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## DIGITAL HOLLYWOOD INTERACTIVE LIMITED

遊萊互動集團有限公司\*

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

(Stock Code: 2022)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

#### FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2018 amounted to approximately US\$24.2 million, representing a decrease of 15.4% from approximately US\$28.6 million recorded in 2017.
- Gross profit for the year ended December 31, 2018 amounted to approximately US\$13.3 million, representing a decrease of 16.4% from approximately US\$15.9 million recorded in 2017.
- Profit attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately US\$0.9 million, representing a decrease of 47.1% from approximately US\$1.7 million in 2017.
- Non-IFRS adjusted profit attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately US\$3.6 million, representing a decrease of 44.6% as compared with approximately US\$6.5 million in 2017.

In this announcement, “we”, “us”, “our” and “Digital Hollywood” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Digital Hollywood Interactive Limited (the “**Company**”) announces that the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2018 with the comparative figures in the corresponding period in 2017 are as follows:

**CONSOLIDATED BALANCE SHEET**  
**AS AT DECEMBER 31, 2018**

	<i>Note</i>	<b>2018</b> <i>USD</i>	2017 <i>USD</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,107,128</b>	270,592
Intangible assets		<b>2,316,324</b>	461,101
Investment in an associate		<b>640,233</b>	681,625
Prepayments and other receivables		<b>4,342,699</b>	191,005
Deferred income tax assets		<b>173,875</b>	239,452
Financial assets at fair value through other comprehensive income		<b>2,670,518</b>	—
		<b>12,250,777</b>	1,843,775
<b>Current assets</b>			
Contract costs		<b>695,396</b>	899,724
Trade receivables	4	<b>3,625,121</b>	4,192,093
Prepayments and other receivables		<b>14,561,573</b>	12,896,914
Cash and cash equivalents		<b>32,598,242</b>	43,997,614
		<b>51,480,332</b>	61,986,345
<b>Total assets</b>		<b>64,731,109</b>	63,830,120
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	5	<b>2,000,000</b>	2,000,000
Shares held for the Share Option Scheme	5	<b>(150,000)</b>	(150,000)
Reserves		<b>38,282,476</b>	35,933,689
Retained earnings		<b>13,144,180</b>	12,279,521
<b>Total equity</b>		<b>53,276,656</b>	50,063,210
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		<b>56,021</b>	43,573
<b>Current liabilities</b>			
Trade payables	6	<b>3,177,289</b>	4,522,484
Contract liabilities		<b>3,806,299</b>	4,069,400
Receipt in advance		<b>136,193</b>	107,893
Other payables and accruals		<b>2,652,333</b>	4,322,401
Current income tax liabilities		<b>626,318</b>	701,159
		<b>10,398,432</b>	13,723,337
<b>Total liabilities</b>		<b>10,454,453</b>	13,766,910
<b>Total equity and liabilities</b>		<b>63,731,109</b>	63,830,120

