
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a 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.

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**RENEWAL OF CONTINUING CONNECTED
TRANSACTION IN RELATION TO
2022 SHIWUYU AGENCY AGREEMENT AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Shenwan Hongyuan Capital (H.K.) Limited

A letter from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter from Shenwan Hongyuan Capital (H.K.) Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 26 of this circular.

A notice convening the Extraordinary General Meeting of BAIOO Family Interactive Limited to be held with a combination of (a) a physical meeting at 31st Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China, 510623; and (b) a virtual meeting online at 2 p.m. on Friday, 14 October 2022 is set out on pages 31 to 33 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 the Stock Exchange (www.hkexnews.hk) and the Company (www.baioo.com.hk).

Whether or not you are able to attend 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 should you so desire. If you attend and vote at the Extraordinary General Meeting, the form of proxy will be revoked.

* *For identification only*

**PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY
GENERAL MEETING (“EGM”)**

In light of the Coronavirus Pandemic (“COVID-19”), and recent guidelines for prevention and control of its spread, the Company will implement the following preventive measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- compulsory body temperature check will be conducted and hand sanitiser shall be used for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius or is exhibiting flu-like symptoms will be denied entry into or be required to leave the venue;
- all Shareholders or proxies are required to wear surgical face masks throughout their attendance of the EGM;
- the Company will maintain a soft distance between seats;
- no refreshment or drinks will be served and no corporate gifts will be distributed; and
- every attendee is required to complete a health declaration and personal information form (which may be used for contact tracing, if required) and submit the same at the entrance of the EGM venue before admission into the EGM venue.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into or be required to leave the venue. The Company encourages the Shareholders to consider appointing the chairman of the EGM as his/her proxy to vote on the relevant resolutions at the EGM, instead of attending the EGM in person to reduce the risk of infection due to overcrowding.

Subject to the development of the pandemic, the Company may implement further procedures and precautionary measures at short notice and may issue further announcement as appropriate.

Shareholders should check the Company’s website for updates on the latest arrangement of the EGM.

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DEFINITIONS

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

“2022 Shiwuyu Agency Agreement”	a Tencent exclusive agency agreement in relation to the mobile game “Shiwuyu” (「食物語」) entered into by Tencent Computer and Guangzhou Tianti dated 2 September 2022, the details of which are set out in the announcement of the Company dated 2 September 2022
“Annual Cap”	the maximum aggregate annual value projected in respect of the fees payable by Guangzhou Tianti to Tencent Computer pursuant to the 2022 Shiwuyu Agency Agreement
“Articles of Association” or “Articles”	the articles of association of the Company as amended, supplemented or modified from time to time
“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	day(s) on which commercial banks are open for business in the PRC (excluding Saturdays, Sundays and public holidays)
“Chairman”	the chairman of the Board
“Company”	BAIOO Family Interactive Limited (百奧家庭互動有限公司), an exempted company incorporated on 25 September 2009 in the Cayman Islands with limited liability, and listed on the Main Board of the Stock Exchange (Stock Code: 2100)
“connected person(s)”	shall have the meaning ascribed to it under the Listing Rules
“core connected person(s)”	shall have the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held with a combination of (a) a physical meeting at 31st Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China, 510623; and (b) a virtual meeting online at 2 p.m. on Friday, 14 October 2022, to consider and, if desirable, to approve the proposed resolutions as set out in the notice of such meeting which is set out on pages 31 to 33 of this circular, or any adjournment thereof
“Group”	the Company, its subsidiaries and the PRC operating entity (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the contractual arrangements)

DEFINITIONS

“Guangzhou Baitian”	Guangzhou Baitian Information Technology Ltd.* (廣州百田信息科技有限公司), a limited liability company incorporated in the PRC and the PRC operating entity of the Company, the financial results of which have been consolidated and account for as a subsidiary of the Company by virtue of a series of contractual arrangements
“Guangzhou Tianti”	Guangzhou Tianti Network Technology Co., Ltd.* (廣州天梯網絡科技有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Guangzhou Baitian
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the non-exempt continuing connected transaction relating to the 2022 Shiwuyu Agency Agreement
“Independent Financial Adviser”	Shenwan Hongyuan Capital (H.K.) Limited, a wholly owned subsidiary of Shenwan Hongyuan (H.K.) Limited (stock code: 218.HK) and a non-wholly owned subsidiary of Shenwan Hongyuan Group Co., Ltd. (stock codes: 000166.SZ and 6806.HK), a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the non-exempt continuing connected transaction relating to the 2022 Shiwuyu Agency Agreement
“Independent Shareholders”	the Shareholders who are not required under the Listing Rules to abstain from voting to approve the non-exempt continuing connected transaction relating to the 2022 Shiwuyu Agency Agreement
“independent third party”	any entity or party which is not connected (as defined in the Listing Rules) to the Directors, substantial shareholders or chief executives of the Company or its subsidiaries, or any of their respective associates
“Latest Practicable Date”	19 September 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Committee”	shall have the meaning ascribed to it under the Listing Rules
“Listing Date”	10 April 2014, being the date of the listing of the Company’s Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Post-IPO RSU Scheme”	the post-IPO restricted share unit scheme adopted by the Company on 18 March 2014, which took effect on the Listing Date (as amended on 19 June 2015 and 17 December 2020)
“PRC” or “China”	the People’s Republic of China which, for the purposes of this circular only, shall exclude the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Pre-IPO RSU Scheme”	the restricted share unit plan approved and adopted by the Company on 30 September 2013
“Renewed Shiwuyu Agency Agreement”	a Tencent exclusive agency agreement in relation to the mobile game “Shiwuyu” (「食物語」) entered into by Tencent Computer and Guangzhou Tianti dated 15 October 2021 and expire on 15 October 2022
“Restricted Share Units” or “RSU(s)”	restricted share unit(s), being a contingent right to receive Shares which is granted pursuant to the Pre-IPO RSU Scheme and/or the Post-IPO RSU Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the 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
“Shareholder(s)”	holder(s) of the Share(s)
“Shiwuyu Agency Agreement”	a Tencent exclusive agency agreement in relation to the mobile game “Shiwuyu” (「食物語」) entered into by Tencent Computer and Guangzhou Tianti dated 25 September 2018 and expire on 15 October 2021
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	shall have the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	shall have the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers approved by the Securities and Futures Commission of Hong Kong, as amended from time to time
“Tencent”	Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 700)
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited* (深圳市騰訊計算機系統有限公司), a limited liability company established in the PRC and a PRC operating entity of Tencent, the financial results of which have been consolidated and account for by Tencent as a controlled structured entity of Tencent by virtue of a series of contractual arrangements

DEFINITIONS

“Tencent Group”	Tencent and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

In this circular, the English names of the PRC entities marked with “*” are translations of their Chinese names, and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

LETTER FROM THE BOARD



Executive Directors:

Mr. DAI Jian (*Chairman and Chief Executive Officer*)
Mr. WU Lili
Mr. LI Chong

Independent Non-executive Directors:

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

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Principal Place of Business in

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Hong Kong

23 September 2022

To the Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED
TRANSACTION IN RELATION TO
2022 SHIWUYU AGENCY AGREEMENT**

1. INTRODUCTION

The purpose of this circular is to provide the Shareholders with information in respect of certain resolutions to be proposed at the Extraordinary General Meeting to be held on Friday, 14 October 2022.

**2. NON-EXEMPT CONTINUING CONNECTED TRANSACTION IN RELATION
TO THE 2022 SHIWUYU AGENCY AGREEMENT**

Reference is made to the announcements of the Company dated 15 October 2021, 26 November 2021, 17 February 2022, 1 April 2022 and 2 September 2022 and the circular of the Company dated 14 March 2022 in relation to, among other things, the non-exempt continuing connected transaction regarding the Renewed Shiwuyu Agency Agreement.

