



NEXT MEDIA LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00282)

TERMS OF REFERENCE

FOR

AUDIT COMMITTEE

Functions

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Next Media Limited (the “Company”):-

1. to assist the Board in its oversight of the integrity of the Company’s financial statements; the Company’s compliance with legal and regulatory requirements; the external auditor’s qualifications and independence; and the performance of the Company’s internal audit function (if any) and external auditor;
2. to consider the appointment of the Company’s external auditor, the audit fee and any questions of resignation or dismissal;
3. to review the effectiveness and objectivity of the financial reporting process;
4. to review and approve material accounting policy changes;
5. to review the adequacy of the financial controls, internal control and risk management systems;
6. to facilitate liaison among the shareholders, management, external auditor and internal audit department of the Company (if any); and
7. to provide such information and materials in relation to the above that require the attention of the Board.

Membership

1. All members of the Committee shall be appointed by the Board amongst the non-executive directors of the Company and a majority of them, including the chairman of the Committee, must be independent non-executive directors.
2. The Committee shall consist of a minimum of three (3) members (the “Members”), at least one of whom is an independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Authority

1. The Committee is authorized by the Board to investigate any activity within the scope of its terms of reference. It is authorized to seek any information it may require from any members of the management, employees, directors, auditors, advisors and other third parties and all such persons will be directed to co-operate with any request made by the Committee.
2. The Committee shall have unrestricted access to the executive directors, employees, the external auditor and internal auditor (if any). The external auditor and internal auditor shall have the right to consult the Committee without reference to management. The Committee shall also have the right to consult the external auditor and internal auditor without reference to management or the management without reference to the external auditor and internal auditor.
3. The Committee is authorized by the Board to obtain external legal or other independent professional advice and to secure the attendance of such professional advisors with relevant experience and expertise at its meetings if it considers this necessary. The Board shall provide and make available to the Committee funds for payment of fees and expenses to such external legal or other independent professional advisors.

Responsibilities

The Committee shall have the following duties:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor and to consider any questions of resignation or dismissal of the external auditor;
2. to review and monitor the external auditor's independence and the objectivity and effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement a policy on the engagement of the external auditor to supply non-audit services;
4. to monitor the integrity of financial statements of the Company and the Company's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;
5. to review the Company's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports before submission to the Board with particular regard to:-
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

6. in relation to the duties set out in (4) and (5) above:-
 - (a) the Committee shall liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditor; and
 - (b) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditor;
7. to review the Company's financial controls, internal controls and risk management systems;
8. to discuss with management the internal control system and ensure that management has discharged its duty by putting in place an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
9. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
10. where an internal audit function exists, to ensure co-ordination between the internal and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
11. to review the Company's financial and accounting policies and practices;
12. to discuss problems and reservations arising from the preparation of interim and final financial statements, and any matters the external auditor may wish to discuss (in the absence of management where necessary);
13. to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
14. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
15. to review arrangements under which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
16. to act as the key representative body for overseeing the Company's relations with the external auditor;
17. to report to the Board on the matters set out within the scope of responsibilities herein; and
18. to consider other topics, as defined or instructed by the Board.

Meetings

1. Meetings of the Committee shall be held not less than twice a year. Additional meetings shall be held as the Committee considers it necessary.

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2. As necessary or desirable, the Committee may request that other members of the Board, any senior officers and representatives of external auditor be present at meetings of the Committee. The external auditor may request a meeting if they consider it necessary.
3. The Company Secretary, or in his/her absence the Assistant Company Secretary or his/her delegate, shall be the secretary of the Committee and must ensure that full minutes are kept for all meetings of the Committee.

Proceedings of Meetings

1. Subject to the following requirements, the Members may meet together for the dispatch of business, adjourn or otherwise regulate their meetings and proceedings as they think fit, provided that:
 - (a) two Members shall constitute a quorum;
 - (b) a quorum shall be present throughout a meeting;
 - (c) not less than five (5) days' prior written notice must be given to all Members for convening each meeting, provided that not less than one-half (1/2) of all the Members may by notice in writing waive the above notice requirement;
 - (d) unless the notice requirement described in paragraph (c) is waived, an agenda describing in reasonable details the business to be transacted at the meeting shall be given to all the Members together with the notice of meeting;
 - (e) the following persons will normally attend all the meetings of the Committee, unless otherwise requested by the Committee:
 - (i) external auditor;
 - (ii) internal auditor;
 - (iii) chief financial officer / deputy chief financial officer / financial controller;
and
 - (iv) Company Secretary;
 - (f) only Members are entitled to vote at the meetings of the Committee; and
 - (g) resolutions of the Committee shall be passed by a majority of votes. Meetings can be held in person, by telephone or by video conference.
2. Subject to the above, the provisions and requirements in relation to the proceedings of meetings of the Board contained in the Company's Articles of Association shall apply, mutatis mutandis, to meetings of the Committee.

Resolutions in Writing

A resolution in writing signed by all the Members shall be as valid and effectual as if it has been passed at a meeting of the Committee duly convened and held.

Reporting Procedures

1. The secretary of the Committee shall circulate the minutes of meetings/resolutions in writing of all the Members and reports of the Committee to all members of the Board.
2. Reports to the Board and minutes/resolutions in writing of all the Members of the Committee should be formally approved by the Committee before reporting to the Board.

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Annual General Meetings

The chairman of the Committee shall attend the Company's annual general meetings and be prepared to respond to any shareholder's questions on the Committee's activities.

Amendments

The Board may from time to time amend, repeal and/or re-enact all and any part of these terms of reference.

Publication of the Terms of Reference

A copy of the terms of reference of the Committee will be made available to any person upon request without charge and posted on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited.