

9 May 2025

*To the Independent Board Committee and the Independent Shareholders of  
Bingo Group Holdings Limited*

Dear Sir/Madam,

## **CONTINUING CONNECTED TRANSACTIONS PROJECT MANAGEMENT SERVICES 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 entering into of the Project Management Services Agreement, the Supplemental Agreement and the transactions contemplated thereunder and the Annual Caps, particulars of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of the Company dated 9 May 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the announcements of the Company dated 4 October 2024 and 5 March 2025. On 4 October 2024, Huge Art (an indirect wholly-owned subsidiary of the Company), being the Service Provider, and Jumoon Group, being the Service Receiver, entered into the Project Management Services Agreement pursuant to which the Service Provider shall provide project management services to the Service Receiver for a term commencing from the date on which the Project Management Services Agreement becomes effective up to 31 March 2027. Subsequently, the Service Provider and the Service Receiver entered into the Supplemental Agreement to amend the Annual Caps.

The Service Receiver is wholly owned by Ms. Chow, an executive Director and a deemed substantial shareholder of the Company, and is therefore a connected person of the Company. Hence, the entering into of the Project Management Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As the highest applicable percentage ratio as set out in Rule 19.07 of the GEM Listing Rules in respect of the Annual Caps exceeds 25% and the annual caps for the two years ending 31 March 2027 are over HK\$10,000,000, the transactions contemplated under the Project Management Services Agreement and the Annual Caps are subject to the applicable reporting, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. As Ms. Chow is the sole shareholder of the Service Receiver, an executive Director and a deemed substantial shareholder of the Company, and also the sister of Mr. Chiau Sing Chi ("**Mr. Chiau**"), being the executive Director, both Ms. Chow, Mr. Chiau and their associates will abstain from voting with respect to the relevant resolution at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders as to (i) whether the terms of the Project Management Services Agreement and the Annual Caps are fair and reasonable, (ii) whether the transactions under the Project Management Services Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and (iii) how to vote on the proposed resolution. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give independent opinion to the Independent Board Committee for it to advise the Independent Shareholders in this regard.

## **BASIS OF OUR OPINION**

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information, facts and representations provided, and the opinions and views expressed, to us by the Company, the Directors and/or the management of the Group, and (ii) the information, facts, representations, opinions and views of the Company, the Directors and/or the management of the Group contained or referred to in the Circular, including but not limited to the Letter from the Board contained therein, all of which have been assumed to be true, accurate and complete at the time they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, view and intention made by the Company, the Directors and/or the management of the Group in the Circular, including but not limited to the Letter from the Board contained therein, were reasonably made after due and careful enquiry and the expectations and intentions made by the Company, the Directors and/or the management of the Group will be met or carried out as the case may be. We consider that we have received and reviewed sufficient information to reach an informed view and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth, accuracy and

completeness of the information and representations provided to us by the Company, the Directors and/or the management of the Group. We have been confirmed by the Company that no material facts have been withheld or omitted from the information provided to us, the opinion expressed to us, and/or information or opinion contained or referred to in the Circular.

We have not, however, carried out any independent verification of the information provided by the Company, the Directors and/or the management of the Group, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group, the counter-party to the Project Management Services Agreement, or any of its respective subsidiaries, controlled entities, jointly controlled entities or associates. We consider that we have performed our duties with impartiality and independence from the Company.

The Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 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 misleading.

As at the Latest Practicable Date, we were not aware of any relationships between us and, nor any interests held by us in, the Company or the counter-party to the Project Management Services Agreement that could reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser. In the past two years preceding the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exist whereby we had received any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Project Management Services Agreement, the transactions contemplated thereunder and the Annual Caps.

## **PRINCIPAL REASONS AND FACTORS CONSIDERED**

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Project Management Services Agreement and the Annual Caps, we have taken into consideration the following principal reasons and factors:

### **(1) Background of and reasons for the Project Management Services Agreement**

As stated in the Letter from the Board, the Service Receiver is principally engaged in licensing and production of intellectual property relating to film work generally. As advised by the Company, the Service Receiver entered into a short drama series cooperation agreement (the “**Cooperation Agreement**”) with the operator of one of the leading short-form video and

live-streaming platform in China (the “**Platform Operator**”) in late December 2023, pursuant to which the Service Receiver and the Platform Operator agreed to cooperate to produce short drama series for launch on the internet platform (the “**Platform**”) operated by the Platform Operator. In addition, as advised by the Company, it understood from the Service Receiver that the Service Receiver will procure title advertisement for the short drama series and start live e-commerce business on the Platform.

Further, the Company understood from the Service Receiver that it intends to procure investors for financing the production of film works and the Service Receiver will be responsible for engaging Mr. Chiau, being a Hong Kong’s renowned filmmaker and actor, to participate in the creative production of the film works (the “**Film Work Production**”, the film work(s) under the Film Work Production, the “**Film Works**”).

On 4 October 2024, the Service Provider entered into the Project Management Services Agreement (as supplemented by the Supplemental Agreement) with the Service Receiver, pursuant to which it shall perform the project management services to the Service Receiver in relation to the aforesaid cooperation with the Platform Operator and Film Work Production (the “**Projects**”). The Service Provider shall be mainly responsible for managing and overseeing the overall operations of the Projects, particularly the use of the intellectual properties developed by Mr. Chiau, and providing administrative support. The Service Receiver shall be mainly responsible for running the Projects, including but not limited to (i) for both short video and licensing business works, securing commercial deals and contracts and sourcing production partners or manufacturing partners (if applicable), obtaining the required intellectual properties for the fulfilment of conditions of the aforesaid contracts, (ii) for Film Work Production, if Mr. Chiau is engaged, arranging a production or creative team to support the creative work needed for the production; and (iii) procuring title advertisement.