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<i>Note</i>	<b>2018</b> <b>USD</b>	2017 <b>USD</b>
<b>Revenue</b>	3	<b>24,161,349</b>	28,620,609
Cost of revenue		<u>(10,842,465)</u>	<u>(12,694,912)</u>
<b>Gross profit</b>		<b>13,318,884</b>	15,925,697
Selling and marketing expenses		(5,377,888)	(3,424,909)
Administrative expenses		(5,022,420)	(7,536,629)
Research and development expenses		(1,536,779)	(452,743)
Other gains/(losses), net	7	<u>711,342</u>	<u>(539,913)</u>
<b>Operating profit</b>		<b>2,093,139</b>	3,971,503
Finance income		<b>11,851</b>	97,298
Finance costs		<u>(93,418)</u>	<u>(39,388)</u>
Finance (costs)/income, net		<b>(81,567)</b>	57,910
Share of loss of an associate		<u>(3,355)</u>	<u>(47,274)</u>
<b>Profit before income tax</b>		<b>2,008,217</b>	3,982,139
Income tax expense	8	<u>(1,071,113)</u>	<u>(2,255,465)</u>
<b>Profit for the year</b>		<b><u>937,104</u></b>	<b><u>1,726,674</u></b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss			
– Currency translation differences		(445,971)	557,128
Items that may not be reclassified subsequently to profit or loss			
– Changes in fair value of investment in equity securities		<u>89,572</u>	<u>–</u>
<b>Total comprehensive income for the year</b>		<b><u>580,705</u></b>	<b><u>2,283,802</u></b>
<b>Profit attributable to:</b>			
Owners of the Company		<u>937,104</u>	<u>1,726,674</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<u>580,705</u>	<u>2,283,802</u>
<b>Earnings per share (expressed in USD cents per share)</b>	9		
– Basic		<u>0.05</u>	<u>0.13</u>
– Diluted		<u>0.05</u>	<u>0.13</u>
Dividends	10	<u>–</u>	<u>–</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Digital Hollywood Interactive Limited (the “Company”) was incorporated in the Cayman Islands on November 24, 2014 as an exempted company with limited liability. The address of the Company’s registered office is P.O. Box 2075, George Town, Grand Cayman KY1-1105, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the development, operations and publishing of web-based games and mobile games business (“Game Business”) in North America, Europe, The People’s Republic of China (the “PRC”) and other regions.

On December 15, 2017, the Company completed its initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the “IPO”).

The Group’s Game Business is carried out through several operating companies, namely Proficient City Limited, a limited liability company incorporated in the British Virgin Islands (“BVI”), Angame Inc., a limited liability company incorporated in the BVI, Game Hollywood Hong Kong Limited, a limited liability company incorporated in Hong Kong, Now To Play Game Limited, a limited liability company incorporated in Hong Kong, 廣州市歲月年代軟件科技有限公司 (Guangzhou Suiyue Niandai Software Technology Company Limited), a limited company incorporated in the PRC, 廣州遊萊信息科技有限公司 (Guangzhou Youlai Information Technology Limited), a limited company incorporated in the PRC and 廣州掌贏信息科技有限公司 (Guangzhou Zhang Ying Kong Information Technology Company Limited), a limited company incorporated in the PRC. Mr. Lu Yuanfeng, Mr. Huang Guozhan and Mr. Huang Deqiang are the founders of the Group.

The financial statements are presented in United States Dollars (“USD”), unless otherwise stated, and have been approved for issue by the Company’s Board of Directors on March 22, 2019.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group’s accounting policies.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### 2.1.1 New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2018:

IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
IFRS 15 (Note 2.2.1)	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs 2014-2016 Cycle	Retirement of Short-term Exemptions in IFRS 1
Amendment to IAS 28	Clarifying Measurement of Investments under IAS 28
	Investments in Associates and Joint Ventures

Amendments to IFRSs effective for the financial year beginning on or after January 1, 2018 do not have a material impact on the Group's financial statements and did not require retrospective adjustments, except for IFRS 15. The impact of the adoption of IFRS 15 are disclosed in Note 2.2.1 below.

#### 2.1.2 New standards, amendments to existing standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
Annual Improvements to IFRSs 2015-2017 Cycle (Note(a))	Previously held interest in a joint operation, income tax consequences of payments on financial instruments classified as equity and borrowing costs eligible for capitalisation	January 1, 2019
IFRS 19 (Amendments) (Note(a))	Financial Instruments	January 1, 2019
IAS 28 (Amendments) (Note(a))	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23 (Note(a))	Uncertainty over Income Tax Treatments	January 1, 2019
IAS 19 (Amendments) (Note(a))	Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 16 (Note(b))	Leases	January 1, 2019
IFRS 10 and IAS 28 (Amendments) (Note(a))	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

(a) The Group has already commenced an assessment of the impact of these new or revised standards, and amendments, which are relevant to the Group's operations. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

(b) IFRS 16 Leases

#### *Nature of change*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### 2.1.2 New standards, amendments to existing standards and interpretations not yet adopted (Continued)

##### (b) IFRS 16 Leases (Continued)

##### *Impact*

The finance department of the Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of USD2,877,310. Of these commitments, approximately USD36,504 relate to short-term leases which will be recognised on a straight-line basis as expense in the consolidated statement of comprehensive income.

