



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has a policy of seeking to comply with established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. For the year ended 31 December 2006, the Company has applied the principles of the Code as set out in Appendix 14 of the Listing Rules and complied with all the applicable code provisions of the Code, except for the deviation from the Code Provision A.4.1 as two of the independent non-executive directors were not appointed for a specific term, the reason being that such directors are subject to retirement by rotation at each annual general meeting under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure the Company has good corporate governance practices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

Composition

Directors of the Company (the "Directors") during the year and up to the date of this report are as follows:

Executive Directors:

Cai Yuan, *Chairman*

Luk Kin Peter Joseph,

Deputy Chairman and Chief Executive Officer

Yeung Kwok Kuen

(appointed on 17 January 2007)

Chief Financial Officer

Non-executive director:

Lam Ming Yung

(appointed on 8 January 2007 as independent non-executive Director and re-designated as non-executive Director on 8 February 2007)

Independent Non-executive Directors:

Tang Tin Sek

Lee Kwan Hung

(resigned on 7 February 2007)

Poon Chiu Kwok

(appointed on 24 February 2006 and resigned on 8 November 2006)

Chan Siu Tat

(appointed on 17 November 2006)

Wong Hon Sum

(appointed on 8 January 2007)

There is no relationship between members of the Board.

BOARD OF DIRECTORS *(CONTINUED)*

During the year, Mr. Poon Chiu Kwok resigned as an independent non-executive Director and members of both of the audit committee and remuneration committee of the Board on 8 November 2006. The casual vacancies were filled on 17 November 2006. Accordingly, for the period from 8 November 2006 to 16 November 2006, there were only two independent non-executive Directors appointed to the Board and therefore the Company could not strictly comply with Rules 3.10(1) and 3.21 of the Listing Rules. However, such non-compliance was remedied by the appointment of Mr. Chan Siu Tat as an independent non-executive Director and as members of both of the audit committee and remuneration committee of the Board on 17 November 2006 to fill the said casual vacancies. During the year ended 31 December 2006, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Board and management, the Company has adopted written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

During the year, a total of nine full board meetings were held and the attendance records are as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Cai Yuan	9/9	100%
Luk Kin Peter Joseph	9/9	100%
Tang Tin Sek	9/9	100%
Lee Kwan Hung	8/9	89%
Chan Siu Tat	4/4	100%
Poon Chiu Kwok	4/4	100%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Cai Yuan and Mr. Luk Kin Peter Joseph were appointed as the Chairman and Chief Executive Officer of the Company respectively on 28 November 2005.

The roles of Chairman and Chief Executive Officer are clearly defined by written terms of reference adopted by the Company in order to ensure a balance of power and authority, so that power is not concentrated in any one individual.

NON-EXECUTIVE DIRECTORS

All the independent non-executive Directors were appointed for an initial term of one year, except Dr. Tang Tin Sek and Mr. Lee Kwan Hung, the reason being that such directors are subject to retirement by rotation at each annual general meeting under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company has good corporate governance practices. All Directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee in 2005. The current members of the Remuneration Committee are:

Tang Tin Sek, *Independent Non-executive Director*

Luk Kin Peter Joseph, *Executive Director*

Chan Siu Tat, *Independent Non-executive Director, Chairman of the Remuneration Committee*

Wong Hon Sum, *Independent Non-executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Remuneration Committee is primarily responsible for the following duties:

1. To make recommendations to the board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. To consult the chairman of the Board and/or the chief executive officer about their proposals relating to the remuneration of other executive directors and senior management;
3. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
4. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
5. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
6. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
7. To ensure that no director or any of his associates is involved in deciding his own remuneration; and
8. To deal with any other matters delegated by the Board.

REMUNERATION OF DIRECTORS (CONTINUED)

The Remuneration Committee met three times during the year to review the remuneration policy and remuneration packages of the executive Directors and members of the senior management, and approve the service contracts of the executive Directors.

Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Remuneration Committee Meetings Attended	Attendance Rate
Lee Kwan Hung (Resigned as member of the Remuneration Committee on 7 February 2007)	3/3	100%
Tang Tin Sek	3/3	100%
Luk Kin Peter Joseph	3/3	100%
Poon Chiu Kwok (Appointed as member of the Remuneration Committee on 28 March 2006 and resigned as member of the Remuneration Committee on 8 November 2006)	1/1	100%
Chan Siu Tat (Appointed as member of the Remuneration Committee on 17 November 2006 and the Chairman of the Remuneration Committee on 8 February 2007)	1/1	100%
Wong Hon Sum (Appointed as member of the Remuneration Committee on 8 January 2007)	N/A	N/A
Lam Ming Yung (Appointed as member of the Remuneration Committee on 8 January 2007 and resigned as member of the Remuneration Committee on 8 February 2007)	N/A	N/A

NOMINATION OF DIRECTORS

Directors were nominated by members of the Board during the year to fill casual vacancies. The nominations were submitted to the Board for decision with reference to criteria which include the candidates' experience, qualifications, professional knowledge, personal ethics and integrity. During the year, one Board meeting was held for approving the nomination and appointment of Director. Each Director appointed during the year is subject to re-election by shareholders at the next annual general meeting after his appointment and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

NOMINATION OF DIRECTORS (CONTINUED)

Individual attendance of each member of the Board of Board meetings in relation to the nomination of Directors is set out below:

Name of Directors	Number of Board Meetings Attended	Attendance Rate
Cai Yuan	1/1	100%
Luk Kin Peter Joseph	1/1	100%
Tang Tin Sek	1/1	100%
Lee Kwan Hung	1/1	100%
Chan Siu Tat	N/A	N/A
Poon Chiu Kwok	N/A	N/A

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the Group engaged KPMG, auditors of the Company, to perform audit service. The fees were as follows:

Nature of services	Amount
	\$'000
Audit services	1,380
Audit services in relation to a very substantial acquisition	4,560
	5,940

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The current members of the Audit Committee are:

Tang Tin Sek, *Independent Non-executive Director, Chairman of the Audit Committee*

Chan Siu Tat, *Independent Non-executive Director*

(Appointed as member of the Audit Committee on 17 November 2006)

Wong Hon Sum, *Independent Non-executive Director*

(Appointed as member of the Audit Committee on 8 January 2007)

The Audit Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Audit Committee is primarily responsible for the following duties:

1. To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal;
2. To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
3. To review the interim and annual financial statements before submission to the Board;



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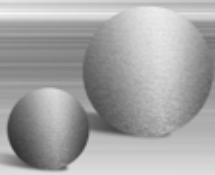
AUDIT COMMITTEE *(CONTINUED)*

4. To discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
5. To review the external auditors management letter and management's response;
6. To review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
7. (Where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and appropriate standing within the Company;
8. To consider the major findings of internal investigations and management's response; and
9. To consider other topics, as defined by the Board.

The Audit Committee reviewed the external auditor's plan for the audit of the Group's accounts, the internal control procedures and the financial reporting systems of the Group during the year. The Audit Committee also made recommendations with respect to the appointment and reappointment of the auditors. The Audit Committee met four times during the year to review, discuss the Group's annual and interim financial statements and appointment of the auditors before the same were presented to the Board for approval. Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Audit Committee Meetings Attended	Attendance Rate
Tang Tin Sek	4/4	100%
Lee Kwan Hung (Resigned as member of Audit Committee on 11 January 2007)	4/4	100%
Poon Chiu Kwok (Appointed as member of Audit Committee on 24 February 2006 and resigned as member of Audit Committee on 8 November 2006)	2/2	100%
Chan Siu Tat (Appointed as member of Audit Committee on 17 November 2006)	2/2	100%
Wong Hon Sum (Appointed as member of Audit Committee on 8 January 2007)	N/A	N/A
Lam Ming Yung (Appointed as member of Audit Committee on 8 January 2007 and resigned as member of Audit Committee 8 February 2007)	N/A	N/A

The financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.



CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board should maintain a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. The Directors have reviewed the effectiveness of the internal control system of the Group for the year ended 31 December 2006, which covered financial, operational and compliance controls and risk management functions of the Group.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements.

On behalf of the Board
China Mining Resources Group Limited

Luk Kin Peter Joseph

Deputy Chairman and Chief Executive Officer

Hong Kong, 10 April 2007