The Group is principally engaged in movie production, licensing and derivatives, crossover marketing and provision of interactive contents and cinema investment and management. As stated in the 2023/24 annual report of the Group for the year ended 31 March 2024, the Group recorded a total turnover of approximately HK\$7.8 million for the year ended 31 March 2024 (“**FY2024**”), representing an increase of approximately HK\$2.3 million compared with that of approximately HK\$5.5 million for the year ended 31 March 2023 (“**FY2023**”). The turnover of the Group for FY2023 principally represented revenue from cinema business. In addition to the cinema business, new business of sales of movie-themed Tourbillon watches was launched in FY2024. Loss for FY2024 of approximately HK\$12.1 million was recorded, an increase by approximately HK\$3.7 million compared with the loss of HK\$8.4 million for FY2023. Such loss increase was principally due to impairment loss on right-of-use assets of approximately HK\$1.1 million recorded, and no special gain and limited special income recognised in FY2024. In FY2023, government grant for cinema operation of approximately HK\$0.6 million and rent concession provided to cinemas in the PRC for the closure of business due to 2019 Novel Coronavirus of approximately HK\$0.9 million were received by the Group. In addition, a special gain on modification of lease terms of cinemas of HK\$2.7 million was recorded in FY2023.

As stated in the interim report of the Group for the six months ended 30 September 2024, the Group recorded a total turnover of approximately HK\$4.5 million for the six months ended 30 September 2024 (“1H2025”), representing a decrease of approximately HK\$0.9 million compared with that of approximately HK\$5.4 million for the six months ended 30 September 2023 (“1H2024”). Such decrease was due to net effect of (i) the decrease in revenue from cinema business from approximately HK\$3.8 million in 1H2024 to approximately HK\$0.9 million in 1H2025 as a result of the closure of the Group’s cinema in Shanghai in May 2023 and suspension of operation of the Group’s cinema in Hangzhou for repairment works for nearly 1.5 months; and (ii) the increase in revenue from licensing business from HK\$1.6 million in 1H2024 to HK\$3.6 million in 1H2025 due to the commencement of the project using certain intellectual property rights of the live action feature movies titled 《喜劇之王》(King of Comedy) and 《新喜劇之王》(New King of Comedy) licensed by the Group and license fee was recognised. Loss for 1H2025 of approximately HK\$11.6 million was recorded, an increase by approximately HK\$6.3 million as compared with the loss of HK\$5.3 million for 1H2024, which was mainly attributable to the non-cash share-based payments of approximately HK\$6.1 million related to the share options granted during 1H2025.

As stated in the Letter from the Board, the entering into of the Project Management Services Agreement allows the Group to explore business opportunities for provision of project management services in movie production and derivatives, and the crossover marketing field. As the Group has established profound experience and possessed solid network for commercialisation of licensing products, the Group is of the view that such strategic cooperation with the Service Receiver will enable the Group to generate more revenue stream, enhance its financial performance and step towards the business optimisation. The Directors are of the view that the transactions contemplated under the Project Management Services Agreement are expected to be of a recurrent nature and occur in the ordinary usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As advised by the Company, the utilisation of the intellectual properties developed by Mr. Chiau in the Projects and the role undertaken by the Service Provider in the Projects share similarities to the new media and licensing business currently run by the Group. Hence, the Project Management Services can be regarded as a business expansion in the aforesaid business segment of the Group.

Taking into account the financial and operating performance of the Group, the benefits of the strategic cooperation with the Service Receiver which can be regarded as a business expansion of the Group as mentioned above, we concur with the Director’s view that the entering into of the Project Management Services Agreement and the transactions to be contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

## (2) Principal terms of the Project Management Services Agreement

### *Service fee*

The Service Provider is entitled to receive a service fee (the “**Service Fee**”) which equals to 30% of the net profit generated by the Service Receiver from the Projects (the “**Project Net Profit**”). If any Project involves Mr. Chiau’s participation in the creative production, the Service Fee will be 20% of the Project Net Profit instead (the “**30%**” and “**20%**”, together the “**Service Fee Rate**”).

The Service Fee and the Annual Caps are determined after arm’s length negotiations between the Group and the Service Receiver with reference to the revenue streams and profit margin of the Projects and the estimated costs and expenses of the provision of project management services for the year ending 31 March 2026 (“**FY2026**”) and 2027 (“**FY2027**”), respectively.

We understood from the Company that the receipt of the Service Fee is subject to various factors, among others, (i) the number, production and launch schedule of the short drama series, (ii) viewership of the short drama series, (iii) number of sponsor of title advertisement successfully procured, (iv) conversion rate of viewers to purchase the products promoted in live streaming section, (v) spending amount of live-streaming viewers, (vi) number of Film Works produced and (vii) actual cost incurred by the Service Receiver in the Projects.

As stated in the Letter from the Board, there was no historical transaction of project management services between the Group and the Service Receiver. We have enquired into and understood from the Company that neither the Company nor the Service Receiver has provided or received similar project management services to or from third parties before, and they are not aware of any market rate for similar services in the industry, as such kind of service could be highly customised and vary from provider to provider and therefore there is no standard market rate available for comparison. The Service Receiver coordinated the production of 2 short drama series, namely, 《金豬玉葉》 and 《大話大話西遊》, which were first launched in June and November in 2024 respectively, but did not engage any project management services provider at the relevant time.

We have attempted to identify comparable information in public to see if there is any market range of service fee rate of similar project management services for production and launch of short drama series, title advertisement, live e-commerce or content production (such as movie). In particular, we have attempted to find such information from the business information released in public by companies listed in Hong Kong or the PRC, which are principally engaged in media entertainment or social media platform business, including but not limited to their respective prospectus, annual

or interim reports, announcements and/or company website. However, no comparable information relating to market range of service fee rate can be identified in those publicly available information.