The Group does not have any activities as a lessor.

The impact of adoption of IFRS 16 is still under assessment by the Group however it is not expected to have a significant effect on the financial statements of the Group.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

### 2.2 Changes in accounting policies

#### 2.2.1 IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, there was no impact to the Group's consolidated statement of comprehensive income nor retained earnings, while the following adjustments were made to the amounts recognised in the consolidated balance sheet at the date of initial application (January 1, 2018):

		December 31, 2017 USD (IAS 18 carrying amount)	Reclassification USD	January 1, 2018 USD (IFRS 15 carrying amount)
<b>Assets</b>				
<b>Current assets</b>				
Contract costs	<i>a</i>	–	899,724	<b>899,724</b>
Prepayments and other receivables	<i>a</i>	13,796,638	(899,724)	<b>12,896,914</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Contract liabilities	<i>a</i>	–	4,069,400	<b>4,069,400</b>
Deferred revenue	<i>a</i>	3,436,567	(3,436,567)	<b>–</b>
Receipt in advance	<i>a</i>	740,726	(632,833)	<b>107,893</b>

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (Continued)

#### 2.2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

- (a) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect the terminology of IFRS 15:

- Contract costs recognised in relation to contract acquisition costs were previously presented as part of prepayments and other receivables (USD899,724 as at January 1, 2018, net of impairment allowance).
- Contract liabilities in relation to game publishing service revenues were previously presented as part of deferred revenue and receipt in advance (USD3,491,201 as at January 1, 2018). Contract liabilities in relation to licensing revenues were previously presented as part of deferred revenue and receipt in advance (USD578,199 as at January 1, 2018).

## 3 REVENUE AND SEGMENT INFORMATION

- (a) Disaggregation of revenue from contracts with customers

	Year ended December 31,	
	2018	2017
	USD	USD
Online game revenue	21,453,881	28,265,058
Licensing revenue	2,693,224	300,398
Server rental revenue	4,860	39,540
Advertising revenue	9,384	15,613
	<u>24,161,349</u>	<u>28,620,609</u>

## 4 TRADE RECEIVABLES

	As at December 31,	
	2018	2017
	USD	USD
Trade receivables (Note a)	5,260,697	5,890,782
Less: allowance for impairment of trade receivables (Note (b))	<u>(1,635,576)</u>	<u>(1,698,689)</u>
	<u>3,625,121</u>	<u>4,192,093</u>

#### 4 TRADE RECEIVABLES (CONTINUED)

- (a) Trade receivables are arising from the development and operation of online game business. The credit terms of trade receivables granted to the platforms and third party payment vendors are usually zero to 120 days and zero to 30 days, respectively. Aging analysis based on invoice date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at December 31,	
	2018	2017
	USD	USD
0-30 days	1,085,622	1,278,010
31-90 days	1,106,756	1,757,240
91-180 days	764,506	948,332
Over 180 days	2,303,813	1,907,200
	<u>5,260,697</u>	<u>5,890,782</u>

- (b) As at December 31, 2018, trade receivables of USD5,260,697 (2017: USD2,236,959) were impaired. Movements on the Group's provision for impairment of trade receivables are as follows:

	As at December 31,	
	2018	2017
	USD	USD
At beginning of the year	1,698,689	1,358,953
(Reversal of)/provision for trade receivables	(33,113)	339,736
Receivables written off during the year as uncollectible	(30,000)	—
	<u>1,635,576</u>	<u>1,698,689</u>

#### 5 SHARE CAPITAL AND SHARES HELD FOR THE SHARE OPTION SCHEME

The total authorised share capital of the Company comprises 4,000,000,000 ordinary shares (2017: 4,000,000,000 ordinary shares) with par value of USD0.001 per share (2017: USD0.001 per share).

As at December 31, 2018, the total number of issued ordinary shares of the Company was 2,000,000,000 shares (2017: 2,000,000,000 shares) which included 149,999,973 shares (2017: 149,999,973 shares) held under the share incentive scheme. They have been fully paid up.

