

NEXT DIGITAL

NEXT DIGITAL LIMITED

RESULTS FOR THE YEAR ENDED 31 MARCH 2019

Financial Highlights

Results

	2018/19	2017/18
	HK\$M	HK\$M
Revenue	1,304.3	1,495.5
Loss for the year	(340.2)	(476.9)
Basic Loss Per Share	HK(13.1 cents)	HK(19.6 cents)

Revenue

For the year ended 31 March 2019, the Group's overall revenue decreased by 12.8% to HK\$1,304.3 million (2017/18: HK\$1,495.5 million). Of this, HK\$576.8 million was attributable to the Digital Business Division (2017/18: HK\$594.5 million) and HK\$727.5 million to the Print Business Division (2017/18: HK\$901.0 million).

The majority of the Group's revenue derived from its Hong Kong operations, which accounted for HK\$827.2 million (2017/18: HK\$884.5 million) or 63.4% (2017/18: 59.1%) of total revenue. Revenue from Taiwan stood at HK\$440.7 million (2017/18: HK\$569.3 million), which accounted for 33.8% (2017/18: 38.1%) of total revenue.

Segment Results

The Group recorded a segment loss of HK\$342.3 million during the year under review, compared with a segment loss of HK\$479.7 million in the previous year, representing a decrease in loss amount of 28.6% or HK\$137.4 million.

The Digital Business Division made a segment loss of HK\$211.8 million, compared to the previous year's loss of HK\$44.6 million.

The segment loss of the Print Business Division amounted to HK\$130.5 million, compared to a loss of HK\$435.0 million in the previous year.

This was primarily attributable to a sharp drop in print advertising revenues, driven in turn by a combination of sluggish economic growth in key markets and fierce competition from online programmatic advertising. The Group's declining circulation income also contributed to the loss, as readers continued to migrate to free online publications, free newspapers and social media content. In addition, the Group undertook further restructuring and consolidation of its operations, resulting in employee layoffs that incurred payments in lieu of notice of HK\$29.7 million (2017/18: HK\$21.9 million).

In June 2018, the Group launched a new scheme, unprecedented in the local media sector, to award shares in the Company to all permanent staff in Hong Kong and Taiwan, excluding connected persons. The total amount of shares awarded in June was approximately HK\$50.5 million. In the second half of the reporting period, the Group awarded further shares to those Company directors who are also permanent staff, taking the total amount of shares awarded for the year up to approximately HK\$51.0 million. This scheme has boosted staff morale and motivated employees by aligning their interests with the overall interests of the Company and its shareholders.

In February 2019, the Group completed the disposal of two blocks of office buildings in Taiwan, recording a gain on the disposal of HK\$258.6 million.

As a result of the above, the Company recorded a basic loss per share of HK13.1 cents for the year, compared to a basic loss per share of HK19.6 cents in the previous year.

DIGITAL BUSINESS DIVISION

The Digital Business Division's external revenues, which mainly consist of online advertising revenue, content licensing payments, games and content sponsorship, and in-app purchases of virtual products, amounted to HK\$576.8 million during the year under review. This represents a decrease of 3.0% from the HK\$594.5 million achieved in the previous year. Around 70.5% of the Division's external revenues were generated in Hong Kong, while the remainder was from Taiwan and other regions. The Division recorded a segment loss of HK\$211.8 million during the year under review, compared with a loss of HK\$44.6 million in the previous year. Its revenue performance continued to be adversely affected by competition from programmatic advertising, particularly from global search engines and social media platforms, as well as intensified local competition from rival titles and channels.

New technological innovations and the increased adoption of digital devices continue to fuel the unstoppable digital transformation of the media landscape. The Group has boldly reimaged and reinvented its business model in order to seize these once-in-a-generation opportunities, with a focus on putting excellent and engaging content at the heart of its digital strategy and creating new content collaboration opportunities for advertisers and partners. These efforts drove solid improvements in unique users and page views across the Group's digital platforms during the reporting period.

Mobile games proved to be one of the Group's strongest performers in terms of profit contribution. It will continue to introduce more games through creative collaborations, albeit at a sensible and measured pace. In addition, the Group continued to develop and enhance its innovative virtual reality (VR) offering.

PRINT BUSINESS DIVISION

During the year under review, the total revenue of the Print Business Division amounted to HK\$727.5 million, a decrease of 19.3% or HK\$173.5 million compared to the previous year's figure of HK\$901.0 million. The Division's revenue accounted for 55.8% of the Group's total revenue, with *Apple Daily* and *Taiwan Apple Daily* retaining their position as the Division's largest contributors.

Newspaper Publications

Apple Daily recorded revenue of HK\$245.0 million during the year under review, a decline of 9.5% or HK\$25.6 million compared with the HK\$270.6 million achieved in the previous year. Advertising revenue accounted for HK\$62.3 million of its total revenue, representing a decrease of 25.8% or HK\$21.7 million compared to the previous year's figure of HK\$84.0 million. Circulation income stood at HK\$182.7 million, a drop of 2.1% or HK\$3.9 million as compared to the HK\$186.6 million recorded in the same period of the previous year. The advertising categories with the largest revenue contributions were the health product, property, loans, automobile and pharmaceutical sectors.

