NEXT DIGITAL LIMITED

RESULTS FOR THE YEAR ENDED 31 MARCH 2020

Financial Highlights

Results

	2019/20 HK$M	2018/19 HK$M
Revenue	**1,158.3**	**1,304.3**
Loss for the year	**(417.2)**	**(340.2)**
Basic Loss Per Share	**HK(15.8 cents)**	**HK(13.1 cents)**

Revenue

For the year ended 31 March 2020, the Group's overall revenue decreased by 11.2% to HK$1,158.3 million (2018/19: HK$1,304.3 million). Of this, HK$546.3 million was attributable to the Digital Business Division (2018/19: HK$576.8 million) and HK$612.0 million to the Print Business Division (2018/19: HK$727.5 million).

The majority of the Group's revenue derived from its Hong Kong operations, which accounted for HK$820.4 million (2018/19: HK$827.2 million) or 70.8% (2018/19: 63.4%) of total revenue. Revenue from its Taiwan operations reached HK$290.8 million (2018/19: HK$440.7 million), accounting for 25.1% (2018/19: 33.8%) of total revenue.

Segment Results

The Group recorded a segment loss of HK$410.1 million during the year under review, compared with a segment loss of HK$342.3 million in the previous year, representing an increase in loss amount of 19.8% or HK$67.8 million.

The Digital Business Division made a segment loss of HK$124.9 million, compared to a loss of HK$211.8 million in the previous year.

The segment loss of the Print Business Division amounted to HK$285.2 million, compared to the previous year's loss of HK$130.5 million.

This was mainly attributable to a steep decline in both print and digital advertising revenues, caused by the economic "perfect storm" of US-China trade tensions, social unrest in Hong Kong and the COVID-19 pandemic, all of which led advertisers to delay promotional projects and cancel campaigns.

Online programmatic advertising continued to provide fierce competition, while the Group's introduction of a digital paywall resulted in a decrease in total page views, which temporarily limited its online advertising revenue potential. At the same time, the steady long-term decline in print circulation income caused by changes in reader preferences was exacerbated by the COVID-19 outbreak, with people less able to leave their homes to buy newspapers.

In addition, the Group carried out a restructuring of its operations, resulting in employee layoffs that incurred payments in lieu of notice of HK$23.9 million (2018/19: HK$29.7 million).

As a result of the above factors, the Company recorded a basic loss per share of HK15.8 cents for the year (2018/19: HK13.1 cents).

DIGITAL BUSINESS DIVISION

The Digital Business Division's external revenues, which mainly consist of online subscription income, online advertising revenue, content licensing payments, games and content sponsorship, and in-app purchases of virtual products, stood at HK$546.3 million during the year under review. This represents a decrease of 5.3% from the HK$576.8 million achieved in the previous year. Around 80.4% of the Division's external revenues derived from Hong Kong, while the remainder came from Taiwan and other regions. The Division made a segment loss of HK$124.9 million during the year (2018/19: HK$211.8 million).

During the reporting year, the Group boldly transformed its core digital business model and revenue strategy by trialling and launching a membership model based on paid subscriptions for its digital content, with the aim of capturing more stable and reliable sources of income.

The new membership model received a positive response from the Hong Kong market, where both subscriber and revenue growth met expectations. In Taiwan, however, subscription figures have lagged behind projections. Both markets experienced an initially high churn rate as readers became accustomed to the new model, whereupon subscriber numbers stabilised and began to consolidate, positioning the platform for future growth.

This initial trade-off between subscription revenue and advertising revenue was anticipated, however, based on the experiences of major global media brands with similar revenue models. However, a key competitive advantage of the new subscription model is the exceptional degree of personalisation it offers. The Group's DMP continues to produce ever-more differentiated and powerful behavioural insights, allowing the Group to both fine-tune reader content and create bespoke, precision targeted advertising opportunities for brands, thus giving the Group a significant edge over its competitors.

These investments in innovative content creation and an improved subscriber experience led to higher costs during the year under review, but the Group expects this to contribute to a stronger retention rate for subscribers in the year ahead. However, it continues to carefully weigh the costs and benefits of its resource investments. During the year, the Group continued to move its online titles over to the state-of-the-art ARC content management system, which will greatly enhance its operational capabilities.

Online gaming continues to be a profit centre for the Group, with flagship titles including the Barcode Footballer series remaining popular in Hong Kong. With a variety of game content, online gaming also enhances the subscription proposition by making more virtual products available to paying members.

