

CSG HOLDING CO., LTD. 2003 ANNUAL REPORT



CEO: ZENG NAN

March 2004

CSG HOLDING CO., LTD.

2003 ANNUAL REPORT

IMPORTANT NOTICE

The Board of Directors of CSG Holding Co., Ltd. (hereinafter referred to as the Company) hereby confirms that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, jointly and severally, for the truthfulness, accuracy and completeness of the whole contents.

Pricewaterhouse Coopers Zhongtian CPAs Co., Ltd. and Pricewaterhouse Coopers CPAs issued standard unqualified Auditor's Report for the Company.

Chairman of the Board of the Company Mr. Chen Chao, CEO Mr. Zeng Nan and Chief financial supervisor Ms. Sun Jingbo hereby confirm that the Financial Report of the Annual Report is true and complete.

This report is prepared both in Chinese and in English. Should there be any difference in interpretation of the text between the two versions, the Chinese version shall prevail.

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I Company Profile

i Legal Name of the Company

In Chinese: 中国南玻集团股份有限公司

Short form in Chinese: 南玻集团

In English: CSG Holding Co., Ltd.

Short form in English: CSG

ii Legal Representative: Chen Chao

iii Secretary of the Board of Directors: Wu Guobin

Authorized Representative in Charge of Securities Affairs: Li Tao

Address: CSG Building, No.1, 6th Industrial Road, Shekou, Shenzhen, China.

Tel: (86) 755-26860666

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E-mail: szcsgcsg@public.szptt.net.cn

iv Registered Address and Office Address of the Company: CSG Building, No.1, 6th Industrial Road, Shekou, Shenzhen, China.

Post Code: 518067

Company's Internet Web Site: <http://www.csgholding.com>

E-mail: nbdnb@public.szptt.net.cn

v Newspapers for Disclosing the information: Securities Times, China Securities Journal and Ta Kung Pao.

Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Assets & Securities Department, 5/F., CSG Building.

vi Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock (A-Share): Southern Glass A

Short Form of the Stock (B-Share): Southern Glass B

Stock Code (A-Share): 000012

Stock Code (B-Share): 200012

vii Other information About the Company

(i) Initial registration date: September 10, 1984.

Initial registration place: State Administration for Industry & Commerce, Shenzhen Municipal office.

(ii) Registration number of enterprise legal person's business license: GSWQGY SZ Zi No.100482

(iii) Reference Number of taxation: State S Zi 440301618838577; Local D Zi 440305618838577.

(iv) The Certified Public Accountants engaged by the Company

a. Domestic: Pricewaterhouse Coopers Zhongtian CPAs Co., Ltd.

Address: 12/F., Shui On Plaza, No.333, Huaihai Middle Road, Shanghai 200021, China

b. Overseas: Pricewaterhouse Coopers CPAs

Address: 22/F., Prince's Building, Central, Hong Kong.

II Financial Highlight

i Major accounting data as of the report period

	Unit: RMB'000
Profit before tax	233,112
Net profit	202,632
Gross profit	475,369
Other operating income	14,742
Profit from operating	253,720
Net cash from operating activities	394,075
Cash and cash equivalents at end of year	213,859

In the year 2003, the Company realized a net profit amounting to RMB203,910,000 and RMB202,632,000 respectively audited by Pricewaterhouse Coopers Zhongtian CPAs Co., Ltd. and Pricewaterhouse Coopers CPAs. The difference between two results was due to:

	Unit: RMB'000
As reported under IAS:	202,632
Recognition of deferred income tax	(481)
Derecognition of long-term deferred expenses	3,638
Recognition of sales of properties based on transfer of title	(1,879)
As reported under CAS:	203,910

ii Major accounting data and financial indexes over the past three years

	Unit: RMB'000		
<u>Items</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Sales	1,320,900	1,047,831	1,016,561
Net profit	202,632	162,802	153,207
Total assets	3,526,990	2,978,128	2,687,912
Shareholder's equity	2,132,202	2,011,116	1,936,768
Earnings per share (RMB)	0.30	0.24	0.23
Equity per share (RMB)	3.15	2.97	2.86
Net cash flows from operating activities per share (RMB)	0.58	0.42	0.45
Return on equity (%)	9.50	8.10	7.91