LETTER FROM THE BOARD

As the Renewed Shiwuyu Agency Agreement will expire on 15 October 2022, the Board proposes to renew the continuing connected transaction under the Renewed Shiwuyu Agency Agreement.

The purpose of this circular is to provide you with, among others, (i) further details of the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder (including the Annual Cap); (ii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM.

2022 Shiwuyu Agency Agreement

The Renewed Shiwuyu Agency Agreement will expire on 15 October 2022. On 2 September 2022, the Company had agreed to renew the continuing connected transaction under the Renewed Shiwuyu Agency Agreement.

Details of the 2022 Shiwuyu Agency Agreement are as follows:

Date

2 September 2022

Parties

(1) Guangzhou Tianti; and

(2) Tencent Computer

Term

One year commencing from 16 October 2022 and ending on 15 October 2023.

Effective Date

The date on which the Independent Shareholders pass the ordinary resolutions to approve the 2022 Shiwuyu Agency Agreement.

Subject Matter

Guangzhou Tianti will grant Tencent Computer the exclusive right to distribute and operate the mobile game “Shiwuyu” (「食物語」) as an exclusive agent in China, while it provides the content of the mobile game and technical support for the software. Tencent Computer will provide Guangzhou Tianti with the game operating system, the server, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the mobile game “Shiwuyu” (「食物語」).

Pricing Policy and Payment Terms

Depending on the operating system on which the game is hosted, Tencent Computer shall share with Guangzhou Tianti the revenue received from game players when they recharge their game accounts after deducting relevant costs (as applicable), i.e., the gross or net profit received by Tencent Computer on the operating system (including iOS, Android, HTML5 and Windows Phone systems) on which the game is hosted.

LETTER FROM THE BOARD

The amount payable to Tencent Computer by Guangzhou Tianti will be calculated as follows:

$$\text{Amount payable} = \text{revenue received after deducting costs (as applicable)}^{(1)} \times (60\% \text{ or } 70\%)^{(2)}$$

Notes:

- (1) Gross profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on Android, HTML5 and Windows Phone systems operated by the mobile game platform of Tencent, whereas net profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on other systems/platforms. Such basis of calculation is similar to those of the other agency agreements pursuant to which the Group granted exclusive rights to other independent third parties to distribute and operate (i) “Shiwuyu” (「食物語」) in overseas markets; and (ii) other mobile games of the Group, such as Aobi Island: Dream Land (「奧比島：夢想國度」) and Zaowufaze II (「造物法則二：先鋒英雄」) in both the PRC and overseas markets (collectively, the “Comparable Transactions”). “Net profit” as the basis of calculation for hosting the game on the other systems takes into account of the cost payable to the third party channel providers in maintaining such channels or applications. This is different from hosting the game on Android, HTML5 and Windows Phone systems, which operates through channels or applications that are owned by Tencent Group, and gross profit is thus used as the calculation basis in such cases.
- (2) Percentage deducted is fixed based on the platform used to play the game. In particular: (i) 60% applies for hosting the game on iOS system; and (ii) 70% applies for hosting the game on Android, HTML5 and Windows Phone systems. Such revenue sharing percentages are no more favourable than those of the Comparable Transactions which range from 72% to 81%. The revenue sharing percentage for hosting the game on iOS system is lower than that on Android, HTML5 and Windows Phone systems. This is primarily attributable to the greater difficulty for Tencent Group to distribute games in the latter systems which are generally more complex in terms of the number and variety of distribution channels or applications, and thus a higher revenue sharing percentage to Tencent Group had been set to compensate such efforts.

The total revenue received (after deducting costs (as applicable)) from game players, less the above amount payable, will be paid by Tencent Computer to the designated bank account of Guangzhou Tianti by bank transfer, and will be payable within thirty-three (33) Business Days from the date of Tencent Computer’s receipt of qualified invoice issued by Guangzhou Tianti and settlement notice affixed with Guangzhou Tianti’s official seal.

The Annual Cap and Basis of Determination

Historical Transaction Amount and Existing Cap

The historical transaction amount and the existing annual cap pursuant to the Shiwuyu Agency Agreement and the Renewed Shiwuyu Agency Agreement are set out below:

	2019	For the year ended 15 October		2022
		2020	2021	
		<i>(in RMB million)</i>		
Actual transaction amount	106.9	351.5	122.5	86.1 ⁽¹⁾
Existing annual cap	N/A	N/A	N/A	140 ⁽²⁾

Notes:

- (1) Such figure represents the amount paid by Guangzhou Tianti to Tencent Computer for the period from 16 October 2021 to the Latest Practicable Date pursuant to the Renewed Shiwuyu Agency Agreement.
- (2) The annual cap for the period from 16 October 2021 to 15 October 2022 pursuant to the Renewed Shiwuyu Agency Agreement was initially set at RMB76 million and was revised to RMB55 million, which was further revised to RMB140 million.

LETTER FROM THE BOARD

The Board confirmed that as of the Latest Practicable Date, the existing annual cap for the period from 16 October 2021 to 15 October 2022 for the fees payable by Guangzhou Tianti to Tencent Computer under the Renewed Shiwuyu Agency Agreement has not been exceeded.

Proposed Annual Cap and basis for determining the Annual Cap

The proposed Annual Cap for the period from 16 October 2022 and ending on 15 October 2023 is RMB80,000,000, subject to the receipt of approval of the Independent Shareholders. The Annual Cap had been determined principally with reference to:

- (i) the historical transaction amounts for relevant services provided by the other independent parties to the Group in the past which is used to, among others, estimate the expected growth in number of gamers, gamers retention percentage and average revenue per gamer in respect of the 2022 Shiwuyu Agency Agreement derived from historical transaction patterns and users' behaviour in the Comparable Transactions;
- (ii) the amount paid under the Renewed Shiwuyu Agency Agreement;
- (iii) the distribution requirement of the Group in respect of "Shiwuyu" (「食物語」). The Group had observed that "Shiwuyu" (「食物語」) has reached the declining stage of its product life cycle. Hence, it is expected that there will be a decrease in the average monthly growth in number of new gamers and a corresponding decrease in revenue contribution from "Shiwuyu" (「食物語」), which in turn reduces the expected fees payable by Guangzhou Tianti to Tencent Computer. Accordingly, a lower Annual Cap is set for the 2022 Shiwuyu Agency Agreement compared to the annual cap set for the Renewed Shiwuyu Agency Agreement; and
- (iv) the distribution coverage of the game platform. Pursuant to the 2022 Shiwuyu Agency Agreement, the Group shall be entitled to distribute and operate "Shiwuyu" (「食物語」) through multiple platforms operated by Tencent Group, including but not limited to QQ Game Hall* (QQ 遊戲大廳), Mobile QQ* (手機QQ), Mobile QQ Browser* (手機QQ瀏覽器), Mobile Qzone* (手機Qzone), QQ Mobile Assistant* (QQ手機助手), QQ Mobile Computer Housekeeper* (QQ 手機電腦管家), Mobile App Treasure* (手機應用寶), Tencent Weibo, Mobile QQ Home* (手機QQ家園), WeChat, the sub-platforms of each of the aforementioned platforms and other mobile game platforms or websites that will be launched by Tencent Group in the future. Such distribution coverage is the same as that of the Renewed Shiwuyu Agency Agreement.

Information about the Parties

The Company is principally engaged in the business of developing and publishing mobile and PC games. Guangzhou Baitian is a consolidated affiliated entity of the Company and is principally engaged in developing mobile and PC games, as well as operating the virtual worlds of the Group. Guangzhou Tianti is a wholly-owned subsidiary of Guangzhou Baitian and is principally engaged in providing software and information technology services to facilitate Guangzhou Baitian's role and function in certain series of contractual arrangements.

