 20% for each of the first two years and 30% for each of the last two years. Based on the closing price of HK\$0.62 per Share on the date of the Proposed RSU Grant to Chief Executive (i.e. 13 July 2015), the market value of the RSUs under the Proposed RSU Grant to Chief Executive to approximately HK\$18.6 million (equivalent to approximately RMB 14.9 million).

Based on the Group's audited financial statements contained in the 2014 Annual Report, the Group had (i) revenue for the year ended 31 December 2014 of approximately RMB506.2 million; (ii) adjusted net profits (which consists of profit plus share based compensation and fair value loss of convertible redeemable preferred shares) for the year ended 31 December 2014 of approximately RMB235.0 million; (iii) total assets as at 31 December 2014 of approximately RMB1,683.8 million; and (iv) total equity as at 31 December 2014 of RMB1,509.7 million.

The market value of the RSUs under the Proposed RSU Grant to Chief Executive to be vested for each of the first two years of approximately RMB 2.9 million and each of last two years of approximately RMB 4.4 million represents (i) approximately 0.6% and 0.9% of the Group's revenue for the year ended 31 December 2014, respectively; (ii) approximately 1.2% and 1.9% of the Group's adjusted net profits for the year ended 31 December 2014, respectively; (iii) approximately 0.2% and 0.3% of the Group's total assets as at 31 December 2014, respectively; and (iv) approximately 0.2% and 0.3% of the Group's total equity as at 31 December 2014, respectively. As such, the market value of the RSUs under the Proposed RSU Grant to Chief Executive is immaterial as compared to the Group's financial condition for the most recent financial year. We consider that the Proposed RSU Grant to Chief Executive at no consideration is acceptable in view of the potential economic benefits to be brought by Dr. Xu to the Group.

### **7. Comparison of Dr. Xu's overall remuneration package with those of the chief executive officers of the other gaming companies listed on the Stock Exchange**

Having considered the Proposed RSU Grant to Chief Executive represents part of Dr. Xu's overall remuneration package, we have compared Dr. Xu's overall remuneration package with those of the chief executive officers of other companies in the most recent financial year which (i) are listed on the Stock Exchange and (ii) are principally engaged in online game development, publication and/or operation business (the "**Comparable Package(s)**") in order to assess the fair and reasonableness of Dr. Xu's overall remuneration package (including the Proposed RSU Grant to Chief Executive). Based on the criteria, we have, on a best endeavours basis, identified 8 Comparable Packages, the comparison with Dr. Xu's overall

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

remuneration package with the Comparable Packages is for illustrative purpose only as the chief executive officers' roles and responsibilities and the business scale of the each company may vary. The details of the Comparable Packages are set forth as follows:

Company name and stock code	Principal activities	Market capitalization as at 31 December 2014 RMB <sup>e</sup> million	Name of the chief executive officer	Equity interest of the chief executive officer in the company as at 31 December 2014 <sup>f</sup>	Salaries, allowances and benefit <sup>g</sup> RMB <sup>e</sup> /000	Discretionary bonuses <sup>h</sup> RMB <sup>e</sup> /000	Pension scheme contribution <sup>i</sup> RMB <sup>e</sup> /000	Share-based compensation <sup>j</sup> RMB <sup>e</sup> /000	Overall remuneration package RMB <sup>e</sup> /000	Overall remuneration package excluding discretionary bonuses <sup>k</sup> RMB <sup>e</sup> /000
Boyya Interactive International Limited (00434.HK)	Online card and board game developer and operator	3,450	Mr. Zhang Wei	33.85%	1,396	468	11	—	1,875	1,407
Feiyu Technology International Company Ltd. (01022.HK)	Mobile game and web game developer	2,290	Mr. Yao Jianjun	31.23%	536	101	31	—	668	424
Forgegame Holdings Limited (00484.HK)	Web game and mobile game developer and publisher	1,494	Mr. Wang Dongfeng	21.06%	228	—	33 <sup>Nov.1</sup>	—	261	261
IGG Inc. (00799.HK)	Mobile online game developer and publisher	3,026	Mr. Zongjian Cai	32.54%	1,294	106	38	556	1,994	1,888
Kingsoft Corporation Limited (03888.HK)	Online game, mobile game and casual game service provider, software publisher, big data and cloud computing service provider	14,597	Mr. Hongjiang Zhang	0.95%	4,392	929	40	3,460	8,821	7,892
Linekong Interactive Co. Ltd. (08267.HK)	Online and mobile game developer and publisher	2,900	Mr. Wang Feng	20.28%	1,200 <sup>Nov.2</sup>	1,047 <sup>Nov.2</sup>	40	34,782	37,119	36,072
Net Dragon Websoft Inc. (00777.HK)	Online game developer and operator	5,462	Mr. Liu Luyuan	51.12%	555	—	14	1,257	1,826	1,826
Ourgame International Holdings Limited (06899.HK)	Online card and board game developer	1,656	Mr. Yang Eric Qing	2.66%	689	—	63	10,512	11,264	11,264
The Company	Online game developer and publisher	1,439 <sup>Nov.3</sup>	Dr. Xu	— <sup>Nov.4</sup>	2,300	— <sup>Nov.5</sup>	45 <sup>Nov.6</sup>	2,940 <sup>Nov.7</sup> (For the first and second vesting period)	5,285 (For the first and second vesting period)	5,285 (For the first and second vesting period)
								4,410 <sup>Nov.7</sup> (For the third and fourth vesting period)	6,755 (For the third and fourth vesting period)	6,755 (For the third and fourth vesting period)
								Maximum	36,072	36,072
								Minimum	261	261

