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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, 2022

FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2022 (“**FY2022**”) amounted to approximately US\$11.1 million, representing a decrease of approximately 13.3% from approximately US\$12.8 million recorded in the year ended December 31, 2021 (“**FY2021**”).
- Gross profit for FY2022 amounted to approximately US\$4.7 million, representing a decrease of approximately 13.0% from approximately US\$5.4 million recorded in FY2021.
- Loss attributable to owners of the Company for FY2022 amounted to approximately US\$5.9 million, representing an increase of approximately 73.5% from approximately US\$3.4 million recorded in FY2021.
- Non-IFRS adjusted loss attributable to owners of the Company⁽¹⁾ for FY2022 amounted to approximately US\$5.9 million, representing an increase of approximately 78.8% from approximately US\$3.3 million recorded in FY2021.

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

⁽¹⁾ Non-IFRS adjusted loss attributable to owners of the Company was derived from the loss attributable to owners of the Company for the year, excluding share-based compensation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS

In 2022, with market competition intensified in the business environment both domestically and abroad, coupled with the increased fluctuation in the international market, the global economic situation was still not optimistic. Facing a complex and ever-changing market environment, the Group comprehensively considered its business development process and continued to facilitate the Group's operational strategic planning.

In 2022, the Group established its business ecosystem centered on the HTML5 product matrix and the GHG game platform and continued to promote its platform construction. The Group's GHG game platform (gamehollywood.com) was officially launched during the year, with its functions continuously improved. The launch of the GHG platform has brought various benefits to the development of the Group. On the one hand, the utilization of the GHG game platform has met the preference of different game users and enhanced user stickiness to the platform. On the other hand, the technical standardization of game platforms has enabled our game projects to be launched online in a more efficient way and gradually enriched the number of games on the platform. In 2022, the Group released 10 HTML5 games, including the 3D war strategy game Game of Thrones, the action game League of Angels Pact and the role-playing strategy game Evil Awakening 2: Erebus etc.

In the second half of the year, the Group's GHG game platform established a platform currency system of G coins, through which the platform can be connected to payment channels such as PayPal, Safecharge and Boacompra, fully satisfying the payment needs of all users on the platform around the world. After obtaining the platform currency, users can purchase in-game virtual items or services of various games on the platform, making it easier for users to experience fun in different games.

During the year, the Group published the Japanese version of its self-developed game Eternal Fury, entering the Japanese market where the two-dimensional culture is popular. In addition, the Group actively enriched the number of games in mainstream European languages such as German, French and Polish, so as to further penetrate into the European market. The Group has also further expanded its business scale in the market of Latin American languages such as Spanish and Portuguese through the promotion of games and efficient operation and management.

In 2022, the Group actively promoted the rebranding and development of its classic flagship games to adapt to changes in the internet technology. By utilizing the Group's technological advantages and the conversion of HTML5 development engines in a variety of web game products carried out by our R&D team, the Group has not only embraced the changes of internet technology to continue the life cycle of classic games, but also continuously catered to users' needs for internet entertainment.

Looking ahead, the Group will continue to promote its business strategy, enrich the HTML5 product matrix and improve the GHG game platform. The HTML5 game business has been the main business developed by the Group in recent years, and the number of products and user scale have both achieved significant growth. The Group will continue to put efforts into the deployment of HTML5 games, further launch HTML5 game products in different categories such as action, adventure, simulation and role-playing, as well as expand the Group's HTML5 product matrix. Meanwhile, the Group will continue to improve the functions and services of the GHG platform, enhance the service quality for the users and establish the brand image of the platform. The Group will also actively promote the platform to potential users in order to develop its user base, so that more potential users will enter the platform and sign up for the service to enjoy their game experience.

The Group will continue to develop GHG SDK technology in order to meet the needs of accessing HTML5 games and mobile games, realize the interconnectivity of users on different platforms and meet the needs of users in multiple dimensions. The GHG SDK technology will enhance user stickiness to the Group's products, and will also bring more business growth momentum to the Group's HTML5 product matrix and the GHG platform.

The Group will continue to maintain the mentality of win-win cooperation, and strive to strengthen the cooperation with platforms in more regions around the world in respect of game publication. The Group believes that, through cooperating with regional platforms and making rational and effective use of its advantage in resources, new opportunities will emerge for the Group's future business growth.

