

CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE PRACTICES

The Company has a policy of seeking to comply with the 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 its shareholders. For the year ended 31 December 2012, the Company has applied the principles of Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) (the “Former Code”) and a number of new requirements of the Code that took effect in 2012 (the “New Code”, together with the Former Code, the “Code”), and the associated Listing Rules. During the year ended 31 December 2012, the Company has complied with all the applicable code provisions of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors of the Company regarding any non-compliance with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transaction during the year ended 31 December 2012, and they all confirmed that they had fully complied with the Model Code.

BOARD OF DIRECTORS

Composition

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

Executive Directors:

You Xian Sheng, *Chairman*

Chen Shou Wu, *Deputy Chairman, Chief Executive Officer and Chief Investment Officer*

Wang Hui

Yeung Kwok Kuen, *Chief Financial Officer*

Fang Yi Quan

Independent Non-executive Directors:

Chong Cha Hwa

Chu Kang Nam

Lin Xiang Min

The biographical details of the directors of the Company are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report.

The composition of the Board is well balanced with the directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

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BOARD OF DIRECTORS (CONTINUED)

There is no relationship among the members of the Board.

During the year ended 31 December 2012, the Board had at all times at least three independent non-executive directors of the Company and at least one independent non-executive director of the Company who has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors of the Company to be independent.

Board Responsibilities and Delegation

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.

Board Meetings and General Meetings

During the year, a total of twelve Board meetings (including four regular meetings) were held and the attendance records are as follows:

| Name of Directors | Number of Board Meetings Attended |
|-------------------|-----------------------------------|
| You Xian Sheng | 12/12 |
| Chen Shou Wu | 12/12 |
| Wang Hui | 12/12 |
| Yeung Kwok Kuen | (Note) 0/12 |
| Fang Yi Quan | 12/12 |
| Chong Cha Hwa | 12/12 |
| Chu Kang Nam | 10/12 |
| Lin Xiang Min | 12/12 |

Note: Duty as an executive director of the Company has been suspended since 2 January 2012.

During the year, a total of two general meetings of the Company were held and the attendance records are as follows:

| Name of Directors | Number of General Meetings Attended |
|-------------------|-------------------------------------|
| You Xian Sheng | 2/2 |
| Chen Shou Wu | 2/2 |
| Wang Hui | 1/2 |
| Yeung Kwok Kuen | (Note) 0/2 |
| Fang Yi Quan | 1/2 |
| Chong Cha Hwa | 2/2 |
| Chu Kang Nam | 1/2 |
| Lin Xiang Min | 1/2 |

Note: Duty as an executive director of the Company has been suspended since 2 January 2012.

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BOARD OF DIRECTORS (CONTINUED)

Induction and Professional Development

Upon appointment to the Board, each director of the Company is provide with guideline and reference materials to enable them to familiarise with the Group's business operations and Board's policies, as well as the general and specific duties of directors under general law (the common law and legislation) and the Listing Rules.

The directors of the Company have participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The continuous development programme comprised training sessions provided by professional bodies and reading regulatory updated materials. The costs for such trainings are borne by the Company.

During the year, all directors of the Company have participated in continuous professional development and provided a record of training they received to the Company. Individual participation in professional development programme are as follows:

| Name of Director | Nature of professional development |
|-------------------------|--|
| You Xian Sheng | Attended professional bodies training sessions and read regulatory updated materials |
| Chen Shou Wu | Attended professional bodies training sessions and read regulatory updated materials |
| Wang Hui | Attended professional bodies training sessions and read regulatory updated materials |
| Yeung Kwok Kuen | Attended professional bodies training sessions and read regulatory updated materials |
| Fang Yi Quan | Attended professional bodies training sessions and read regulatory updated materials |
| Chong Cha Hwa | Attended professional bodies training sessions and read regulatory updated materials |
| Chu Kang Nam | Attended professional bodies training sessions and read regulatory updated materials |
| Lin Xiang Min | Attended professional bodies training sessions and read regulatory updated materials |

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. You Xian Sheng was appointed as the Chief Executive Officer of the Company on 31 January 2008 and re-designated as the Chairman of the Company on 5 June 2009. Mr. Chen Shou Wu was appointed as the Chief Executive Officer of the Company on 5 June 2009.

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. The Chairman and the Chief Executive Officer of the Company are independent and not connected with each other except for being officers of the same company.

NON-EXECUTIVE DIRECTORS

All the independent non-executive directors of the Company were appointed for an initial term of one year. All directors of the Company appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director of the Company (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.