Tencent Group principally provides value-added services and online advertising services to users mainly in the PRC. Tencent Computer is a consolidated affiliated entity of Tencent and is principally engaged in the business of provision of value-added services and internet advertisement services in the PRC.

LETTER FROM THE BOARD

Reasons for and Benefits of Entering into the 2022 Shiwuyu Agency Agreement

Tencent Group owns a large amount of top-rated game products and game platforms, and the Group has been dedicated to the development and operation of popular mobile and PC games. It is expected that Tencent Group and the Group could leverage each other's competitive advantages in products and platforms to increase the number of game users and hence improve the popularity of mobile games developed by the Group. As a one-stop game publishing solution to game developers, the Group is able to leverage on the 2022 Shiwuyu Agency Agreement to (i) release, distribute and/or operate the mobile game "Shiwuyu" (「食物語」) through Tencent as an exclusive agent in China, and (ii) utilise Tencent's resources in relation to game operating system, the server, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the mobile game "Shiwuyu" (「食物語」).

Directors' Confirmation

The terms of the 2022 Shiwuyu Agency Agreement had been arrived at after arm's length negotiations between the parties. The Directors (excluding all the independent non-executive Directors who will give their opinion separately based on the recommendations from the Independent Financial Adviser) have confirmed that the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

None of the Directors has any material interest in the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder, and none of the Directors was required to abstain from voting on the board resolutions approving the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder.

Listing Rules Implications

As at the Latest Practicable Date, Tencent and its associates in aggregate are interested in approximately 12% of the total issued share capital of the Company, and it (and its associates, including Tencent Computer) are connected persons of the Company. Accordingly, the transaction under the 2022 Shiwuyu Agency Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that one or more of the applicable percentage ratio(s) (as defined under Rule 14.07 of the Listing Rules) calculated with reference to the Annual Cap exceeds 5% but is less than 25%, the transaction contemplated under for the 2022 Shiwuyu Agency Agreement constitutes a non-exempt continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder.

As of the Latest Practicable Date, Tencent, which is interested in 326,063,280 Shares (representing approximately 12% of the total issued share capital of the Company) through its wholly-owned subsidiary, namely THL H Limited, and its respective associates are required to abstain from voting at the Extraordinary General Meeting in respect of the resolutions on the 2022 Shiwuyu Agency Agreement and

LETTER FROM THE BOARD

the transaction contemplated thereunder (including the Annual Cap) as a result of having material interest therein. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save as disclosed in this circular, no other Shareholder is required to abstain from voting at the Extraordinary General Meeting.

Internal Control Measures

In addition to the annual review by the auditor and independent non-executive Directors pursuant to the requirements of Chapter 14A of the Listing Rules, the Company had implemented internal controls to ensure that the transaction contemplated under the 2022 Shiwuyu Agency Agreement will be conducted on normal commercial terms and on terms no less favourable to the Group than the terms available from independent third parties, and that the transaction amounts do not exceed the Annual Cap. In particular:

- (i) the finance department of the Company will closely monitor the actual transaction amounts under the 2022 Shiwuyu Agency Agreement on a monthly basis to ensure that the Annual Cap is not exceeded. If the actual transaction amount reaches approximately 50% or 80% of the Annual Cap at any time during the contract period such utilisation rate will be reported and escalated to the senior management of the Company who will, if necessary, seek advice from external counsel and take appropriate measures to comply with the relevant announcement and Shareholders' approval requirements in accordance with the Listing Rules;
- (ii) the internal control department of the Company will conduct internal control review and financial audit on a semi-annual basis, and conduct financial monitoring and decision-making analysis on a semi-annual basis so as to ensure compliance with the terms of the 2022 Shiwuyu Agency Agreement and the Group's pricing policies;
- (iii) the senior management of the Company will be responsible for the overall supervision and monitoring the compliance with the internal control procedures by the above-mentioned departments;
- (iv) the Company will arrange compliance trainings for the Directors, senior management and staff from the relevant departments of the Group from time to time, primarily focusing on the rules under Chapter 14A of the Listing Rules; and
- (v) apart from the 2022 Shiwuyu Agency Agreement, the Group had entered into other agency agreements pursuant to which the Group had granted exclusive rights to other independent third party distributors to distribute and operate Shiwuyu in overseas markets including Hong Kong, Macau, Taiwan and Japan. Through comparing their respective terms, the Group will be able to monitor the terms, especially the pricing, of the 2022 Shiwuyu Agency Agreement and ensure that such terms with Tencent Group will remain competitive compared with the terms offered by independent third party distributors.

The Company considers that the internal control procedures above could function as effective measures to regulate the continuing connected transaction contemplated under the 2022 Shiwuyu Agency Agreement. The Company will provide all relevant materials and information to the independent non-executive Directors and the independent auditors of the 2022 Shiwuyu Agency Agreement to facilitate their annual review as required under the Listing Rules.

LETTER FROM THE BOARD

Independent Board Committee and Independent Financial Adviser

The Company has established the Independent Board Committee, comprising Ms. Liu Qianli, Dr. Wang Qing and Mr. Ma Xiaofeng, all of whom are independent non-executive Directors who have no material interest in the 2022 Shiwuyu Agency Agreement, to advise the Independent Shareholders on: (i) the fairness and reasonableness of the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder; and (ii) how to vote on the resolutions in relation to the 2022 Shiwuyu Agency Agreement at the Extraordinary General Meeting, after taking into account the recommendations of the Independent Financial Adviser. Shenwan Hongyuan Capital (H.K.) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms (on arm's length basis or terms no less favourable to the Group than terms available from independent third parties) or better; and (ii) the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting. The letter from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. The letter from Shenwan Hongyuan Capital (H.K.) Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

3. EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Extraordinary General Meeting is set out on pages 31 to 33 of this circular for the purpose of considering and, if thought fit, passing the resolutions set out therein.

Pursuant to the Rule 13.39(4) of the Listing Rules and the Articles of Association, any vote of shareholders at a general meeting must be taken by poll except where the chairman of such meeting, in good faith, decides to allow a resolution relating purely to a procedural or administrative matter to be voted on by a show of hands pursuant to the Listing Rules. An announcement on the results of the poll will be published by the Company after the Extraordinary General Meeting in the manner prescribed under 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 the Stock Exchange (www.hkexnews.hk) and the Company (www.baioo.com.hk). Whether or not you attend the Extraordinary General Meeting, you are requested to complete and sign in accordance with the instructions printed thereon and return, 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 at the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as practicable 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. If you attend and vote at the Extraordinary General Meeting, the authority of your proxy will be revoked.

LETTER FROM THE BOARD

For determining the entitlement to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Tuesday, 11 October 2022 to Friday, 14 October 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 10 October 2022.

Hybrid EGM

The Company will conduct a hybrid EGM involving (i) a physical meeting; and (ii) a virtual meeting by electronic means through a ZOOM live webcast, which will allow Shareholders to participate in the EGM through live video broadcast. Shareholders will be able to view the live video broadcast and speak and ask questions at the EGM via their mobile phones, tablet, or computers with appropriate communication devices. The live broadcast option can also broaden the reach of the EGM to Shareholders who do not wish to attend physically due to concerns on attending large scale events under the current COVID-19 pandemic situation, or for other overseas Shareholders who are unable to attend in person. After the EGM, Shareholders may (at their own expense and for a period of 5 business days from the date of the EGM) obtain the audio recording of the proceedings in the EGM by email request to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline at (852) 2980 1333 of Tricor Investor Services Limited.

Although Shareholders are welcome to attend the EGM physically in person if they so wish, the Company strongly recommends Shareholders to attend the EGM via the online option. The Company will also implement the prevention and control measures at the EGM to safeguard the health and safety of the Shareholders, staff and other stakeholders attending the EGM. For more details, please refer to section headed "Precautionary Measures for the EGM" of this circular. If the venue of the EGM is closed in response to the COVID-19 pandemic outbreak, the EGM will continue to be held via the online platform.