FINANCIAL REVIEW

Overview

For FY2022, loss attributable to owners of the Company amounted to approximately US\$5.9 million, representing an increase of approximately US\$2.5 million or 73.5% from approximately US\$3.4 million for FY2021. Non-IFRS adjusted loss attributable to owners of the Company amounted to approximately US\$5.9 million for FY2022, representing an increase of approximately US\$2.6 million or 78.8% from approximately US\$3.3 million for FY2021.

Revenue

For FY2022, revenue of the Group amounted to approximately US\$11.1 million, representing a decrease of approximately US\$1.7 million or 13.3% from approximately US\$12.8 million for FY2021. The decline in revenue was mainly due to the decrease in revenue from some legacy game products. Despite market volatility, the Group actively responded to the impact of market changes, and continued to improve the layout of the HTML5 games.

Cost of Revenue and Gross Profit Margin

For FY2022, cost of revenue of the Group amounted to approximately US\$6.5 million, representing a decrease of approximately US\$0.8 million or 11.0% as compared with approximately US\$7.3 million for FY2021. The gross profit margin of the Group slightly decreased from approximately 42.4% for FY2021 to approximately 41.8% for FY2022.

Other Gains/(Losses), Net

For FY2022, other gains of the Group amounted to approximately US\$0.55 million, as compared with other losses of the Group amounted to approximately US\$0.16 million for FY2021. The other gains of the Group for FY2022 primarily consisted of (i) the net exchange gains resulting from exchange rate fluctuations in the current year; and (ii) government grants received in the current year.

Selling and Marketing Expenses

For FY2022, selling and marketing expenses of the Group amounted to approximately US\$3.2 million, representing an increase of approximately US\$0.1 million or 3.2% from approximately US\$3.1 million for FY2021, primarily due to the Group's increased promotion for newly launched games.

Administrative Expenses

For FY2022, administrative expenses of the Group amounted to approximately US\$5.1 million, representing an increase of approximately US\$2.1 million or 70.0% from approximately US\$3.0 million for FY2021. The increase was mainly due to the provision for impairment of prepayments.

Research and Development Expenses

For FY2022, research and development expenses of the Group amounted to approximately US\$2.1 million, representing an increase of approximately US\$0.2 million or 10.5% from approximately US\$1.9 million for FY2021, primarily due to increase in technical development of HTML5 area by the Group.

Net Impairment Losses on Financial Assets

For FY2022, net impairment losses on financial assets of the Group amounted to approximately US\$0.2 million, as compared to approximately US\$0.5 million for FY2021.

Income Tax Expense

For FY2022, income tax expense of the Group amounted to approximately US\$0.1 million, as compared to approximately US\$0.2 million for FY2021.

Loss Attributable to Owners of the Company

As a result of the above, loss attributable to owners of the Company increased by approximately US\$2.5 million or 73.5% from approximately US\$3.4 million for FY2021 to approximately US\$5.9 million for FY2022.

Non-IFRS Adjusted Loss 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 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 FY2022, non-IFRS adjusted loss attributable to owners of the Company amounted to approximately US\$5.9 million, representing an increase of approximately US\$2.6 million or 78.8% from approximately US\$3.3 million in FY2021. Our non-IFRS adjusted loss attributable to owners of the Company in FY2022 and FY2021 was calculated according to the loss attributable to the owners of the Company for the respective years, excluding share-based compensation of nil in FY2022 and approximately US\$0.07 million in FY2021.

Liquidity, Treasury Policy and Source of Funding and Borrowing

As at December 31, 2022, the Group’s total bank balances, cash and short-term deposits amounted to approximately US\$25.0 million, representing a decrease of approximately 23.5% as compared with approximately US\$32.7 million as at December 31, 2021. The decrease in total bank balances, cash and short-term deposits during the year was primarily resulted from the decrease in the net cash flow generated from operating activities.

As at December 31, 2022, current assets of the Group amounted to approximately US\$36.5 million, including bank balances, cash and short-term deposits of approximately US\$25.0 million and other current assets of approximately US\$11.5 million. Current liabilities of the Group amounted to approximately US\$9.1 million, including trade payables and contract liabilities of approximately US\$3.0 million and other current liabilities of approximately US\$6.1 million. As at December 31, 2022, the current ratio (the current assets divided by current liabilities) of the Group was 4.0, as compared with 4.8 as at December 31, 2021. The Group adopts a prudent treasury management policy to ensure that our Group maintains a healthy financial position.

