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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, 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2019 (“**FY2019**”) amounted to approximately US\$17.9 million, representing a decrease of 26.0% from approximately US\$24.2 million recorded in the year ended December 31, 2018 (“**FY2018**”).
- Gross profit for FY2019 amounted to approximately US\$8.4 million, representing a decrease of 36.8% from approximately US\$13.3 million recorded in FY2018.
- Loss attributable to owners of the Company for FY2019 amounted to approximately US\$5.8 million, as compared to profit attributable to owners of the Company of approximately US\$0.9 million recorded in FY2018.
- Non-IFRS adjusted loss attributable to owners of the Company for FY2019 amounted to approximately US\$4.2 million, as compared to non-IFRS adjusted profit attributable to owners of the Company of approximately US\$3.6 million recorded in FY2018.

In this announcement, “we”, “us” and “our” refer to Digital Hollywood Interactive Limited (the “**Company**”, together with its subsidiaries, the “**Group**”).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS

For FY2019, due to changes in the Chinese game market and regulatory environment, the supply of game products from China complying with relevant laws and regulations and available to the Group for release in the overseas markets decreased dramatically, which limited the number of the Group's new game releases in the overseas markets and in turn imposed an adverse effect on the Group's financial performance.

In the face of a complex and changing market environment, the Group insisted on taking the advantage of global distribution. Looking back FY2019, the Group partnered with developers which could develop semi-competitive cross-platform and hypertext markup language 5 (“**HTML5**”) games and launched *Eternal Fury 2* (a massively multiple online role-play game) of different languages versions. With the aim to consistently increase resource input and optimize the precision in publishing, the Group strives to be a leading publisher, both domestically and globally, in HTML5 cross-platform games.

Looking forward, the Group will continue to innovate and improve the layout of HTML5 games and take advantage of our global distribution network. The doomsday strategy HTML5 game *Survivor Legacy* has completed its beta test and is ready to release in 2020. The Group will deepen our involvement in the HTML5 game distribution markets and cooperate closely with our outstanding business partners in research and development, distribution and promotion in the global HTML5 field, to vigorously enlarge the market shares in emerging markets for HTML5 games and further strengthen our leading position in overseas distribution.

Since the outbreak of Coronavirus Disease 2019 (“**COVID-19 Outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and other countries in the world. As at the date of this announcement, the Company's board (the “**Board**”) of directors (the “**Director(s)**”) was not aware of any material adverse effects on the financial statements as a result of the COVID-19 Outbreak. To shoulder our social responsibilities and offer humanitarian support, the Group has promptly launched an assistance scheme in response to the COVID-19 Outbreak. Under this scheme, the Group has mobilised its global subsidiaries to procure medical masks, protective gowns and other medical supplies and has donated the same to front-line medical professionals and institutions in China. The Group has been closely monitoring the development of the COVID-19 Outbreak and will continue to evaluate its impact on the financial position and operating results of the Group from time to time.

FINANCIAL REVIEW

Overview

For FY2019, loss attributable to owners of the Company amounted to approximately US\$5.8 million, as compared to profit attributable to owners of the Company of approximately US\$0.9 million for FY2018. Non-IFRS adjusted loss attributable to owners of the Company¹ amounted to approximately US\$4.2 million for FY2019, as compared to non-IFRS adjusted profit attributable to owners of the Company of approximately US\$3.6 million for FY2018.

Revenue

For FY2019, revenue of the Group amounted to approximately US\$17.9 million, representing a decrease of approximately US\$6.3 million or 26.0% as compared with approximately US\$24.2 million for FY2018. The decrease in revenue was mainly due to the reasons that (i) certain games entered into the mature stage of their lifecycles in FY2019 and generated less revenue compared to that of FY2018; (ii) certain newly launched games of the Group failed to achieve the expected performance level; and (iii) the revenue of a one-off licensing fees amounting to approximately US\$2.6 million was recognised in FY2018 while there was no such one-off licensing fees recognised in FY2019.

Cost of Revenue and Gross Profit Margin

For FY2019, cost of revenue of the Group amounted to approximately US\$9.5 million, representing a decrease of approximately US\$1.3 million or 12.0% as compared with approximately US\$10.8 million for FY2018. The resulting gross profit margin decreased to 46.9% for FY2019 from 55.0% for FY2018.

