NEXT DIGITAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00282)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

Financial Highlights:

For the six months ended 30 September	**2018 (unaudited) HK$M**	2017 (unaudited) HK$M
Revenue	**661.4**	775.1
Loss for the period	**(287.5)**	(171.5)
Basic loss per share	**HK(11.3 cents)**	HK(7.0cents)

For the six months ended 30 September 2018, the Group's overall revenue decreased by 14.7% to HK$661.4 million (six months ended 30 September 2017: HK$775.1 million) of which HK$291.4 million and HK$370.0 million (six months ended 30 September 2017: HK$294.4 million and HK$480.7 million) were attributable to the Digital Business Division and Print Business Division respectively.

The Group recorded an unaudited consolidated loss of HK$287.5 million for the period, compared with a loss of HK$171.5 million recorded for same period of 2017, representing an increase in the loss amount of 67.6% or HK$116.0 million. This was mainly attributable to declining advertising spending caused by depressed market sentiment and weak economic growth in Hong Kong and Taiwan, as well as to an accelerated global trend towards programmatic online advertising. In addition, customer preferences continued to shift away from print publications and towards digital media.

The Group introduced a new scheme to award shares in the Company to all permanent staff in both Hong Kong and Taiwan. This scheme has the dual aim of increasing staff morale and motivation, and aligning the interests of staff with that of shareholders. The total amount of share awards granted in June 2018 was approximately HK$50.5 million.

At the same time, the Group underwent restructuring procedures for certain publications, which necessarily resulted in the layoff of some employees. During the period, restructurings incurred payments in lieu of notice of HK$27.9 million (six months ended 30 September 2017: HK$8.1 million).

As a result, the Company recorded a basic loss per share of HK11.3 cents for the period, compared to a basic loss per share of HK7.0 cents in the same period last year.

DIGITAL BUSINESS DIVISION

Digitalisation remains a relentless and pervasive trend. The Group has fully aligned its business strategy to embrace the commercial opportunities of digital media by stepping up investment in online content creation and developing its digital content collaboration offering for advertisers. As a result, the Group's digital platforms achieved improvement in unique users and page views during the period under review.

Through the integrated Apple Daily platform, readers can access all the Group's magazines, including Next Magazine, Eat & Travel Weekly and Ketchup. This platform continues to attract a significant number of readers and page views. The combined platforms for Hong Kong and Taiwan together have commanded an average monthly page view count of 2.1 billion (Source: *Apple Daily* Internal Sever Log), making it one of the leading news sites in the world.

The Group offers digital versions of *Apple Daily*, featuring video and animation, branded in the "*Apple Actionnews*" signature style. This has remained the most popular news source for mobile devices in Hong Kong and Taiwan.

The Group continued to develop and optimise its pioneering virtual reality (VR) product offering. In addition, its online games business recorded a profit and successfully undertook a number of creative collaborations involving animation content and online gaming.

Apple Daily's digital platform remains the market leader in Hong Kong and Taiwan. Despite this, 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, slightly decreased by 1.0% or HK$3.0 million to HK$291.4 million during the period, compared to HK$294.4 million for the same period last year. This was primarily attributable to declining advertising revenues, a drop in programmatic advertising sales, and the costs associated with the employee share award scheme and the Group's increased investment in content creation.

The Digital Business Division's segment loss amounted to HK$49.6 million during the period under review, compared with a segment loss of HK$22.9 million in the last corresponding period, representing an increase in loss amount of 116.6% or HK$26.7 million. This was mainly attributable to advertising revenues declining for the reasons outlined above, as well as to increased costs.

PRINT BUSINESS DIVISION

During the six months ended 30 September 2018, the total revenue of the Print Business Division was HK$370.0 million, representing a decrease of 23.0% or HK$110.7 million against the figure of HK$480.7 million for the last corresponding period. The Division's revenue accounted for 55.9% 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$238.1 million during the period under review, an increase in loss amount of 65.9% or HK$94.6 million compared with the segment loss of HK$143.5 million recorded in the same period of 2017. This was mainly attributable to the decline in advertising revenue and circulation income of the Group's newspapers during the period, combined with high employee redundancy costs from restructuring, increased investment in content and a significant year-on-year increase in the direct costs of newspaper printing.

