

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2006.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognised as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

With the exception of the code provision A.2.1 of the CG Code in relation to the separation of the roles of the Chairman and Chief Executive Officer, the Company has complied with all the code provisions as set out in the CG Code throughout the year under review.

The Company will review periodically and improve its corporate governance practices to ensure that these 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.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director/Chief Executive Officer and the senior management. 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.

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2. Board Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board comprises the following directors:—

Executive directors:—

Mr. Chui Siu On, *Chairman of the Board, the Remuneration Committee and the Executive Committee & Managing Director/Chief Executive Officer*

Mr. Ho Yu Hoi, *member of the Executive Committee*

Mr. Lai Man Kit, *member of the Remuneration Committee and the Executive Committee*

Mr. Li Chi Hang, *member of the Executive Committee*

Mr. Wong Kwok Keung, *member of the Executive Committee*

Non-executive director:—

Mr. Ng Kin Nam, *Vice Chairman*

Independent non-executive directors:—

Dr. Cheng Ngok, *Chairman of the Audit Committee and member of the Remuneration Committee*

Mr. Choi Hon Ting, Derek, *member of the Audit Committee and the Remuneration Committee*

Mr. Wu Karl Kwok, *member of the Audit Committee and 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.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 December 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 confirmation from each independent non-executive director of his 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 non-executive director brings 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 non-executive directors make various contributions to the effective direction of the Company.

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3. Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Chui Siu On is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

4. Appointment and re-election of directors

Mr. Ng Kin Nam, a non-executive director of the Company, has been appointed for a term of 3 years from 29 August 2005. The term of office of Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, being all the independent non-executive directors of the Company, is up to the date of holding the forthcoming annual general meeting of the Company. Such terms of office are subject to early termination or renewal upon expiration.

In accordance with the Company's Articles of Association, all directors of the Company 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.

The Company has adopted Directors Nomination Procedures as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. 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.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. 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 appointment and succession planning of directors and assessing the independence of independent non-executive directors.

In accordance with the Company's Articles of Association, Mr. Li Chi Hang, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company. Detailed information of such directors standing for re-election is contained in the Company's circular to be despatched to the shareholders of the Company.

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5. Training for directors

Each newly appointed director receives 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.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

6. Board meetings

Board 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 Financial Officer, Qualified Accountant and Company Secretary attend all 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.

The Company's Articles of Association 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. 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.

Directors' Attendance Records

During the year ended 31 December 2006, 9 Board meetings were held, out of which 4 were regular meetings held 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.

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The individual attendance records of each director at the Board meetings during the year ended 31 December 2006 are set out below:

Name of Directors	Attendance/Number of Meetings
Mr. Chui Siu On	9/9
Mr. Ho Yu Hoi	9/9
Mr. Lai Man Kit	9/9
Mr. Li Chi Hang	8/9
Mr. Wong Kwok Keung	7/9
Mr. Ng Kin Nam	6/9
Dr. Cheng Ngok	6/9
Mr. Choi Hon Ting, Derek	6/9
Mr. Wu Karl Kwok	6/9

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out 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 Own Code and the Model Code throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who 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.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions 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.

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The Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

The Board has established 3 committees, namely, the Executive Committee, the Remuneration Committee (the "Remuneration Committee") and Audit Committee (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 which are posted on the Company's website and are available to shareholders upon request.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2006 are set out in note 8 to the financial statements of the Company.

Remuneration Committee

The Remuneration Committee comprises 5 members, namely Mr. Chui Siu On (chairman), Mr. Lai Man Kit, Dr. Cheng Ngok, Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, the majority of them are independent non-executive directors. The primary objectives of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, such policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;
- To make recommendations on the remuneration packages of the executive directors and the senior management;
- To review and approve the remuneration packages of the executive directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- To review and approve the compensation arrangements for the executive directors and the senior management.

The Remuneration Committee normally meets annually for reviewing and discussing 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 is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

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During the year ended 31 December 2006, the Remuneration Committee held 1 meeting and discussed the remuneration related matters of the Company. The individual attendance record of each member at the Remuneration Committee meeting is set out below:–

Name of Directors	Attendance/Number of Meeting
Mr. Chui Siu On	1/1
Mr. Lai Man Kit	1/1
Dr. Cheng Ngok	1/1
Mr. Choi Hon Ting, Derek	1/1
Mr. Wu Karl Kwok	1/1

D. ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting

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 December 2006.

The senior management has provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

Internal controls

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2006. Such review covered the financial, operational, compliance and risk management aspects of the Group.

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

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Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Dr. Cheng Ngok (chairman), Mr. Choi Hon Ting, Derek and Mr. Wu Karl Kwok, with one independent non-executive director (Mr. Wu Karl Kwok) 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:

- To review the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- 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.
- 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 provides supervision on the internal control system of the Group and reported to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's interim results and interim report for the six months ended 30 June 2006, annual results and annual report for the year ended 31 December 2006, the financial reporting and compliance procedures, the report from the senior management on the Company's internal control and risk management review and processes and the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

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.

During the year ended 31 December 2006, the Audit Committee held 2 meetings. The individual attendance records of each member at the Audit Committee meetings are set out below:-

Name of Directors	Attendance/Number of Meetings
Dr. Cheng Ngok	2/2
Mr. Choi Hon Ting, Derek	2/2
Mr. Wu Karl Kwok	2/2

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External auditors and auditors' remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 42.

The remuneration paid to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK\$1,911,000 and HK\$329,000 respectively. The nature of and the fees paid/payable on the said audit services and non-audit services are analysed below:—

Type of services provided by the external auditors	Fees paid/payable
<i>Audit services:</i>	<i>Audit services:</i>
Audit of the annual financial statements for the year ended 31 December 2006	HK\$1,911,000
<i>Non-audit services:</i>	<i>Non-audit services:</i>
1. Review of major transaction's proforma financial information	HK\$224,000
2. Tax services	HK\$105,000
TOTAL:	HK\$2,240,000

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee 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.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue 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.

To promote effective communication, the Company maintains a website at www.ipegroup.com, where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

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F. SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

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 were included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be, before the abolition of the requirement to publish paid announcements in newspapers, published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.