Shareholders of the Company who wishes to join the EGM online via the ZOOM live webcast must register by 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM) to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline (852) 2980 1333 of Tricor Investor Services Limited. Following authentication of his/her/its status as shareholders of the Company, such Shareholders will receive an email instruction on how to join the ZOOM live webcast to observe the proceedings of the EGM by Friday, 14 October 2022. Shareholders of the Company who registers for the ZOOM live webcast may submit questions related to the resolutions proposed at the EGM. To do so, all questions must be submitted by 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM) by email to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline (852) 2980 1333 of Tricor Investor Services Limited. Shareholders MUST NOT forward the URL to other persons who are not Shareholders and who are not entitled to attend the EGM.

If such Shareholder of the Company (whether individual or corporate) wishes to exercise his/her/its voting rights at the EGM, he/she/it may appoint the chairman of the EGM as his/her/its proxy to vote on his/her/its behalf at the EGM. In appointing the chairman of the EGM as proxy, a Shareholder the Company (whether individual or corporate) must give specific instructions as to voting in the form of proxy, the duly completed and signed form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority at the office of the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM), failing which the appointment will be treated as invalid.

LETTER FROM THE BOARD

If you have any queries on the above, please contact the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, via their hotline at (852) 2980 1333 from 9 a.m. to 5 p.m. (Monday to Friday, excluding Hong Kong public holidays).

How to vote at the EGM

Shareholders who wish to attend the EGM and exercise their voting rights can be achieved in one of the following ways:

- (1) attend the EGM in person and vote at the EGM venue; and
- (2) appoint chairman of the EGM or other persons as your proxy to vote on your behalf.

Your proxy's authority and instruction will be revoked if you attend and vote in person at the EGM.

4. 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 herein or this circular misleading.

5. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that (i) the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder has been entered into in the ordinary and usual course of business of the Group and on normal commercial terms (on arm's length basis or terms no less favourable to the Group than terms available from independent third parties) or better; and (ii) the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the Extraordinary General Meeting.

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

Chairman, Chief Executive Officer and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



23 September 2022

To the Independent Shareholders

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO 2022 SHIWUYU AGENCY AGREEMENT

We refer to the circular of the Company dated 23 September 2022 (the “**Circular**”) to its Shareholders of which this letter forms part. Capitalised 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 on: (i) the fairness and reasonableness of the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder; and (ii) how to vote on the resolutions regarding the 2022 Shiwuyu Agency Agreement at the Extraordinary General Meeting, after taking into account the recommendations of the Independent Financial Adviser.

Shenwan Hongyuan Capital (H.K.) 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 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder is 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 5 to 13 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 15 to 26 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.

Having considered the advice from the Independent Financial Adviser, we are of the view that: (i) the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder has been entered into in the ordinary and usual course of business of the Group and on normal commercial terms (on arm’s length basis or terms no less favourable to the Group than terms available from independent third parties) or better; and (ii) the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the 2022 Shiwuyu Agency Agreement and the Annual Cap to be presented at the Extraordinary General Meeting.

Yours faithfully,
For and on behalf of the Independent Board Committee
Ms. Liu Qianli, Dr. Wang Qing and Mr. Ma Xiaofeng
Independent Non-Executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Shenwan Hongyuan Capital (H.K.) Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) for the purpose of inclusion in this circular.



Shenwan Hongyuan Capital (H.K.) Limited

Level 17
28 Hennessy Road
Hong Kong

23 September 2022

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

Dear Sirs

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO 2022 SHIWUYU AGENCY AGREEMENT

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 2022 Shiwuyu Agency Agreement and the Annual Cap, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 September 2022 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.

As at the Latest Practicable Date, Tencent and its associates in aggregate are interested in approximately 12% of the total issued share capital of the Company, and it, and its associates, including Tencent Computer, are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the transaction under the 2022 Shiwuyu Agency Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratio(s) (as defined under Rule 14.07 of the Listing Rules) calculated with reference to the Annual Cap exceeds 5%, but less than 25%, the transaction contemplated under the 2022 Shiwuyu Agency Agreement constitutes non-exempt continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Tencent and its respective associates are required to abstain from voting at the EGM in respect of the resolution on the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder (including the Annual Cap) as a result of having material interest therein.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Ms. Liu Qianli, Dr. Wang Qing and Mr. Ma Xiaofeng (all being the independent non-executive Directors and have no material interest in the transaction contemplated under the 2022 Shiwuyu Agency Agreement) had been established to advise the Independent Shareholders on: (i) the fairness and reasonableness of the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder; and (ii) how to vote on the resolution in relation to the 2022 Shiwuyu Agency Agreement at the EGM.

We have been appointed, and approved by the Independent Board Committee, as the Independent Financial Adviser. As at the Latest Practicable Date, we are not connected with the Directors, chief executive or substantial shareholders of the Company or any of their respective associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. We were not aware of any relationships or interest between us and the Company nor any other parties within the past two years that could be reasonably be regarded as a hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Shiwuyu Agency Agreement (including the Annual Cap).

Save for (i) the Company's grant of restricted share units to the Directors, on which we opined in the circular of the Company dated 21 May 2021; (ii) the Company's further revision of annual cap for its continuing connected transaction, on which we opined in the circular of the Company dated 14 March 2022; and (iii) the Company's further grant of restricted share units, on which we opined in the circular of the Company dated 27 April 2022, there was no other engagement between we and the Company during the two years preceding the date hereof. Apart from normal professional fees payable to us by the Company in connection with the current appointment of us as independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or the Directors, chief executive or substantial shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the 2022 Shiwuyu Agency Agreement (including the Annual Cap).

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 2022 Shiwuyu Agency Agreement (including the Annual Cap) are on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable; (ii) whether the 2022 Shiwuyu Agency Agreement (including the Annual Cap) are 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 relevant ordinary resolution to be proposed at the EGM.

BASIS OF OUR OPINION

Other than this appointment as the Independent Financial Advisor, we were not aware of any relationships or interests between Shenwan Hongyuan Capital (H.K.) Limited 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 2022 Shiwuyu Agency Agreement (including the Annual Cap).

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have interviewed with management of the Group and reviewed, *inter alia*, the relevant information contained in (i) the 2022 Shiwuyu Agency Agreement, (ii) the Company's announcements, (iii) the Company's annual reports for the years ended 31 December 2019, 2020 and 2021, and (iv) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company's interim results announcement for the six months ended 30 June 2022. 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 2022 Shiwuyu Agency Agreement.

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 information and documents provided by the Company as well as the business and affairs of the Group or its subsidiaries or associates. 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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2022 Shiwuyu Agency Agreement (including the Annual Cap), we have taken into consideration the following principal factors and reasons:

1. Information on the parties

The Group

The Group principally engages in the development of mobile games focusing on niche game genres, including female-oriented games, pet collection games, raising simulation games and “nijigen” themed games. Core mobile games of the Group are Shiwuyu (「食物語」) (“**Shiwuyu**”), Aola Star Mobile (「奧拉星手遊」) (“**Aola Star Mobile**”), Zaowufaze II (「造物法則二：先鋒英雄」) and Legend of Aoji Mobile (「奧奇傳說手遊」) (“**Legend of Aoji Mobile**”), which were well received by gamers and won numerous industry awards. On 12 July 2022, the Group launched its latest mobile game, Aobi Island: Dreamland (「奧比島：夢想國度」), which adapted the Group’s most long-standing and influential intellectual property: Aobi Island. The Group actively expands into a number of overseas markets with its products launched in various locations outside Mainland China, including Hong Kong, Macau, Taiwan, Japan, South Korea, Singapore, Malaysia, Europe and the United States. In January 2021, Tencent Holdings Limited (stock code: 700) acquired a 12% stake in the Company through its wholly-owned subsidiaries and became a substantial shareholder of the Company.