Notwithstanding the absence of market comparables, we understood from the Company that the Service Provider will not be required to advance or bear any cost or expense in running the Projects. The project management works are expected to be mainly documentation works which can be carried out and completed by its existing staff, and thus no material extra cost, such as additional staff cost or outsourcing cost, is expected to be incurred by the Group in delivering the project management services. We have further discussed and understood from the Company that the role and duties of the Service Provider will be mainly a monitoring role overseeing the overall operations of the Projects. Notwithstanding the Service Provider will also be responsible for some administration works, such as liaising and communicating with production unit and collection of account receivables from external parties for and on behalf of the Service Receiver, those works are considered general clerical duties that can be completed by the existing team of the Group comprising 8 staff in total. Taking into consideration the above, we concur with the Directors' view that the existing manpower of the Group shall be sufficient to provide the project management services. As further advised by the Company, should the workload of the Service Provider is heavier than currently expected such that additional manpower or outsourcing of works will be required by the Service Provider in order to deliver its services, such cost shall be fully recovered or reimbursed by the Service Fee receivable. Given the above, as long as the Service Fee Rate is more than zero which represents a potential new income source to the Group should any of the Projects make profits, such rate is considered in the interest of the Company and its Shareholders as a whole, especially after taking into account the Group's loss position for FY2024 and 1H2025.

We understand from the Company that, a service fee rate of 10% less offered to the Service Provider for the Projects involving the engagement of Mr. Chiau is still considered to be fair and reasonable to the Group as some of the project management works which are supposed to be undertaken by the Service Provider shall be shared by Mr. Chiau to a certain extent, particularly, the supervising role on the proper usage of the intellectual properties in the Projects within the agreed scope.

***Payment terms***

The Service Fee shall be settled by the Service Receiver quarterly upon confirmation of the quarterly bill from the Service Provider, which is prepared based on the financial information of the Projects provided by the Service Receiver from time to time, and the cost incurred by the Service Provider (if any). As stated in the Letter from the Board, in the event that any Project did not generate any profit, the Service Provider shall be reimbursed all the costs and expenses incurred by it in providing the services for

the corresponding quarter. The reimbursed amount shall be accrued and be used to offset the Service Fee in the following quarters where the Projects generate profits until fully deducted.

With the above remuneration mechanism, if any cost has been incurred by the Company in delivering its services, such cost will either be covered by the Service Fee receivable by the Service Provider if the Projects make profits, and/or be reimbursed by the Service Receiver if the Projects does not make profits or does not make sufficient amount of profits to cover the cost incurred by the Service Provider. Notwithstanding such reimbursed amount shall offset the Service Fee in subsequent quarters when the Projects make profits, the Company can at least retain a breakeven position during non-profit generating period and generate revenue when the Projects make profits. Based on the analysis above, the aforesaid arrangement is considered favourable to the Group.

As advised by the Directors, the Service Provider will not be required to advance or bear any cost or expense in running the Projects as it is the Service Receiver who is responsible to run the Projects. Apart from the staff cost of the Group's manpower designated to deliver the project management services which shall be borne by the Group itself, no other material cost is expected to be incurred or advanced by the Service Provider in providing its services.

Taking into account (i) the Service Provider will not be required to advance or bear any cost or expense in running the Projects as mentioned above; (ii) any cost or expenses incurred by the Group (if any) before the Projects makes profit (or makes sufficient amount of profit to cover the cost incurred by the Group) will either be covered by the Service Fee and/or reimbursed by the Service Receiver; (iii) although the reimbursed amount will be offset by the Service Fee (if any) in subsequent quarters when the Projects make profits, the Group would at least retain a breakeven position; and (iv) the Group recorded loss and increase in loss for FY2024 and 1H2025 compared to the previous year/period, thus the new income source from provision of the project management services is considered crucial to the Group, we concur with the Directors' view that the Service Fee Rate of 30% generally, and that of 20% for the Projects involving the engagement of Mr. Chiau, and the payment terms including the remuneration mechanism is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **(3) Annual Caps**

We understood from the Company that the Annual Caps for FY2026 and FY2027 of HK\$65 million and HK\$80 million respectively are estimated based on the total Service Fee of RMB57.6 million and RMB69.7 million for the respective year, which is derived based on (i) the estimated revenue to be generated by the Service Receiver from the Projects, comprising (1) cooperation with the Platform Operator in the business of (a) short drama series, (b) title advertisement and (c) live e-commerce, and (2) Film Work Production; (ii)



Project Net Profit to be generated by the Service Receiver taking into account the Estimated Operating Expenses and Production Team Expenses (as defined below); and (iii) the Service Fee Rate as summarised in the following table and analysed below.

		<b>Year ending 31 March</b>	
		<b>2026</b>	<b>2027</b>
		<i>RMB million</i>	<i>RMB million</i>
<b>(1) <u>Cooperation with the Platform Operator</u></b>			
Service Receiver's revenue, comprising			
(a) short drama series		156.0	156.0
(b) title advertisement		—	6.0
(c) live e-commerce		<u>67.5</u>	<u>115.9</u>
	A	223.5	277.9
Less: Estimated Operating Expenses	B	<u>(20.6)</u>	<u>(21.2)</u>
		202.9	256.7
Service Receiver's Project Net Profit	$C = (A-B)*75\%$	152.2	192.5
<b>Service fee of Service Provider</b>	$D = C*30\%$	<b>45.7</b>	<b>57.8</b>
<i>(Service Fee Rate of 30%)</i>			
<b>(2) <u>Film Work Production</u></b>			
Service Receiver's revenue	E	80.0	80.0
Less: Production Team Expenses	F	<u>(1.0)</u>	<u>(1.0)</u>
		79.0	79.0
Service Receiver's Project Net Profit	$G = (E-F)*75\%$	59.3	59.3
<b>Service Fee of Service Provider</b>	$H = G*20\%$	<b>11.9</b>	<b>11.9</b>
<i>(Service Fee Rate of 20%)</i>			
<b>Total Service Fee of Service Provider</b>	<b>D+H</b>		
<i>(in RMB million)</i>		<b>57.6</b>	<b>69.7</b>
<i>(in HK\$ million)</i>		<b>62.2</b>	<b>75.3</b>
<b>Annual Cap (in HK\$ million)</b>		<b>65</b>	<b>80</b>