A summary of movements in the Company's share capital and shares held for the Share Option Scheme are as follows:

	Number of shares in issue	Share capital USD	Shares held for the Share Option Scheme USD (Note a)
At December 31, 2018 and 2017	<u>2,000,000,000</u>	<u>2,000,000</u>	<u>(150,000)</u>



## 5 SHARE CAPITAL AND SHARES HELD FOR THE SHARE OPTION SCHEME (CONTINUED)

- (a) According to the written resolutions of all the members of the Company dated November 2, 2015 and capitalisation issue dated November 24, 2017, an aggregate of 150,000,000 ordinary shares were authorised and reserved for the issuance to the employees, directors of the Group and other persons pursuant to the share incentive scheme (the “Share Option Scheme”) adopted by the Company.

The Company has appointed Core Trust Company Limited as the trustee to assist with the administration and vesting of options granted pursuant to the Share Option Scheme. On May 27, 2017, the Company allotted and issued shares to Epic City Limited (“Share Scheme Trust”), a wholly-owned subsidiary of Core Trust Company Limited, which are or will be used to satisfy the options upon exercise. The shares held by Share Scheme Trust are presented as a deduction in equity as shares held for the Share Option Scheme.

During the year ended December 31, 2018, the Share Scheme Trust has not transferred any ordinary shares of the Company (December 31, 2017: nil) to the grantees vesting of the awarded shares.

## 6 TRADE PAYABLES

The aging analysis of trade payables based on invoice date is as follows:

	<b>As at December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>USD</b>	<b>USD</b>
0-90 days	<b>1,043,598</b>	1,399,572
91-180 days	<b>978,536</b>	1,052,690
181-360 days	<b>345,849</b>	1,239,275
Over 360 days	<b>809,306</b>	830,947
	<b>3,177,289</b>	<b>4,522,484</b>

## 7 OTHER GAINS/(LOSSES), NET

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>USD</b>	<b>USD</b>
<b>Other gains</b>		
Initial license fee forfeited by a licensee	<b>500,000</b>	–
Foreign exchange gain, net	<b>186,445</b>	–
Others	<b>26,050</b>	33,776
	<b>712,495</b>	<b>33,776</b>
<b>Other losses</b>		
Foreign exchange losses, net	–	(572,463)
Others	<b>(1,153)</b>	(1,226)
	<b>(1,153)</b>	<b>(573,689)</b>
<b>Other gains/(losses), net</b>	<b>711,342</b>	<b>(539,913)</b>

## 8 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended December 31, 2018 and 2017 is analysed as follows:

	Year ended December 31,	
	2018	2017
	USD	USD
Current income tax		
– PRC and Hong Kong	724,189	1,895,444
– Overseas withholding income tax	297,018	429,579
Deferred tax	49,906	(69,558)
	<u>1,071,113</u>	<u>2,255,465</u>

## 9 EARNINGS PER SHARE

### Basic

Basic earnings per share (“EPS”) is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for the Share Option Scheme during the year ended December 31, 2018.

	Year ended December 31,	
	2018	2017
Profit attributable to owners of the Company (USD)	937,104	1,726,674
Weighted average number of ordinary shares in issue less shares held for the Share Option Scheme ( <i>Note a</i> )	1,850,000,027	1,371,917,835
– Basic EPS (in USD cents/share)	<u>0.05</u>	<u>0.13</u>

- (a) Pursuant to the shareholders’ resolutions passed on November 24, 2017, an aggregate of 1,488,888,778 shares of USD0.001 each were allotted issued, credited as fully paid at par, by way of capitalization of the sum of USD1,488,889 from the share premium account, to the then existing shareholders of the Company on December 15, 2017. In determining the numbers of ordinary shares in issue for December 31, 2017, a total of 1,500,000,000 ordinary shares were deemed to be in issue since January 1, 2017.

The EPS is based on that 1,850,000,027 and 1,371,917,835 shares were the weighted average number of ordinary shares in issue excluding the 149,999,973 (2017:149,999,973) shares held for the Share Option Scheme for the year ended December 31, 2018, without taking into account any shares which may be granted and issued by the Company pursuant to the Share Option Scheme.