Set out below is a summary of financial information of the Group for the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 30 June 2022 as extracted from the Company’s annual reports and interim results announcements:

	For the year ended			For the six months ended	
	31 December			30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	680,598	1,128,967	883,908	519,887	289,641
Gross profit	362,146	429,347	400,559	240,221	117,738
Profit/(loss) for the year/period	151,167	273,231	26,906	46,241	(39,851)

As set out in the table above, the Group’s revenue increased significantly from RMB680.6 million for the year ended 31 December 2019 (“**FY2019**”) to RMB1,129.0 million for the year ended 31 December 2020 (“**FY2020**”). In terms of profit, the Group’s net profit also surged from RMB151.2 million for FY2019 to RMB273.2 million for FY2020, representing a growth of 80.7%. We note from the Company’s annual reports, and understand from the management of the Company that the growth in the Group’s revenue and profit was mainly due to the (i) launches of two new mobile games, Shiwuyu and Aola Star Mobile, in 2019 which together accounted for approximately 51.7% and 63.8% of total revenue for FY2019 and FY2020, respectively; and (ii) continuing update of in-game content and launching of new versions of the above games. The growth in revenue and profit are also contributed from the success of the Group’s internationalisation strategy, which is evident by the increase in revenue generation from overseas business as a percentage of total revenue from 4.0% for FY2019 to 22.6% for FY2020 due to the successful launch of Shiwuyu in Hong Kong, Macau and Taiwan in 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's revenue decreased from RMB1,129.0 million for FY2020 to RMB883.9 million for the year ended 31 December 2021 ("FY2021") mainly due to the higher popularity of three mobile games, which were just launched in fourth quarter of 2019, in FY2020 compared to FY2021 as we note from the Company's annual results announcement for FY2021. The profit for the year of the Group dropped from RMB273.2 million for FY2020 to RMB26.9 million for FY2021 primarily because of (i) the increase of selling and marketing expenses in FY2021 for the promotion of a new mobile game, Legend of Aoqi Mobile (「奧奇傳說手遊」), which was launched in April 2021; and (ii) the increase of research and development expenses driven by the Group's strategy to enhance its in-house game development capabilities through continuous investment in the Group's research and development team.

The Group's revenue decreased from RMB519.9 million for the six months ended 30 June 2021 ("1H2021") to RMB289.6 million for the six months ended 30 June 2022 ("1H2022") mainly due to (i) the successful launch of Legend of Aoqi Mobile in the first half of 2021 which made excellent performance at its debut, whilst there was no new game launched in 1H2022; and (ii) the revenue from the existing games has a usual decline as a result of their life cycle as we note from the Company's interim results announcement for 1H2022. The net profit for the period of the Group dropped from RMB46.2 million for 1H2021 to a net loss of RMB39.9 million for 1H2022 primarily because of (i) the drop in gross profit which is was in line with the decrease in revenue; and (ii) the increase of research and development expenses driven by the Group's strategy to enhance its in-house game development capabilities through continuous investment in the Group's research and development team.

Guangzhou Baitian

Guangzhou Baitian is a consolidated affiliated entity of the Company and is principally engaged in developing mobile and PC games, as well as operating the virtual worlds of the Group. Guangzhou Tianti, which is one of the parties to the 2022 Shiwuyu Agency Agreement, is a wholly-owned subsidiary of Guangzhou Baitian and is principally engaged in providing software and information technology services to facilitate Guangzhou Baitian's role and function in certain series of contractual arrangements.

Tencent Group

Tencent Group, a leading provider of internet value added services in the PRC, offers a wide range of high-quality technological products and services and has a large user base. Tencent Computer, which is one of the parties to the 2022 Shiwuyu Agency Agreement, is principally engaged in the business of provision of value-added services and internet advertisement services in the PRC. According to Tencent's 2021 annual report, its online games related value-added service contributed over RMB174 billion revenue to Tencent Group during FY2021, which represented over 31.1% of its total revenue for FY2021.

In January 2021, Tencent had become the substantial shareholder of the Company after the acquisition of 326,063,280 ordinary shares of the Company (representing approximately 12% of the Company's issued share capital at that time) through its wholly-owned subsidiary, namely THL H Limited.

2. Background to and reasons for the 2022 Shiwuyu Agency Agreement

The Group has developed a mobile game named Shiwuyu (「食物語」), which is designed with women as its target market and featured traditional Chinese cuisine to promote Chinese local culture. As a one-stop game publishing solution to game developers, Tencent Group owns a large amount of game platforms which the Group could leverage to increase exposure of its newly developed game to gamers. The Group engaged Tencent Group for the distribution and operation of Shiwuyu by entering into the Shiwuyu Agency Agreement with Tencent Group on 25 September 2018. Under the Shiwuyu Agency Agreement, the Group granted Tencent Group the exclusive right to distribute and operate Shiwuyu as an exclusive

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

agent in Mainland China, and it provided the content of the mobile game Shiwuyu and technical support of the running software. Tencent Group provided the Group with the game operating system, the server, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the game Shiwuyu. The Shiwuyu Agency Agreement was expired on 15 October 2021 and the Group and Tencent Group further entered into Renewed Shiwuyu Agency Agreement for a term of one year commencing from 16 October 2021 and ending on 15 October 2022.

After the launch of Shiwuyu in Mainland China in 2019 under the Shiwuyu Agency Agreement and Renewed Shiwuyu Agency Agreement, according to the Company's 2019, 2020 and 2021 annual reports and interim results announcements for 1H2022, the percentage of revenue contributed from Shiwuyu represented approximately 30.4%, 45.1% 24.2% and 26.8% of the total revenue of the Group for FY2019, FY2020, FY2021 and 1H2022, respectively. The drop in the percentage of revenue contribution in FY2021 and 1H2022 was mainly due to (i) the launch of Legend of Aoqi Mobile, which contributed 23.9% of total revenue, in FY2021 and (ii) Shiwuyu reached the declining stage of its product life cycle as evidenced by the drop in its revenue contribution in FY2021 and 1H2022 compared to the previous year/period. Shiwuyu was the top game title of the Group in FY2019, FY2020, FY2021 and 1H2022 in terms of the percentage of revenue contribution. The game was well received and ranked first in the "Top Free Games" category of the Apple App Store on its launch date and was recommended under the section of "New Games We Love" and the "Today" of the Apple App Store for several times. In addition, the game also received many awards and recognitions such as being ranked ninth on Sina Games' "Value of Gaming Brand Chart" (遊戲品牌價值牌行榜), being named "The Best PRC Game of 2019" (2019 年最佳國產遊戲) by the Guangdong Entertainment and Game Industry Association (廣東省遊戲產業協會) and the "Gold Tea Award 2019 Best Original Game" (金茶獎 2019 年度最佳原創遊戲) at the CEO 2019 Annual Conference (2019 遊戲茶館 CEO 年會). After its success in Mainland China, Shiwuyu was further launched in the overseas market including Hong Kong, Macau, Taiwan, Singapore, Malaysia, and Japan.

In view of the success of Shiwuyu under the cooperation between the Group and Tencent Group, the Group renewed the Renewed Shiwuyu Agency Agreement at the end of the agreement term for a term (i.e. the 2022 Shiwuyu Agency Agreement as particularised below).

