
Corporate Governance Report

The Company is committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has, for the year ended 31 December 2006, applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the “CG Code”) and the Rules on the Corporate Governance Report as set out respectively in Appendix 14 and 23 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation to paragraph A.4.1 of the CG Code as set out in the “Independent Non-executive Directors” below.

The Board would like to highlight that at the annual general meeting of the Company held on 26 June 2006, to be consistent with paragraph A.4.2 of the CG Code, bye-law 86(2) of the Company’s bye-laws was amended to reflect the requirement for any director appointed to fill a casual vacancy to hold office until the next general meeting of the Company.

BOARD OF DIRECTORS

The Board consists of a Chairman, two Vice Chairmen, a President and Chief Executive Officer, five executive directors and three independent non-executive directors. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. Each director has a duty to act in good faith in the best interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

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Executive directors:

Mr. Kwok Peter Viem	<i>(Chairman)</i>
Mr. Ma Ting Hung	<i>(Vice Chairman)</i>
Mr. Shou Xuancheng	<i>(Vice Chairman)</i>
Mr. Sun Xinguo	<i>(President and Chief Executive Officer)</i>
Ms. Li So Mui	
Mr. Mi Zengxin	
Mr. Qiu Yiyong	
Mr. Zeng Chen	
Mr. Zhang Jijing	

Independent non-executive directors:

Mr. Fan Ren Da, Anthony	
Mr. Ngai Man	<i>(appointed on 1 March 2006)</i>
Mr. Tsang Link Carl, Brian	

Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors. Following the resignation of Mr. Chan Mo Po, Paul as independent non-executive director on 1 October 2005, the Company only had two independent non-executive directors. On 1 March 2006, Mr. Ngai Man was appointed as an independent non-executive director. The Company has three independent non-executive directors from 1 March 2006.

The Board includes a balanced composition of executive and independent non-executive directors so that it can effectively exercise independent judgement. The composition of the Board is disclosed in all corporation communications.

The Group has management expertise in the industries of energy resources and commodities, including oil, aluminium, coal and manganese. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement the Company's business strategies. The biographical details and experience of the directors and senior management are set out on pages 15 to 18.

On appointment, the new director is briefed by senior executives on the Group's corporate goals and objectives, activities and business, strategic plans and financial situations. He is also provided with a package of orientation materials in respect of duties and responsibilities of directors under the Listing Rules, the Company's bye-laws, corporate governance and financial reporting standards. The Company Secretary is responsible for keeping all directors updated on the Listing Rules and other regulatory and reporting requirements.

All directors are subject to re-election at regular intervals. The Company's bye-laws provides that any director so appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting of the Company or until the next following annual general meeting of the Company, whichever shall be the earlier, and such director shall be eligible for election at that meeting and every director is subject to retirement by rotation at least once every three years.

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To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationship among members of the Board or between the Chairman and the Chief Executive Officer.

The Company provides directors with directors' and officers' liability insurance coverage to protect them from loss as a result of any legal proceeding against the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kwok Peter Viem is the Chairman and Mr. Sun Xinguo serves as the Chief Executive Officer. The role of the Chairman is separate from that of the Chief Executive Officer so as to delineate their respective areas of responsibility. The Chairman focuses on the Group's strategic planning while the Chief Executive Officer has overall executive responsibility for the Group's development and management. They receive significant support from the directors and the senior management team.

The Chairman has a clear responsibility to provide the whole Board with all the information that is required for the discharge of the Board's responsibilities. The Chairman has been continually improving the quality and timeliness of the information distributed to the directors. The Board, led by the Chairman, sets the overall direction, strategy and policies of the Company.

The Chairman provides leadership to the Board to ensure that the Board acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings. He also encourages the directors to make full and active contributions to the Board's affairs.

The Board determines which functions are reserved to the Board and which are delegated to management. The Board delegates appropriate aspects of its management and administration functions to management. It also gives clear directions as to the powers of management, in particular, with respect to the matters that management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

Under the leadership of the Chief Executive Officer, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company are seasoned individuals from diversified backgrounds and industries and one member has an appropriate accounting qualification and related financial management expertise as required by the Listing Rules. With their expertise and experience, they offer independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the interests of minority shareholders and the Company as a whole.