## ***The Service Receiver's revenue***

### ***(1) Cooperation with the Platform Operator***

#### **(a) Short drama series**

The Service Receiver's revenue estimated to be generated from the production and launch of short drama series is approximately RMB156.0 million and RMB156.0 million for FY2026 and FY2027 respectively, which is calculated based on the following formula and factors:

$$\begin{array}{lcl} \text{Service Receiver's} & = & (\text{number of new short drama series} \\ \text{revenue} & & * \text{number of fee-paying episode} \\ & & * \text{viewing fee of each fee-paying episode} \\ & & * \text{viewership} \\ & & - \text{production cost of short drama series}) \\ & & * \text{sharing ratio of net viewing fee} \end{array}$$

- (i) **number of new short drama series** — assuming 1 short drama series comprises 2 seasons of 12 episodes each based on the preliminary plan of the Service Receiver, 3 short drama series of 2 seasons each (i.e. 6 seasons of 72 episodes in total) will be produced and launched on the Platform in each of FY2026 and FY2027.

As advised by the Company, compared to movie, the production time of short drama series is much shorter. After completion of shooting, the number of seasons of a short drama series is generally determined by post-production work, particularly editing. The launch date of different seasons of a short drama series is determined by the producer.

The Service Receiver has coordinated the production and launch of 2 short drama series, including 《金猪玉葉》 (2 seasons of 12 episodes each, i.e. 24 episodes in total) and 《大話大話西遊》 (1 season of 24 episodes), in the second half of 2024. 《金猪玉葉》 was launched in June 2024 (first season) and July 2024 (second season). 《大話大話西遊》 was launched in November 2024. Taking into account such performance achieved, the launch of 3 short drama series in each of FY2026 and FY2027 is considered achievable.

- (ii) **number of fee-paying episode** — the first season of each short drama series will be free for viewing to attract viewers. Hence, 36 episodes (the “**fee-paying episodes**”) will charge a viewing fee in each of FY2026 and FY2027, which is calculated by deducting the first season (12 episodes) from each of the 3 short drama series (2 seasons of 12 episodes each) to be launched in each of FY2026 and FY2027.

We noted information released in leading social media and short video-sharing platforms in China<sup>1</sup> regarding free viewing arrangement, among which one of them states that for one short drama series of 20 episodes (the “**20-episode Series**”) launched on the platform, viewing fee of approximately RMB1.5 to RMB2.5 per episode in average (discount is offered if multiple episodes are purchased at one time)<sup>2</sup> is charged for the 17th to 20th episode only. We understood from the Company that it is a common market practice that the first season or first few episodes of a short drama series will generally be free for watching for attracting viewers. The Company understood from the Service Receiver that it is its business strategy to launch its 2 short drama series, namely, 《金猪玉葉》 and 《大話大話西遊》, for free viewing in order to attract viewers and public attention on its new business development.

Taking into account (a) the fee-waiving and fee-paying arrangement of the short drama series to be produced and launched by the Service Receiver and the Platform Operator can be set at their own discretion and is not governed by any applicable rules and regulations in the market as understood by the Company from the Service Receiver; and (b) such kind of arrangement is not uncommon in the market, as illustrated by the aforesaid 20-episodes Series launched by another market player, the aforesaid fee-waiving/paying arrangement assumed by the Service Receiver is considered achievable and reasonable.

- (iii) **viewing fee of each fee-paying episode** — RMB1 will be charged for each fee-paying episode.

As advised by the Company, the Service Provider understood from the Platform Operator that around RMB1 per episode is charged for short drama series currently launched on the Platform generally. We also noted from public information<sup>3</sup> that a viewing fee of around RMB1 per episode of short drama series was charged by the Platform Operator from each viewer.

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<sup>1</sup> <https://www.douyin.com/video/7192528321077415227>; <https://weibo.com/1642088277/O6VQj1hvC>;  
<https://news.qq.com/rain/a/20231024A08EFB00>; <https://news.qq.com/rain/a/20211206A01DPW00>

<sup>2</sup> <https://finance.sina.com.cn/tech/roll/2024-11-15/doc-incwckpn6381300.shtml>;  
<https://www.douyin.com/video/7201436429539495223>;  
<https://www.jiemian.com/article/6894472.html>;  
<https://news.qq.com/rain/a/20231024A08EFB00>;  
<https://finance.sina.com.cn/tech/roll/2024-11-15/doc-incwckpn6381300.shtml>

<sup>3</sup> [https://finance.sina.cn/2024-03-27/detail-inaptqsw4695278.d.html?vt=4&cid=76675&node\\_id=76675](https://finance.sina.cn/2024-03-27/detail-inaptqsw4695278.d.html?vt=4&cid=76675&node_id=76675);  
<https://news.qq.com/rain/a/20211206A01DPW00>

- (iv) **viewership (i.e. number of viewer)** — assuming 9 million viewers per episode (the “**Average Number of Viewers**”) will be recorded in around one month after launch of a short drama series on the Platform, and each of the viewers will watch all the episodes of the short drama series.

We have tried to justify the reasonableness of the assumed viewership by making reference to other short drama series launched on popular short-form video platform in China. We noted from public information<sup>4</sup> that a 3-episode short drama series (the “**3-episode Series**”) of which the first and last episode was launched on 30 August 2023 and 6 September 2023 respectively recorded a viewership of 290 million as at 7 September 2023, achieving average viewership per episode of over 96 million in 9 days. The viewership of the 3-episode Series is among one of the many examples with more than 9 million viewership record found and quoted as reference to illustrate that the estimated viewership of the short drama series under the Projects is considered achievable, given (i) they are similar kind of production works (i.e. short-form series distributed through platforms in China, of which each episode is generally less than 10 minutes) and the producers might be popular or experienced in the industry; and (ii) they were/will be launched on a leading social media and short drama platform in China.