3. Principal terms of the 2022 Shiwuyu Agency Agreement

General

On 2 September 2022, Guangzhou Tianti, a wholly-owned subsidiary of Guangzhou Baitian, the financial results of which have been consolidated and account for as a subsidiary of the Company by virtue of a series of contractual arrangements, and Tencent Computer entered into the 2022 Shiwuyu Agency Agreement with a term of one year commencing from 16 October 2022 to 15 October 2023, pursuant to which Guangzhou Tianti grants Tencent Computer the exclusive right to distribute and operate the mobile game Shiwuyu as an exclusive agent in Mainland China, and Guangzhou Tianti provides the content of the mobile game and technical support of the software. Tencent Computer provides Guangzhou Tianti with the game operating system, the server facilities, the interface with operators and users, system maintenance and certain customer services for the distribution and operation of the mobile game Shiwuyu.

Pricing Policy and Payment Terms

Tencent Computer shall share with Guangzhou Tianti the revenue received from game players when they recharge their game accounts at a predetermined ratio, which in turn, depends on the mobile operating system (including iOS, Android, HTML5 and Windows Phone systems) on which the game is hosted.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The amount payable to Tencent Computer by Guangzhou Tianti will be calculated as follows:

Amount payable = revenue received after deducting costs (as applicable)⁽¹⁾ × (60% or 70%)⁽²⁾

Notes:

1. Gross profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on Android, HTML5 and Windows Phone systems operated by the mobile game platform of Tencent, whereas net profit received by Tencent Computer will be used as the basis of calculation for hosting of the game on other systems/platforms. “Net profit” as the basis of calculation for hosting the game on the other systems takes into account of the cost payable to the third party channel providers in maintaining such channels or applications. This is different from hosting the game on Android, HTML5 and Windows Phone systems, which operates through channels or applications that are owned by Tencent Group itself, and gross profit is thus used as the calculation basis in such cases.
2. Percentage deducted is fixed based on the platform used to play the game. In particular: (i) 60% applies for hosting the game on iOS system; and (ii) 70% applies for hosting the game on Android, HTML5 and Windows Phone systems. The revenue sharing percentage for hosting the game on iOS system is lower than that on Android, HTML5 and Windows Phone systems. This is primarily attributable to the greater difficulty for Tencent Group to distribute games in the latter systems which are generally more complex in terms of the number and variety of distribution channels or applications, and thus a higher revenue sharing percentage to Tencent Group had been set to compensate such efforts.

The total revenue received (after deducting applicable costs) from game players, less the above amount payable, will be paid by Tencent Computer to the designated bank account of Guangzhou Tianti by bank transfer, and will be payable within thirty-three (33) Business Days from the date of Tencent Computer’s receipt of qualified invoice issued by Guangzhou Tianti and settlement notice affixed with Guangzhou Tianti’s official seal.

Our assessment of the terms of the 2022 Shiwuyu Agency Agreement

According to our discussion with the management and review of the 2022 Shiwuyu Agency Agreement, the distribution arrangement between the Group and Tencent Group regarding Shiwuyu will be renewed under the same terms as the Renewed Shiwuyu Agency Agreement with a new effective period from 16 October 2022 to 15 October 2023, It is the usual practice for mobile game developers and the game publishers to renew the agency agreement between them at its expiry on an annual basis after taking into account the expected product life cycle of the mobile game such as its popularity, average revenue per gamer, etc.

The Group had engaged Tencent Group for the distribution and operation of Shiwuyu since 2018 under the Shiwuyu Agency Agreement with a term of three years, when Tencent Group was an independent third party of the Group until its acquisition of approximately 12% of the total issued shares of the Company in January 2021. The Shiwuyu Agency Agreement was entered into by both parties in the ordinary and usual course of business and on normal commercial terms on arm’s length basis and the Renewed Shiwuyu Agency Agreement was renewed under similar terms. The 2022 Shiwuyu Agency Agreement will be renewed under the same terms as the Renewed Shiwuyu Agency Agreement according to our review of the 2022 Shiwuyu Agency Agreement.

We have discussed with the management of the Group and obtained six other agency agreements which the Group granted exclusive rights to other independent third-party distribution channels to distribute and operate existing mobile games developed by the Group in Mainland China and overseas market which, among others, include the agency agreements for the distribution and operation of Shiwuyu in overseas markets including Hong Kong, Macau, Taiwan and Japan (the “**Comparable Transactions**”) and compared the terms with the 2022 Shiwuyu Agency Agreement. Based on the discussion with the management of the Group, the Comparable Transactions represent a complete and exhaustive set of agency agreements entered into by the Group in granting exclusive distribution rights to other independent third-party distribution channels since the commencement date of Shiwuyu Agency Agreement up to the Latest Practicable Date. We note that the Group has also adopted the revenue sharing arrangement with the independent

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third-party distribution channels for the Comparable Transactions, in the similar manner as the 2022 Shiwuyu Agency Agreement, and that the terms of the 2022 Shiwuyu Agency Agreement, in particular the pricing terms and payment terms, are broadly similar to those terms under the Comparable Transactions. Regarding the pricing terms, we noted that the percentages of revenue shared to Tencent Computer under the 2022 Shiwuyu Agency Agreement are either 60% or 70% depending on the mobile operating system on which the game is hosted, which are generally lower than the percentages of revenue shared to the other independent third-party distribution channels under the Comparable Transactions that range from 72% to 81%. Therefore, we concur with the view of the management of the Company that the transaction contemplated under the 2022 Shiwuyu Agency Agreement is fair and reasonable and on normal commercial terms or better.

4. Historical Transaction Amounts and Annual Cap

Historical transaction amount and existing cap

The historical transaction amount and the existing annual cap pursuant to the Shiwuyu Agency Agreement and the Renewed Shiwuyu Agency Agreement are set out below:

	For the year ended 15 October			
	2019	2020	2021	2022
	RMB million	RMB million	RMB million	RMB million
Actual transaction amount	106.9	351.5	122.5	86.1 ⁽¹⁾
Existing annual cap	N/A	N/A	N/A	140 ⁽²⁾

Notes:

- (1) Such figure represents the amount paid by Guangzhou Tianti to Tencent Computer for the period from 16 October 2021 to the Latest Practicable Date pursuant to the Renewed Shiwuyu Agency Agreement.
- (2) The annual cap for the period from 16 October 2021 to 15 October 2022 pursuant to the Renewed Shiwuyu Agency Agreement was initially set at RMB76 million and was revised to RMB55 million, which was further revised to RMB140 million.

As set out in the letter from the Board, the Board confirmed that as of the Latest Practicable Date, the existing annual cap for the period from 16 October 2021 to 15 October 2022 for the fees payable by Guangzhou Tianti to Tencent Computer under the Renewed Shiwuyu Agency Agreement has not been exceeded.

There were no annual caps for the transactions for the three years ended 15 October 2021 as the Shiwuyu Agency Agreement was entered into by the Group and Tencent Group, in September 2018, before Tencent (and its associates, including Tencent Computer) became the connected persons of the Company. The transactions contemplated under the Shiwuyu Agency Agreement subsequently became a continuing connected transaction in January 2021 after Tencent's acquisition of approximately 12% of total issued shares of the Company and the Group are only required to comply with the annual review and disclosure requirements for the continuing connected transaction as required under the Listing Rules and no annual cap is required to be set for the transactions contemplated under the Shiwuyu Agency Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group and Tencent Group further entered into the Renewed Shiwuyu Agency Agreement at the expiry of the Shiwuyu Agency Agreement on 15 October 2021. Pursuant to Rule 14A.60(1)(b) of the Listing Rules, if the Group renews an agreement for a fixed period with fixed terms for continuing connected transactions, the Group are required to comply with all connected transaction requirements as required under the Listing Rules, including the setting of an annual cap.

The current utilisation rate of the annual cap for the year ending 15 October 2022 is 61.5% as at the Latest Practicable Date and it is expected to be approximately 67.9% after accounting for the forecasted transaction amounts from the Latest Practicable Date up to 15 October 2022 as per the management. Based on our discussion with the Company, the expected utilization were not close to full utilisation of the cap since the growth of total number of active gamers generated from well-received game content updates in Shiwuyu which significantly increased existing gamers' engagement and satisfaction as well as new gamers' participation in late 2021 was not as expected. The updates were able to drive a growth in total number of active gamers by approximately 32% during the period from November 2021 to January 2022, but subsequently dropped by approximately 20% in the remaining months in the current period, instead of recording a further growth as expected by the management

Proposed Annual Cap and our analysis and work performed on the Annual Cap

The proposed Annual Cap for the period from 16 October 2022 and ending on 15 October 2023 is RMB80,000,000, subject to the requisite approval of the Independent Shareholders being obtained.

Based on our discussions with the management of the Group, when determining the Annual Cap, the Company has taken into account various factors, including, among others, (i) the historical transaction amount with Tencent Group under the Shiwuyu Agency Agreement and Renewed Shiwuyu Agency Agreement and (ii) the current and expected popularity of Shiwuyu. The Annual Cap of RMB80,000,000 represents a decrease of 42.9% compared to the existing cap under the Revised Shiwuyu Agency Agreement, which, according our discussion with the management, mainly because Shiwuyu reached the declining stage of its product life cycle as evidenced by the drop in revenue contribution of Shiwuyu in 1H2022. According to the interim results announcement for 1H2022, while the revenue contribution of Shiwuyu increased from 23.8% of the total revenue in 1H2021 to 26.8% of the total revenue in 1H2022, the revenue of the Group for the period decreased from RMB519.9 million in 1H2021 to RMB289.6 million in 1H2022. This represents that revenue contribution from Shiwuyu decreased from approximately RMB123.7 million in 1H2021 to RMB77.6 million in 1H2022, or a decrease of 37.3%, which was mainly due to the decrease in number of active users of Shiwuyu. As a result, the management expects there will be further decrease in revenue contribution from Shiwuyu which in turn reduces the expected fees payable by Guangzhou Tianti to Tencent Computer and thus a lower Annual Cap is set for the 2022 Shiwuyu Agency Agreement.

To further assess the fairness and reasonableness of the Annual Cap, we have obtained and reviewed the historical and forecasts of transaction amounts prepared by the management to derive the Annual Cap. Based on our review of the Company's calculations, we note that the forecasted transaction amounts are calculated principally based on the fee sharing percentage of Tencent Group and the projected revenue to be generated from Shiwuyu, which in turn, is mainly estimated by (i) expected monthly growth in number of gamers; (ii) expected monthly gamer retention percentage; and (iii) expected average revenue per gamer. By calculating the sum of (a) expected monthly growth in number of gamers and (b) the product of number of active gamers in the preceding month and expected monthly gamer retention percentage, the Company can estimate the total number of monthly active gamers, which is then multiplied by the expected average revenue per gamer in arriving the projected monthly revenue to be generated from Shiwuyu.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In determining the amount of the Annual Cap, based on our discussion with the management and review of historical and forecasted performance of Shiwuyu, the Group expected a decrease in average monthly growth in number of new gamers by 6.8% for the year ending 15 October 2023 (“**Forecasted period**”) compared to that of the current period (i.e. from 16 October 2021 to the Latest Practicable Date). As advised by the management, the Group is able to attract new gamers to Shiwuyu as it continues to provide updates of new contents to the game frequently and maintain adequate marketing exposure for Shiwuyu. However, as Shiwuyu was launched for more than two years, its attractiveness to new gamers is expected to decrease gradually. The expected average revenue per gamer is also expected to decrease for the same reason as existing gamers will be less willing to invest in a game which is perceived to be in the later stage of the game’s life cycle. For the expected monthly gamer retention percentage, as the Group is expected to actively deliver new contents updates of Shiwuyu to its existing gamers, the management expects that the retention percentage in the Forecasted period will be maintained at a similar level of that of the current period.

Having considered the basis on which the Annual Cap is determined as described above, we are of the view that the such Annual Cap is fair and reasonable so far as the Independent Shareholders are concerned.

5. Internal Control Measures

As set out in the letter from the Board, the Company implements the following internal control measures in connection with the transactions contemplated under the 2022 Shiwuyu Agency Agreement:

- (i) the finance department of the Company will closely monitor the actual transaction amounts under the 2022 Shiwuyu Agency Agreement on a monthly basis to ensure that the Annual Cap is not exceeded. If the actual transaction amount reaches approximately 50% or 80% of the Annual Cap at any time during the contract period such utilisation rate will be reported and escalated to the senior management of the Company who will, if necessary, seek advice from external counsel and take appropriate measures to comply with the relevant announcement and Shareholders’ approval requirements in accordance with the Listing Rules;
- (ii) the internal control department of the Company will conduct internal control review and financial audit on a semi-annual basis, and conduct financial monitoring and decision-making analysis on a semi-annual basis so as to ensure compliance with the terms of the 2022 Shiwuyu Agency Agreement and the Group’s pricing policies;
- (iii) the senior management of the Company will be responsible for the overall supervision and monitoring the compliance with the internal control procedures by the above-mentioned departments;
- (iv) the Company will arrange compliance trainings for the Directors, senior management and staff from the relevant departments of the Group from time to time, primarily focusing on the rules under Chapter 14A of the Listing Rules; and
- (v) apart from the 2022 Shiwuyu Agency Agreement, the Group had entered into other agency agreements pursuant to which the Group had granted exclusive rights to other independent third party distributors to distribute and operate Shiwuyu in overseas markets including Hong Kong, Macau, Taiwan and Japan. Through comparing their respective terms, the Group will be able to monitor the terms, especially the pricing, of the 2022 Shiwuyu Agency Agreement and ensure that such terms with Tencent Group will remain competitive compared with the terms offered by independent third party distributors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the internal policies and procedures manual of the Company in relation to the above internal control measures and considered that the measures in place provide reasonable assurance that the conduct of the transactions contemplated under the 2022 Shiwuyu Agency Agreement would be monitored by the finance and internal control departments and be reported properly to relevant senior management to ensure that the transactions would be in compliance with the terms and conditions as stated in the 2022 Shiwuyu Agency Agreement.

In light of the above, we are of the view that appropriate measures are in place to ensure that the transactions contemplated under the 2022 Shiwuyu Agency Agreement are conducted on normal commercial terms or better and to safeguard the interests of the Independent Shareholders and of the Company as a whole, and comply with the Annual Cap and pricing policies under the 2022 Shiwuyu Agency Agreement.

6. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the 2022 Shiwuyu Agency Agreement must be restricted by the Annual Cap for the period concerned under the 2022 Shiwuyu Agency Agreement; (ii) the terms of the 2022 Shiwuyu Agency Agreement must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the 2022 Shiwuyu Agency Agreement must be included in the Company's subsequent published annual reports and financial accounts.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the transactions contemplated under the 2022 Shiwuyu Agency Agreement (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions contemplated under the 2022 Shiwuyu Agency Agreement involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the Annual Cap.

In the event that the total transaction amount contemplated under the 2022 Shiwuyu Agency Agreement exceeds the Annual Cap, or that there is any material amendment to the terms of the 2022 Shiwuyu Agency Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transaction contemplated under the 2022 Shiwuyu Agency Agreement and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having taken into consideration the factors and reasons as stated in section headed “Principal Factors and Reasons Considered” in this letter above, we are of the opinion that the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) are on normal commercial terms, in the ordinary and usual course of business of the Group 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 to be proposed at the EGM to approve the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transactions contemplated thereunder, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully
For and on behalf of
Shenwan Hongyuan Capital (H.K.) Limited
Donald Leung
Director
Corporate Finance

Note: Mr. Leung is a licensed person registered with the Securities and Futures Commission and a responsible officer of Shenwan Hongyuan Capital (H.K.) Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has more than 16 years of experience in corporate finance advisory industry.