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, 2022 and the gearing ratio is nil (as at December 31, 2021: nil). The Group intends to finance the expansion, investments and business operations with internal resources.

Significant Investments

On January 20, 2022, Guangzhou You Lai Information Technology Company Limited* (廣州遊萊信息科技有限公司) (an indirect wholly-owned subsidiary of the Company) ("**Guangzhou You Lai**") entered into an investment cooperation agreement dated January 20, 2022 with Guangzhou Red Circle Information Technology Company Limited* (廣州紅圈信息科技有限公司) ("**JV Partner**"), pursuant to which Guangzhou You Lai and the JV Partner have agreed to establish Guangzhou Duolai Technology Investment Limited* (廣州多萊科技投資有限公司) in the PRC for an investment project. Details of the investment cooperation agreement and the transactions contemplated thereunder are set out in the announcement of the Company dated January 20, 2022 and the circular of the Company dated March 16, 2022.

Save as disclosed above, the Group did not have any material investments during FY2022.

Material Acquisitions

The Group did not have any material acquisitions of subsidiaries, associates and joint ventures during FY2022.

Material Disposals

The Group did not have any material disposals of subsidiaries, associates and joint ventures during FY2022.

Pledge of Assets

As at December 31, 2022, none of the Group's assets was pledged (as at December 31, 2021: nil).

Contingent Liabilities

The Group had no material contingent liabilities as at December 31, 2022 (as at December 31, 2021: nil).

Foreign Exchange Exposure

As at December 31, 2022, the Group mainly operated in the global market and majority of its transactions were settled in United States Dollars (the "**USD**"), 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. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("**RMB**"), Euro ("**EUR**") and Hong Kong dollar ("**HKD**"). As at December 31, 2022, 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 approximately US\$35.4 million after deducting share issuance costs and listing expenses. During FY2022, 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 unutilised amounted to approximately US\$2.5 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 2023, 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, 2021 <i>USD’000</i>	Actual net amount utilised during FY2022 <i>USD’000</i>	Unutilised amount as at December 31, 2022 <i>USD’000</i>	Expected timeline for utilising the remaining net proceeds ^(Note)
Investment	6,977.1	4,454.3	2,522.8	Expected to be fully utilised on or before June 30, 2024
Development and research	1,833.3	1,833.3	–	Had been fully utilised
Expansion of online game business	–	–	–	Had been fully utilised
Marketing and advertisement	–	–	–	Had been fully utilised
Working capital and other general corporate purposes	–	–	–	Had been fully utilised
Total	8,810.4	6,287.6	2,522.8	

Note: The expected timeline for utilising the remaining net 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, 2022, the Group had 153 employees (December 31, 2021: 170), 47 of which were responsible for game development and maintenance, 77 for game operation and offline events organisation, and 29 for general administration and corporate management. The total remuneration expenses, excluding share-based compensation expense, for FY2022 were approximately US\$4.4 million, representing a decrease of approximately 4.3% as compared to FY2021. 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 FY2022.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of the final dividend for FY2022 (FY2021: nil).

MATERIAL LEGAL PROCEEDINGS

In 2020, Guangzhou Zhang Ying Kong Information Technology Company Limited* (廣州掌贏控信息科技有限公司) (“**Guangzhou ZYK**”), a wholly-owned subsidiary of the Company, instituted legal proceedings (the “**Legal Proceedings**”) against Shenzhen Qianhai Huanjing Network Technology Co., Ltd.* (深圳前海幻境網絡科技有限公司) (“**Qianhai Huanjing**”) in relation to the losses and damages sustained by Guangzhou ZYK as a result of the unilateral termination by Qianhai Huanjing of a series of intellectual property licensing agreements. Details of the Legal Proceedings are set out in the announcements of the Company dated May 18, 2020, March 8, 2021 and April 8, 2022.

On April 8, 2022, the Company received the judgment handed down by the Guangzhou Intellectual Property Court* (廣州知識產權法院) of the People's Republic of China, pursuant to which (i) the intellectual property licensing agreements shall be rescinded and (ii) Qianhai Huanjing shall repay the licensing fee in the amount of RMB6,556,900 to Guangzhou ZYK.

Save as disclosed above, the Group was not involved in any material legal proceedings during FY2022.

EVENTS OCCURRED SINCE THE END OF FY2022

The Group did not have any significant events after December 31, 2022 and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS FOR 2023 AGM

The register of members of the Company will be closed from June 15, 2023 to June 20, 2023, 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 June 20, 2023 (the "**2023 AGM**"). In order to be eligible to attend and vote at the 2023 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 pm on June 14, 2023.

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 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 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 C.2.1 of Part 2 of the Corporate Governance Code as disclosed below.

Pursuant to code provision C.2.1 of Part 2 of the Corporate Governance Code, the roles of chairman and chief executive should be separate 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. With extensive experience in the internet industry, Mr. LU Yuanfeng is responsible for the overall strategic planning and general management of the Group and is instrumental to the Company's growth and business expansion since its establishment on November 24, 2014. 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.

Save as disclosed above, the Company is in compliance with the requirements under all code provisions of the Corporate Governance Code. The Board will continue to review and monitor the practices of the Company with an aim to maintain 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.

Having made 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, Professor CHAU Chi Wai, Wilton (chairman), Mr. LI Yi Wen and Mr. LU Qibo, has discussed with the management and the external auditor and reviewed the consolidated financial information for FY2022, including accounting principles and practices adopted by the Group, and annual results and discussed internal controls and financial reporting matters.

Scope of Work of ZHONGHUI ANDA CPA Limited

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this annual results announcement have been agreed by the Group’s auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by ZHONGHUI ANDA CPA Limited on this annual results announcement.

The Board is pleased to announce the consolidated financial results of the Group for FY2022 with the comparative figures for FY2021 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>USD</i>	2021 <i>USD</i>
Revenue	3	11,142,371	12,753,453
Cost of revenue		<u>(6,483,418)</u>	<u>(7,340,087)</u>
Gross profit		4,658,953	5,413,366
Selling and marketing expenses		(3,244,375)	(3,091,368)
Administrative expenses		(5,106,172)	(3,046,413)
Research and development expenses		(2,138,944)	(1,893,970)
Net impairment losses on financial assets		(224,881)	(531,515)
Other gains/(losses), net	4	<u>548,503</u>	<u>(155,041)</u>
Operating loss		(5,506,916)	(3,304,941)
Finance income		25,617	20,625
Finance costs		(267,175)	(386,308)
Share of losses of associates		(17,481)	–
Gain on disposal of a subsidiary		<u>–</u>	<u>479,461</u>
Loss before income tax		(5,765,955)	(3,191,163)
Income tax expense	5	<u>(97,513)</u>	<u>(176,757)</u>
Loss for the year		<u>(5,863,468)</u>	<u>(3,367,920)</u>
Other comprehensive (expense)/income:			
<i>Item that will not be reclassified to profit or loss:</i>			
– Changes in fair value of equity investment at fair value through other comprehensive income		(210,040)	(792,176)
<i>Item that may be reclassified to profit or loss:</i>			
– Exchange differences on translating foreign operations		<u>(821,380)</u>	<u>171,046</u>
Other comprehensive expense for the year, net of income tax		<u>(1,031,420)</u>	<u>(621,130)</u>
Total comprehensive expense for the year		<u>(6,894,888)</u>	<u>(3,989,050)</u>
Loss for the year attributable to:			
– Owners of the Company		<u>(5,863,468)</u>	<u>(3,367,920)</u>
Total comprehensive expense for the year attributable to:			
– Owners of the Company		<u>(6,894,888)</u>	<u>(3,989,050)</u>
Loss per share (USD cents)			
– Basic	7	<u>(0.32)</u>	<u>(0.18)</u>
– Diluted		<u>(0.32)</u>	<u>(0.18)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 USD	2021 USD
ASSETS			
Non-current assets			
Property, plant and equipment		1,035,197	1,445,391
Right-of-use assets		990,857	1,406,545
Intangible assets		194,405	62,476
Interests in associates		26,367	–
Equity investments at fair value through other comprehensive income		162,029	372,069
Prepayments and other receivables		5,260,646	3,700,644
Deferred tax assets		154,656	99,094
		<u>7,824,157</u>	<u>7,086,219</u>
Current assets			
Trade receivables	8	932,850	1,032,458
Contract costs		591,896	803,382
Prepayments and other receivables		9,915,972	10,397,590
Short-term deposits		–	1,000,000
Bank and cash balances		25,032,539	31,681,054
		<u>36,473,257</u>	<u>44,914,484</u>
TOTAL ASSETS		<u><u>44,297,414</u></u>	<u><u>52,000,703</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10	2,000,000	2,000,000
Reserves		32,298,740	39,193,628
Total equity		<u>34,298,740</u>	<u>41,193,628</u>
Liabilities			
Current liabilities			
Trade payables	9	1,259,567	1,788,977
Contract liabilities		1,745,077	2,218,271
Accruals and other payables		5,482,683	4,801,778
Lease liabilities		321,501	344,469
Current tax liabilities		242,025	277,602
		<u>9,050,853</u>	<u>9,431,097</u>
Non-current liabilities			
Lease liabilities		947,821	1,375,978
Total liabilities		<u>9,998,674</u>	<u>10,807,075</u>
TOTAL EQUITY AND LIABILITIES		<u><u>44,297,414</u></u>	<u><u>52,000,703</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