Further, we have reviewed the viewership record as released in Douyin, a leading short video-sharing platform, that the viewership of the first season of 《金猪玉葉》 of 12 episodes was 260 million in 2 months after its launch on Douyin in early June 2024, and that of the second season of 《金猪玉葉》 of 12 episodes was 120 million in 1 month after its launch on Douyin in early July 2024. The average viewership per episode of the first and second season was approximately 21 million and 10 million respectively. We further noted from public information<sup>5</sup> that the first episode of the first season of 《金猪玉葉》 recorded a viewership of exceeding 15.35 million in the afternoon of 3 June 2024, the day following its launch on 2 June 2024.

Notwithstanding fee charging arrangement may affect viewership, taking into account (i) the actual viewership record achieved by the two short drama series of the Service Receiver and other short drama series above; (ii) the estimated 9-million viewership per episode of the short drama series to be launched, which will charge viewing fee for the second season, represents over 40% discount of the actual viewership per episode

<sup>4</sup> <https://tw.news.yahoo.com/楊秉儒-顧山河無恙-家國永安-逃出大英博物館-211500884.html>;

<https://weibo.com/1642088277/06VQj1hvC>

<sup>5</sup> [https://www.sohu.com/a/783422715\\_119778](https://www.sohu.com/a/783422715_119778)

of the two seasons of 《金猪玉葉》(which were free for viewing) of 15.5 million in average and over 90% discount of that of the 3-episode Series (which was free for viewing); (iii) one reason for the fee-waiving arrangement of the first season is to attract viewers to pay and watch the second season; (iv) the viewing fee of RMB1 per episode is considered to be affordable by the general public in China given the high viewership of over 2 billion in 2023 after launch in late January of the year recorded by the 20-episode Series<sup>6</sup> which charges viewing fee for the last 4 episodes and the spending power of viewers of short drama series in China as supported by the amount of average annual spending per viewer on live e-commerce shopping which reached RMB6,536 in 2023 according to Statista as stated in the paragraphs headed “(c) Live e-commerce” below; and (v) the expected high attractiveness of the short drama series to be produced under the Cooperation Agreement given the popularity of Mr. Chiau as the intellectual properties developed by Mr. Chiau may be used in those short drama series, the viewership of 9 million viewers per episode estimated by the Service Receiver is considered to be justifiable and achievable.

- (v) **production cost of short drama series (the “Short Drama Series Production Cost”)** — assuming RMB4 million per short drama series (2 seasons of 12 episodes each) for FY2026 and FY2027, which will be equally borne by the Service Receiver and the Platform Operator.

We understood from the Company that the production cost of each short drama series may vary as that depends on various factors such as cost of manpower, props, costume scene, special effects and so on. The production cost of around RMB4 million per short drama series (2 seasons of 12 episodes each) generally is assumed based on the preliminary budget of the Service Receiver and the actual average production cost of the 2 short drama series of it mentioned above.

- (vi) **sharing ratio of net viewing fee** — The Service Receiver will be entitled to share 50% of the total viewing fee net of the production cost stated in (v) above.

As advised by the Company, the revenue from the short drama series will be the viewing fee paid by viewers for short drama series launched on the Platform. We noted from the Cooperation Agreement that the Service Receiver is preliminary entitled to 50% of the net profit from the cooperation.

<sup>6</sup> <http://www.aastocks.com/tc/stocks/news/zhitong-news/ZT1020622/1>;  
<https://www.cls.cn/detail/1510709>;  
<https://news.qq.com/rain/a/20230131A024XY00>

As further advised by the Company, they are not aware of any market norm on the fee sharing ratio, and understood from the Service Receiver that such sharing ratio is arrived at after commercial negotiation between the Service Receiver and the Platform Operator.

(b) Title advertisement

Title advertisement refers to title sponsorship, showing the brand or product of a sponsor before the broadcast of each episode of a short drama series when viewer clicks the link on the Platform to watch such episode, and/or displaying it in the episode. As advised by the Company, it understood that the Service Receiver or the Platform Operator targets to procure customer (i.e. sponsor) for at least one title advertisement for each short drama series.

The Service Receiver's revenue estimated to be generated from title advertisement is nil for FY2026 and approximately RMB6.0 million for FY2027, which is calculated based on the following formula and factors:

$$\begin{array}{lcl} \text{Service Receiver's} & = & \text{title advertisement fee} \\ \text{revenue} & & * \text{sharing ratio of title advertisement fee} \end{array}$$

- (i) **title advertisement fee** — estimated fee of RMB5 million per title advertisement, and at least one title advertisement will be placed for each short drama series for the 3 short drama series to be produced and launched in FY2027.

We noted from public information<sup>7</sup> that the title advertisement received by a short drama series launched in July 2024, of which Mr. Chiau was one of the producers, was more than RMB5 million. Further, we understand from the Company that it has taken a prudent approach and assumes no title advertisement would be procured for the 3 short drama series to be launched in FY2026.

- (ii) **sharing ratio of title advertisement fee** — assuming that the Service Receiver will be entitled to 40% of the title advertisement fee and the Platform Operator will share the remaining 60%.

As advised by the Company, it understood from the Service Receiver that it believes that it will be able to share at least 40% of the title advertisement fee, which is considered conservative given it is entitled to share 50% of the net profit to be generated from the cooperation of production and launch of short drama series with the Platform Operator as discussed above after arm's length commercial negotiation between them.

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<sup>7</sup> <https://news.qq.com/rain/a/20240604A0A6HK00>

- (iii) **production cost** — production cost of the title advertisement will be borne by the Service Receiver.

As advised by Company, it understood from the Service Receiver that the expected production cost of the title advertisement has been included in its preliminary budget of production cost of short drama series as stated above.

