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NEXTDIGITAL

NEXT DIGITAL LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00282)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF
2017 BUSINESS FRAMEWORK AGREEMENT AND
2017 INTELLECTUAL PROPERTIES REVENUE SHARING
AGREEMENT**

**RENEWAL OF 2017 BUSINESS FRAMEWORK AGREEMENT AND 2017
INTELLECTUAL PROPERTIES REVENUE SHARING AGREEMENT**

Reference is made to the announcement of the Company dated 31 March 2017 in relation to the 2017 Business Framework Agreement and the 2017 NASL Intellectual Properties Revenue Sharing Agreement both of which will expire on 31 March 2020. On 30 March 2020 (after trading hours), the Company entered into the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement with NASL in relation to the renewal of the 2017 Business Framework Agreement and the 2017 NASL Intellectual Properties Revenue Sharing Agreement each for a term of three years with effect from 1 April 2020.

LISTING RULES IMPLICATIONS

As NASL is 100% beneficially owned by Mr. Lai, the controlling Shareholder who is interested in 1,878,657,165 Shares as at the date of this announcement, representing approximately 71.26% of the total issued Shares, NASL is an associate of Mr. Lai and therefore a connected person of the Company. Accordingly, the entering into of the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement and the transactions contemplated therein constitute continuing connected transactions for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) calculated in accordance with the Listing Rules for the aggregate of annual caps under the Animation Services, Advertising Services and Supporting Services and the NASL Intellectual Properties Revenue Sharing Arrangement, is less than 5% and more than 0.1%, the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 31 March 2017 in relation to the 2017 Business Framework Agreement and the 2017 NASL Intellectual Properties Revenue Sharing Agreement both of which will expire on 31 March 2020. On 30 March 2020 (after trading hours), the Company entered into the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement with NASL, a company 100% beneficially owned by Mr. Lai, in relation to the renewal of the 2017 Business Framework Agreement and the 2017 NASL Intellectual Properties Revenue Sharing Agreement each for a term of three years with effect from 1 April 2020.

2020 BUSINESS FRAMEWORK AGREEMENT

Date : 30 March 2020

Parties : (1) the Company; and
(2) NASL

Services : (1) The NASL Group may from time to time provide the Animation Services to the Group on at least 20% discount to rates offered by third party companies other than the NASAL Group subject to:-

(i) Production in Taiwan, not more than US\$700 per 30-second animation service;

(ii) Production in Bali, not more than US\$500 per 30-second animation service;

and in any event, on normal commercial terms or on terms no less favourable to the Group than those offered to the Group from independent third parties, and subject to the annual caps set out below.

(2) The Group may from time to time provide the Advertising Services to the NASL Group at the rate as set out in the prevailing rate cards in respect of different categories of advertisements of the Group and at customary market discount which are provided to customers of similar size, capacity or transaction volume.

(3) The Group may from time to time provide the Supporting Services to the NASL Group on cost basis with reference to the actual costs incurred by the relevant supporting units of the Group for rendering the Supporting Services to the NASL Group.

And in any event, the services set out in paragraphs (2) and (3) above are provided on normal commercial terms or on terms no more favourable to the NASL Group than those offered by the Group to the independent third parties, and subject to the respective annual caps set out below. The Board conducts periodic review of the pricing policies set out in (1) to (3) above for compliance purpose.

Term : The 2020 Business Framework Agreement shall have a term of three years commencing from 1 April 2020 and ending on 31 March 2023, both dates inclusive.

Annual caps

The table below sets out the annual caps of each of the Animation Services to be rendered by the NASL Group to the Group, the Advertising Services and the Supporting Services to be rendered by the Group to the NASL Group under the 2020 Business Framework Agreement for each of the periods as stipulated therein:-

Period	Annual cap in respect of the Animation Services	Annual cap in respect of the Advertising Services	Annual cap in respect of the Supporting Services
From 1 April 2020 to 31 March 2021	HK\$19,000,000	HK\$400,000	HK\$300,000
From 1 April 2021 to 31 March 2022	HK\$19,000,000	HK\$400,000	HK\$300,000
From 1 April 2022 to 31 March 2023	HK\$19,000,000	HK\$400,000	HK\$300,000

The annual caps for each of the periods as set out in the 2020 Business Framework Agreement are determined after taking into account (a) the historical transaction amounts in respect of the provision of the Animation Services, Advertising Services and Supporting Services pursuant to the 2017 Business Framework Agreement; and (b) the estimated demand for the aforesaid services.

The Animation Service charges paid by the Group for each of the year ended 31 March 2018 and 2019, and the ten months ended 31 January 2020 are HK\$36,637,000; HK\$39,209,000 and HK\$32,626,000 respectively. No Advertising Service income received by the Group for each of the years ended 31 March 2018 and 2019, and the ten months ended 31 January 2020. The Supporting Service fee received by the Group for the year ended 31 March 2018 amounted to HK\$383,000 and no Supporting Service income was received by the Group for the year ended 31 March 2019 and the ten months ended 31 January 2020. The respective annual caps in respect of the Animation Services, Advertising Services and Supporting Services for the three years ending 31 March 2023 have been revised down in light of the anticipated declining level of future demand for such services. The respective annual caps for the Advertising Services and Supporting Services have been kept in place to cater for potential future demand for such services.