## 9 EARNINGS PER SHARE (CONTINUED)

### Diluted

The share options granted by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue less shares held for the Share Option Scheme outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Profit attributable to owners of the Company (USD)	<b>937,104</b>	1,726,674
Weighted average number of ordinary shares in issue less shares held for the Share Option Scheme	<b>1,850,000,027</b>	1,371,917,835
Adjustments for share options	<b>10,403,520</b>	–
Weighted average number of ordinary shares for the calculation of diluted EPS	<b>1,860,403,547</b>	1,371,917,835
– Diluted EPS (in USD cents/share)	<b>0.05</b>	0.13

No adjustment has been made to diluted EPS for the year ended December 31, 2017 as the Company did not have any potential ordinary shares outstanding as at December 31, 2017.

## 10 DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the year ended December 31, 2018 (2017: same).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The competition in the game industry remained intense for the year ended December 31, 2018. From March 2018 to the end of 2018, the competent authority in the PRC suspended the approval of new online games, which dampened the enthusiasm of game developers to develop new games. The number of products supplied by domestic game developers reduced and the updating progress of existing game products slowed down, limiting the number of our new game releases and existing game updates and in turn imposing an adverse effect on our financial performance. Revenue of the Group decreased by 15.4% from approximately US\$28.6 million for the year ended December 31, 2017 to approximately US\$24.2 million for the year ended December 31, 2018. The profit attributable to owners of the Company declined by 47.1% from approximately US\$1.7 million for the year ended December 31, 2017 to approximately US\$0.9 million for the year ended December 31, 2018. The non-International Financial Reporting Standards (“**non-IFRS**”) adjusted profit attributable to owners of the Company declined by 44.6% from approximately US\$6.5 million for the year ended December 31, 2017 to approximately US\$3.6 million for the year ended December 31, 2018. Although facing a less favourable economic environment, the Group was still able to actively improve the operating standards of its game products, and thus maintained a steady improvement in its product operating indicators. Our monthly active users increased by 5.6% from 1.8 million for the year ended December 31, 2017 to 1.9 million for the year ended December 31, 2018; our average revenue per month per paying user increased by 14.3% from US\$28.0 for the year ended December 31, 2017 to US\$32.0 for the year ended December 31, 2018.

Looking back at 2018, the Company was repeatedly recognized by media and industry organizations in China and abroad: domestically, the Company was elected as the vice-president of the Gaming Industry Association Guangzhou Branch and awarded with the 6th Jincha Award for 2018 Best Mobile Game Publisher, and internationally, the Company was invited by the Spanish Gamelab Organization to attend its conference in Barcelona and give guidance on local game development teams and their work.

In terms of product operation, the Company launched 11 new online games in several language versions, including English, French, German, Polish, Spanish, Portuguese, Turkish and Chinese. The Company believes that the strategy to further penetrate the European market through multilingual versions will lay the foundation for its global development.

In 2018, *Dragon Awaken*, a web-based game, was published and licensed by the Company, and received global recommendation from Facebook Gameroom. The Company was awarded “2018 Zhuoer Award for Top 10 Most Popular Windows Games” for *Dragon Awaken* in 2018 Globe Windows Game Conference. *Bomb Me Brasil*, a self-developed mobile game, was recommended by Google Play and App Store in Brazil. In addition, the Company co-operated with Gameone Group

and launched a strategic mobile game, *Robot Tactics*, which was highly recommended by Google Play in more than 100 countries and regions, and also achieved a breakout success.

The Company developed an hypertext markup language 5 (“**HTML5**” or “**H5**”) game platform and software development kit (“**SDK**”). In 2018, the Company completed the establishment of the fully self-developed SDK and the HTML5 game platform, Chips Games, so as to allow various types of games to be launched on Facebook Messenger and Facebook Canvas, realizing accounts sharing and seamless connection of functions between Facebook and our proprietary H5 platform, marking the Company’s further involvement in the HTML5 market.