<sup>e</sup> Remuneration information is extracted and reproduced from the audited financial statements of the companies for the year ended 31 December 2014

<sup>f</sup> Shareholding information is extracted from the annual reports of the companies for the year ended 31 December 2014

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Note 1:* The amount of Mr. Wang Dongfeng's pension scheme contribution in 2014 includes other social security costs and housing benefits of approximately RMB21,000.
- Note 2:* According to the 2014 audited financial statements of Linekong Interactive Co. Ltd., Mr. Wang Feng's wages, salaries and bonus is approximately RMB2,247,000, and we note from the prospectus of Linekong Interactive Co. Ltd. dated 9 December 2014 that Mr. Wang's remuneration (excluding discretionary bonuses, contribution to pension schemes and social security funds, tax and share-based compensation) is RMB1,200,000 per annum, as such we assume the difference between these two amounts (i.e. RMB1,047,000) represents Mr. Wang's discretionary bonus in 2014.
- Note 3:* This represents the market capitalization of the Company as at 13 July 2015 (i.e. the grant date of RSUs to Dr. Xu).
- Note 4:* This represents Dr. Xu's equity interests in the Company as at 13 July 2015 (i.e. the grant date of RSUs to Dr. Xu).
- Note 5:* Dr. Xu's discretionary bonus cannot be reasonably estimated as at the Latest Practicable Date, as such discretionary bonus is excluded for the comparison and analysis.
- Note 6:* The amount of pension scheme contribution is estimated by the Company based on Dr. Xu's monthly salaries as well as the relevant laws and regulations in the PRC.
- Note 7:* The amount of share-based compensation is estimated with reference to the closing price of the Share as at 13 July 2015 (i.e. the date of the Proposed RSU Grant to Chief Executive).
- Note 8:* The amounts in the table above determined in US\$ and HK\$ have been translated into RMB at the following rates:  
HK\$1.25 = RMB1  
US\$0.16 = RMB1

The estimated overall remuneration package (excluding discretionary bonus) of Dr. Xu for each of vesting periods falls within the range of the Comparable Packages. Having considered that Ourgame International Holdings Limited has a market capitalization closer to that of the Company and its chief executive officer, Mr. Yang Eric Qing, is not a substantial shareholder of Ourgame International Holdings Limited, therefore we believe the overall remuneration package of Ourgame International Holdings Limited's chief executive officer is a more relevant peer for the comparison with Dr. Xu's overall remuneration package.

### **ANALYSIS AND RECOMMENDATION ON THE PROPOSED RSU GRANT TO CHIEF EXECUTIVE**

As per the abovementioned, the gaming industry is now playing a more important role in China's economy, and mobile game is expected to be a trend of the PRC gaming industry in the foreseeable future. Further, the Group plans to leverage on its existing resources including, but not limited to, the intellectual properties developed by the Company, its extensive understanding and experience in the children's market as well as its existing user base to extend its business to e-commerce business. We believe that the Group has a pressing need for the Company to motivate, attract and retain talents for its future business development and to compete with the peers in the industry.