Digital Hollywood Interactive Limited (the “**Company**”) was incorporated in the Cayman Islands on 24 November 2014 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business in Hong Kong is 11/F, Tai Sang Bank Building, 784 Nathan Road, Kowloon, Hong Kong. The address of its headquarters is 2nd Floor, No. 368 Jiang Nan Da Dao (South), Haizhu District, Guangzhou, the People’s Republic of China (the “**PRC**”). The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as 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 PRC and other regions.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards (“**IFRSs**”) issued by International Accounting Standards Board (“**IASB**”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. IFRSs comprise International Financial Reporting Standards (“**IFRS**”); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. REVENUE AND SEGMENT INFORMATION

	2022	2021
	USD	USD
Online game revenue	11,141,954	12,752,704
Advertising revenue	417	749
Total revenue	<u>11,142,371</u>	<u>12,753,453</u>

Disaggregation of revenue from contracts with customers:

Timing of revenue recognition		
Over time	<u>11,142,371</u>	<u>12,753,453</u>

Segment information

For management purpose, the executive directors of the Company consider that the Group generates revenue primarily from the provision of online game services. The executive directors of the Company review the operating results of the business as one segment to make strategic decisions about resources to be allocated. Therefore, the executive directors of the Company consider that there is only one segment of the Group and no further analysis is presented.

Revenue from major customers:

The Group has a large number of game players, no individual game players generated revenue which exceeded 10% or more of the Group's revenue for the year ended 31 December 2022 (2021: nil).

The revenue generated from top five largest revenue collection platforms, accounted for 69% (2021: 73%) of the Group's revenue for the year ended 31 December 2022.

The following table summarises the percentage of revenue from games licensed by a single company or group exceeding 10% of the Group's revenue during the year ended 31 December 2022:

	2022	2021
Game licensor A	<u>20%</u>	<u>27%</u>

Geographical information

Non-current assets other than financial instruments and deferred tax assets, by country:

	2022 USD	2021 USD
BVI	1,448,656	3,500,000
The PRC	5,825,692	2,910,312
Hong Kong	179,674	149,656
Other locations	<u>53,450</u>	<u>55,088</u>
	<u>7,507,472</u>	<u>6,615,056</u>

No geographical information for revenue is presented as 99.99% of the Group's revenue are derived from global online customers.

Game publishing service revenue

The Group is a publisher of online games developed by third party game developers or its own. The Group licenses online games from game developers and earns game publishing service revenue by making a localised version of the licensed games and publishing them to the game players through distribution platforms, include major social networking websites (such as Facebook), online application stores (such as Apple Inc.'s App Store ("Apple App") and Google Play installed in mobile telecommunications devices), web-based and mobile game portals in certain countries and regions (collectively referred to as "Platforms"), including the Group's websites. The games licensed to the Group are operated under a free-to-play model whereby game players can play the games free of charge and are charged for the purchase of Game Tokens or other virtual items via payment channels, such as the various mobile carriers and third-party internet payment systems (collectively referred to as "payment channels").

(i) Principal Agent Consideration

Third party developed games

Proceeds earned from selling Game Tokens and other virtual items are shared between the Group and game developers, with the amount paid to game developers generally calculated based on face value of Game Tokens or other virtual items determined by game developers, after deducting certain deductible fees, multiplied by a predetermined percentage for each game. The deductible fees are predetermined and negotiated game by game, including the fees paid to the payment channels and the Platforms, as well as the credit allowable for deduction for each game.