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REMUNERATION COMMITTEE

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

Chong Cha Hwa, *Independent Non-executive Director, Chairman of the Remuneration Committee*

Chu Kang Nam, *Independent Non-executive Director*

Lin Xiang Min, *Independent Non-executive Director*

Yeung Kwok Kuen, *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 of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
3. to consult the chairman of the Board and/or the chief executive of the Company about their remuneration proposals for other executive directors of the Company;
4. Either:
 - (i) to determine with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company; or
 - (ii) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management of the Company;

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive directors of the Company;
6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
7. to review and approve the compensation payable to executive directors and senior management of the Company for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of directors of the Company for misconduct to ensure that they consistent with contractual terms and are otherwise reasonable and appropriate;
9. to ensure that no director of the Company or any of his associates is involved in deciding his own remuneration; and
10. to deal with any other matters delegated by the Board.

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REMUNERATION COMMITTEE (CONTINUED)

The Remuneration Committee met three times during the year to review and determine the remuneration policies and remuneration packages of the directors and members of the senior management of the Company.

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

| Name of Members | Number of Remuneration Committee Meetings Attended |
|-----------------|--|
| Chong Cha Hwa | 3/3 |
| Chu Kang Nam | 2/3 |
| Lin Xiang Min | 3/3 |
| Yeung Kwok Kuen | (Note) 0/3 |

Note: Duty as a member of the Remuneration Committee has been suspended since 2 January 2012.

Details of the remuneration of the directors and chief executives of the Company for the year ended 31 December 2012 are set out in note 14 to the consolidated financial statements.

Senior Management Remuneration By Band

The emoluments of the senior management of the Group for the year ended 31 December 2012 fell within the following bands:

| Emoluments bands (Note) | Number of individuals |
|-------------------------------|-----------------------|
| HK\$0 — HK\$1,000,000 | 7 |
| HK\$1,000,001 — HK\$2,000,000 | 5 |

Note: The emoluments comprised share-based payments.

NOMINATION COMMITTEE

The Company established the Nomination Committee in March 2012. The current members of the Nomination Committee are:

Chong Cha Hwa, *Independent Non-executive Director, Chairman of the Nomination Committee*

Chu Kang Nam, *Independent Non-executive Director*

Lin Xiang Min, *Independent Non-executive Director*

The Nomination 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 Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
3. to assess the independence of independent non-executive directors of the Company;
4. to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive of the Company;

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NOMINATION COMMITTEE (CONTINUED)

5. to make recommendations to the Board on the membership of Board committees e.g. audit committee and remuneration committee, in consultation with the chairman of the Board and the chairmen of such committees, as appropriate;
6. before recommending an appointment of the Board, to evaluate the existing balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and
7. to deal with any other matters delegated by the Board.

The Nomination Committee met one time during the year to review the size, composition and structure of the Board.

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

| Name of Members | Number of Nomination Committee Meetings Attended |
|---|--|
| Chong Cha Hwa <i>(Appointed as member and the Chairman of the Nomination Committee on 20 March 2012)</i> | 1/1 |
| Chu Kang Nam <i>(Appointed as member of the Nomination Committee on 20 March 2012)</i> | 1/1 |
| Lin Xiang Min <i>(Appointed as member of the Nomination Committee on 20 March 2012)</i> | 1/1 |

Each director of the Company appointed during the year is subject to re-election by shareholders of the Company at the next annual general meeting of the Company after his appointment and every director of the Company (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.

No director of the Company is involved in fixing his own terms of appointment and nominations and no independent non-executive director of the Company is involved in assessing his own independence.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including, but not limited to, developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors, the Company's policies and practices in compliance with legal and regulatory requirements.

The Board has adopted terms of reference of the Board on corporate governance which in line with the Code in March 2012. A copy of the terms of reference is posted on the Company's website.

Summary of the terms of reference on corporate governance are as follows:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of directors and senior management of the Company;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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CORPORATE GOVERNANCE FUNCTIONS (CONTINUED)

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the Code and disclosures in the corporate governance report of its annual reports.

During the year, the Board approved the terms of reference of the Nomination Committee and the revised terms of reference of the Audit Committee and the Remuneration Committee.

The Board has also reviewed and discussed the corporate governance policy and practices of the Company and the Board discharged the abovesaid responsibilities or through delegation to the Audit Committee, Remuneration Committee and Nomination Committee during the year.

AUDIT COMMITTEE

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

Chong Cha Hwa, *Independent Non-executive Director, Chairman of the Audit Committee*

Chu Kang Nam, *Independent Non-executive Director*

Lin Xiang Min, *Independent Non-executive Director*

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 be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
2. to review and monitor the external auditor's independence and objectively and the effectiveness of the audit process in accordance with applicable standard, to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services, to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
4. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
5. regarding No. (4) above:
 - i. to liaise with the Board and senior management of the Company and to meet, at least twice a year, with the Company's external auditors; and
 - ii. to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, to 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 auditors;
6. to review the Company's financial control, internal control and risk management systems;

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AUDIT COMMITTEE (CONTINUED)

7. to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
8. to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
9. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
10. to review the group's financial and accounting policies and practices;
11. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
13. to report to the Board on the matters set out in Appendix 14 of the Listing Rules "Corporate Governance Code and Corporate Governance Report";
14. to consider the major findings of internal investigations and management's response;
15. to consider other topics, as defined by the Board or handle the job assigned by the Board;
16. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
17. to act as the key representative body for overseeing the Company's relations with the external auditor.