iii Particulars about change in shareholders' equity in the report period

	Unit: RMB'000					
<u>Items</u>	<u>Share capital</u>	<u>Capital reserve</u>	<u>Statutory Common reserve fund</u>	<u>Statutory Public welfare fund</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at the period-begin	676,975	927,897	132,134	84,855	188,639	2,011,116
Increase in the period	-	5	20,391	10,196	172,045	222,632
Decrease in the period	-	-	-	-	101,546	101,546
Balance at the period-end	676,975	927,902	152,525	95,051	259,138	2,132,202
Reason of change	-	Exchange reserve	Draw from the profit of the period	Draw from the profit of the period	Profit of the period	Profit of the period

III Changes in Share Capital and Particulars about the Shareholders

i Changes in share capital

(i) Statement of changes in share capital as of the report period

Unit: Share

	<u>Increase / Decrease (+/-) as of the period</u>						<u>Sub-total</u>	<u>After the change</u>
	<u>Before the change</u>	<u>Shares allotment</u>	<u>Bonus shares</u>	<u>Capitalization of public reserve</u>	<u>Additional issuance</u>	<u>Others</u>		
Unlisted shares								
Promoters' shares	242,326,589						242,326,589	
Including:								
State-owned shares								
Domestic legal person's shares	242,326,589						242,326,589	
Foreign legal person's shares								
Others								
Raised legal person's shares	28,430,284						28,430,284	
Inner employees' shares								
Preference shares or other								
Including:								
Transferred allotted share								
Total unlisted shares	270,756,873						270,756,873	
Listed shares								
RMB ordinary shares	107,165,997						107,165,997	
Domestically listed foreign shares	299,052,546						299,052,546	
Overseas listed foreign shares								
Others								
Total listed shares	406,218,543						406,218,543	
Total shares	676,975,416						676,975,416	

(ii) Share issue and listing

There was no change of the total shares of the Company for the previous three years at the end of the report period.

Company's non-listed foreign shares were approved by CSRC for trading on 13 August 2001. Thus, Domestic Legal Person's Shares in share structure were changed into Domestically Listed Foreign Shares.

ii Particulars about the principal shareholders ended by the report period

(i) Ended by the report period, the Company had totally 59,554 shareholders, of them, 26,333 shareholders of A-share and 33,221 shareholders of B-share.

(ii) Particulars about the shares held by top ten shareholders

<u>Name of shareholders</u>	<u>Increase/ Decrease in the report year (share)</u>	<u>Holding shares at the year-end (share)</u>	<u>Proportion (%)</u>	<u>Type of shares</u>	<u>Number of share pledged or frozen</u>	<u>Nature of shareholders</u>
Yiwan Industrial Development (Shenzhen) Co., Ltd.	0	87,898,367	12.98	Non-circulating	No	
China Northern Industry Shenzhen Corporation	0	87,175,364	12.88	Non-circulating	No	
Xin Tong Chan Development (Shenzhen) Co., Ltd.	0	76,204,633	11.26	Non-circulating	No	
China Merchants (Glass Industry) Holding Co., Ltd.	-202,304	11,015,268	1.63	Circulating	Unknown	Foreign shareholder
Shenzhen Jun An Securities Co., Ltd.	0	5,878,371	0.87	Non-circulating	No	
Deutsche Bank AG London	Unknown	5,605,240	0.83	Circulating	Unknown	Foreign shareholder
China Merchants Securities Co., Ltd.	0	3,808,883	0.56	Non-circulating	No	
San Ixia Securities Co., Ltd.	0	3,721,727	0.55	Circulating	Unknown	
Btfe-Value Partners Intelligent FD-China B SHS FD	Unknown	3,569,016	0.53	Circulating	Unknown	Foreign shareholder
Nomura TB/Nomura ITM	Unknown	2,820,000	0.42	Circulating	Unknown	Foreign shareholder

There existed the associated relationship between Yiwan Industrial Development (Shenzhen) Co., Ltd. and Xin Tong Chan Development (Shenzhen) Co., Ltd., which controlled by Shenzhen International Holdings Limited. Except for this, there existed no associated relationship among the other shareholders.