Other Gains, Net

For FY2019, other gains of the Group amounted to approximately US\$0.3 million, representing a decrease of approximately US\$0.4 million or as 57.1% as compared with approximately US\$0.7 million for FY2018. The decrease in other gains was mainly due to recognition of a one-off other gain from termination of a licensing agreement in FY2018.

Selling and Marketing Expenses

For FY2019, selling and marketing expenses of the Group amounted to approximately US\$4.1 million, representing a decrease of approximately US\$1.3 million or 24.1% from approximately US\$5.4 million for FY2018, primarily due to a decrease in advertising and promotion expenses.

¹ Non-IFRS adjusted loss/profit attributable to owners of the Company was derived from the loss/profit for the year, excluding share-based payments of the Company.

Administrative Expenses

For FY2019, administrative expenses of the Group amounted to approximately US\$5.7 million, representing an increase of approximately US\$0.6 million or 11.8% from approximately US\$5.1 million for FY2018. The increase was mainly due to write-down of prepaid license fees and prepayments for certain newly launched games of the Group, which failed to achieve the expected performance level.

Research and Development Expenses

For FY2019, research and development expenses of the Group amounted to approximately US\$2.4 million, representing an increase of approximately US\$0.9 million or 60.0% compared with approximately US\$1.5 million for FY2018. The increase in research and development expenses in FY2019 was mainly due to greater staff cost as more staff was hired to develop new games.

Net Impairment Losses on/Reversal of Financial Assets

For FY2019, net impairment losses on financial assets of the Group amounted to approximately US\$1.4 million, as compared to reversal of impairment losses on financial assets of the Group amounted to approximately US\$0.03 million for FY2018. The change of position was mainly due to impairment loss arising from the balances due from the Group's customers in FY2019.

Impairment of Investment in an Associate

For FY2019, impairment of investment in an associate of the Group, amounted to approximately US\$0.7 million (FY2018: nil). The impairment of investment in an associate in FY2019 was mainly due to the reason that the Group did not anticipate any future cash flow generated from the investment in an associate as the entity has substantially wound down its operations.

Loss/Profit Attributable to Owners of the Company

For FY2019, loss attributable to owners of the Company amounted to approximately US\$5.8 million, as compared to profit attributable to owners of the Company of approximately US\$0.9 million for FY2018. The change of position was mainly due to the following reasons: (i) as a result of the changes of the Chinese game market and regulatory environment, the supply of game products from China complying with relevant laws and regulations and available to the Group for release in the overseas markets decreased dramatically in FY2019, which limited the number of the Group's new game releases in the overseas markets and in turn imposed an adverse effect on the Group's financial performance; (ii) impairment loss arising from the balances due from the Group's customers and the Group's investment in an associate; and (iii) write-down of prepaid license fees and prepayments for certain newly launched games of the Group, which failed to achieve the expected performance level.

Non-IFRS Adjusted Loss/Profit Attributable to Owners of the Company

To supplement this annual results announcement which is presented in accordance with the International Financial Reporting Standards (the "IFRS"), we also use unaudited non-IFRS adjusted loss/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.

For FY2019, non-IFRS adjusted loss attributable to owners of the Company amounted to approximately US\$4.2 million, as compared to non-IFRS adjusted profit attributable to owners of the Company of approximately US\$3.6 million in FY2018. Our non-IFRS adjusted loss/profit attributable to owners of the Company in FY2019 and FY2018 was calculated according to the loss/profit attributable to the owners of the Company for the respective years, excluding share-based payments of approximately US\$1.6 million in FY2019 and approximately US\$2.6 million in FY2018. The reasons for the change of position were elaborated in the sub-section headed “Loss/Profit Attributable to Owners of the Company” above.

Income Tax Expense

For FY2019, income tax expense of the Group amounted to approximately US\$0.2 million, representing a decrease of approximately US\$0.9 million or 81.8% as compared with approximately US\$1.1 million for FY2018. The decrease in income tax expense was primarily due to the decrease of assessable profit.

Liquidity and Source of Funding and Borrowing

As at December 31, 2019, the Group’s total bank balances and cash amounted to approximately US\$25.3 million, representing a decrease of approximately US\$7.3 million as compared with approximately US\$32.6 million as at December 31, 2018. The decrease in total bank balances and cash during the year was primarily resulted from decrease in revenue income and prepaid royalty fees for new games.

