

CORPORATE GOVERNANCE REPORT

Commitment To Corporate Governance

Pyxis Group Limited (the “Company”) is committed to maintaining a high standard of corporate governance, emphasizing transparency, independence and accountability, in order to promote interests of all shareholders and enhance shareholder value. Company’s corporate governance practices are based on principles and code provisions as prescribed in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchanges of Hong Kong Limited (“Main Board Listing Rules”). The Board of Directors (“Board”) reviews its corporate governance practices from time to time in order to meet expectations from all interested parties and comply with requirements from relevant regulatory authorities.

The Company has complied with the CG Code except for the following deviations:

CG Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. The Company does not have a separate position of CEO and Mr. Henry Hung CHEN currently holds both position of Chairman and Managing Director (“MD”). The Board believes that vesting the roles of Chairman and MD in the same person provides the Company and its subsidiaries (“Group”) with strong and consistent leadership in the development and execution of long-term strategies and enhanced level of operational efficiency.

CG Code Provision B.1.1 stipulates the establishment of a Remuneration Committee. However, the Board considers that setting up of such a Remuneration Committee may not be necessary as the remuneration matters relating to Executive Directors (“EDs”) are discussed and approved by the Board. Over 50% of the Board members are Independent Non-Executive Directors (“INEDs”) of the Company.

CG Code Provisions A.4.1 and A.4.2 stipulate that Non-Executive Directors should be appointed for a specific term, subject to re-election, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Currently, none of the Company’s existing INEDs is appointed for specific term. However, all the directors (save for the Chairman and the MD) are subject to the retirement provisions under the Company’s bye-law. As such, the Board considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than the CG Code.



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The Board

The Board comprises of two EDs and three INEDs, and its composition balances skills and experiences necessary for independent decision making and fulfilling business needs. The Board is responsible for guiding and leading the Company, and is accountable to shareholders. Management and control of the Company business is vested in its Board and the duty of the Board is to create value for Company shareholders.

The Board is bound to manage the Company in a responsible and effective manner. Therefore, all directors, individually and collectively, must ensure that they carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, and act in the best interests of the Company and its shareholders at all times.

EDs are responsible for establishing Company strategic direction, setting Company objectives, and providing leadership so as to ensure availability of resources in the achievement of such objectives. The INEDs are responsible for ensuring a high standard of financial and mandatory reporting the Company is obliged to comply, to provide independent professional opinions to the Board on business issues, and to provide a balance to the Board in order to protect shareholders' interest and overall interests of the Company and the Group. The Company believes that such a structure of the Board is the most suitable for the Group's existing operation and is the most beneficial to shareholders' interest. However, a review of the structure will be done regularly to assess whether any change is needed.

All directors have full and timely access to all relevant information, as well as advice and service of the Company Secretary and independent professionals to ensure Board procedures and all applicable rules and regulations are followed.

The Company has received written confirmation from each INED of his independence pursuant to the requirements of the Main Board Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines set out in the Main Board Listing Rules.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of EDs and INEDs, and assessing the independence of INEDs.

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Audit Committee

The Audit Committee (the “AC”) comprises of the three INEDs, with Mr. Robert Joseph ZULKOSKI as chairman. Terms of reference of the AC are aligned with recommendations as set out in ‘A Guide for Effective Audit Committee’ issued by the Hong Kong Institute of Certified Public Accountants and code provisions as set out in the CG Code. The AC is responsible for review of Group’s financial information and oversight of Group’s financial reporting system and internal control procedures. It is also responsible for reviewing interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, the AC has the authority of unrestricted access to personnel, records, external auditors and senior management.

Board And Committee Meetings

The Board and the AC meet regularly, at approximately quarterly intervals mainly to review and approve Group’s quarterly management accounts, interim & annual results and related matters. The attendance records are as follows:

	Attendance/ Number of meeting held	
	Board	Audit Committee
Executive Directors		
Mr. Henry Hung CHEN	4/4	N/A
Miss Wing Yan AU	4/4	N/A
Non-Executive Independent Directors		
Mr. Robert Joseph ZULKOSKI	4/4	4/4
Mr. Chin Yao LIN	4/4	4/4
Mr. Bernard King Bong LEUNG	4/4	4/4

The Company Secretary and the Qualified Accountant attended all the scheduled meetings to report matters arising from corporate governance, operations, risk management, statutory compliance, internal control, accounting and finance.

Meeting minutes are kept by the Company Secretary. Draft and final versions of meeting minutes are sent to all members of the Board/AC within a reasonable time after the meetings for their comments and records respectively.

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Accountability

The directors are responsible for preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group, and operating results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and in conformity with applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable, with an appropriate consideration to materiality.

Internal Control

The Board has overall responsibility for maintaining sound and effective internal control of the Group. Group's system of internal control includes a defined management structure with limits of authority, to prevent unauthorized transactions, control excessive capital expenditures, safeguard its assets against unauthorized use or disposition, maintain proper accounting records for the provision of accurate and reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and oversee the Group's operations to ensure achievement of Group's business objectives. Qualified management personnel of the Company will maintain and monitor internal control system on an on-going basis, and will report internal control situation to the AC and the Board periodically for evaluation.

Auditors' Remuneration

Messrs. Ernst and Young ("E&Y") has been appointed as the external auditors of the Company for the year under review at the Annual General Meeting ("AGM") on 28 September 2005. The AC has given its approval on the fee charged by E&Y to the Company. For the current year ended 31 March 2006, total auditors' remuneration in relation to statutory audit work of the Group amounted to approximately HK\$370,000 (HK\$295,000 at Company level and HK\$75,000 at subsidiary level). Except for a tax service fee of HK\$16,000, no other fee was paid or payable for other non-audit services provided by the external auditors for the Group during the year.

The responsibilities of E&Y with respect to financial reporting are set out in the section of 'Report of the Auditors' on pages 18 to 19.

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Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Main Board Listing Rules. The Company has made specific enquiries to all directors regarding any non-compliance with the Model Code during the current year ended 31 March 2006 and they all confirmed full compliance with the required standards as set out in the Model Code.

Communication With Shareholders

Establishing effective communication with shareholders is always a priority of the Company. The Company aims to provide its shareholders with high standard of disclosure and financial transparency in its interim and annual reports. The Company regards its AGM as an opportunity for direct communication between the Board and its shareholders. All directors, senior managements and external auditors make an effort to attend the AGM to address shareholder queries. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of AGM. The Company encourages participation of its shareholders at the AGM, and welcomes expression of views or concerns they might have with the Group.