## **PROSPECTS**

Entering 2019, the Company will continue to focus on its long-standing pursuit for in-game customerization, passion and original contents. The Company launched a Q-style strategic card game *Trillionia* which was published worldwide. It was also the first time that the Company globally launched a high-quality multilingual mobile game.

In regard to internationalization, the Company will further strengthen its advantages in overseas publishment and fully implement its development strategy of cross-platform games. In 2019, the Company will launch a number of games, including a naval battle strategic game *Legend of Warships*, which can be played on both the browser platform via personal computers and the HTML5 platform via mobile devices; and the global multilingual cross-platform massively multiple online role-play game, *Eternal Fury 2*, which will be our first game based on the seamless connections between Wing SDK, Chips Games SDK and Facebook.

While the Company has a steady development in business of browser games and mobile games, the Company will enhance the layout of HTML5 games and expand the global H5 game distribution platform, and 11 casual HTML5 games such as *Gold Miner*, *Candy Balls*, *Happy Birds*, etc. have been or are expected to be launched. Under this trend of development, the Company is expected to further deepen the diversified development of its game products.

## **FINANCIAL REVIEW**

### **Overview**

In 2018, profit attributable to owners of the Company amounted to approximately US\$0.9 million, representing a decrease of approximately US\$0.8 million from approximately US\$1.7 million in 2017. Non-IFRS adjusted profit attributable to owners of the Company<sup>(1)</sup> amounted to approximately US\$3.6 million, representing a decrease of approximately US\$2.9 million as compared with approximately US\$6.5 million in 2017.

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(1) Non-IFRS adjusted profit attributable to owners of the Company was derived from the profit for the year, excluding listing expenses and the share-based payments of the Company.

## **Revenue**

In 2018, revenue of the Group amounted to approximately US\$24.2 million, representing a decrease of approximately US\$4.4 million or 15.4% as compared with approximately US\$28.6 million in 2017. The main reason for the decrease in revenue was the suspension of the approval process by the PRC competent authority from March 2018 to the end of 2018 for new online games, which dampened the enthusiasm of game developers to develop new games and resulted in the reduction of the number of products supplied by domestic game developers and the slowdown of the updating progress of existing game products. Such temporary adjustments on the administrative process imposed a negative impact on our new game releases and existing game updates.

## **Cost of Revenue and Gross Profit Margin**

In 2018, cost of revenue of the Group amounted to approximately US\$10.8 million, representing a decrease of approximately US\$1.9 million or 15.0% as compared with US\$12.7 million in 2017. The gross profit margin slightly declined to 55% in 2018 from 56% in 2017.

## **Other Gains/(Losses), Net**

In 2018, other gains of the Group amounted to approximately US\$0.7 million, representing an increase of approximately US\$1.2 million as compared with other losses amounted to approximately US\$0.5 million in 2017. This was primarily due to other gains from the termination of a licensing agreement and the foreign exchange gains for transactions conducted in currencies depreciated against U.S. dollars.

## **Selling and Marketing Expenses**

In 2018, selling and marketing expenses of the Group amounted to approximately US\$5.4 million, representing an increase of approximately US\$2.0 million or 58.8% from approximately US\$3.4 million in 2017. The increase in selling and marketing expenses was mainly due to more expenditure in advertising and marketing promotion for promoting new games in new regional markets and share-based payments attributable to the share option scheme starting from 2018.

## **Administrative Expenses**

In 2018, administrative expenses of the Group amounted to approximately US\$5.0 million, representing a decrease of approximately US\$2.5 million or 33.3% compared with approximately US\$7.5 million in 2017, which was mainly due to the net effect that no listing expense for the initial public offering of the Company on December 15, 2017 (the “**IPO**”) was incurred in 2018 (2017: approximately US\$4.8 million) and share-based payments attributable to the share option scheme starting from 2018 in the amount of approximately US\$1.5 million.

## **Research and Development Expenses**

In 2018, research and development expenses of the Group amounted to approximately US\$1.5 million, representing an increase of approximately US\$1.0 million or 200% compared with approximately US\$0.5 million in 2017. The increase was mainly due to the increase in research and development labor cost and share-based payments attributable to the share option scheme starting from 2018.