As at December 31, 2019, current assets of the Group amounted to approximately US\$48.8 million, including bank balances and cash of approximately US\$25.3 million and other current assets of approximately US\$23.5 million. Current liabilities of the Group amounted to approximately US\$10.3 million, including trade payables and contract liabilities of approximately US\$6.6 million and other current liabilities of approximately US\$3.7 million. As at December 31, 2019, the current ratio (the current assets to current liabilities ratio) of the Group was 4.7, as compared with 5.0 as at December 31, 2018.

Gearing ratio is calculated on the basis of total borrowings (net of cash and cash equivalents) over the Group’s total equity. The Group does not have any bank borrowings and other debt financing obligations (excluding lease liabilities) as at December 31, 2019 and the resulting gearing ratio is nil (as at December 31, 2018: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

Material Investments

The Group did not have any new material investment during FY2019.

Material Acquisitions

The Group did not have any material acquisitions during FY2019.

Material Disposals

The Group did not have any material disposals of subsidiaries or associated companies during FY2019.

Pledge of Assets

As at December 31, 2019, none of the Group's assets was pledged (as at December 31, 2018: nil).

Contingent Liabilities

The Group had no material contingent liabilities as at December 31, 2019 (as at December 31, 2018: nil).

Foreign Exchange Exposure

As at December 31, 2019, the Group mainly operated in the global market and majority of its transactions were settled in U.S. dollars, being the functional currency 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 recognised 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 not significant. As at December 31, 2019, the Group did not have significant foreign currency exposure from its operations.

Use of Proceeds from the IPO

The net proceeds from the initial public offering of the Company dated December 15, 2017 (the “**IPO**”) amounted to US\$35.4 million after deducting share issuance costs and listing expenses. During FY2019, the net proceeds from the listing were utilised in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the Company’s prospectus dated December 5, 2017 (the “**Prospectus**”), with the balance amounted to approximately US\$17.2 million. The balance of fund will continue to be utilised according to the manner as disclosed in the Prospectus. The Group held the unutilised net proceeds in short-term deposits with licensed institutions in Hong Kong. In 2020, 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:

	Net amount available as at December 31, 2018 <i>USD’000</i>	Actual net amount utilised during FY2019 <i>USD’000</i>	Unutilised amount as at December 31, 2019 <i>USD’000</i>	Expected timeline for utilising the remaining Net Proceeds ^(Note)
Investment	13,745.1	6,308.3	7,436.8	Expected to be fully utilised on or before June 30, 2022
Development and research	8,073.5	2,190.8	5,882.7	Expected to be fully utilised on or before December 31, 2022
Expansion of online game business	4,227.8	1,571.5	2,656.3	Expected to be fully utilised on or before December 31, 2021
Marketing and advertisement	1,916.2	1,916.2	–	Had been fully utilised
Working capital and other general corporate purposes	3,040.2	1,752.0	1,288.2	Expected to be fully utilised on or before December 31, 2021
Total	<u>31,002.8</u>	<u>13,738.8</u>	<u>17,264.0</u>	

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to changes based on the current and future development of the market conditions.

HUMAN RESOURCES

As at December 31, 2019, the Group had 187 employees (December 31, 2018: 182), 67 of which were responsible for game development and maintenance, 91 for game operation and offline events organization, 29 for general administration and corporate management. The total remuneration expenses, excluding share-based compensation expense, for FY2019 were US\$4.5 million, representing an increase of 15.4% as compared to FY2018. 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 FY2019.

FINAL DIVIDEND

The Board has resolved not to declare any final dividend for FY2019.

CLOSURE OF REGISTER OF MEMBERS FOR 2020 AGM

The register of members of the Company will be closed from May 21, 2020 to May 26, 2020, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting to be held on May 26, 2020 (the "**2020 AGM**"). In order to be eligible to attend and vote at the 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on May 20, 2020.

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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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 (the “**Shareholders**”) as a whole. The Company has adopted the code provisions as set out in the Corporate Governance Code (the “**Corporate Governance Code**”) as contained in Appendix 14 to the Listing Rules on the Stock Exchange 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 provisions A.2.1 and A.5.1 of the Corporate Governance Code as described below.

