NEXT DIGITAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00282)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

Financial Highlights:

For the six months ended 30 September	2019 (unaudited) HK$M	2018 (unaudited) HK$M
Revenue	**556.3**	661.4
Loss for the period	**(313.3)**	(287.5)
Basic loss per share	**HK(11.8 cents)**	HK(11.3 cents)

For the six months ended 30 September 2019, the Group's overall revenue decreased by 15.9% to HK$556.3 million (six months ended 30 September 2018: HK$661.4 million) of which HK$225.2 million and HK$331.1 million (six months ended 30 September 2018: HK$291.4 million and HK$370.0 million) were attributable to the Digital Business Division and Print Business Division respectively.

The Group recorded an unaudited consolidated loss of HK$313.3 million for the period, compared with a loss of HK$287.5 million recorded for same period of 2018, representing an increase in loss amount of 9.0% or HK$25.8 million.

This was primarily due to increasingly cautious spending by advertisers, driven by economic slowdown and uncertainty in the Group's core markets of Hong Kong and Taiwan. In addition, the Group's digital business faced stiff competition from programmatic advertising, while a drop in newspaper circulations reduced the revenue-generating potential of the Group's print operations.

As a result of this, the Company recorded a basic loss per share of HK11.8 cents for the period, as compared to a basic loss per share of HK11.3 cents in the same period of the previous year.

DIGITAL BUSINESS DIVISION

In order to take advantage of emerging commercial opportunities in the digital space, the Group launched and implemented a paid subscription model for its digital content during the period under review. Since launch, both subscriber and revenue growth have recorded satisfactory performance while demonstrating significant upside potential.

The paid subscription service was rolled out in three stages. First, readers were invited to register for free membership on 10 April. This attracted over 7 million members in Hong Kong, Taiwan and overseas. Second, low trial prices were introduced for the period of 17 June to 1 September. The Group retained over 1 million paying members following the introduction of the paywall, in line with expectations. Finally, standard pricing was introduced on 2 September, with the related increase in price resulting in only a moderate decrease in paid subscribers.

In order to drive subscription and advertising revenues, the Group continued to invest in highquality content creation, offering seminars, talks and films on subjects of reader interest. A Customer Growth and Retention team was created with the aim of growing the subscriber base by continually improving the subscription process and experience. This led to higher investment costs, but is expected to yield positive returns in terms of subscriber attraction and retention.

The membership model, combined with the Group's data management platform ("DMP"), gives the Group data-driven insight into individual readers' online browsing habits and revealed preferences. This allows it to create increasingly personalised content and tailored advertising opportunities, thus generating a strong competitive advantage in terms of offering added value to advertisers. The Group's Business Development Department has made early progress in using personalisation to enhance revenue from digital assets, and this capacity is expected to increase as the DMP system continues to learn and generate more precise reports on audience behaviour. During the reporting period, the Group continued to migrate its online titles to its new ARC content management system, which will offer superior operational capabilities.

During the period under review, the combined platforms for Hong Kong and Taiwan together have attracted an average monthly page view count of approximately 1.3 billion*, making it one of the leading news sites in the world. *Apple Daily* had a user base of approximately 12.8 million* monthly unique visitors in Hong Kong, approximately 13.9 million* monthly unique visitors in Taiwan, approximately 910,000* monthly unique visitors in the USA and approximately 322,000* monthly unique visitors in Canada. This broad readership allowed the Group to take advantage of a variety of advertising revenue generation opportunities.

The Group's online games business continues to be profitable, and now adds value to the subscription offer by making more virtual products available to paying members. In addition, the Group continued to improve its innovative virtual reality ("VR") products.

Apple Daily's digital platform remains the market leader in Hong Kong. Despite this, however, the Division's external revenue, which consists of subscription fees, online advertising revenue, content licensing payments, games and content sponsorship and in-app purchase of virtual products, decreased by 22.7% or HK$66.2 million to HK$225.2 million during the period, compared to HK$291.4 million for the same period last year. This was mainly the result of falling advertising revenues.

** Source from Google Analytics*

The Digital Business Division's segment loss amounted to HK$65.0 million during the period under review, compared with a segment loss of HK$49.6 million in the last corresponding period, representing an increase in loss amount of 31.0% or HK$15.4 million. This was primarily owing to advertising revenues declining for the reasons described above.

PRINT BUSINESS DIVISION

During the six months ended 30 September 2019, the total revenue of the Print Business Division was HK$331.1 million, representing a decline of 10.5% or HK$38.9 million against the figure of HK$370.0 million for the same period of the previous year. The Division's revenue accounted for 59.5% of the Group's total revenue, and *Apple Daily* and *Taiwan Apple Daily* remained the largest contributors to the Division.