(1) The Group acts as Agent

With respect to the Group's game licenses arrangements entered into during the years ended 31 December 2022 and 2021, the Group considered that the (i) game developers are responsible for providing the game product desired by the game players; (ii) the costs incurred by the game developers to develop the games are more than the licensing costs and game localisations costs incurred by the Group; (iii) game developers have the right to determine the pricing of in-game virtual items and the specification, modification or update of the game proposed by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service, and thus the Group views game developers to be its customers and considers itself as the agent of game developers in the arrangements with game players. Accordingly, the Group records the game publishing service revenue from these licensed games, net of amounts paid to game developers.

Games operated directly by the Group:

Games operated directly by the Group are in the form of self-operation on its own websites and cooperation with Platforms, which the Group is responsible for determining Platforms and payment channels, hosting and maintenance of game servers for game running, providing customer service as well as marketing activities. For games self-operated by the Group, payment channels are responsible for payment collections related to the games. For games cooperated with Platforms, Platforms are responsible for distribution, platform maintenance, paying player authentication and payment collections related to the games.

As the Group is responsible for identifying, contracting with and maintaining the relationships of Platforms and payment channels, commission fees paid to Platforms and payment channels are included in cost of revenues and presented on a gross basis. The Group considers it is the primary obligor to game developers for the reasons identified above as it has been given latitude by game developers in selecting Platform and payment channels for its service to game developers.

Different from the above analysis, for games cooperated with Facebook if it had been specified by game developers and Apple App, the game developers are fully aware of Facebook and Apple App's roles and responsibilities. The Group considered that Facebook, Apple App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiation with Facebook and Apple App and does not have the primary responsibility to game developers for the service provided by them, commission charges by Facebook and Apple App are deducted from revenue.

Games subcontracted to Platforms:

Certain games are subcontracted to Platforms to operate directly. For such subcontracted games, Platforms are responsible for determining secondary Platforms and payment channels, hosting and maintenance of game servers for game running, providing customer service as well as marketing activities. The Group's responsibilities are delivering games to Platforms, and thus the Group views the game developers to be its customers and considers itself as the agent of game developers in the arrangements with Platforms, as the Group does not have the primary responsibility to game developers for the service provided by these Platforms. Accordingly, the Group records revenue on a net basis, amounts paid to game developers and revenue-sharing amounts paid to Platforms or third party payment vendors are deducted from revenue.

(2) The Group acts as Principal

During the years ended 31 December 2022 and 2021, there was a game license arrangement under which the Group takes primary responsibilities of further game development and updates, game operation, including determining Platforms and payment channels, providing customer services, hosting game servers, if needed, and controlling pricing and game and services specifications during the license period. The Group bears the cost incurred to further develop the game. Under this type of game license arrangement, the Group considers itself as a principal in this arrangement. Accordingly, the Group records the online game revenue from this third party licensed game on a gross basis. Commission fees paid to Platforms and payment channels and amortisation of license fees paid to third party game developer are recorded as cost of revenues.

Self-developed games

The Group sometimes enters into license arrangements under which the Group takes primary responsibilities of game development and game operation, including determining Platforms and payment channels, providing customer services, hosting game servers, if needed, and controlling pricing and game and services specifications. The Group bears the cost incurred to develop the games. Under this type of agreements, the Group considers itself the principal. Accordingly, the Group records the online game revenues from these games on a gross basis. Commission fees paid to Platforms and payment channels and amounts paid to licensor are recorded as cost of revenue.

The Group self-develops mobile games. Revenues derived from self-developed games are recorded on a gross basis as the Group acts as a principal to fulfil most obligations related to the mobile game operation. Commission fees paid to Platforms and payment channels are recorded as cost of revenue.

(ii) Timing of revenue recognition

Third party developed games

(1) The Group acts as Agent

Games operated directly by the Group:

For the purposes of determining when services have been provided to the respective players, the Group has determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised at a point in time (as a release from contract liabilities) when the items are consumed and the related services are rendered.
- Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time. Revenue is recognised ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be average Player Relationship Period.

The Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, the Group recognises revenue from both durable and consumable virtual items for that game ratably over the Player Relationship Period.

Games subcontracted to Platforms:

Revenue of games subcontracted to Platforms are recognised ratably over the Player Relationship Period, for (i) the Group has a continuous obligation to game developers to coordinate Platforms for providing service to game players, and (ii) the Group does not have the ability to differentiate revenue from games subcontracted to Platforms attributable to durable virtual items from consumable virtual items for a specific game.