## **Profit Attributable to Owners of the Company**

In 2018, profit attributable to owners of the Company amounted to approximately US\$0.9 million, representing a decrease of approximately US\$0.8 million or 47.1% compared with approximately US\$1.7 million in 2017. The decrease was mainly due to the decrease in gross profit and share-based payments attributable to the share option scheme starting from 2018.

## **Non-IFRS Adjusted Profit Attributable to Owners of the Company**

To supplement this annual results announcement which is presented in accordance with the IFRS, we also use unaudited non-IFRS adjusted profit attributable to owners of the Company as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business.

In 2018, non-IFRS adjusted profit attributable to owners of the Company amounted to approximately US\$3.6 million, representing a decrease of approximately US\$2.9 million or 44.6% as compared with approximately US\$6.5 million in 2017. The decrease was primarily due to the decrease in gross profit for 2018. Our non-IFRS adjusted profit attributable to owners of the Company for 2018 and 2017 was derived from profit attributable to owners of the Company for the respective years excluding the share-based payments attributable to the share option scheme of approximately US\$2.6 million in 2018 and listing expenses approximately US\$4.8 million in 2017, respectively.

## **Income Tax Expense**

In 2018, income tax expense of the Group amounted to approximately US\$1.1 million, representing a decrease of approximately US\$1.2 million or 52.2% as compared with approximately US\$2.3 million in 2017. The decrease in income tax expense was primarily due to the decrease of profit before income tax in 2018.

## **Liquidity and Source of Funding and Borrowing**

As at December 31, 2018, the Group's total bank balances and cash amounted to approximately US\$32.6 million, representing a decrease of 25.9% as compared with US\$44.0 million as at December 31, 2017. The decrease in total bank balances and cash during the year under review was primarily resulted from our prepayment for the shares to be issued by Nouveau Capital Partners Corp. to the Company at a total consideration of US\$3.5 million in April 2018, expenses for the renovation of the Group's new headquarter building, payment for licensing fee and payment for financial assets at fair value through other comprehensive income.

As at December 31, 2018, the current assets of the Group amounted to approximately US\$51.5 million, including bank balances and cash of approximately US\$32.6 million and other current assets of approximately US\$18.9 million. Current liabilities of the Group amounted to approximately US\$10.4 million, including trade payables and contract liabilities of approximately US\$7.0 million and other current liabilities of approximately US\$3.4 million. As at December 31, 2018, the current ratio (the current assets to current liabilities ratio) of the Group was 5.0 as compared with 4.5 as at December 31, 2017.



Gearing ratio is calculated on the basis of total borrowings (net of cash and cash equivalents) over the Group's total equity. The Group did not have any bank borrowings and other debt financing obligations as at December 31, 2018 and the resulting gearing ratio was nil (2017: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

### **Material Investments**

For the year ended December 31, 2018, the Company made a prepayment of approximately US\$3.5 million for the shares to be issued by Nouveau Capital Partners Corp. to the Company, details of which are set out in the Company's announcement dated April 22, 2018; and the Company invested approximately US\$2.6 million to acquire the ordinary shares of FingerTango Inc., a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 6860).

### **Material Acquisitions**

The Group did not have any material acquisition during the year ended December 31, 2018.

### **Material Disposals**

The Group did not have any material disposal of subsidiaries or associated companies during the year ended December 31, 2018.

### **Pledge of Assets**

As at December 31, 2018, none of the Group's assets was pledged (2017: nil).

### **Contingent Liabilities**

The Group had no material contingent liabilities as at December 31, 2018 (2017: nil).

### **Foreign Exchange Exposure**

During the year ended December 31, 2018, the Group mainly operated in the global market and majority of its transactions were settled in U.S. dollars, being the functional currencies of the group entities to which the transactions relate. We currently do not hedge transactions undertaken in foreign currencies but manage our exposure through constant monitoring to limit as much as possible the amount of our foreign currencies exposures. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. We have certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of our foreign operations is low. As at December 31, 2018, the Group did not have significant foreign currency exposure from its operations.



