

# corporate governance

**The Board of Next Media acknowledges the importance and benefits of maintaining high standards of corporate governance. Transparency and business ethics not only enhance the Company's reputation; they also create positive value for its stakeholders, including shareholders, suppliers, customers and employees. The Board is taking the lead in building a corporate culture that emphasises the significance of corporate governance at every level in the Company.**

## **Board of Directors**

### **Board Responsibilities and Composition**

The Board is charged with overseeing the management of the Group and formulating strategic policies. Each member of the Board is aware of his responsibilities and duties and has acted in good faith in managing the affairs of the Group effectively and responsibly.

The Directors acknowledge their responsibility for preparing financial statements that give a true and fair view of the state of affairs of the Group. The Directors have selected appropriate accounting policies when preparing the financial statements for the year ended 31 March 2006, and they have applied them consistently in keeping accounting records and exercising relevant judgment.

The Board currently comprises seven Directors. Mr. Lai Chee Ying, Jimmy ("Mr. Lai") is also the Executive Chairman. Mr. Ting Ka Yu, Stephen, Mr. Ip Yut Kin and Mr. Tung Chuen Cheuk are Executive Directors. Mr. Yeh V-Nee, Mr. Fok Kwong Hang, Terry, and Dr. Kao Kuen, Charles, all Independent Non-executive Directors. The Board members possess business and financial experience that is essential for the effective governance of a

company involved in the media industry. Biographies of the Directors and their respective roles in the Board's committees are set out on pages 42 to 43 of this annual report, and on the Next Media's website at <http://www.nextmedia.com>.

The Company does not have any office with the title of "Chief Executive Officer". Mr. Lai, the Executive Chairman, is responsible for formulating the Group's strategic directions and overseeing the effective running of its business. The Board delegates day-to-day operations to the Executive Directors and the senior management (the "Management"). The Management takes charge of specific operations, and preparing budgets and business plans for the Board's approval. The Board in turn looks to the Management to ensure it is apprised of all significant developments that may affect the Group and its operations. All major acquisitions, depositions, investments, financing and other significant issues pertaining to the Company are subject to the Board's approval.

The Board considers that its present structure and delegation of duties to Executive Directors and the Management work effectively, and do not impair the balance of power and authority.

All three Independent Non-executive Directors of the Company have been appointed for a specific term of two years up to 31 March 2007. They are subject to the retirement and re-election provisions contained in Next Media's Articles of Association. The Articles of Association state that Directors appointed to fill casual vacancies shall only hold office until the next Annual General Meeting ("AGM"), and shall be eligible for re-election. Other than Directors appointed to fill casual vacancies that may arise during any given year, one-third of all Directors are required to retire on a rotation basis at each AGM and they are eligible for re-election. In view of the current Board's size, each Director has an average term of office of three years.

The Company has a policy of providing all newly appointed Directors with a comprehensive, formal and tailored induction to the Company. The Company will also provide refresher seminars to all Directors as and when necessary, to ensure that the skill sets and knowledge of individual Directors remain consistent with all relevant legal and regulatory requirements. The Company Secretary

from time to time provides updates to all Directors about the latest developments in terms of rules and regulations.

The Directors are empowered with all the sufficient resources that are deemed necessary to carry out their duties to the best of their abilities. They can access the advice and services of the Company Secretary, and they are given full and timely access to all information relevant to Next Media's operations. If the need arises, Directors may also seek independent professional advice about the performance of their duties at the Company's expense. Procedures for Directors to seek independent professional advice have been established and approved by the Board.

Directors and Officers of the Group are fully indemnified against all costs, charges, losses, expenses and liabilities incurred by them in discharging their duties. Next Media has arranged comprehensive Directors' and Officers' liabilities insurance coverage for such purposes, subject to the provisions of the Companies Ordinance and other applicable legislation.

Directors must ensure that they can give sufficient time and attention to the Company's affairs. Each Board member is required to make regular six-monthly disclosures to Next Media regarding the number and nature of offices they hold in other public companies or organisations. The Directors are also required to declare all other significant commitments, including the identity of the public company/ies or organisation/s. During the year under review, none of the Executive Directors held any directorship or office in any other public companies or organisations.

