



CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 March 2006.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. The Company is committed to a high standard of corporate governance as an essential component of the quality growth of its business. Appropriate corporate governance practices were introduced.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

In November 2004, the Stock Exchange promulgated the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") which sets out corporate governance principles (the "Principles") and code provisions (the "Code Provisions") with which listed issuers are expected to follow and comply.

The Company has applied the principles as set out in the CG Code and complied with the Code Provisions of the CG Code save for Code Provision A.1.1 which stipulates that regular Board meetings should be held at least four times a year and Code Provision E.1.2 which stipulates that the Chairman of the Board should attend the annual general meeting. Details of such deviations will be explained below.

The Company periodically reviews its corporate governance practices to ensure that such practices continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:

A. THE BOARD

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

CORPORATE GOVERNANCE REPORT

A. THE BOARD *(Continued)*

(1) Responsibilities *(Continued)*

The day-to-day management, administration and operation of the Company are delegated to the executive committee (the "Executive Committee"), the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

(2) Composition

The Board has in its composition a balance of skills and experience necessary for effective leadership of the Company, independent decision making and fulfilling its business needs.

The Company has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive directors.

The Board comprises the following directors:

Executive directors:

Mr. Chiu Ka Leung, the chairman of the Board and of the remuneration committee of the Company (the "Remuneration Committee"), a member of the Executive Committee and general manager of the Group

Ms. Yeh Shu Ping, the vice-chairman of the Board and of the Remuneration Committee, a member of the Executive Committee and chief executive officer of the Group

Mr. Jiao Shaoliang, a member of the Executive Committee

Mr. Lan Daoying, a member of the Executive Committee

Independent non-executive directors:

Mr. Guo Guoqing, a member of the audit committee of the Company (the "Audit Committee") and of the Remuneration Committee

Mr. Liu Jian, a member of the Audit Committee and of the Remuneration Committee

Mr. Lam Siu Hung, the chairman of the Audit Committee and a member of the Remuneration Committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Directors' Biographical Information" on page 8.



CORPORATE GOVERNANCE REPORT

A. THE BOARD *(Continued)*

(2) Composition *(Continued)*

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmations from all its independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

(3) Nomination of Directors

The Company has established formal, considered and transparent procedures for the nomination of directors.

Each of the executive directors of the Company is engaged on a service contract with the Company for a term of one year and is subject to retirement by rotation and re-election in accordance with Articles of Association of the Company. The appointment may be terminated by not less than three months' written notice.

All of the independent non-executive directors of the Company have been appointed for a fixed term of about one year and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with the Company's Articles of Association which was amended by a special resolution at the Company's annual general meeting held on 29 August 2005 for the purpose of complying with the CG Code, all directors of the Company (including those appointed for a specific term) are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the nomination of directors and assessing the independence of independent non-executive directors of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

During the year under review, the Board met once (with the presence of Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Mr. Liu Jian and Mr. Lam Siu Hung) for reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company and for adoption of the director nomination procedures.

CORPORATE GOVERNANCE REPORT

A. THE BOARD *(Continued)*

(3) Nomination of Directors *(Continued)*

In accordance with the Company's Articles of Association, Mr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Mr. Guo Guoqing shall retire from office by rotation and being eligible, all of them will offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of the said four directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be despatched to the shareholders of the Company contains detailed information of such directors standing for re-election.

(4) Training for Directors

There was no director newly appointed during the year ended 31 March 2006. In case there is any newly appointed director, he/she will be provided comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

(5) Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

In respect of the financial year ended 31 March 2006 and up to the date of this Report, 5 Board meetings, 2 Audit Committee meetings and 2 Remuneration Committee meetings were held and the individual attendance record of each director at such meetings is set out below:

Name of Directors	Board	Attendance Audit Committee	Remuneration Committee
Mr. Chiu Ka Leung	4	N/A	1
Ms. Yeh Shu Ping	5	N/A	2
Mr. Jiao Shaoliang	4	N/A	N/A
Mr. Lan Daoying	0	N/A	N/A
Mr. Guo Guoqing	2	1	0
Mr. Liu Jian	3	2	2
Mr. Lam Siu Hung	3	2	2



CORPORATE GOVERNANCE REPORT

A. THE BOARD *(Continued)*

(5) Board and Board Committee Meetings *(Continued)*

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The chief executive officer, qualified accountant and company secretary of the Company normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The company secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

In respect of the year ended 31 March 2006 and up to the date of this Report, 3 regular Board meetings were held. The Company will endeavour to hold at least 4 regular Board meetings during the year ending 31 March 2007 for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board and the chief executive officer to ensure a balance of power and authority.

The positions of the chairman of the Board and chief executive officer are held by Mr. Chiu Ka Leung and Ms. Yeh Shu Ping respectively. Their respective responsibilities are clearly defined and set out in writing.

The chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

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B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER *(Continued)*

The chief executive officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. Ms. Yeh is in charge of the Company's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

C. BOARD COMMITTEES

The Board has established 3 committees, namely, the Executive Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of the Remuneration Committee are independent non-executive directors. All the members of the Audit Committee are independent non-executive directors. The Executive Committee is composed of all the executive directors. The list of the chairman and members of each Board committee is set out under "The Board" on page 11.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(1) Executive Committee

The Executive Committee comprises all the executive directors of the Company with Ms. Yeh Shu Ping acting as the chairman thereof.

The principal duties of the Executive Committee include monitoring the execution of the Company's strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the management and operations of the Company.

(2) Remuneration Committee

The Remuneration Committee comprises the Company's three independent non-executive directors, namely, Mr. Lam Siu Hung, Mr. Liu Jian and Mr. Guo Guoqing and the Company's executive directors, Mr. Chiu Ka Leung and Ms. Yeh Shu Ping with Mr. Chiu Ka Leung and Ms. Yeh Shu Ping acting as the chairman and vice-chairman of the Remuneration Committee respectively.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department of the Group is responsible for the collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall report to the Board about its recommendations on remuneration policy and structure and remuneration packages.



CORPORATE GOVERNANCE REPORT

C. BOARD COMMITTEES *(Continued)*

(2) Remuneration Committee *(Continued)*

The Remuneration Committee held 2 meetings during the year ended 31 March 2006 and reviewed and discussed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management.

(3) Audit Committee

The Audit Committee comprises three independent non-executive directors namely, Mr. Lam Siu Hung, Mr. Liu Jian and Mr. Guo Guoqing, with Mr. Lam Siu Hung acting as the Chairman of the Audit Committee and possessing the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 2 meetings during the year ended 31 March 2006 to review the interim and annual financial results and reports, financial reporting and compliance procedures, and the Company's internal control and risk management systems and to consider the re-appointment of the external auditors.

The Company's annual results for the year ended 31 March 2006 had been reviewed by the Audit Committee. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding the directors' dealings in the Company's securities transactions (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code and the Own Code throughout the year ended 31 March 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") regarding the dealings in the Company's securities by employees of the Company who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 26.

F. AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK\$735,000 and HK\$184,300 respectively. The non-audit services related to the review of the Group's interim results and the provisions of tax services to the Group.

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and the poll procedures will be explained during the proceedings of meetings.

In case poll voting is taken, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as chairmen of the Board committees, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings. However, the chairman of the Board was unable to attend the Company's 2005 annual general meeting (as stipulated under the Code Provision E.1.2 of the CG Code) as he had an important business engagement. Despite his absence, he had arranged for the vice-chairman of the Board taking the chair of the meeting and answering shareholders' questions. No questions were raised by the shareholders at the meeting. The Chairman will endeavour to attend the future shareholders' meetings of the Company.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogues with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company maintains a website at www.longfar.com.hk, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.