The Audit Committee met twelve times during the year to review the Group's annual and interim financial statements, review the external auditor's plan for the audit of the Group's accounts, review the internal control procedures and the financial reporting systems of the Group, make recommendations with respect to the appointment and reappointment of the auditors of the Company, and review and the appointment of external professional parties for the review of the internal control system.

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

| Name of Members | Number of Audit Committee Meetings Attended |
|------------------------|--|
| Chong Cha Hwa | 12/12 |
| Chu Kang Nam | 10/12 |
| Lin Xiang Min | 12/12 |

The financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee.

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AUDITORS' REMUNERATION

During the year ended 31 December 2012, the Group engaged ZHONGLEI (HK) CPA Company Limited ("ZHONGLEI"), auditors of the Company, to perform audit services and non-audit services. The fees were as follows:

| Nature of services | Amount HK\$'000 |
|--|--------------------|
| Audit services in relation to annual results | 1,430 |
| Review of interim results | 550 |
| Others | 85 |
| | <hr/> |
| | 2,065 |

COMPANY SECRETARY

Ms. Leung Lai Ming ("Ms. Leung") was appointed as the company secretary of the Company on 16 July 2007. The biographical detail of Ms. Leung is set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

For purpose of the Rule 3.29 of the Listing Rules, Ms. Leung has taken no less than 15 hours of relevant professional training for the year ended 31 December 2012 and the costs for such trainings are borne by the Company.

SHAREHOLDERS' RIGHT

Convening an extraordinary general meeting

Pursuant to the Bye-laws of the Company, an extraordinary general meeting of the Company ("EGM") can be convened by a written requisition signed by the shareholder(s) of the Company holding not less than one-tenth of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company, stating the objects of the meeting, and deposited at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong for the attention of the Board or the company secretary of the Board. Such meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting should be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting forward proposals at shareholders' meetings

The procedures for shareholder(s) to put forward proposals at EGM include a written notice of those proposals being submitted by the shareholder(s) of the Company, addressed to the Board or the company secretary of the Board at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

The procedures for shareholders of the Company to propose a person for election as a director of the Company are available on the Company's website.

Enquiries to the Board

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

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INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Information of the Group is delivered to the shareholders of the Company through a number of channels, which include annual reports, interim reports, announcements and circulars at the Company's website. The latest information of the Group together with the published documents are also available on the Company's website.

The general meeting of the Company provides a forum for communication between the Board and the shareholders of the Company. The Board members or their delegates are available to answer questions at the general meeting.

There had been no change in the Company's constitutional documents during the year ended 31 December 2012.

Shareholders of the Company should direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong, Union Registrars Limited, at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

Shareholders of the Company can mail other enquiries or comments to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong or sent through email to enquiry@chinaminingresources.com.

INTERNAL CONTROLS

It is the policy of the Company to maintain a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. The directors of the Company have reviewed the effectiveness of the internal control system of the Group for the year ended 31 December 2012, which covered financial, operational and compliance controls and risk management functions of the Group.

During the year ended 31 December 2012, as part of a key step towards the resumption of trading of the shares of the Company, the Company has engaged an independent internal control adviser (the "IC Adviser") to perform a review of the Company's internal control systems and the IC Adviser completed and issued the internal control review report (the "Review Report") in April 2012. The Review Report identified certain internal control weaknesses and contained recommendations to the Company and the Company has then implemented the internal control procedures recommended by the IC Adviser. In December 2012, the Company engaged an external professional party (the "Professional Party") to conduct a follow-up review on the implementation of the internal control procedures recommended by the IC Adviser provided in the Review Report (the "Follow-up Review") and the Professional Party completed the Follow-up Review in March 2013 and confirmed that all recommendations relating to significant weaknesses made by the IC Adviser have been implemented by the Company.

CORPORATE GOVERNANCE REPORT



DIRECTORS' AND AUDITOR'S RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The directors of the Company 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. The directors of the Company are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis.

The responsibility of the external auditor of the Company is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the external auditor of the Company about their reporting responsibility is set out under the section headed "Independent Auditor's Report" of this annual report.

On behalf of the Board
China Mining Resources Group Limited

You Xian Sheng
Chairman

Hong Kong, 25 March 2013