Each of the three Independent Non-executive Directors has provided the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with written confirmation in respect of the factors set out in Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") concerning his independence. The Company considered that all three Independent Non-executive Directors are independent, and that no family, material or other relevant relationship exists between any of the Directors in question.

**Board Activities**

The Board and its committees take action at regular meetings, at meetings held by conference call, or by written consent. Regular Board meetings for reviewing and considering Next Media's operations, financial results and other relevant matters identified by the Directors are held on a quarterly basis. Additional meetings may also be organised as and when circumstances demand them. The Directors are consulted about any matters proposed to be included in the agenda, and they are invited to include any additional matters in the agenda. The Directors are also requested to declare their direct or indirect interest, if any, to any matters or

transactions to be considered at the Board meetings, and shall not vote nor be counted in the quorum as appropriate on any resolution of the Board if they are interested. The Company Secretary will ensure that proper procedures for the Board meetings are followed and that all the Directors receive the meeting's materials in a timely manner. Members of the Management are invited to attend the Board meetings in order to make presentations or answer questions when required.

During the year, four Board meetings were held and details of the Directors' attendances are set out in the following table:

Director	Number of Board meetings attended	Attendance rate
Lai Chee Ying, Jimmy	1/4	25%
Ting Ka Yu, Stephen	4/4	100%
Ip Yut Kin	4/4	100%
Tung Chuen Cheuk	3/4	75%
Yeh V-Nee	4/4	100%
Fok Kwong Hang, Terry	4/4	100%
Kao Kuen, Charles	4/4	100%

The Board has established the following committees and a sub-committee, which have been granted the following clearly defined duties, powers and functions:

- (i) A Committee comprising any two Executive Directors for the purpose of approving the issue and allotment of ordinary shares pursuant to the exercise of share options under the Company's share option scheme;
- (ii) An Audit Committee;
- (iii) A Remuneration Committee; and
- (iv) A Sub-committee made up of the financial heads of all major operating subsidiaries, the Company Secretary, the Financial Controller and the Deputy Chief Financial Officer, which reviews all possible connected transactions to be undertaken by the Group, and monitors the full disclosure of such transactions as required under the Listing Rules.

The committees and sub-committee are provided with sufficient resources to discharge their duties by seeking independent professional advice at the Company's expense, as and when necessary.

The Company has not established any nomination committee, due to the small size of the Board. The Board will carry out the proper procedure for selecting and recommending candidates for directorships as and when required.

## Audit Committee

### Audit Committee Structure and Membership

The Audit Committee was established in March 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by The Hong Kong Society of Accountants (currently known as "The Hong Kong Institute of Certified Public Accountants"). On 15 March 2005, the Board adopted revised terms of reference for the Audit Committee, in order to ensure its continued full compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CG Code"). The Audit Committee's membership is comprised solely of Independent Non-executive Directors, namely, Mr. Yeh V-Nee, Mr. Fok Kwong Hang, Terry, and Dr. Kao Kuen, Charles. None of them is, or has previously been, a member of the Company's current or previous external auditors. The Chairman

of the Audit Committee is Mr. Yeh V-Nee, who possesses the professional qualification and financial management expertise required under the Listing Rules.

### Audit Committee Functions

The functions of the Audit Committee are as follows:

1. To assist the Board in overseeing the integrity of Next Media's financial statements, the Company's full compliance with all legal and regulatory requirements, the investigation of external auditors' qualifications and independence, and the performance of the Company's internal audit function (if any) and external auditors;
2. To consider the appointment of the Company's external auditors, the audit fee involved, and any questions involving the auditors' resignation or dismissal;
3. To review the effectiveness and objectivity of the financial reporting process;
4. To review and approve any and all material accounting policy changes;

5. To review the adequacy of any and all financial controls, internal control and risk management systems;
6. To facilitate liaison between the Company's shareholders, Management, external auditors and internal audit department (if any); and
7. To provide all relevant information and materials in relation to any or all of the above that merits the attention of the Board.