(c) Live e-commerce

Live e-commerce combines live streaming and online shopping, offering a real-time buying experience. Anchors present products, answer questions and interact with viewers in real-time. This format drives immediate purchasing decisions.

The Service Receiver intends to develop live e-commerce business to promote and sell products through livestreams on the Platform in collaboration with influencers and partners experienced in business, and shares a portion of the spending amount from live streaming viewers who purchase the products sold as its revenue. As advised by the Company, the Service Receiver intends to engage anchor or signed artists incubated from short drama series, or coordinate with anchor engaged by other organisation which are commonly known as multi-channel networks generally, to do live streaming on the Platform to promote and sell products. The role of the Service Receiver is similar to an anchor management company which is responsible to assist the anchor in developing live broadcast content and skills and broadcasting, find suitable merchant or products and manage the cooperation with the Platform Operator. In return, the Service Receiver will share a certain percentage of the spending amount from viewers who purchase the products promoted by its anchor in the live streaming on the Platform.

The Service Receiver's revenue estimated to be generated from the live e-commerce business is approximately RMB67.5 million and RMB115.9 million for FY2026 and FY2027 respectively, which is calculated based on the following formula and factors:

$$\begin{array}{lll} \text{Service Receiver's} & = & \text{number of purchaser} \\ \text{revenue} & & * \text{average annual spending amount per purchaser} \\ & & * \text{sharing ratio of spending amount of purchasers} \end{array}$$

- (i) **number of purchaser (i.e. conversion rate of live streaming viewers)** — assuming the aforesaid Average Number of Viewers of 9 million per episode will be the live streaming viewers of the Platform, and 3% in FY2026 and 5% in FY2027 of the live streaming viewers will take action to make a purchase. Hence, 0.27 million and 0.45 million purchasers are assumed for FY2026 and FY2027 respectively.

Notwithstanding the Service Receiver has not conducted any live e-commerce business before, thus did not have historical number of purchaser or conversion rate of live streaming viewers (i.e. the percentage of live streaming viewers who makes purchase) as reference to estimate the number of purchaser for FY2026 and FY2027, the Service Receiver believes that viewers of short drama series (i.e. the Average Number of Viewers of 9 million per episode) will bring traffic to the channel of live-streaming programme. Hence, it can be assumed that those short drama series viewers will be the live streaming viewers, and a portion of them will be converted as purchasers.

A conversion rate of 3% in FY2026 and 5% in FY2027 are assumed by making reference to the historical market conversion rate in a report released by iResearch. We further understand from the Company that a slightly higher conversation rate is assumed for FY2027, from that for FY2026, in light of the increasing trend of shopping through live e-commerce in China.

According to the iResearch, a research company found in 2002 which focus on in-depth research in China's internet industry, there was an increasing trend of conversion rate achieved by leading short video sharing and/or live-streaming platforms in China from 3.7% in 2021 to 4.2% in 2022 and further to 4.8% in 2023. Further, as released in 《中國網絡視聽發展研究報告2024》<sup>8</sup> (China's Internet Audiovisual Service Development 2024) by Cyberspace Administration of Jiangsu 江蘇省互聯網信息辦公室 in March 2024, more than 70% of internet population shops through live e-commerce as they watched short drama or live e-commerce, and more than 40% of internet population considers that short videos or live e-commerce have become the main consumption channel. About 53.7% of the internet population often watches live e-commerce in 2023, an increase of 23.4 percentage points from 30.3% in 2022.

According to the result of survey on the purchasing rate on selected social media platforms in China conducted in April 2021 and released by Statista<sup>9</sup>, a global data and business intelligence platform established in Germany in 2007, in January 2024, the conversion rate on social media platforms averaged at 18 percent. The most prominent player was Douyin, with a conversion rate of 22 percent during the measured period.

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<sup>8</sup> [https://www.jswx.gov.cn/yw/202403/t20240329\\_3383024.shtml](https://www.jswx.gov.cn/yw/202403/t20240329_3383024.shtml)

<sup>9</sup> <https://www.statista.com/statistics/1307851/china-social-media-conversion-rate/>



- (ii) **average annual spending amount per purchaser** — average annual spending amount per purchaser is estimated to be RMB5,000 for FY2026 and RMB5,150 for FY2027 assuming an annual inflation rate of 3%.

Notwithstanding there is no own historical transaction of live e-commerce business, the Company understood from the Service Receiver that it had made reference to market statistics of historical average annual spending amount per purchaser in China.

As released by Statista, the gross merchandise value of live streaming e-commerce market in China reached nearly 5 trillion yuan in 2023, showing a remarkable increase from 420 billion yuan in 2019. The number of live streaming viewers in China hit 765 million in June 2023<sup>10</sup>. The average annual spending per viewer on live e-commerce shopping was approximately RMB6,536, being the aforesaid gross merchandise value divided by the number of live streaming viewers.

The Platform on which the live streaming programme of the Service Receiver to be broadcasted is one of the leading short-form video and live-streaming platforms in China of which the popularity is high, while the aforesaid gross merchandise value released by Statista is believed to be derived from multiple live streaming platforms including those of which the popularity are generally lower than that of the Platform. Hence, the average annual spending amount per purchaser of RMB5,000 for FY2026 assumed by the Service Receiver is considered justifiable.

China's annual inflation rate climbed to 0.5% in July 2024 from 0.2% in June 2024. The inflation rate averaged at 4.67 percent from 1986 until 2024. And it could climb by around 1% in a one-month time from -0.8% in January 2024 to 0.7% in February 2024. Given the above, it is considered justifiable to assume an annual inflation rate of 3% to provide a buffer.

Taking into account the above, the above assumptions of (i) conversion rate of live streaming viewers into purchasers and (ii) average annual spending per viewer of short drama series on the Platform for FY2026 and FY2027 are considered reasonable.