All independent non-executive directors serve on the nomination, remuneration and audit committees. They are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters discussed in the meetings.

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Paragraph A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors are not appointed for specific terms. However, under the Company's bye-laws, one-third of all directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in paragraph A.4.1 of the CG Code.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers them to be independent.

BOARD MEETINGS

Meetings of the Board are held regularly and at least four times a year at about quarterly intervals to approve, inter alia, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. Directors can attend board meetings either in person or by electronic means of communication.

There was satisfactory attendance for board meetings, which evidence prompt attention of the directors to the affairs of the Company. A total of seven board meetings were held in 2006 with individual attendance of each director as follows:

Executive directors:

Attendance

Mr. Kwok Peter Viem	7/7
Mr. Ma Ting Hung	7/7
Mr. Shou Xuancheng	5/7
Mr. Sun Xinguo	7/7
Ms. Li So Mui	7/7
Mr. Mi Zengxin	6/7
Mr. Qiu Yiyong	6/7
Mr. Zeng Chen	6/7
Mr. Zhang Jijing	5/7

Independent non-executive directors:

Attendance

Mr. Fan Ren Da, Anthony	7/7	
Mr. Ngai Man	4/5	(appointed on 1 March 2006)
Mr. Tsang Link Carl, Brian	6/7	

All directors are invited to include matters in the agenda for regular board meetings. The Company generally gives 14 days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.

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Important matters are reserved for the Board's decision, including long-term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the board committees, annual internal controls assessment, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, announcements of interim and final results and payment of dividends. The Board gives clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

If a substantial shareholder or a director has a conflict of interest in a material matter, a board meeting will be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting. The voting and quorum requirements specified in the Company bye-laws conform with the CG Code's requirements.

Directors have timely access to appropriate information to enable them to make an informed decision and to discharge their duties and responsibilities. An agenda and the presentation material are usually sent to the directors 3 days before the meeting.

The Company Secretary is responsible for taking the minutes. The drafts are sent to the directors for comment within a reasonable time after each meeting. The minutes are kept by the Company Secretary and they are open for inspection by the directors and the members of the board committees. Board minutes and related materials are available for inspection by the directors whenever requested. All efforts are made to ensure that queries of the directors are responded promptly.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are complied with. The directors have access to the senior management of the Company whenever they feel necessary. The Company provides an agreed procedure enabling the directors to seek independent professional advice at the Company's expense.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Throughout the year, 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 as its code of conduct for dealings in securities of the Company by the directors.

All directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the review year.

BOARD COMMITTEES

There are three board committees: nomination, remuneration and audit. They were each established with specific written terms of reference.

There was satisfactory attendance for the board committees meetings. The minutes of the committee meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions during the year.

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NOMINATION COMMITTEE

The Board established the nomination committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the Board's approval candidates for appointment to the Board.

The committee reviews the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and makes recommendations to the Board regarding any proposed changes, identifies individuals suitably qualified to become board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of the independent non-executive directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and plans for succession of directors.

The criteria for the committee to select and recommend candidates for directorship include the candidates' skill, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman :	Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
Member :	Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
	Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	(Note)
	Mr. Kwok Peter Viem	(Executive Director)	(appointed on 1 March 2006)
	Mr. Zhang Jijing	(Executive Director)	

(Note) Mr. Tsang was the Chairman of the committee from the establishment of the committee to 28 February 2006 inclusive.

One meeting was held in the year and all members attended the meeting. The committee discussed the election and re-election of directors.

REMUNERATION COMMITTEE

The Board established the remuneration committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for executive directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The terms of reference of the committee include the minimum prescribed responsibilities. The committee makes available its terms of reference.

The committee is responsible for ensuring that formal and transparent procedures for developing policy on executive directors' remuneration and for fixing the remuneration packages for all directors and senior management.

