

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The Board recognises the importance of good corporate governance practices and for the year ended 31 December 2006 the Company has complied with the Code Provisions save for the deviation from Code Provision A.2.1. Such deviation has been rectified with the appointment of Mr. Chen Jun as the Chairman of the Board and Mr. Zhao Yun as the Chief Executive Officer of the Company with a clear division of responsibilities.

The Company commits to continuously improving its corporate governance practices by periodic review to ensure that the Company continues to meet the requirements of the CG Code.

The key corporate governance practices of the Company are summarised as follows:

Board of Directors

Composition

The Board includes two executive Directors and three independent non-executive Directors.

Executive Directors

Chen Jun	(Appointed on 6 March 2007)
Zhao Yun	(Appointed on 6 March 2007)
Sun Lianggui	(Resigned on 27 March 2007)
Wang Zhaobo	(Resigned on 5 October 2006)
Sun Xianfang	(Resigned on 5 October 2006)
Wang Jiaqing	(Resigned on 5 October 2006)
Zhou Zhongdong	(Resigned on 27 March 2007)

Independent Non-executive Directors

Hung, Randy King Kuen
Wang Yuechao
Wei Zhiqiang

Members of the Boards are professionals from the computer science, industrial automation, finance and accounting. More than one-third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors of the Company. At the forthcoming annual general meeting ("AGM"), Mr. Wang Yuechao and Mr. Wei Zhiqiang will retire and they will not offer themselves for re-election. The Board has proposed Mr. Qi Facheng and Mr. Chen Wenping to be appointed as new independent non-executive Directors of the Company to take their place. The biographical details of Mr. Qi and Mr. Chen will be set out in the circular to shareholders to be issued shortly together with the notice of AGM to assist the shareholders in making an informed decision on their elections.

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman and the Chief Executive Officer.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 27 July 2004, and will continue thereafter until terminated by not less than two months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

Corporate Governance Report

The Company has received from each of its independent non-executive Directors an annual confirmation 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 independent guidelines set out in the Listing Rules.

Board Meetings

The Board meets regularly. In addition to regular meetings, it meets as and when warranted by particular circumstances. During the year, ten Board meetings were held. A record of the directors' attendance at Board meetings is set out as follows:

	Attendance/ Number of Meetings
<i>Executive Directors</i>	
Sun Lianggui	10/10
Wang Zhaobo	4/10
Sun Xianfang	4/10
Wang Jiaqing	4/10
Zhou Zhongdong	7/10
<i>Independent Non-executive Directors</i>	
Hung, Randy King Kuen	4/10
Wang Yuechao	4/10
Wei Zhiqiang	4/10

Board Responsibilities and Delegation

The Board is responsible to the shareholders for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board focuses on formulating the Company's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

The Board delegates the day-to-day management, administration and operation of the Company to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Company. 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.

Chairman and Chief Executive Officer

During the year, the role of Chairman of the Board and Chief Executive Officer were not segregated with clear division of responsibilities. However, the Company has recently appointed a separate Chairman and Chief Executive Officer. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Jun, the Chairman, is responsible for the operation of the Board and the formulation of the Company's strategies and policies. Mr. Zhao Yun, the Chief Executive Officer, with the assistance of other members of the Board and senior management, is responsible for the management of the Company's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner.

Appointment, Re-election and Removal of Directors

The Company has not established a nomination committee and retained the functions to the Directors. The Directors from time to time identify individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships on the Board is whether their characters, qualifications and experience are appropriate for the businesses of the Group. During the year, the Board did not nominate any new Directors.

Newly appointed directors of the Company will receive induction and reference materials to enable him to familiarize with the Group's business operations and board policies. Each director is briefed and updated from time to time to ensure that he is fully aware of his responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Company.

At each AGM, one-third of the directors are required to retire from office. The directors to retire in every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election. New directors appointed by the Board during the year shall retire and submit themselves for re-election at the AGM immediately following their appointments.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2006.

Directors' Responsibility for the Group's Financial Reporting

The Board acknowledges its responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. In preparing the financial statements for the year ended 31 December 2006, the directors have selected suitable accounting policies and apply them consistently and made judgements and estimates that are reasonable.

Remuneration Committee

The Company established a remuneration committee ("Remuneration Committee") on 25 April 2005, which comprises three independent non-executive Directors and one executive Director.

Members of Remuneration Committee

Zhao Yun (<i>Chairman</i>)	(Appointed on 27 March 2007)
Sun Lianggui (<i>Chairman</i>)	(Resigned on 27 March 2007)
Sun Xianfang	(Resigned on 5 October 2006)
Hung, Randy King Kuen	
Wang Yuechao*	
Wei Zhiqiang*	

* At the forthcoming AGM, Mr. Wang Yuechao and Mr. Wei Zhiqiang will retire as member of the Remuneration Committee and they will not offer themselves for re-election. The Board has proposed Mr. Qi Facheng and Mr. Chen Wenping to be appointed as new members of the Remuneration Committee to take their place.

Corporate Governance Report

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors, reviewing and approving their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee did not hold any meeting during the year ended 31 December 2006. During the year, the Board as a whole had determined the remuneration policy and packages of the directors. No individual director is allowed to participate in the procedures for deciding his individual remuneration package.

Internal Control

The Board is committed to managing business risks and maintaining a proper and effective systems of internal control to safeguard the shareholders' investment and the Group's assets.

The Board, through the Audit Committee, has conducted annual reviews of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provisions on internal controls during the year ended 31 December 2006 as set forth in the CG Code.

Auditors' Remuneration

The remuneration paid or payable to the external auditors of the Company in 2006 comprised of fees for audit services of RMB410,000 and fees for non-audit services work of RMB387,000.

Audit Committee

The Company established an audit committee ("Audit Committee") on 27 July 2004 with written terms of reference which describe the authority and duties of Audit Committee based on the guidelines set out in "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group with the management as well as external auditors of the Company.

The Audit Committee comprises three independent non-executive Directors.

Members of Audit Committee	Attendance/ Number of Meetings
Hung, Randy King Kuen (<i>Chairman</i>)	2/2
Wang Yuechao*	2/2
Wei Zhiqiang*	2/2

* *At the forthcoming AGM, Mr. Wang Yuechao and Mr. Wei Zhiqiang will retire as member of the Audit Committee and they will not offer themselves for re-election. The Board has proposed Mr. Qi Facheng and Mr. Chen Wenping to be appointed as new members of the Audit Committee to take their place.*

The Audit Committee held 2 meetings during the year ended 31 December 2006 to review the financial results and reports; financial controls; internal controls; and risk management systems; and the re-appointment of the external auditors. The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

Communication with shareholders

The Company communicates with its shareholders through the publication of annual and interim reports and press announcement. Shareholders' communications are also available on the Company's website at www.zhongtian.com. The AGM provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board and Chairman of the Audit Committee or in the absence of the Audit Committee Chairman, another member of the committee are available to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. In the case of voting at general meetings, except where a poll is demanded, the Chairman indicates to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution after it has been dealt with on a show of hands. Votes cast on each resolution at the general meetings are properly counted and recorded. Details of the poll voting procedures and rights of shareholders to demand a poll are included in relevant circulars to shareholders.