THE 2020 NASL INTELLECTUAL PROPERTIES REVENUE SHARING AGREEMENT

Date : 30 March 2020

Parties : (1) the Company; and
(2) NASL

Services : The NASL Group may, through members of the Group, sell and distribute the NASL Intellectual Properties and Merchandise on the following basis:-

In respect of digital content

- (i) the NASL Group will provide at no charge the NASL Intellectual Properties for sale and distribution by the Group;
- (ii) the Group will in turn pay 60% of the Net Digital Revenue it generates in connection with the NASL Intellectual Properties to the NASL Group, which is calculated based on traffic in proportion to the respective total traffic of *Apple Daily* website and mobile applications;
- (iii) the NASL Group and the Group will each be responsible for own costs incurred in generating the Net Digital Revenue;

In respect of Merchandise

- (iv) the NASL Group will provide to the Group the Merchandise at no charge or the NASL Group will provide at no charge the NASL Intellectual Properties for the Group to develop the Merchandise at the sole cost of the Group;
- (v) the Group will, at its own discretion, license, produce and market the Merchandise; and
- (vi) the Group will pay the NASL Group a license fee equivalent to 20% of the Net Merchandise Revenue.

The NASL Intellectual Properties Revenue Sharing Arrangement (in respect of digital content and Merchandise) has been determined taking into account the Group's proportion of costs required in generating the Net Digital Revenue or Net Merchandise Revenue. In any event, the NASL Intellectual Properties Revenue Sharing Arrangement shall be on normal commercial terms or on terms no more favourable to the NASL Group than those offered by the Group to independent third parties, and subject to the respective annual caps set out below. The Board conducts periodic review of the pricing policies set out above for compliance purpose.

Term : The 2020 NASL Intellectual Properties Revenue Sharing Agreement shall have a term of three years commencing from 1 April 2020 and ending on 31 March 2023, both dates inclusive.

Annual caps

The table below sets out the annual caps of the NASL Intellectual Properties Revenue Sharing Arrangement to be paid by the Group (in terms of accounting recognition) to the NASL Group for each of the three years ending 31 March 2023:-

Period	Annual cap
From 1 April 2020 to 31 March 2021	HK\$300,000
From 1 April 2021 to 31 March 2022	HK\$300,000
From 1 April 2022 to 31 March 2023	HK\$300,000

The annual caps for each of the periods as set out in the 2020 NASL Intellectual Properties Revenue Sharing Agreement are determined after taking into account (a) the level of historical transaction amounts in respect of the NASL Intellectual Properties Revenue Sharing Arrangement; and (b) the estimated potential revenue which may be generated from the NASL Intellectual Properties and Merchandise.

Although no payment was made by the Group to the NASL Group under the 2017 NASL Intellectual Properties Revenue Sharing Agreement for each of the years ended 31 March 2018 and 2019, and for the ten months ended 31 January 2020, the annual caps for the NASL Intellectual Properties Revenue Sharing Arrangement are put in place to provide the Group with flexibility to derive income from such arrangement should suitable business opportunity arise.

INFORMATION OF THE PARTIES

The principal activities of the Group include publishing newspapers, magazines and books in Hong Kong and Taiwan in digital and print forms, generating online subscription revenue and selling advertising space in newspapers and magazines and on digital platform. Other business activities include printing and reprographic services, and mobile and online games and apps development.

The principal activities of the NASL Group are animation production and related services.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2020 BUSINESS FRAMEWORK AGREEMENT AND 2020 NASL INTELLECTUAL PROPERTIES REVENUE SHARING AGREEMENT

The Group delivers its contents via digital platforms and has engaged NASL to produce animation and animated news since 2007, the entering into of the 2020 Business Framework Agreement will enable the Group to retain NASL as a stable service provider for its internet operations on favourable terms. In addition, the offering of Advertising Services to the NASL Group under the 2020 Business Framework Agreement can increase the Group's revenue and expand its customers base by sharing the synergy with the NASL Group in reaching different audiences through delivery of digital contents via internet in form of animation and cartoon and marketing of the related merchandises.

The provision of the Supporting Services by the Group to the NASL Group under the 2020 Business Framework Agreement can help maximize cost efficiency and effectiveness by sharing the capacity of the Group's supporting units. As the NASL Group from time to time produces the NASL Intellectual Properties and the Group is able to provide a platform for sale and distribution of these NASL Intellectual Properties and Merchandise, the NASL Group and the Group can leverage on each other's expertise for growing their respective businesses.