Having reviewed the annual reports and/or prospectus of the aforementioned Hong Kong and overseas listed companies engaging in gaming development, publication and/or operation business, we note that it has been becoming more and more common for companies engaging in the gaming business to adopt restricted share units or similar share incentive plan as part of their remuneration system in recent years. Restricted share scheme, as compared with traditional share option scheme, would provide grantees with certainty of monetary benefit upon the end of vesting period regardless of the share price performance which may be affected by short-term market sentiment. In the meantime, the restricted share scheme can service the purpose of aligning the interests and benefits of and risks sharing among the shareholders, the listed companies and the employees in order to maximize the motivation of the chief executives and senior management to make contribution to their companies. Having considered that the financial impact and dilution effect from the Proposed RSU Grant to Chief Executive is insignificant to the Group and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the overall remuneration package of Dr. Xu falls within the range of the Comparable Packages, we are of view that the Proposed RSU Grant to Chief Executive is justifiable to capture the potential economic benefits to be brought by Dr. Xu to the Group in relation to development of the Group's on-line gaming and e-commerce business.

The Proposed RSU Grant to Chief Executive will be made for no consideration and is not subject to explicit performance targets. Having considered that (i) the RSUs granted to Dr. Xu are subject to vesting over a four-year period with 20% for each of the first two years and 30% for each of the last two years based on the Post IPO RSU Scheme; (ii) the Group's management having expressed that the performance criteria on Dr. Xu will be based on his abilities in creating long-term tangible and intangible values for the Group; (iii) we have reviewed Dr. Xu's employment contract on which stating the availability of annual performance appraisal on Dr. Xu which might result in early termination of employment should Dr. Xu fail to meet the performance criteria as discussed in (ii) above; (iv) we have reviewed the Post IPO RSU Scheme stating the rights under the unvested RSUs granted to Dr. Xu is subject to forfeiture in case of early termination of employment; and (v) the Company's size in terms of market capitalization is relatively small as compared to the other listed companies within the industry, we are of view that Dr. Xu will be motivated to make contributions to the Group in order to secure his position in the Company and the rights under the Proposed RSU Grant to Chief Executive, and we consider that these terms under Proposed RSU Grant to Chief Executive are fair and reasonable and on normal commercial terms, and can serve the purpose of motivating and retaining Dr. Xu to formulate plans and strategies that can create long-term shareholder value for the Group.

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the terms of the Proposed RSU Grant to Chief Executive are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the Extraordinary General Meeting to approve the Proposed RSU Grant to Chief Executive and the transactions contemplated thereunder, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully  
For and on behalf of  
**Southwest Securities (HK) Capital Limited**  
**Joseph J Wan**  
*Head of Investment Banking*

*Note:* Mr. Wan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Southwest Securities (HK) Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has more than 10 years of experience in investment banking industry.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name	Name of company	Capacity/Nature of interest	Number of underlying Shares	Approximate percentage of shareholding
DAI Jian (戴堅) <sup>(1)(8)</sup>	The Company	Founder of a discretionary trust Interest of controlled corporation	749,460,000(L)	26.66%(L)
	The Company	Beneficial owner	10,000,000(L)	0.36%(L)
WU Lili (吳立立) <sup>(2)</sup>	The Company	Founder of a discretionary trust Interest of controlled corporation	447,112,000(L)	15.91%(L)
LI Chong (李沖) <sup>(3)</sup>	The Company	Founder of a discretionary trust Interest of controlled corporation	203,304,000(L)	7.23%(L)
WANG Xiaodong (王曉東) <sup>(4)</sup>	The Company	Founder of a discretionary trust Interest of controlled corporation	74,544,000(L)	2.65%(L)
LIU Qianli (劉千里) <sup>(5)</sup>	The Company	Beneficial owner	200,000(L)	0.007%(L)
WANG Qing (王慶) <sup>(6)</sup>	The Company	Beneficial owner	200,000(L)	0.007%(L)
MA Xiaofeng (馬肖風) <sup>(7)</sup>	The Company	Beneficial owner	200,000(L)	0.007%(L)