1. 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	Position	Capacity/ Nature of interest	Number of underlying Shares ⁽⁷⁾	Approximate percentage of shareholding ⁽⁷⁾⁽⁸⁾
DAI Jian (戴堅) ⁽¹⁾	Chairman, Executive Director and Chief Executive Officer	Founder of a discretionary trust Interest of controlled corporation	687,944,180(L)	24.37%(L)
		Beneficial owner	10,000,000(L)	0.35%(L)
WU Lili (吳立立) ⁽²⁾	Executive Director	Founder of a discretionary trust Interest of controlled corporation	365,596,180(L)	12.95%(L)
		Beneficial owner	15,000,000(L)	0.53%(L)
LI Chong (李沖) ⁽³⁾	Executive Director	Founder of a discretionary trust Interest of controlled corporation	114,816,360(L)	4.07%(L)
		Beneficial owner	200,000(L)	0.01%(L)
LIU Qianli (劉千里) ⁽⁴⁾	Independent Non-executive Director	Beneficial owner	200,000(L)	0.01%(L)
		Beneficial owner	200,000(L)	0.01%(L)
WANG Qing (王慶) ⁽⁵⁾	Independent Non-executive Director	Beneficial owner	200,000(L)	0.01%(L)
		Beneficial owner	200,000(L)	0.01%(L)
MA Xiaofeng (馬肖風) ⁽⁶⁾	Independent Non-executive Director	Beneficial owner	200,000(L)	0.01%(L)
		Beneficial owner	200,000(L)	0.01%(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 Investments Limited, a trust holding company owns 100% of equity interest in Stmoritz Investment Limited. In addition, 10,000,000 RSUs were granted to Mr. Dai under the Pre-IPO RSU Scheme entitling him to receive 10,000,000 Shares and subject to vesting. As at the Latest Practicable Date, all the 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.
- (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. In addition, Mr. Li was interested in 15,000,000 RSUs granted to him under the Post-IPO RSU Scheme entitling him to receive 15,000,000 Shares subject to vesting. For details, please refer to the Company's announcements dated 12 April 2021 and 30 March 2022, the circulars dated 21 May 2021 and 27 April 2022 and the poll results announcements dated 25 June 2021 and 6 June 2022.
- (4) Ms. Liu was 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 at the Latest Practicable Date, all the 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.
- (5) Dr. Wang was 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 at the Latest Practicable Date, all the RSUs granted to Dr. 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.
- (6) Mr. Ma was 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 at the Latest Practicable Date, all the 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.
- (7) The Letter "L" denotes the person's Long position in such Shares.
- (8) These percentages are calculated on the basis of 2,822,844,000 Shares in issue as at the Latest Practicable Date.

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.

2. 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) save as disclosed above, 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;
- (d) none of the Directors had a material interest in any contract or arrangement subsisting which is significant in relation to the business of the Group; and
- (e) 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.

3. CONSENT OF EXPERT

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

Name	Qualifications
Shenwan Hongyuan Capital (H.K.) Limited	a licensed corporations to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

Shenwan Hongyuan Capital (H.K.) Limited 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 Shenwan Hongyuan Capital (H.K.) Limited dated 23 September 2022 is given on pages 15 to 26 for incorporation herein.

As at the Latest Practicable Date, Shenwan Hongyuan Capital (H.K.) Limited 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 2021, the date to which the latest published audited financial statements of the Group were made up.

4. 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 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange at (www.hkexnews.hk) and the website of the Company (www.baioo.com.hk) during the period from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (a) the 2022 Shiwuyu Agency Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter of advice from Shenwan Hongyuan Capital (H.K.) Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;
- (d) the written consent of Shenwan Hongyuan Capital (H.K.) Limited referred to in this appendix;
and
- (e) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 with a combination of (a) a physical meeting at 31st Floor, Goldchi Building, 120 Huangpu W Ave, Tianhe, Guangzhou, Guangdong, China, 510623; and (b) a virtual meeting online at 2 p.m. on Friday, 14 October 2022 for considering and, if thought fit, passing (with or without amendments) the following purposes:

1. To consider and, if thought fit, pass with or without amendments, the following ordinary resolutions:
 - (a) To approve and confirm the 2022 Shiwuyu Agency Agreement and the transaction contemplated thereunder by the Group; and
 - (b) To authorise any one or more of the Directors to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the terms of the 2022 Shiwuyu Agency Agreement (including the Annual Cap) and the transaction contemplated thereunder.

By Order of the Board
BAIOO Family Interactive Limited
DAI Jian

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 23 September 2022

Notes:

1. All resolutions at the EGM 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 EGM 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM 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 EGM 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 EGM, the register of members of the Company will be closed from Tuesday, 11 October 2022 to Friday, 14 October 2022, both dates 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 10 October 2022.
5. The Company will conduct a hybrid EGM involving (i) a physical meeting; and (ii) a virtual meeting by electronic means through a ZOOM live webcast, which will allow Shareholders to participate in the EGM through live video broadcast. Shareholders will be able to view the live video broadcast and speak and ask questions at the EGM via their mobile phones, tablet, or computers with appropriate communication devices. The live broadcast option can also broaden the reach of the EGM to Shareholders who do not wish to attend physically due to concerns on attending large scale events under the current COVID-19 pandemic situation, or for other overseas Shareholders who are unable to attend in person. After the EGM, Shareholders may (at their own expense and for a period of 5 business days from the date of the EGM) obtain the audio recording of the proceedings in the EGM by email request to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline at (852) 2980 1333 of Tricor Investor Services Limited.
6. Although Shareholders are welcome to attend the EGM physically in person if they so wish, the Company strongly recommends Shareholders to attend the EGM via the online option. The Company will also implement the prevention and control measures at the EGM to safeguard the health and safety of the Shareholders, staff and other stakeholders attending the EGM. For more details, please refer to section headed "Precautionary Measures for the EGM" of this circular. If the venue of the EGM is closed in response to the COVID-19 pandemic outbreak, the EGM will continue to be held via the online platform.
7. Shareholders of the Company who wish to join EGM online via the ZOOM live webcast must register by 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM) to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline (852) 2980 1333 of Tricor Investor Services Limited. Following authentication of his/her/its status as shareholders of the Company, such Shareholders will receive an email instruction on how to join the ZOOM live webcast to observe the proceedings of the EGM by Friday, 14 October 2022. Shareholders of the Company who registers for the ZOOM live webcast may submit questions related to the resolutions proposed for approval at the EGM. To do so, all questions must be submitted by 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM) by email to is-enquiries@hk.tricorglobal.com or by calling the telephone hotline (852) 2980 1333 of Tricor Investor Services Limited. Shareholders MUST NOT forward the URL to other persons who are not Shareholders and who are not entitled to attend the EGM.

If such Shareholder of the Company (whether individual or corporate) wishes to exercise his/her/its voting rights at the EGM, he/she/it may appoint the chairman of the EGM as his/her/its proxy to vote on his/her/its behalf at the EGM. In appointing the chairman of the EGM as proxy, a Shareholder of the Company (whether individual or corporate) must give specific instructions as to voting in the form of proxy, the duly completed and signed form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority at the office of the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 2 p.m. on Wednesday, 12 October 2022 (being not less than forty-eight (48) hours before the EGM), failing which the appointment will be treated as invalid.

NOTICE OF EXTRAORDINARY GENERAL MEETING

If you have any queries on the above, please contact the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, via their hotline at (852) 2980 1333 from 9 a.m. to 5 p.m. (Monday to Friday, excluding Hong Kong public holidays).

8. Shareholders who wish to attend the EGM and exercise their voting rights can be achieved in one of the following ways:

- (1) attend the EGM in person and vote at the EGM venue; and
- (2) appoint chairman of the EGM or other persons as your proxy to vote on your behalf.

Your proxy's authority and instruction will be revoked if you attend and vote in person at the EGM.

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