(2) The Group acts as Principal

Revenue of third party developed games when the Group acts as a Principal are recognised ratably over the Player Relationship Period or as the durable virtual items are consumed, which is similar to the policy of third party developed games operated directly by the Group when the Group acts as an Agent mentioned above.

Self-developed games

Revenue of self-developed games are recognised ratably over the Player Relationship Period or as the durable virtual items are consumed, which is similar to the policy of third party developed games when the Group acts as a Principal mentioned above.

Advertising revenue

The Group provides advertising placement for a specified period on the interface of online games. The Group recognises revenue ratably over the period during which the advertising services are provided.

4. OTHER GAINS/(LOSSES), NET

	2022	2021
	USD	USD
Government grants	253,915	43,675
Net foreign exchange gains/(losses)	295,070	(235,403)
Others	(482)	36,687
	<u>548,503</u>	<u>(155,041)</u>

5. INCOME TAX EXPENSE

	2022	2021
	USD	USD
Current tax – Overseas withholding income tax (“WHT”)		
– Provision for the year	153,075	198,832
Current tax – PRC Enterprise Income Tax (“EIT”)		
– Under-provision in prior year	–	77,019
Deferred tax	<u>(55,562)</u>	<u>(99,094)</u>
	<u>97,513</u>	<u>176,757</u>

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

Pursuant to the rules and regulations of the BVI, the company incorporated in BVI are not subject to any income tax.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2022 and 2021 as the Group did not generate any assessable profits arising in Hong Kong during both years.

Guangzhou You Lai Information Technology Company Limited was qualified as “Advanced Technology Service Enterprises” in 2022 and 2021 and was entitled to a preferential income tax rate of 15% for the years ended 31 December 2022 and 2021.

Guangzhou Zhang Ying Kong Information Technology Company Limited was qualified as “Small Low-Profit Enterprise” for the years ended 31 December 2022 and 2021 and was entitled to a preferential income tax rate that was calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first RMB1 million of profits of qualifying corporation are taxed 2.5%, and profits above RMB1 million are taxed at 10% from 1 January 2021 to 31 December 2021. From 1 January 2022 to 31 December 2022, the first RMB1 million of profits of qualifying corporation are taxed 2.5% and profits above RMB1 million are taxed at 5%.

No income tax provision of the Group in respect of operations in the PRC has been made for the years ended 31 December 2022 and 2021 as the Group did not generate any assessable profits during the both years.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the years ended 31 December 2022 and 2021, the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on PRC WHT was accrued as of the end of each reporting period.

The Group has subcontracted games to a platform operating in Vietnam. According to the applicable the Vietnam tax regulations, royalty fees generated from Vietnam are subject to a 10% WHT.

The Group cooperates with a platform in Brazil. According to the applicable the Brazil tax regulations, income generated from Brazil is subject to 10% remittance tax and 15% income tax, which is withheld by the platform.

The reconciliation between the income tax expense and the product of loss before income tax multiplied by the PRC enterprise income tax rate of 25% is as follows:

	2022	2021
	USD	USD
Loss before income tax	<u>(5,765,955)</u>	<u>(3,191,163)</u>
Tax calculated at a tax rate of 25%	(1,441,489)	(797,791)
Effect of different tax rates available to different subsidiaries	952,357	465,151
Tax effect of temporary differences and tax losses not recognised	347,148	294,145
Tax effect of income that is not taxable	(1,156)	(128,961)
Tax effect of expenses not deductible for tax purpose	87,578	68,362
Under-provision in prior year	–	77,019
Overseas WHT	<u>153,075</u>	<u>198,832</u>
Income tax expense	<u>97,513</u>	<u>176,757</u>

6. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the year ended 31 December 2022 (2021: nil).

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2022	2021
	USD	USD
Loss		
Loss for the purpose of basic and diluted loss per share	<u>(5,863,468)</u>	<u>(3,367,920)</u>
	2022	2021
Number of shares		
Weighted average number of ordinary shares in issue		
less shares held for the Share Option Scheme for the purpose of calculating basic and diluted loss per share (<i>Note a</i>)	<u>1,861,021,877</u>	<u>1,856,765,612</u>

Notes:

- (a) The loss per share is determined based on that 1,861,021,877 (2021:1,856,765,612) shares were the weighted average number of ordinary shares in issue excluding the 138,978,123 (2021: 143,234,388) shares which were the weighted average number held for the Share Option Scheme for the year ended 31 December 2022, without taking into account any shares which may be granted and issued by the Company pursuant to the Share Option Scheme.
- (b) The 31,156,997 (2021: 31,182,377) options granted and remained unexercised are not included in the calculation of diluted loss per share because they are antidilutive for the year ended 31 December 2022 and 2021. These options could potentially dilute basic loss per share in the future.