*Notes:*

- (1) Mr. DAI established DAE Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of DAE Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of DAE Holding Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited.
- (2) Mr. WU established WHZ Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WHZ Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of WHEZ Holding Ltd., a trust holding company owns 100% of equity interest in Bright Stream Holding Limited.
- (3) Mr. LI established The Zhen Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of The Zhen Family Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of Golden Water Management Limited, a trust holding company owns 100% of equity interest in LNZ Holding Limited.
- (4) Mr. WANG established WSW Family Trust on 27 December 2013 for the benefit of himself and his family members, and acts as its settlor and protector. The trustee of WSW Family Trust is TMF (Cayman) Ltd., and Independent Third Party and sole shareholder of Charlotte Holding Limited, a trust holding company owns 100% of equity interest in Angel Wang Holding Limited.
- (5) Ms. LIU is interested in 200,000 RSUs granted to her under the Pre-IPO RSU Scheme entitling her to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Ms. LIU were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA Holding Limited (“ZEA”), as the nominee of The Core Services Limited, the trustee of a trust established by our Company under the Pre-IPO RSU Scheme.
- (6) Dr. WANG is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Mr. WANG were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA.
- (7) Mr. MA is interested in 200,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 200,000 Shares subject to vesting. As of the Latest Practicable Date, 40,000 RSUs granted to Mr. MA were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 200,000 Shares underlying the RSUs are held by ZEA.
- (8) Mr. DAI is interested in 10,000,000 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares subject to vesting. As of the Latest Practicable Date, 200,000 RSUs granted to Mr. DAI were vested in accordance with the vesting schedule as specified under the relevant grant letter and the rules relating to the Pre-IPO RSU Scheme. Such 10,000,000 Shares underlying the RSUs are held by ZEA.
- (9) The Letter “L” denotes the person’s Long position in such Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they would be taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### 3. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date,

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO;
- (c) none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation; and
- (d) none of the Directors and their associates had any competing interest, in a business which competes or is likely to compete either directly or indirectly, with the business of the Group.

### 4. CONSENT OF EXPERT

The following is the qualification of the Independent Financial Adviser who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Southwest HK Capital	a licensed corporation to carry out Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO

Southwest HK Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear. The letter from Southwest HK Capital dated 30 July 2015 is given on pages 12 to 21 for incorporation herein.

As at the Latest Practicable Date, Southwest HK Capital did not have: (a) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (b) any direct or indirect interest in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2014, the date to which the latest published audited financial statements of the Group were made up.

### 5. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

**6. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong during normal business hours from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (b) the letter of advice from Southwest HK Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;
- (c) the written consent of Southwest HK Capital referred to in this appendix;
- (d) the full terms of the Post-IPO RSU Scheme; and
- (e) this circular.

**7. LANGUAGE**

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **BAIOO Family Interactive Limited**

**百奧家庭互動有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2100)**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Notice is hereby given that** an extraordinary general meeting (the “**EGM**”) of BAIOO Family Interactive Limited (the “**Company**”) will be held at Applause Room, Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 14 August 2015 at 3 p.m. for the purposes of considering and, if thought fit, passing (with or without amendments) the following ordinary resolution:

#### **ORDINARY RESOLUTION**

1. (a) To approve and confirm the proposed grant of 30,000,000 restricted share units to Dr. XU Gang, the chief executive officer of the Company, in accordance with the terms of the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on 10 April 2014 and was amended on 19 June 2015, subject to all applicable laws, rules, regulations and the applicable award document(s).
- (b) To authorize any one or more of the directors of the Company to take such actions, do such things, which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated in this Resolution.

By Order of the Board  
**BAIOO Family Interactive Limited**  
**DAI Jian**  
*Chairman and Executive Director*

Hong Kong, 30 July 2015

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint more than one proxy to attend and vote instead of him provided that each proxy is appointed to represent the respective number of shares held by the shareholder as specified in the relevant proxy form. A proxy need not be a shareholder of the Company.
3. In order to be valid, the completed form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the above meeting, the Register of Members of the Company will be closed from 13 August 2015 to 14 August 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on 12 August 2015.
5. In the event of inconsistency, the English text of this notice shall prevail over the Chinese text.