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.

Upon the resignation of Mr. Darren Raymond SHAW (“**Mr. Shaw**”) as an independent non-executive Director with effect from July 5, 2019 and until the appointment of Mr. LU Qibo as an independent non-executive Director on October 3, 2019, (i) the Board comprised only three executive Directors and two independent non-executive Directors; and (ii) there were only two members in each of the audit committee, the remuneration committee and the nomination committee. Therefore, during such period, the composition of the Board and the committees of the Board did not meet the requirements under Rule 3.10(1), Rule 3.21 and Rule 3.25 of the Listing Rules and code provision A.5.1 of the Corporate Governance Code. The above deviation during the concerned period was primarily due to the time needed for the Board to identify and engage suitable candidates to fill in the casual vacancy of Mr. Shaw and has been rectified by the Board as soon as reasonably practicable. The Board has also disclosed the above deviation in the interim results announcement of the Company dated August 30, 2019 and the interim report of the Company dated September 27, 2019, respectively, while it was identifying a suitable candidate.

The Board will continue to review and monitor the 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 Board, comprising Ms. Imma LING Kit-sum, Mr. LI Yi Wen and Mr. LU Qibo, has discussed with the management and the external auditor and reviewed the consolidated financial information for FY2019, 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 FY2019, 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 FY2019.

The board is pleased to announce the consolidated financial results of the Group for FY2019 with the comparative figures for FY2018 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2019

	Note	2019 USD	2018 USD
Revenue	3	17,918,989	24,161,349
Cost of revenue		<u>(9,522,439)</u>	<u>(10,842,465)</u>
Gross profit		8,396,550	13,318,884
Selling and marketing expenses		(4,145,546)	(5,377,888)
Administrative expenses		(5,700,502)	(5,055,533)
Research and development expenses		(2,365,790)	(1,536,779)
Net impairment losses (on)/reversal of financial assets		(1,384,675)	33,113
Impairment of investment in an associate		(652,596)	–
Other gains, net	7	<u>307,106</u>	<u>711,342</u>
Operating (loss)/profit		(5,545,453)	2,093,139
Finance income		<u>57,075</u>	11,851
Finance costs		<u>(114,612)</u>	(93,418)
Finance costs, net		(57,537)	(81,567)
Share of loss of an associate		<u>–</u>	<u>(3,355)</u>
(Loss)/profit before income tax		(5,602,990)	2,008,217
Income tax expense	8	<u>(158,816)</u>	<u>(1,071,113)</u>
(Loss)/profit for the year		<u>(5,761,806)</u>	<u>937,104</u>
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
– Currency translation differences		(75,831)	(445,971)
Items that may not be reclassified subsequently to profit or loss			
– Changes in fair value of investment in equity securities at fair value through other comprehensive income		<u>(1,685,994)</u>	<u>89,572</u>
Total comprehensive (loss)/income for the year		<u>(7,523,631)</u>	<u>580,705</u>
(Loss)/profit attributable to:			
Owners of the Company		<u>(5,761,806)</u>	<u>937,104</u>
Total comprehensive (loss)/income attributable to:			
Owners of the Company		<u>(7,523,631)</u>	<u>580,705</u>
(Loss)/earnings per share (expressed in USD cents per share)	9		
– Basic		<u>(0.31)</u>	<u>0.05</u>
– Diluted		<u>(0.31)</u>	<u>0.05</u>
Dividends	10	<u>–</u>	<u>–</u>