Taiwan Apple Daily's revenue amounted to HK\$275.5 million during the year under review, a decline of 24.6% or HK\$90.1 million against the HK\$365.6 million recorded in the previous year. Advertising revenue accounted for HK\$173.5 million of its total revenue, representing a drop of 28.4% or HK\$68.9 million compared to the previous year's figure of HK\$242.4 million. Its circulation income was HK\$99.6 million, a decrease of 18.2% or HK\$22.2 million compared to the HK\$121.8 million earned in the same period of the previous year. Its main sources of advertising revenue were the property, decoration and furnishing, automobile, government and travel sectors.

With combined revenues of HK\$520.5 million, *Apple Daily* and *Taiwan Apple Daily* remained the largest contributors to the Division's revenue and accounted for 39.9% of the Group's total revenue. However, their combined revenues during the year under review declined 18.2% or HK\$115.7 million compared to the previous year's combined figure of HK\$636.2 million.

Printing

Apple Daily Printing Limited ("ADPL"), the Group's newspaper printing operation, continues to make contributions to the Group despite the decline in *Apple Daily's* print circulation. During the year under review, its revenue amounted to HK\$113.6 million, a decrease of 20.9% or HK\$30.0 million compared to the HK\$143.6 million achieved in the previous year.

ADPL's printing operations recorded HK\$67.9 million in revenue (total revenue minus transactions related to printing the Group's own publications) from external customers, including printing contracts for local and overseas newspapers, during the reporting period. This was 12.4% or HK\$9.6 million less than the figure of HK\$77.5 million earned in the previous corresponding period, owing to other newspaper groups facing similar pressures in terms of declining circulations and advertising income.

During the year under review, the Group's commercial printing operation recorded revenue of HK\$110.5 million, which was 17.8% or HK\$16.7 million more than its revenue of HK\$93.8 million in the same period of the previous year. With the local magazine sector in decline, the Group has focused successfully on attracting commercial printing contracts from book and textbook publishers, both in Hong Kong and overseas.

PROSPECTS AND OUTLOOK

2019 promises to be a landmark year for Next Digital, as we unveil a brand new digital subscription-based business model for our flagship titles, *Apple Daily* and *Taiwan Apple Daily*. By radically transforming our revenue strategy, we expect to spark a monumental turnaround in business performance.

As a precursor to the launch of paid digital subscriptions, the Group introduced free online membership for *Apple Daily* and *Taiwan Apple Daily* in April 2019. This has already attracted 3.5 million members in Hong Kong and 3.2 million members in Taiwan as at 23 June 2019. From the middle of next financial year, the Group will start to convert these members to paid subscribers, thus rapidly developing a steady flow of subscription income.

It will also gain fresh competitive advantages through the implementation of its new DMP system. This will provide for an even better understanding of readers' and viewers' habits, preferences and needs, and allow the Group to leverage big data analytical techniques in order to provide more value-added services to advertisers.

Business model innovations are creating new growth horizons for the publishing industry, but content excellence will always be the engine that drives long-term success. Content will remain the lifeblood of the Group's strategy. To attract loyal subscribers, the Group will continue to strengthen the quality of its unique and carefully procured content offering, including developing new video, seminars and events.

Print remains a core element of the Group's business and a major contributor of revenue. Despite the wide-ranging shift to digital, there will still be demand for print newspapers in Hong Kong and Taiwan for the foreseeable future. The Group will realign its resources in order to make its print newspaper business viable, optimising its cost structures and working arrangements to maximise efficiency and return on investment. In line with the Group's overall emphasis on high-quality content, more resources will be devoted to producing feature stories, in-depth articles and interviews with high-profile individuals, including offline exclusives.

Hong Kong's economic growth momentum is expected to flag in 2019, although it will continue to be supported by a strong labour market, a proactive fiscal policy and expected boosts to the tourism, financial services and technology sectors. Advertising expenditure, however, is expected to remain flat. Taiwan's economic growth is expected to slow in the coming year, with future prospects depending on the outcomes of the 2020 general elections and a possible change to a more Beijing-friendly government. For both markets, the spectre of US-China trade friction will remain a significant source of risk and uncertainty.

As we head into a historic year for Next Digital, the Group stands fully prepared to capture emerging opportunities through our bold spirit, innovative mind-set and agile approach, guided at all times by an unremitting focus on creating excellent content that informs, engages and enriches our readers.

Company Profile

Next Digital is one of the largest listed multi-media group in Hong Kong with business spanning across Hong Kong and Taiwan. The Group's main business activities are the publication of newspapers, magazines and books in Hong Kong and Taiwan in digital and/or printed forms. It also sells advertising space in those formats and receives subscriptions on the web versions. Furthermore, it provides printing and reprographic services, and develops mobile games and apps.

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