Newspaper Publications

Apple Daily's total revenue stood at HK$117.0 million during the reporting period, representing a decrease of 17.3% or HK$24.4 million against the figure of HK$141.4 million recorded in the same period last year. Of this, advertising revenue accounted for HK$32.5 million and circulation income for HK$84.5 million, representing a decrease of 30.1% or HK$14.0 million and 11.0% or HK$10.4 million as compared to the respective figures of HK$46.5 million and HK$94.9 million for the same period last year.

Taiwan Apple Daily's total revenue amounted to HK$139.3 million during the period under review, a decline of 28.9% or HK$56.5 million against the HK$195.8 million recorded in the last corresponding period. Of this, advertising revenue accounted for HK$87.6 million and circulation income for HK$50.6 million, representing a decrease of 32.3% or HK$41.7 million and 23.0% or HK$15.1 million as compared to the respective figures of HK$129.3 million and HK$65.7 million for the same period last year.

The Group took the strategic decision to cease publication of *Taiwan Sharp Daily*, a free newspaper distributed throughout the Taipei metro network on weekday mornings, on 31 August 2018. This was largely to prevent internal competition with *Taiwan Apple Daily*, with which it had significant overlap in terms of both potential readership and advertiser base.

Printing

Apple Daily Printing Limited ("ADPL"), the Group's newspaper printing operation, continued to make contributions to the Group despite being adversely affected by *Apple Daily*'s declining print circulation. Its revenue during the period under review amounted to HK$66.1 million, a decrease of 11.7% or HK$8.8 million compared to the figure of HK$74.9 million achieved in the corresponding period last year.

ADPL realised HK$36.0 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 reporting period. This was 12.2% or HK$5.0 million less than the figure of HK$41.0 million recorded in the last corresponding period.

The Group's commercial printing operation, secured a number of competitive bids during the reporting period and recorded a revenue of HK$65.4 million in the six months ended 30 September 2018, which was 51.7% or HK$22.3 million more than its revenue of HK$43.1 million in the same period last year.

PROSPECTS AND OUTLOOK

The shift towards digitalisation continues to disrupt and transform the media industry. To capitalise on this, the Group will invest in original and engaging content while being smart and adept at creating commercial value across new platforms.

The Group will continue to invest in developing the technology and talent required to achieve growth in its digital business. To maintain its competitive advantage, it will deploy resources to video, animation, VR, online games and other new technologies. To turn programmatic advertising from a threat into an opportunity, the Group's new Business Development Department will build deeper relationships with advertisers and optimise revenue generation across the Group's whole range of content inventory. The Group will also utilise big data analysis techniques to glean more precise information about readers' habits and preferences, allowing it to deliver personalised advertisements.

Traditional print media remains a core element of the Group's business. It will maintain market leadership in the print media sector through strict cost discipline, smarter use of data, more efficient workflows and streamlined management and operational processes. It will continue to enhance the quality of its print content by engaging more contributors and columnists, and by devoting more resources to investigative journalism, commentary, insight and in-depth analysis.

Looking ahead to the second half of the year, the Hong Kong economy is expected to improve slightly, driven by stronger consumer confidence and solid capital markets performance, while higher public spending in Taiwan may cushion recent economic deceleration and deliver moderate growth. However, there is a major concern that rising trade protectionism could depress growth and damage market confidence worldwide.

Within this challenging environment, the Group continues to receive the firm financial support of its controlling shareholder who signed a Loan Agreement with the Company on 8 November 2018 in which he agreed to provide an unsecured, interest-free, 36-month term loan facility to the Company of an aggregate maximum principal amount of HK$500.0 million, to be drawn down only as needed to meet the Group's working capital requirements.

With this solid financial backing in place, the Group remains fully prepared to grasp value creation opportunities as they arise, while always investing in its core purpose of creating engaging content.

Company Profile

Next Digital is 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 and online games and apps.

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