CONSOLIDATED BALANCE SHEET

As at December 31, 2019

	Note	As at December 31, 2019 USD	As at December 31, 2018 USD
Assets			
Non-current assets			
Property, plant and equipment		1,975,917	2,107,128
Right-of-use assets		1,843,078	–
Intangible assets		1,862,822	2,316,324
Investment in an associate		–	640,233
Prepayments and other receivables		3,881,573	4,342,699
Deferred income tax assets		11,779	173,875
Financial assets at fair value through other comprehensive income		963,185	2,670,518
		10,538,354	12,250,777
Current assets			
Contract costs		771,402	695,396
Trade receivables	4	2,234,622	3,625,121
Prepayments and other receivables		20,471,647	14,561,573
Cash and cash equivalents		25,320,274	32,598,242
		48,797,945	51,480,332
Total assets		59,336,299	63,731,109
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	5	2,000,000	2,000,000
Shares held for the Share Option Scheme	5	(147,560)	(150,000)
Reserves		38,104,404	38,282,476
Retained earnings		7,318,884	13,144,180
Total equity		47,275,728	53,276,656
Liabilities			
Non-current liabilities			
Lease liabilities		1,800,872	–
Deferred income tax liabilities		5,757	56,021
		1,806,629	56,021
Current liabilities			
Trade payables	6	3,095,087	3,177,289
Contract liabilities		3,508,007	3,806,299
Lease liabilities		270,123	–
Other payables and accruals		3,057,942	2,788,526
Current income tax liabilities		322,783	626,318
		10,253,942	10,398,432
Total liabilities		12,060,571	10,454,453
Total equity and liabilities		59,336,299	63,731,109

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 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 31, 2020.

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 (“**IFRS**”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, except for the financial assets at fair value through other comprehensive income which is measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS 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.

2.1.1 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, 2019:

Annual Improvements to IFRSs 2015-2017 Cycle	Previously held interest in a joint operation, income tax consequences of payments on financial instruments classified as equity and borrowing costs eligible for capitalisation
IAS 19(Amendments)	Plan Amendment, Curtailment or settlement
IAS 28(Amendments)	Long-term Interests in Associates and Joint Ventures
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS 16	Leases
IAS 9 (Amendment)	Prepayment features with negative compensation

Amendments to IFRSs effective for the financial year beginning on or after January 1, 2019 do not have a material impact on the Group’s accounting policies and did not require retrospective adjustments, except for IFRS 16 Leases (“**IFRS 16**”). The impact of the adoption of IFRS 16 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
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	January 1, 2020
IFRS 3 (Amendment)	Definition of a Business	January 1, 2020
IAS 1 and IAS 8 (Amendment)	Definition of Material	January 1, 2020
IFRS 9, IAS 39 and IFRS 7 (Amendment)	IBOR Reform and its Effects on Financial Reporting – Phase 1	January 1, 2020
IFRS 17	Insurance Contracts	January 1, 2021
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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.

2.2 Changes in accounting policies

2.2.1 IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

Upon adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on January 1, 2019 were 5.6% for leases below 5 years (inclusive) and 5.8% for leases over 5 years.

	2019 USD
Operating lease commitments disclosed as at December 31, 2018	2,877,310
Discounted using the lessee's incremental borrowing rate of at the date of initial application	2,295,267
Less: short-term leases recognised on a straight-line basis as expense	(28,461)
Lease liability recognised as at January 1, 2019	2,266,806
Of which are:	
Current lease liabilities	224,760
Non-current lease liabilities	2,042,046
	2,266,806

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following type of assets:

	As at December 31, 2019 USD	As at January 1, 2019 USD
Properties	<u>1,843,078</u>	<u>2,090,782</u>

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets – increase by USD2,090,782
- lease liabilities – increase by USD2,266,806
- Other payables and accruals – decrease by USD112,534

The net impact on retained earnings on January 1, 2019 was a decrease of USD63,490.

3 REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	Year ended December 31, 2019 USD	2018 USD
Online game revenue	17,807,719	21,453,881
Licensing revenue	101,962	2,693,224
Advertising revenue	9,308	9,384
Server rental revenue	–	4,860
	<u>17,918,989</u>	<u>24,161,349</u>

4 TRADE RECEIVABLES

	As at December 31, 2019 USD	2018 USD
Trade receivables (<i>Note (a)</i>)	5,181,194	5,260,697
Less: allowance for impairment of trade receivables (<i>Note (b)</i>)	<u>(2,946,572)</u>	<u>(1,635,576)</u>
	<u>2,234,622</u>	<u>3,625,121</u>

- (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,	
	2019	2018
	USD	USD
0-30 days	866,395	1,085,622
31-90 days	1,026,677	1,106,756
91-180 days	451,415	764,506
Over 180 days	2,836,707	2,303,813
	<u>5,181,194</u>	<u>5,260,697</u>

- (b) As at December 31, 2019, trade receivables of USD2,946,572 (2018: USD1,635,576) were impaired. Movements on the Group's provision for impairment of trade receivables are as follows:

	As at December 31,	
	2019	2018
	USD	USD
At beginning of the year	1,635,576	1,698,689
Provision/(reversal of) for trade receivables	1,384,675	(33,113)
Receivables written off during the year as uncollectible	(73,679)	(30,000)
	<u>2,946,572</u>	<u>1,635,576</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 (2018: 4,000,000,000 ordinary shares) with par value of USD0.001 per share (2018: USD0.001 per share).