8. TRADE RECEIVABLES

	2022 <i>USD</i>	2021 <i>USD</i>
Trade receivables	3,169,489	3,199,502
Less: allowance for impairment	(2,236,639)	(2,167,044)
Carrying amount	<u>932,850</u>	<u>1,032,458</u>

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 0 to 120 days and 0 to 30 days, respectively.

The aging analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	2022 <i>USD</i>	2021 <i>USD</i>
0-30 days	329,305	441,995
31-90 days	292,128	425,590
91-180 days	175,465	115,498
Over 180 days	135,952	49,375
	<u>932,850</u>	<u>1,032,458</u>

Reconciliation of loss allowance for trade receivables:

	2022 <i>USD</i>	2021 <i>USD</i>
At 1 January	2,167,044	3,530,020
Increase in loss allowance for the year	224,881	531,515
Disposal of a subsidiary	–	(1,932,985)
Exchange difference	(155,286)	38,494
At 31 December	<u>2,236,639</u>	<u>2,167,044</u>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, which is calculated using a provision matrix (including the use of internal and external data sources) where a fixed provision rate applies depending on the shared credit risk characteristics of the trade receivables.

In assessing the shared credit risk characteristics of the trade receivables, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

On that basis, the loss allowance as at 31 December 2022 and 2021 was determined as follows for trade receivables:

	Category 1*	Category 2*	Category 3*	Category 4*	Total
Expected loss rate	5%	30%	50%	100%	
Loss allowance as at 31 December 2022 (USD)	48,743	2,678	482	2,184,736	2,236,639
Loss allowance as at 31 December 2021 (USD)	53,464	7,047	203	2,106,330	2,167,044

* The Group's loss allowance categories of trade receivables are as follows:

- Category 1 – Highest grade, lowest credit risk
- Category 2 – Medium grade, low credit risk
- Category 3 – Poor standing, high credit risk
- Category 4 – High likelihood of default, very high credit risk

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2022 <i>USD</i>	2021 <i>USD</i>
USD	830,980	922,402
RMB	75,844	79,302
HKD	26,026	30,754
	932,850	1,032,458

9. TRADE PAYABLES

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

	2022 <i>USD</i>	2021 <i>USD</i>
0-90 days	362,139	511,790
91-180 days	276,076	393,120
181-360 days	296,292	652,821
Over 360 days	325,060	231,246
	1,259,567	1,788,977

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2022 <i>USD</i>	2021 <i>USD</i>
USD	881,275	1,570,977
RMB	378,292	218,000
	1,259,567	1,788,977

10. SHARE CAPITAL AND SHARES HELD FOR THE SHARE OPTION SCHEME

	Number of ordinary shares	Amount USD
Authorised:		
Ordinary shares of USD0.001 (2021: USD0.001) each		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>4,000,000,000</u>	<u>4,000,000</u>

As at 31 December 2022, the total number of issued ordinary shares of the Company was 2,000,000,000 shares (2021: 2,000,000,000 shares) with par value of USD0.001 per share (2021: USD0.001 per share) which included 138,978,123 shares (2021: 138,978,123 shares) held under the share incentive scheme. They have been fully paid up.

A summary of 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)
At 31 December 2022	<u>2,000,000,000</u>	<u>2,000,000</u>	<u>(138,978)</u>
At 31 December 2021	<u>2,000,000,000</u>	<u>2,000,000</u>	<u>(138,978)</u>

Note: According to the written resolutions of all the members of the Company dated November 2, 2015 and capitalisation issue dated 24 November 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 27 May 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 31 December 2022, no ordinary share of the Company (2021: 5,245,918 ordinary shares of the Company) was transferred by the Share Scheme Trust to the grantees exercising of the awarded shares.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stakeholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital (including share capital and capital reserves) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In the opinion of the Directors, the Group's capital risk is low.

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/company/). The annual report of the Company for FY2022 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 30, 2023

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 Professor CHAU Chi Wai, Wilton, Mr. LI Yi Wen and Mr. LU Qibo.

* *For identification purposes only*