The Board (including the Independent Non-executive Directors) is of the view that the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement and the transactions contemplated therein are concluded on arm's length basis and on normal commercial terms (or no less favourable to the Company) in the ordinary and usual course of business of the Group, and that the terms of the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement including the annual caps of each of the Animation Services, Advertising Services, Supporting Services and the NASL Intellectual Properties Revenue Sharing Arrangement are fair and reasonable with reference to the prevailing market prices and each of the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement is in the interests of the Company and the Shareholders as a whole.

Considering the pricing policies as outlined above and that the respective transactions contemplated under the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement will be subject to regular review by internal auditor under the Group's policies and internal control procedures as well as annual review by the Independent Non-executive Directors and the auditor of the Company, the Directors (including the Independent Non-executive Directors) believe that the pricing determination and review procedures outlined above are sufficient to ensure that the respective transactions contemplated under the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement will be conducted on normal commercial terms or better and not prejudicial to the interests of the Company and its minority Shareholders.

LISTING RULES IMPLICATIONS

As NASL is 100% beneficially owned by Mr. Lai, the controlling Shareholder who is interested in 1,878,657,165 Shares as at the date of this announcement, representing approximately 71.26% of the total issued Shares, NASL is an associate of Mr. Lai and therefore a connected person of the Company. Accordingly, the entering into of the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement and the transactions contemplated therein constitute continuing connected transactions for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) calculated in accordance with the Listing Rules for the aggregate of annual caps under the Animation Services, Advertising Services and Supporting Services and the NASL Intellectual Properties Revenue Sharing Arrangement is less than 5% and more than 0.1%, the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Except for Mr. Lai who has abstained from voting on the relevant Board resolutions approving the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement, none of the Directors had a material interest in the 2020 Business Framework Agreement and the 2020 NASL Intellectual Properties Revenue Sharing Agreement which would require him to abstain from voting on the relevant Board resolutions.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:-

“2017 Business Framework Agreement”	the agreement dated 31 March 2017 entered into between the Company and NASL in respect of the provision of Animation Services, Advertising Services and Supporting Services
“2017 NASL Intellectual Properties Revenue Sharing Agreement”	the agreement dated 31 March 2017 entered into between the Company and NASL in respect of the NASL Intellectual Properties Revenue Sharing Arrangement
“2020 Business Framework Agreement”	a new business framework agreement dated 30 March 2020 entered into between the Company and NASL in respect of the provision of Animation Services, Advertising Services and Supporting Services for a term of three years commencing from 1 April 2020 and ending on 31 March 2023, both dates inclusive
“2020 NASL Intellectual Properties Revenue Sharing Agreement”	a new intellectual properties revenue sharing agreement dated 30 March 2020 entered into between the Company and NASL in respect of the NASL Intellectual Properties Revenue Sharing Arrangement for a term of three years commencing from 1 April 2020 and ending on 31 March 2023, both dates inclusive
“Advertising Services”	the advertising related services which may from time to time be provided by the Group to the NASL Group
“Animation Services”	the animation production related services which may from time to time be provided by the NASL Group to the Group
“associate(s)”	the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors

“Company”	Next Digital Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Lai and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Merchandise”	any form of merchandise (whether in physical and/or virtual form) developed from the NASL Intellectual Properties
“Mr. Lai”	Mr. Lai Chee Ying, the controlling Shareholder, who is interested in 1,878,657,165 Shares as at the date of this announcement, representing approximately 71.26% of the total issued Shares
“NASL”	Next Animation Studio Limited, a company incorporated in Hong Kong with limited liability and 100% beneficially owned by Mr. Lai
“NASL Group”	NASL and its holding company and subsidiaries
“NASL Intellectual Properties”	any form of intellectual property created, produced and/or licensed by members of the NASL Group to be delivered in the form of digital content, and which excludes bespoke products produced by NASL Group for the Company under contract, or products produced under license from the Company to NASL Group
“NASL Intellectual Properties Revenue Sharing Arrangement”	the sharing arrangement for the Net Digital Revenue and Net Merchandise Revenue, between the Group and the NASL Group in connection with NASL Intellectual Properties and Merchandise
“Net Digital Revenue”	revenue generated from NASL Intellectual Properties net of transaction fees including agent commission, bulk discount and/or payment gateway charges, such revenue may include advertising and sponsorship income of NASL Intellectual Properties content and/or sponsored production

“Net Merchandise Revenue”	revenue generated from retail sale of the Merchandise net of transaction fees such as retailer’s commission, bulk discount and/or payment gateway charge
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supporting Services”	the accounting, company secretarial, legal, human resources and general administrative services which may from time to time to be provided by the Group to the NASL Group

By Order of the Board
Chow Tat Kuen, Royston
Executive Director

Hong Kong, 30 March 2020

As at the date of this announcement, the Board comprises:-

Non-executive Directors:

Mr. Lai Chee Ying
(Non-executive Chairman)
Mr. Ip Yut Kin

Independent Non-executive Directors:

Mr. Louis Gordon Crovitz
Dr. Mark Lambert Clifford
Mr. Lam Chung Yan, Elic

Executive Directors:

Mr. Cheung Kim Hung
Mr. Chow Tat Kuen, Royston