As at December 31, 2019, the total number of issued ordinary shares of the Company was 2,000,000,000 shares (2018: 2,000,000,000 shares) which included 147,560,007 shares (2018: 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, 2019	<u>2, 000,000,000</u>	<u>2,000,000</u>	<u>(147,560)</u>
At December 31, 2018	<u>2,000,000,000</u>	<u>2,000,000</u>	<u>(150,000)</u>

- (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 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, 2019, the Share Scheme Trust transferred 2,439,996 ordinary shares of the Company (December 31, 2018: nil) to the grantees exercising of the awarded shares.

6 TRADE PAYABLES

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

	As at December 31,	
	2019	2018
	USD	USD
0-90 days	754,509	1,043,598
91-180 days	675,408	978,536
181-360 days	867,897	345,849
Over 360 days	797,273	809,306
	3,095,087	3,177,289

7 OTHER GAINS, NET

	Year ended December 31,	
	2019	2018
	USD	USD
Other gains		
Government grant	134,333	21,227
Foreign exchange gains, net	125,890	186,445
Initial license fee forfeited by a licensee	–	500,000
Others	47,279	4,823
	307,502	712,495
Other losses		
Others	(396)	(1,153)
	(396)	(1,153)
Other gains, net	307,106	711,342

8 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended December 31, 2019 and 2018 is analysed as follows:

	Year ended December 31,	
	2019	2018
	USD	USD
Current income tax		
– Overseas withholding income tax	203,037	297,018
– PRC and Hong Kong	(177,259)	724,189
Deferred tax	133,038	49,906
	158,816	1,071,113

9 (LOSS)/EARNINGS PER SHARE

Basic

Basic (loss)/earnings per share (“EPS”) is calculated by dividing the (loss)/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 years ended December 31, 2019 and 2018.

	Year ended December 31,	
	2019	2018
(Loss)/profit attributable to owners of the Company (USD)	(5,761,806)	937,104
Weighted average number of ordinary shares in issue less shares held for the Share Option Scheme (<i>Note (a)</i>)	1,850,176,135	1,850,000,027
– Basic EPS in USD cents/share	(0.31)	0.05

- (a) The EPS is determined based on that 1,850,176,135 (2018: 1,850,000,027) shares were the weighted average number of ordinary shares in issue excluding the 149,823,865 (2018: 149,999,973) shares which were the weighted average number held for the Share Option Scheme for the year ended December 31, 2019, without taking into account any shares which may be granted and issued by the Company pursuant to the Share Option Scheme.

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 loss/earnings (numerator).

	Year ended December 31,	
	2019	2018
(Loss)/profit attributable to owners of the Company (USD)	(5,761,806)	937,104
Weighted average number of ordinary shares in issue less shares held for the Share Option Scheme	1,850,176,135	1,850,000,027
Adjustments for share options (a)	–	10,403,520
Weighted average number of ordinary shares for the calculation of diluted EPS	<u>1,850,176,135</u>	<u>1,860,403,547</u>
– Diluted EPS (in USD cents/share)	<u>(0.31)</u>	<u>0.05</u>

- (a) The 39,977,019 options granted and remained unexercised are not included in the calculation of diluted (loss)/earnings per share because they are antidilutive for the year ended December 31, 2019. These options could potentially dilute basic (loss)/earnings per share in the future.

10 DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the year ended December 31, 2019 (2018: same).

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.gamehollywood.com). The annual report of the Company for FY2019 will be dispatched 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 31, 2020

As at the date of this announcement, the executive Directors are Mr. LU Yuanfeng, Mr. HUANG Guozhan, Mr. HUANG Deqiang and the independent non-executive Directors are Ms. Imma LING Kit-sum, Mr. LI Yi Wen and Mr. LU Qibo.

* *For identification purposes only*