(iii) Brief introduction of legal person shareholders holding no less than 10% of total shares of the Company

- a. *Yiwan Industrial Development (Shenzhen) Co., Ltd.* was founded on 13 September 1994, which is a wholly owned subsidiary of Shenzhen International Holdings Limited. Its registered capital is HKD 20 million.

Legal representative: Chen Chao

Business scope: Manufacture and operation of construction material, decoration material, new-style macromolecular material, energy saving electromechanical products, refining chemical industry products and etc.

- b. *China Northern Industry Shenzhen Corporation* was founded on 22 May 1981, which is a wholly owned subsidiary of China Northern Industry Corporation. Its registered capital is RMB 124.85 million.

Legal representative: Jiao Zhiren

Business scope: Domestic trading, supply and marketing of materials, storage and etc.

- c. *Xin Tong Chan Development (Shenzhen) Co., Ltd.* was founded on 8 September 1993, which was wholly owned subsidiary company of Shenzhen International Holdings Co., Ltd..

Legal representative: Chen Chao

Business scope: Consultation of transport information, development of special-purpose software of transport flat and setting up industry.

(iv) Particulars about the shares held by the top ten shareholders of circulating share

<u>Name of shareholders</u>	<u>Holding shares at the year-end (share)</u>	<u>Type of shares</u>
China Merchants (Glass Industry) Holding Co., Ltd.	11,015,268	B-share
Deutsche Bank AG London	5,605,240	B-share
San Xia Securities Co., Ltd.	3,721,727	A-share
BTFE-Value Partners Intelligent FD-China B SHS FD	3,569,016	B-share
Nomura TB/Nomura ITM	2,820,000	B-share
Shanghai (HK) Wanguo Security	2,374,628	B-share
DZ BK Intl SA A/C Union Investment LUX SA S/A Uniem Fernost	2,100,000	B-share
Barings (Ireland) SA The Atlantis China Fund PLC	1,999,927	B-share
PICTET & CIE	1,550,000	B-share
Merrill Lynch International	1,500,000	B-share

Among the top ten shareholders of circulating share, the Company is unknown whether there exists associated relationship, or whether the rest shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company.

IV Directors, Supervisors, Senior Executives and Employees**i Directors, supervisors and senior executives****(i) Basic status**

<u>Name</u>	<u>Title</u>	<u>Sex</u>	<u>Age</u>	<u>Term office</u>	<u>Shares held at the year-begin</u>	<u>Shares held at the year-end</u>	<u>Change</u>
Chen Chao	Chairman of the Board	Male	48	2002/5~2005/5	-	-	-
Zeng Nan	Director / CEO	Male	59	2002/5~2005/5	67,680	67,680	0
Long Long	Independent Director	Male	48	2002/5~2005/5	-	-	-
Yan Ganggang	Independent Director	Male	44	2002/5~2005/5	-	-	-
Zhang Jianjun	Independent Director	Male	39	2003/5~2005/5	-	-	-
Zhou Daozhi	Director	Male	54	2002/5~2005/5	-	-	-
Li Jingqi	Director	Male	47	2002/5~2005/5	-	-	-
Ding Jiuru	Director	Male	41	2002/5~2005/5	-	-	-
Liu Jun	Director	Male	40	2002/5~2005/5	-	-	-
Jiao Zhiren	Chairman of the Supervisory Committee	Male	57	2002/5~2005/5	-	-	-
Yang Hai	Supervisor	Male	42	2002/5~2005/5	-	-	-
Sun Jingbo	Chief Financial	Female	41	2002/5~2005/5	24,816	24,816	0
Ke Haiqi	Deputy General Manager	Male	38	2003/1~2005/5	-	-	-
Lu Wenhui	Deputy General Manager	Male	40	2003/1~2005/5	-	-	-
Yuan Dingfu	Deputy General Manager (Supervisor)*	Male	42	2003/11~2005/5	-	-	-
Wu Guobin	Secretary of the Board of Directors	Male	39	2002/5~2005/5	-	-	-

* Mr. Yuan Dingfu has submitted an application to resign the post of Supervisor, which would take effect under the approval of the 2003 Shareholders' General Meeting.

