

Corporate Governance

The Board has long been firmly committed to ensuring a high level of corporate governance standards and practices are adhered to at all times and in all areas of the Company's operations.

The Board is aware of the huge responsibility it has been entrusted with when striving to identify and implement Next Media's future business strategies. The Directors are conscious of the need to exercise due diligence and act in good faith in all activities they undertake on behalf of the Group.

Board of Directors

Board Structure

The Board comprises seven members, three of whom are Independent Non-executive Directors. The <http://www.nextmedia.com> website includes a list of the profiles of all seven individual Board members by role, function and status. Independent Non-executive Directors are appointed to the Company for a specific term and will be required to retire pursuant to the Articles of Association of the Company. Please refer to the "Directors and Senior Management" section in this Annual Report for the biographies of the Directors.

Board Membership & Independence

Individual Board members are seasoned and highly regarded professionals or businessmen who possess proven track records in disciplines such as entrepreneurship, investment, finance and publishing. Individual Directors are given full and timely access to all information relevant to Next Media's operations. Should the situation demand it, the Board also solicits advice from suitably qualified independent external experts.

Each of the three Independent Non-executive Directors has submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and to Next Media a 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 of Hong Kong Limited (the "Listing Rules") concerning his independence. The Board considers each of the three Independent Non-executive Directors to be independent.

All of the Directors are subject to retirement by rotation pursuant to the Articles of Association of the Company. This policy means that one-third of the Directors (other than those appointed by the Board during the year) are required to retire at each annual general meeting. Directors appointed by the Board during the year may only hold office until the next annual general meeting at which point they become eligible to stand for re-election.

Corporate Governance

Board Activities

The Board holds regular meetings which are attended by both the executive Directors and the Independent Non-executive Directors of the Company. The Board also organizes carefully tailored formal inductions for newly appointed Directors. All Directors are encouraged to attend refresher seminars conducted by external legal advisers organized by the Company in order to ensure that their skill sets and knowledge remain up to date with all relevant legal requirements and regulatory developments.

With a view to ensuring a high level of corporate governance practice, the Board has established the following committees and sub-committee:

- (i) a Committee to approve and monitor the issue and allotment of ordinary shares pursuant to the exercise of share options under the Company's share option schemes (for details of the share option schemes, please refer to the section "Share Options" in the Directors' Report);
- (ii) an Audit Committee (for details, please refer to the sub-heading "Audit Committee" in this report); and
- (iii) a sub-committee consisting of the finance heads of major operating subsidiaries, the Company Secretary, the Financial Controller and the Deputy Chief Financial Officer meet on an ad hoc basis to review all possible connected transactions to be undertaken by the Group. When a transaction under review is considered to constitute a connected transaction for the Group under the Listing Rules, the sub-committee is required to take steps to assist the Board in achieving full compliance with the appropriate Listing Rules requirements.

Service Contracts

No Director has been granted by the Company or any of its subsidiaries a service contract which is for a duration that exceeds three years or expressly requires a period of notice of more than one year or the payment of compensation or payments equivalent to more than one year's emoluments on termination.

Audit Committee

Committee Structure & Membership

Current members of the Audit Committee are Mr. Yeh V-Nee, Mr. Fok Kwong Hang, Terry, and Dr. Kao Kuen, Charles, all being Independent Non-executive Directors of the Company. Mr. Yeh is the chairman of the Audit Committee. Any two members present at Audit Committee meeting shall form a quorum.

Committee Terms of Reference

The Audit Committee was established by the Board in March 1999. The terms of reference of the Audit Committee are based on the specimen terms of reference for an audit committee set out in A Guide for the Formation of an Audit Committee issued by the Hong Kong Society of Accountants in December 1997. The Audit Committee is responsible for providing an independent review of the financial reporting, internal controls and audits of the Company.

Committee Activities

During the year, the Audit Committee held two meetings with the external auditors to review the interim and annual financial statements of the Company before submission to the Board. The Deputy Chief Financial Officer and the Financial Controller of the Company were invited to attend these meetings. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 March 2004 and the accounting principles and practices adopted by the Group. With the assistance of the external auditors, the Audit Committee also reviewed the adequacy and effectiveness of the Company's systems of internal control and made recommendations to the Board.

Relationship with External Auditors

The Audit Committee has reviewed the external auditors' audit and review reports and has ensured a timely response is provided to the issues raised in the audit and review reports. In order to monitor the independence of the external auditors, the Audit Committee also reviews the provision of non-audit related services by the external auditors. During the year, the fees paid to the external auditors for non-audit related services amounted to approximately HK\$640,000 including approximately HK\$360,000 for taxation services, approximately HK\$80,000 for audit of Hong Kong pension schemes, approximately HK\$50,000 for review of internal control policies and procedures and approximately HK\$150,000 for other miscellaneous services.

Corporate Governance

Enhancing Transparency

Disclosure and Dissemination of Information

Next Media goes to great lengths to ensure the dissemination of details of major activities, transactions and other price sensitive information is in compliance with the Listing Rules. To this end, the Company has implemented a set of procedures which must be used when communicating with analysts and the media. These measures were developed in line with the Stock Exchange's guidelines regarding the disclosure of price-sensitive information. The Company has also designated certain of its officers to act as its representatives in liaising with analysts and the media. This communication policy has been continuously adhered to during the year.

Next Media is determined to further enhance transparency by making greater use of the most appropriate communications channels when disclosing information to third parties. During the year, specific activities undertaken in this area included the dissemination of news through press releases and formal announcements, and in the interim and annual reports. This information is also freely available on the Internet via the <http://www.nextmedia.com> website.

Directors' Interests in Contracts

No contract of significance in relation to the Group's businesses to which the Company, its subsidiaries or associated companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year or at any time during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

The Directors' interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO are set out in the Directors' Report on pages 45 to 56.

Codes of Conduct and Internal Control

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Compliance with the Model Code on Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code outlined in Appendix 10 of the Listing Rules relating to regulation of securities transactions by directors of listed issuers. The Company, having made specific enquiries of the Directors, confirmed that all of the Directors had complied with the required standards set out in the Model Code and the Company's abovementioned code for the financial year ended 31 March 2004.

Internal Codes of Conduct

In order to ensure and promote integrity and ethical behaviour in its business, the Group has put in place a series of codes of conduct, including codes governing potential conflicts of interests, declaration of interests, anti-corruption practices and data privacy. All employees and Directors of Next Media are required to comply with these codes of conduct at all times.

Internal Controls

Management meetings to review the Group's financial performance and strategic planning are held on a monthly basis. These meetings are attended by certain members of the Board and senior officers/managers from the Marketing, Sales, Operations, Editorial and Finance Departments.

The Company has laid down stringent internal control policies and procedures with a view to preventing unauthorized use or misappropriation of assets. These measures ensure that those carrying out transactions may only do so by following the proper procedures and under instructions from the Company's management.