PRINT BUSINESS DIVISION

During the year under review, the total revenue of the Print Business Division amounted to HK$612.0 million, a decrease of 15.9% or HK$115.5 million compared to the HK$727.5 million recorded in the previous year. The Division's revenue accounted for 52.8% 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$234.4 million during the year, a decline of 4.3% or HK$10.6 million compared with the HK$245.0 million achieved in the previous year. Advertising revenue accounted for HK$42.6 million of its total revenue, a decrease of 31.6% or HK$19.7 million compared to the previous year's figure of HK$62.3 million. Circulation income stood at HK$191.8 million, an increase of 5.0% or HK$9.1 million as compared to the HK$182.7 million recorded in the previous year. The advertising categories with the largest revenue contributions were the miscellaneous items, property, loan, pharmaceutical and health product sectors.

Taiwan Apple Daily's revenue amounted to HK$212.4 million during the reporting year, a decline of 22.9% or HK$63.1 million compared to the HK$275.5 million recorded in the previous year. Advertising revenue accounted for HK$118.9 million of its total revenue, a drop of 31.5% or HK$54.6 million compared to the previous year's figure of HK$173.5 million. Its circulation income was HK$91.5 million, a decrease of 8.1% or HK$8.1 million compared to the HK$99.6 million earned in the previous year. Its main sources of advertising revenue were the property, government, miscellaneous items, decoration and furnishing as well as travel sectors.

With combined revenues of HK$446.8 million, *Apple Daily* and *Taiwan Apple Daily* remained the largest contributors to the Division's revenue and accounted for 38.6% of the Group's total revenue. However, the titles' combined revenues during the year under review declined by 14.2% or HK$73.7 million compared to the previous year's combined total of HK$520.5 million.

Printing

Apple Daily Printing Limited ("ADPL") is for the Group's newspaper printing operation. During the year under review, its revenue amounted to HK$95.9 million, a decrease of 15.6% or HK$17.7 million compared to the HK$113.6 million achieved in the previous year.

ADPL's printing operations recorded HK$44.9 million in revenue (total revenue minus transactions related to printing the Group's own publications) from external customers during the year under review. This was 33.9% or HK$23.0 million less than the figure of HK$67.9 million achieved in the previous year.

During the year, the Group's commercial printing operation recorded revenue of HK$86.4 million, which was 21.8% or HK$24.1 million less than its revenue of HK$110.5 million in the previous year.

PROSPECTS AND OUTLOOK

2020 promises to be a tumultuous year that will test the strength and character of the entire media industry. Having taken decisive action to embrace a radical new business model, however, the Group has positioned itself well to consolidate emerging income streams, ride out the storm and sharpen its competitive edges with an unwavering eye on future growth.

The launch of our paid membership model heralds a fresh strategic approach for the Group. In the coming year, our main strategic focus will be to consolidate and retain our existing subscriber base in Hong Kong while acting rapidly to address the disappointing initial performance of subscriber acquisition in Taiwan.

Personalisation will serve as the lynchpin of our success. Our new membership model, combined with our groundbreaking DMP system, allows us to get closer to our readers than ever before.

Content excellence will continue to act as the beating heart of the Group's strategy as we seek to build a loyal and dedicated membership. We will continue to invest appropriately to constantly enhance our portfolio of distinguished and world-class content.

The COVID-19 pandemic will continue to pose stark challenges to the economies of Hong Kong and Taiwan over the coming months, severely affecting advertiser expenditure and putting further pressure on the Group's top line. That said, the outbreak must eventually end, and the economy will recover in time. Future consumer confidence will determine whether the two economies bounce back with strong growth momentum, or whether recovery will be slow and painstaking. Both the Taiwanese and Hong Kong SAR governments are committing substantial resources to fiscal stimulus and support. Even in a post-virus scenario, however, the uncertain fate of US-China trade negotiations and the social unrest in Hong Kong will also be critical factors.

There are choppy waters ahead for the media sector and the economy as a whole, but the Group is well equipped to navigate them. With a steadfast commitment to innovation and agility, we will cultivate ever-closer bonds with our readers through our passion for editorial excellence and our smart use of cutting-edge data technologies, thus ensuring that we are ready to sail confidently ahead and seize new growth opportunities when the fog of uncertainty eventually clears.

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.

For further information, please contact:
Corporate Affairs Department
Next Digital Limited (Stock Code: 00282)
E-mail: ir@nextdigital.com.hk
Date: 22 June 2020