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The committee consults with the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration packages of directors and senior management. It makes recommendations to the Board regarding the remuneration of the independent non-executive directors. The committee can seek independent professional advice to complement its own resources to discharge its duties. It is authorised to obtain such legal, remuneration or other professional advice as it shall deem appropriate.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The emoluments are also based on individual's knowledge, skill, time commitment, responsibilities and performance and are determined by reference to the Group's profits and performance.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman :	Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Member :	Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
	Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
	Mr. Ma Ting Hung	(Executive Director)	(appointed on 1 March 2006)
	Mr. Sun Xinguo	(Executive Director)	

Four meetings were held in the year and all members attended the meetings, except that one meeting was held prior to the appointment of Mr. Ngai and Mr. Ma. The committee reviewed and approved the performance-based remuneration package of each individual executive director. No director was involved in deciding his/her own remuneration.

The Company and one of its subsidiaries, CITIC Australia Trading Limited, operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Details of the emoluments and options of each director, on a named basis, are set out in notes 7 and 37 respectively to the financial statements.

AUDIT COMMITTEE

The Board established the audit committee in 1999 with specific written terms of reference which deal clearly with its authority and responsibilities. The terms of reference were amended in June 2005 to comply with updated regulatory requirements.

The terms of reference of the committee include the minimum prescribed responsibilities. The committee makes available its terms of reference.

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The purpose of the committee is to establish formal and transparent arrangements for considering how the Board applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The committee can seek independent professional advice to complement its own resources to discharge its duties.

All members of the committee are independent non-executive directors and they possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the existing audit firm. Its composition is as follows:

Chairman : Mr. Tsang Link Carl, Brian

Member : Mr. Fan Ren Da, Anthony

Mr. Ngai Man

(appointed on 1 March 2006)

Rule 3.21 of the Listing Rules requires that the audit committee must comprise a minimum of three members. Following the resignation of Mr. Chan Mo Po, Paul on 1 October 2005, the audit committee only had two members. On 1 March 2006, Mr. Ngai Man was appointed as audit committee member. The audit committee has three member from 1 March 2006.

The committee meets as and when required to discharge its responsibilities, and not less than two times a year. Two meetings were held in the year and all members attended the meetings. The committee reviewed, together with the senior management and the external auditors, the financial statements for the year ended 31 December 2005 and the financial statements for the six months ended 30 June 2006, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control system.

The minutes are kept by the Company Secretary. The drafts prepared by the Company Secretary are sent to the committee members for comment within a reasonable time after each meeting.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for the Company for 2007.

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements for the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Management provides such explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditors' report on pages 39 and 40.

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INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

The Chief Financial Officer reports to the audit committee twice a year on key findings regarding internal controls. The audit committee, in turn, communicates any material issues to the Board.

During the year, the Board conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

AUDITORS' REMUNERATION

Ernst & Young were re-appointed by shareholders at the 2005 annual general meeting held on 26 June 2006 as the Company's external auditors until the next annual general meeting. They are primarily responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2006.

For the year ended 31 December 2006, the total remuneration in respect of statutory audit services provided by Ernst & Young for the Group amounted to HK\$6,906,000 and in respect of non-audit services provided by Ernst & Young amounted to HK\$463,000.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

To enhance transparency, the Company endeavours to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

A separate resolution is proposed for each substantially separate issue, including the election of a director. The Chairman of the Board attended the annual general meeting of 2005. The Company will arrange for the chairman of each of the committees to attend and answer questions at the annual general meeting.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Company's bye-laws. Each circular to shareholders containing notice convening a general meeting of the Company contains the procedures for demanding a poll. The chairman of the meeting explains the poll procedures at the commencement of the meeting. The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast.

In relation to votes taken by way of a poll, results are published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.

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The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through the publication and dispatch of interim and annual reports. The Company's website offers an ongoing communication channel between the Company and shareholders. Key information on the Group is provided on the website and is updated from time to time.

Press conferences and briefing meetings with investment analysts are arranged from time to time and particularly when financial results are announced.

The Company maintains effective two-way communications with shareholders and other investors whose feedback is valuable to the Company in developing and fostering relationships. Comments and suggestions are welcome and can be sent to the principal place of business of the Company for the attention of the Head of Investor Relations or e-mailed to "ir@citicresources.com".