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<sup>10</sup> <https://www.statista.com/statistics/1127635/china-market-size-of-live-commerce/>

- (iii) **sharing ratio of spending amount of purchasers** — The Service Receiver estimates that the merchants who supply their goods for promotion and sale by the Service Receiver's anchor on the Platform will share 70% of the spending amount from purchasers. The remaining 30% is assumed by the Service Receiver to be equally shared by the Platform Operator (10%), anchor (10%) and the Service Receiver (taking the role as the anchor management company) (10%), given the actual sharing ratio shall be subject to commercial negotiation between them before commencing the business taking into account a number of factors, such as popularity, performance and number of fans of the anchor, involvement of the Service Receiver in running the live streaming business. The Company has taken a prudent approach and assumes 5% of the spending amount from purchasers will be shared by the Service Receiver.

We noted information released in a leading live-streaming platform in China<sup>11</sup> regarding revenue sharing ratio among parties involved in live streaming, which states that the revenue sharing ratio varies and is subject to a variety of factors, such as the popularity of the anchor, commercial negotiation with the merchant. As advised by the Company, based on their market knowledge, while the revenue or profit sharing ratio between an anchor and his/her anchor management company depends on negotiation among them, the percentage of earnings of anchor shared by his/her anchor management company can be over 50%, thus the aforesaid 5% sharing ratio of total spending amount of viewers of the Service Receiver (taking the role as anchor management company) is conservative. We also noted from the industry information disclosed in a prospectus<sup>12</sup> issued by a Hong Kong-listed company which is principally engaged in mobile new media performance-based marketing in 2020 that, regarding marketing activities conducted through live-streaming, the marketing service provider (that is, similar to the anchor management company role to be taken by the Service Receiver) can share 20% of the sales amount generated from the live-streaming generally. Taking into account the above, the aforesaid 5% revenue sharing ratio of the Service Receiver is considered justifiable.

The Company understood that the Service Receiver may either engage a working team to operate its live e-commerce business or outsource such operation. Such cost has been included in the Estimated Operating Expenses as discussed below.

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<sup>11</sup> <https://www.longtengec.com/news/224220.html>;  
<https://finance.sina.com.cn/tech/2021-10-12/doc-iktzscyx9179380.shtml>;  
<https://www.youzan.com/cms/article/30744.html>

<sup>12</sup> <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0910/2020091000011.pdf> — p.102

(2) *Film Work Production*

As understood by the Company, the engagement fee of Mr. Chiau will be payable by investors to be procured by the Service Receiver, and will be regarded as revenue of the Service Receiver as agreed between it and Mr. Chiau. The Service Receiver's revenue estimated to be generated from the Film Work Production is approximately RMB80.0 million and RMB80.0 million for FY2026 and FY2027 respectively, which is calculated based on the following formula and factors:

$$\text{Service Receiver's revenue} = \text{engagement fee of Mr. Chiau} * \text{number of Film Work}$$

- (i) **engagement fee of Mr. Chiau** — the engagement fee of Mr. Chiau for participating in the creative production of 1 Film Work is assumed to be not less than RMB80 million; and
- (ii) **number of Film Work** — 1 Film Work is assumed to be produced in each of FY2026 and FY2027.

As advised by the Company, they understood from the Service Receiver that (i) the fee previously received by Mr. Chiau for participating in the creative production, such as taking the role as either an executive director or a production director, of a film work in the past years was more than RMB80 million generally; and (ii) according to the experience of Mr. Chiau, there will be sufficient time for producing 1 Film Work each year in FY2026 and FY2027.

In addition, the Company understood from the Service Receiver that, other than the Production Team Expenses as discussed below, no other material cost is expected to be incurred by the Service Receiver.

As to the engagement fee of Mr. Chiau, after taking into account (i) it is reasonable that there is no market range of the engagement fee of a producer which shall be determined based on the popularity of the producer and commercial negotiation among different parties, particularly investors, and (ii) the fee estimated is considered conservative after comparing with the historical fee of Mr. Chiau and his popularity currently, the estimated engagement fee of Mr. Chiau under the Film Work Production is considered reasonable.

As to the number of Film Work, other than the information advised by the Company on the production schedule, we noted from the announcement of the Company dated 31 August 2024 that there is a cooperation of movie production among Beijing iQIYI Technology Co., Ltd. (北京愛奇藝科技有限公司) (“**Beijing iQIYI**”), one of the leading providers of online entertainment video services in China, the Company and other business partner, pursuant to which (a) the role of financing and fund raising will be taken by Beijing iQIYI and the other business partner and (b) the Company is responsible

for the provision of the intellectual property and the engagement of Mr. Chiau to participate in the original story, or to direct, or act as the executive producer. Beijing iQIYI is eligible to select up to 4 prescribed intellectual properties to conduct multiple types of development and production within a period of 5 years. Given such 5-years' deadline, the production of 1 Film Work per year is considered reasonable.

Further, we were advised by the Company that while there is no market norm on the production time of a film work, it can be controlled by the producer and its production team. Taking into account the above, the production of 1 Film Work per year is considered reasonable and achievable, particularly it is a schedule formulated by Mr. Chiau who is experienced in the industry.

### ***Service Fee of the Service Provider***

#### ***(1) Cooperation with the Platform Operator***

As to the short drama production, title advertisement and live e-commerce under the Cooperation with the Platform Operator, the Service Fee to be charged by the Service Provider is estimated to be approximately RMB45.7 million and RMB57.8 million for FY2026 and FY2027 respectively, which is calculated based on the following formula and factors:

$$\begin{aligned}
 \text{Service Provider's Service Fee} &= \text{Project Net Profit of the Service Receiver} \\
 &\quad * \text{Service Fee Rate of 30\% of the Service Provider} \\
 &= (\text{Service Receiver's revenue from short drama production, title advertisement and live e-commerce} \\
 &\quad - \text{Estimated Operating Expenses}) \\
 &\quad * \text{net profit margin of 75\% of the Service Receiver} \\
 &\quad * \text{Service Fee Rate of 30\% of the Service Provider}
 \end{aligned}$$