Full details of the Audit Committee's role and terms of reference are posted on Next Media's website at <http://www.nextmedia.com>.

### Audit Committee Activities

During the year, the Audit Committee met twice with the external auditors in the absence of the Executive Directors, in order to review the Group's interim and annual financial statements before they were submitted to the Board for its consideration. All members of the Audit Committee attended both meetings.

The Company's Deputy Chief Financial Officer and Financial Controller were invited to attend these meetings to give a full account of the financial statements and answer queries from the Committee. Working closely with the external auditors, the Committee also reviewed the adequacy and effectiveness of Next Media's internal control measures. The Chairman of the Audit Committee reported to the Board on the work done by the Committee and highlighted any significant issues.

#### **Relationship with External Auditors**

The Audit Committee is charged with reviewing the external auditors' audit review reports and ensuring that the Management makes timely responses to all issues raised therein. In order to ensure the full independence of the external auditors, the Audit Committee also reviews all non-audit related services provided by the external auditors. During the year, the total fees paid and payable to the external auditors for non-audit

related services amounted to HK\$558,021. This sum included HK\$243,021 for taxation services and HK\$315,000 for the interim review of the financial statements for the six months ended 30 September 2005.

### **Remuneration Committee**

#### **Remuneration Committee Structure and Membership**

The Remuneration Committee was established on 15 March 2005 with specific terms of reference that specify its authority and duties.

The Remuneration Committee currently comprises five members, the majority of which are Independent Non-executive Directors. The members are: Mr. Yeh V-Nee, Mr. Fok Kwong Hang, Terry, and Dr. Kao Kuen, Charles, all of whom are Independent Non-executive Directors, as well as Mr. Ting Ka Yu, Stephen, and Mr. Tung Chuen Cheuk, both of whom are Executive Directors.

#### **Remuneration Committee Functions**

The Remuneration Committee is responsible for reviewing and developing all policies appertaining to the remuneration of the Company's Directors and Management. The Remuneration Committee is also entrusted with making all recommendations in relation to such policies to the Board.

Under the terms of reference of the Remuneration Committee, its role is to provide advice and recommendations to the Board in relation to the following matters:

1. Remuneration policy for the Directors and Management and any changes thereto;
2. Remuneration for Non-executive Directors;
3. Specific remuneration and/or performance-based remuneration packages for Executive Directors and Management; and

4. Compensation payments/ arrangements in connection with the termination of office and/or dismissal or removal of Directors and/or senior executives.

The Remuneration Committee shall also ensure that no Director or any of his associates is involved in deciding his own remuneration. The Board has authority to approve any remuneration matters concerning the Directors and Management that are brought before it, subject to recommendation from the Remuneration Committee and any shareholders' approval that may be required under the Listing Rules, the Company's Articles of Association and applicable legislation from time to time.

Full details of the Remuneration Committee and its terms of reference can be found at: <http://www.nextmedia.com>.

#### **Remuneration Committee Activities**

During the year under review, the Remuneration Committee reviewed the fees of the Company's Directors for the year ended 31 March 2006, and made its recommendations about these to the

Board for its consideration and approval. It also reviewed the salary review for 2006/07 for all the Group's staff, including its Executive Directors and the Management.

### **CG Code, Codes of Conduct and Internal Control**

#### **Compliance with the CG Code**

During the year ended 31 March 2006, Next Media achieved full compliance with the applicable provisions of the CG Code with deviations from the following provisions:

#### **CG Code provision A.2.1**

Pursuant to CG Code provision A.2.1, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The Company at present does not have any office with the title of "Chief Executive Officer". Mr. Lai, being the Executive Chairman of the Board, is responsible for setting the strategic directions of the Group and overseeing the effective running of the business.

#### **CG Code provision E.1.2**

Pursuant to CG Code provision E.1.2, the Chairman of the Board shall attend the Company's AGM. Due to another business engagement, Mr. Lai was unable to attend the Company's AGM held on 29 July 2005. Mr. Ting Ka Yu, Stephen, an Executive Director who was present at the AGM, chaired the meeting in accordance with the provisions of the Company's Articles of Association. The Chairman of the Audit Committee, Mr. Yeh V-Nee, was also present.