(ii) Particulars about directors, supervisors holding the post in Shareholding Company

<u>Name</u>	<u>Name of Shareholding Company</u>	<u>Title in Shareholding Company</u>	<u>Term office</u>	<u>Drawing the payment from the Company</u>
Chen Chao	Xin Tong Chan Development (Shenzhen) Co., Ltd.	Chairman of the Board	Apr. 1993 to now	No
Chen Chao	Yiwan Industrial Development (Shenzhen) Co., Ltd.	Chairman of the Board	Apr. 2000 to now	No
Li Jingqi	Xin Tong Chan Development (Shenzhen) Co., Ltd.	Director	Sep. 2002 to now	No
Li Jingqi	Yiwan Industrial Development (Shenzhen) Co., Ltd.	Director	Dec. 2002 to now	No
Ding Jiuru	China Northern Industry Shenzhen Corporation	Chief Accountant	Jun. 1998 to now	Yes
Liu Jun	Xin Tong Chan Development (Shenzhen) Co., Ltd.	Director	Sep. 2002 to now	No
Liu Jun	Yiwan Industrial Development (Shenzhen) Co., Ltd.	Director	Apr. 2000 to now	No
Jiao Zhiren	China Northern Industry Shenzhen Corporation	General Manager	Jan. 2000 to now	Yes
Yang Hai	Yiwan Industrial Development (Shenzhen) Co., Ltd.	Director/General Manager	Apr. 2000 to now	Yes
Yang Hai	Xin Tong Chan Development (Shenzhen) Co., Ltd.	Director	Mar. 2001 to now	No

(iii) Particulars about the annual payment of directors, supervisors and senior executives

- a. The Board of Directors determined the salary of the Company's senior executives, and carried out system of basis salary and uncertain premium.
- b. There are 6 directors (excluding independent directors), supervisors and senior executives drew their salary from the Company. The total annual salary is RMB 2,007.20 thousand. Of them, one person enjoyed between RMB 500~590 thousand, and three person enjoyed between RMB 300~390 thousand, and two person enjoyed between RMB 200~290 thousand respectively. The total annual payment of the top three senior executives drawing the highest salary from the Company is RMB 1,230.50 thousand.
- c. According to the resolutions of the 2002 Shareholders' General Meeting, independent directors Mr. Long Long, Mr. Yan Ganggang and Mr. Zhang Jianjun draw allowance of RMB 50 thousand per year respectively.
- d. The following directors and supervisors received no salary from the Company: Mr. Chen Chao, Mr. Zhou Daozhi, Mr. Li Jingqi, Mr. Ding Jiuru, Mr. Liu Jun, Mr. Jiao Zhiren, Mr. Yang Hai.

(iv) Leaving and reason of directors, supervisors and senior executives in the report period

- a. In the 4th meeting of the 3rd Board of Directors held on 3 December 2002, the Board of Directors approved Mr. Ke Haiqi and Mr. Lu Wenhui to take as the Deputy General Manager of the Company respectively according to nomination of CEO Mr. Zeng Nan. They took their position on 1 January 2003.
- b. In the 2002 Shareholders' General Meeting held on 9 May 2003, original director Mr. Sun Chengming resigned from the position of Director due to work change, and Mr. Zhou Daozhi resigned from the position of Independent Director. The Meeting elected Mr. Zhang Jianjun and Mr. Zhou Daozhi to take as Independent Director and Director of the Company respectively.
- c. In the 11th meeting of the 3rd Board of Directors held on 22 November 2003, the Board of Directors approved Mr. Yuan Dingfu to take as the Deputy General Manager of the Company according to nomination of CEO Mr. Zeng Nan.

ii Employee of the Company

<u>Categories</u>	<u>Number of person</u>	<u>Proportion (%)</u>
Generative personnel	2,271	70.16
Marketing personnel	202	6.24
Technical personnel	369	11.40
Financial personnel	84	2.59
Administrative personnel	311	9.61
Total	3,237	100

At the end of the report period, there were 1,399 employees having received college and polytechnic school or higher education, accounting 43.22% of the total employees. In the report period, there was no retired who was paid by the Company.