- (i) the Project Net Profit of the Service Receiver, after taking into account
  - (a) the total revenue estimated to be generated by the Service Receiver from the production and launch of short drama series, title advertisement and live e-commerce for FY2026 and FY2027 as discussed above;
  - (b) apart from the Short Drama Series Production Cost of RMB4 million per short drama series (which has been deducted from the Service Receiver's revenue in (a) above), the Service Receiver may set up a team to run, or outsource the operation of, the Projects. Such annual operating expenses (the "**Estimated Operating Expenses**") are estimated to be RMB20.6 million for FY2026 and RMB21.2 million for FY2027 assuming a 3% annual inflation rate from FY2026 to FY2027;

- (c) the assumption of net profit margin of 75% of the Service Receiver for each of FY2026 and FY2027 to provide a buffer for any unexpected cost; and
- (ii) Service Fee Rate of the Service Provider — 30% of the Project Net Profit to be shared by the Service Provider pursuant to the Project Management Services Agreement.

(2) *Film Work Production*

As to the Film Work Production, the Service Fee is estimated to be approximately RMB11.9 million and RMB11.9 million for FY2026 and FY2027 respectively, which is calculated based on the following formula and factors:

$$\begin{aligned}
 \text{Service Provider's Service Fee} &= \text{Project Net Profit of the Service Receiver} \\
 &\quad * \text{Service Fee Rate of 20\% of the Service Provider} \\
 &= (\text{revenue to be generated from the Film Work Production} \\
 &\quad - \text{Production Team Expenses}) \\
 &\quad * \text{net profit margin of 75\% of the Service Receiver} \\
 &\quad * \text{Service Fee Rate of 20\% of the Service Provider}
 \end{aligned}$$

- (i) the Project Net Profit of the Service Receiver, after taking into account
  - (a) the revenue to be generated from the Film Work Production, that is, the engagement fee estimated to be received by Mr. Chiau of RMB80.0 million for each Film produced in FY2026 and FY2027 as discussed above;
  - (b) a production team will be engaged by the Service Receiver at estimated annual expenses of RMB1 million (the “**Production Team Expenses**”) for assisting Mr. Chiau in the Film Work Production regardless the number of Film Works to be produced during the year;
  - (c) apart from the Production Team Expenses, no other material cost is expected to be incurred by the Service Receiver in the Film Work Production;
  - (d) the assumption of net profit margin of 75% of the Service Receiver for each of FY2026 and FY2027 to provide a buffer for any unexpected cost; and
- (ii) Service Fee Rate of the Service Provider — 20% of the Project Net Profit to be shared by the Service Provider pursuant to the Project Management Services Agreement.

We have reviewed the list of the Estimated Operating Expenses and noted that such cost mainly comprises cost of manpower and facilities expected by the Service Receiver to be required in running the Projects. As advised by the Company, the amount of the Estimated Operating Expenses and the Production Team Expenses are estimated based on the past experience and/or market knowledge of Mr. Chiau and the Service Receiver. It is considered reasonable that, notwithstanding there is no market norm on the aforesaid operating and production team expenses and Short Drama Series Production Cost, those cost can be controlled at the discretion among the parties involved in the Projects, in particular, the Service Receiver and Mr. Chiau. Based on the analysis above, we concur with the Directors' view that the Estimated Operating Expenses, Production Team Expenses and Short Drama Production Cost are considered reasonable.

We have also reviewed the Project Management Services Agreement and noted that the Service Fee Rate of 20% and 30% has been stipulated in the agreement.

Taking into account that (i) the assumptions and calculation of the revenue, Project Net Profit and related operating expenses of the Service Receiver under the cooperation with the Platform Operator and Film Work Production are considered reasonable or justifiable as discussed above; (ii) a buffer has been included to derive the estimated net profit of the Projects for unexpected cost; and (iii) the Service Fee Rate has been stipulated in the Project Management Services Agreement, we concur with the Directors' view that the determination bases and thus the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

#### **(4) Internal control measures**

As stated in the Letter from the Board, the Group has adopted some internal control measures to ensure that the Project Management Services Agreement and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Group's operation team is responsible for liaising with the Service Receiver for the calculation of quarterly Service Fee payable by the Service Receiver based on the financial information of the Projects. The finance department and legal department of the Group will be responsible for reviewing the aforesaid calculation and transaction information, in particular, whether the pricing policy and terms under the Project Management Services Agreement have been complied with, and ensuring the respective Annual Cap has not been exceeded. The quarterly bill to the Service Receiver will be reviewed and approved by a director of the Service Provider.

Updates of the transactions contemplated under the Project Management Services Agreement and utilisation rate of the Annual Caps will be reported at least quarterly by the finance department and legal department of the Group to the Audit Committee and the Board who will regularly monitor the compliance of the transactions with the terms (including but

not limited to pricing policy) and conditions under the Project Management Services Agreement and consider if revision of the Annual Caps is required in order to comply with the relevant requirements under the GEM Listing Rules.

Taking into account the above, particularly the execution, review, approval, report and monitoring of transactions contemplated under the Project Management Services Agreement are undertaken by respective departments, management, committee of the Group, we concur with the Directors' view that there are adequate and effective measures in place to monitor the transactions contemplated under the Project Management Services Agreement, ensuring (a) the charge of Service Fee from the Service Receiver would be in accordance with the pricing policy and terms of the Project Management Services Agreement from time to time, and (b) the Annual Caps will not be exceeded and the relevant GEM Listing Rules will be complied with, and thus the interest of the Independent Shareholders would be safeguarded.

## **RECOMMENDATION**

Having considered the principal factors and reasons discussed above, we are of the view that the entering into of the Project Management Services Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms or better, and together with the Annual Caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Capital 9 Limited**



**Chan Man Yee**  
Director

*Chan Man Yee is a licensed person and responsible officer of Capital 9 Limited registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 15 years of experience in the corporate finance industry.*