The Division's segment loss was HK$245.3 million during the reporting period, an increase in loss amount of 3.0% or HK$7.2 million compared with the segment loss of HK$238.1 million recorded in the same period of 2018. This was mainly attributable to the decline in advertising revenue of the Group's newspapers during the period, alongside increased investment in content.

Newspaper Publications

Apple Daily's average net circulation averaged 91,288 copies per day between April and September 2019, compared with 103,380 copies per day in the same period last year. Its total revenue stood at HK$120.7 million during the reporting period, representing an increase of 3.2% or HK$3.7 million against the figure of HK$117.0 million recorded in the same period last year. Of this, advertising revenue accounted for HK$21.4 million and circulation income for HK$99.3 million, representing a decrease of 34.2% or HK$11.1 million and an increase of 17.5% or HK$14.8 million as compared to the respective figures of HK$32.5 million and HK$84.5 million for the same period last year. The advertising categories that made the largest revenue contributions were property, pharmaceuticals, health products, loans and miscellaneous items.

Taiwan Apple Daily's average net circulation was 101,776 copies per day during the period under review, compared with 169,989 copies per day in the same period of 2018. Its total revenue amounted to HK$118.1 million, a decrease of 15.2% or HK$21.2 million compared to the HK$139.3 million recorded in the last corresponding period. Of this, advertising revenue accounted for HK$69.4 million and circulation income for HK$47.5 million, representing a decrease of 20.8% or HK$18.2 million and 6.1% or HK$3.1 million as compared to the respective figures of HK$87.6 million and HK$50.6 million for the same period last year. The main contributing advertising categories included property, government and party political communications, decoration and furnishing, and lifestyle stores.

Printing

Apple Daily Printing Limited ("ADPL"), the Group's newspaper printing operation, continued to make contributions to the Group despite a steady sector-wide drop in the circulations of print newspapers. Its revenue during the period under review amounted to HK$56.5 million, a decrease of 14.5% or HK$9.6 million compared to the figure of HK$66.1 million achieved in the corresponding period last year.

ADPL realised HK$27.1 million in revenue from external customers (total revenue minus transactions related to printing the Group's own publications), including printing assignments from local and overseas newspapers, during the period under review. This represents a decrease of 24.7% or HK$8.9 million from the figure of HK$36.0 million recorded in the last corresponding period.

The Group's commercial printing operation faced keen price competition from peers on the Chinese mainland and continued to be affected by reader migration from print to digital. Nevertheless, the Group continues to print the lion's share of Hong Kong's major weekly magazines and standard textbooks. It recorded revenue of HK$48.4 million for the six months ended 30 September 2019, which was 26.0% or HK$17.0 million less than the HK$65.4 million recorded in the same period last year.

PROSPECTS AND OUTLOOK

The digital media landscape continues to develop and mature, unlocking new commercial opportunities as well as disrupting old certainties. By courageously committing to a radical shift in its business model, the Group has put the foundations in place to sharpen its competitive advantages over its local peers.

In the second half of the year, the Group's main strategic focus will be to consolidate and grow the subscriber base of its new paid digital subscription service and enhance its online advertising offer, based on the twin pillars of content excellence and data-driven insight.

The paid subscription model offers unprecedented opportunities to capture reader interests, preferences and behaviour at granular detail, and produce tailored and responsive content to match. To take full advantage, the Group will continue to invest in its capacity to use video, animation, VR, online games and other new technologies to create eye-catching content, as well as offering high-quality member experiences such as seminars and hiking trips. It has already developed a strong pipeline of new content and products that will be introduced in the coming months, including mini-sites and special supplement sections. This will attract more and more paid subscribers over time, allowing the Group to cultivate a steady and reliable new revenue stream and diversify its income base.

The Group will also hone its edge over its rivals by generating increasingly hyper-personalised placement opportunities that offer unparalleled value to advertisers, by leveraging the data analysis and insight capabilities of its state-of-the-art DMP.

Traditional print is still a vital component of the Group's business. The Group will continue to invest in high-quality print content, with an emphasis on investigative journalism, commentary, insight and in-depth analysis, as well as special projects and supplements.

Looking ahead to the second half of the year, the Hong Kong and Taiwan economies will continue to face uncertainty and downside risk. In Hong Kong, social unrest has caused many advertisers to delay promotional activities and rein in spending. In Taiwan, the economy faces downward pressure both from the US-China trade war and tensions in the ruling party's relationship with Beijing, which has in turn depressed advertising spend. All of these factors will continue to weigh on the Group's top line.

While external conditions are challenging, however, the fundamental evolution of the Group's business strategy has made it well positioned to capture the upside from any future positive shift in market sentiment and advertiser confidence.

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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