#### **Compliance with the Model Code on Directors' Securities Transactions**

Next Media has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed, that they have achieved full compliance with the required standards as laid down in the Model Code for the year ended 31 March 2006.

Specified officers and employees of the Company who, because of their offices, are likely to be in possession of unpublished price-sensitive information pertaining to Next Media or its activities are also subject to compliance with the Model Code.

#### **Internal Codes of Conduct**

Next Media has always done everything in its power to ensure and promote integrity and ethical behaviour at all times and in all areas of its operations. To this end, the Group has laid down a series of stringent codes of conduct governing potential conflicts of interests, declarations of interests, anti-corruption practices, data privacy, etc. All members of Next Media, including its employees, officers and Directors, are required to fully comply with these codes of conduct at all times. Such codes are subject to regular reviews and updates in order to ensure their continued compliance in line with changing circumstances and regulations.

#### **Internal Control**

Next Media holds regular monthly Management meetings to review its financial performance and strategic planning objectives. In addition to the Executive Directors, these meetings are attended by senior officers and managers from the Company's Marketing, Sales, Operations, Editorial and Finance Departments.

The Board acknowledges its responsibility for establishing an effective internal control system. Stringent internal control policies and procedures aimed at preventing unauthorized use or misappropriation of the Company's assets have long been in place. These measures ensure that anyone who carries out transactions may only do so by following the proper procedures and with the approval and instruction of the Management.

Working through the Audit Committee and with the assistance of the external auditors, the Board has conducted comprehensive six-monthly reviews of the internal control system's effectiveness in the areas of financial reporting, operational controls, compliances and risk management.

## **Communications with Shareholders**

#### **Annual General Meeting**

Next Media has endeavoured to maintain an amicable and open relationship with its shareholders. The Company's AGM provides a forum at which the Board members and shareholders can meet to share opinions and ideas. At the AGM, shareholders are invited to direct questions to the Board. Those who are available to answer such questions include not only the Executive Directors but also the Chairmen of the respective committees, or in their absence, members of the committees.

Next Media's 2005 AGM took place on 29 July 2005. Mr. Lai, the Executive Chairman, was unable to attend as he had another business engagement. All resolutions put forward to the shareholders were passed by way of poll vote. The results of each poll was published in newspapers, and posted on the Next Media's website <http://www.nextmedia.com> and the Stock Exchange's website.

Details of all polls, the voting procedures and shareholders' right to demand a poll, are included in the Company's circulars to shareholders. Questions on the procedures for convening or putting forward resolutions at an AGM or a general meeting may also be forwarded to the Company Secretary via the Company's designated investor relations e-mail account at [ir@nextmedia.com](mailto:ir@nextmedia.com) or by mail to the Company's registered office address.

#### **Investor Relations**

The Board is well aware of the importance of communication between investors, shareholders and the Company. The Board ensures that its dissemination of details of major activities, price-sensitive information and transactions is fully compliant with the Listing Rules. The Company has a series of procedures to communicate with

analysts and the media. These measures were developed to ensure full compliance with the Stock Exchange's guidelines regarding the disclosure of price-sensitive information. The Company has also carefully selected certain of its Executive Directors and members of the Management to act as its representatives to meet with analysts and the media.

As a media company, Next Media remains determined to further enhancing its transparency by making full use of all appropriate communications channels when sharing information with third parties. During the year, specific activities undertaken in this area included the publishing of corporate news via press releases and formal announcements, and the issuing of interim and annual reports. All such information is freely accessible to anyone with an Internet connection at <http://www.nextmedia.com>.

Shareholders and interested members of the public are welcome to communicate directly with Next Media by sending correspondence marked "for the attention of the Company Secretary" to the Company's registered office address, or via its designated investor relations e-mail account at: [ir@nextmedia.com](mailto:ir@nextmedia.com).