## USE OF PROCEEDS FROM THE IPO

The net proceeds from the IPO amounted to US\$35.4 million after deducting share issuance costs and listing expenses. During the year ended December 31, 2018 the net proceeds from the listing were utilized in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated December 5, 2017 (the “**Prospectus**”), with the balance amounted to approximately US\$31.0 million. The balance of fund will continue to be utilized according to the manner as disclosed in the Prospectus. The Group held the unutilized net proceeds in short-term deposits with licensed institutions in Hong Kong. In 2019, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds. Details are set out in the following table:

	<b>Net amount available as at December 31, 2017 USD'000</b>	<b>Actual net amount utilized in the year ended December 31, 2018 USD'000</b>	<b>Unutilized amount as at December 31, 2018 USD'000</b>
Investment	14,166.1	421.0	13,745.1
Development and research	8,853.8	780.3	8,073.5
Expansion of online game business	5,312.3	1,084.5	4,227.8
Marketing and advertisement	3,541.5	1,625.3	1,916.2
Working capital and other general corporate purposes	3,541.5	501.3	3,040.2
Total	<u>35,415.2</u>	<u>4,412.4</u>	<u>31,002.8</u>

## HUMAN RESOURCES

As at December 31, 2018, the Group had 182 employees (2017: 136), 46 of which were responsible for game development and maintenance, 90 for game operation and offline events organization and 46 for general administration and corporate management. The total remuneration expenses for the year ended December 31, 2018 were approximately US\$6.5 million, representing an increase of 132.1% as compared to the year ended December 31, 2017.

The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

## **FINAL DIVIDEND**

The Board does not recommend the payment of any final dividend to the Company's shareholders for the year ended December 31, 2018.

## **CLOSURE OF REGISTER OF MEMBERS FOR THE 2019 AGM**

The register of members of the Company will be closed from June 18, 2019 to June 21, 2019, both days inclusive and during which no share transfer will be effected, for the purpose of ascertaining the Company's shareholders' entitlement to attend and vote at the annual general meeting of the Company to be held on June 21, 2019 (the "**2019 AGM**"). In order to be eligible to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on June 17, 2019.

## **SUFFICIENCY OF PUBLIC FLOAT**

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

## **CORPORATE GOVERNANCE**

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted the code provisions as set out in the Code of Corporate Governance (the "**Corporate Governance Code**") as contained in Appendix 14 to the Listing Rules as its own code of corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the year under review, save for deviation from code provision A.2.1 of the Corporate Governance Code.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibility between the chairman and chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. LU Yuanfeng currently performs these two roles. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board currently comprises three executive Directors (including Mr. LU Yuanfeng) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuer” (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

## **REVIEW OF FINANCIAL STATEMENTS**

### **Audit Committee**

The Audit Committee of the Company (being Mr. Darren Raymond SHAW, Mr. LI Yi Wen, Ms. Imma LING Kit-sum) has reviewed with management the consolidated financial information for the year ended December 31, 2018, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

### **Auditor’s Procedures Performed on this Results Announcement**

PricewaterhouseCoopers, the auditor of the Company, obtained from the Company the preliminary draft of this results announcement (the “**Preliminary Announcement**”) and the draft consolidated financial statements of the Group for the year ended December 31, 2018, and agreed the figures set out in the Preliminary Announcement in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income and the related notes to the draft consolidated financial statements of the Group for the year ended December 31, 2018.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This announcement is published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.gamehollywood.com](http://www.gamehollywood.com)). The annual report of the Company for the year ended December 31, 2018 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

## APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board  
**Digital Hollywood Interactive Limited**  
**LU Yuanfeng**  
*Chairman and Chief Executive Officer*

Hong Kong, March 22, 2019

*As at the date of this announcement, the Executive Directors are Mr. LU Yuanfeng, Mr. HUANG Guozhan and Mr. HUANG Deqiang; and the Independent Non-Executive Directors are Mr. Darren Raymond SHAW, Mr. LI Yi Wen and Ms. Imma LING Kit-sum.*

\* *For identification purposes only*