V Administrative Structure

i Company Administration

Strictly according to the PRC Company Law, the Securities Law and other relevant laws and regulations issued by China Securities Regulatory Commission (hereinafter referred to as CSRC), the Company has consistently improved the legal person administration structure, established modern enterprise system and standardized the operation of the Company. Based on the requirement of normative document on administrative structure of listed companies issued by CSRC and State Economic & Trade Commission, the Company formulated and improved Articles of Association, Rules of Procedures of the Board of Directors, Work Rules of General Manager, Financing Management System of CSG, Conference System of CSG and relevant normative documents. In the report period, the Company has revised and perfected Articles of Associations of the Company in term of the relevant requirements of CSRC about *external guarantee*. In addition, the Company has also determined the Allowance System of Independent Directors according to the relevant regulations. According to the relevant regulations of the Administration Rules of the listed companies, the Board of Directors of the Company will establish the following special committees such as strategy, auditing, nomination, payment and examination.

ii Performance of independent directors

The Board of Directors of the Company engaged three independent directors. The independent directors take no position of any post except the independent director. Since the accession of the independent directors, they implemented the responsibility according to relevant laws and regulations, put toward independent opinion on significant matters such as the assign of senior managers of the Company and safeguarded the interests of the Company and small or medium shareholders.

iii Separation between the Company and its principal shareholders in terms of business, personal, assets, organization and financial

The Company has been absolutely independent in business, personal, assets, and organization and financial from its holding shareholders ever since its establishment. The Company had an independent and complete business system and independent management capability.

(i) In terms of business: The Company has owned independent purchase and supply system of the raw resources, completely production systems, independent salesmen and customers. The Company has been completely independent from the holding shareholders in Business. The

holding shareholder and their subsidiaries don't engage any same business or similar business with the Company.

(ii) In terms of personnel: The Company is absolutely independent in the management of labor, personnel and salaries. General manager, person in charge of financing and other senior executives get their payment from the Company and have not received any remuneration from the holding shareholders or held any title therein.

(iii) In terms of assets: The Company possesses independent production system, auxiliary production system and complementary facilities. The intangible assets, such as industrial property rights, trademark, patent & non-patent technologies, etc. solely belong to the Company. The Company has independent purchase and sales system. The assets invested by the holding shareholder are independent and complete, and the ownership and rights are clear. The operation and management of listed company is never occupied or dominated, and not even interfered by the holding shareholder.

(iv) In terms of organization: The Company has been totally independent from its holding shareholders in production, operation and administration. The Company has its own office and production sites. The holding shareholder and their subsidiaries never instruct any operation plans and dictates related with the Company to the Company and subsidiaries, and never interfere the independence of the operation and management of the Company in any forms.

(v) In terms of finance: The Company has independent financial department and has established independent accounting calculation system & financial management system. The Company has independent bank accounts. The Company has paid tax independently according to the laws.

iv Evaluation and incentive mechanism of senior executives in the report year

The Company set up evaluation system of aim and responsibility. At the end of the operation year, the Board of Directors evaluated synthetically the senior executive according to the implementation of the Company's operation aim and series indexes.

VI Brief Introduction to Shareholder's General Meeting

The Company has held three shareholders' general meetings in the report period.

i Particulars about the information, convening and holding of the shareholders' general meeting

(i) According to the resolution of the 5th meeting of the 3rd Board of Directors, the Company published the Public Notice on holding the 1st Extraordinary Shareholders' General Meeting of 2003 on Securities Times, China Securities Journal and Ta Kung Pao dated 24 January 2003. The 1st Extraordinary Shareholders' General Meeting of 2003 was held on schedule at the meeting room on the 7th floor of Southern Glass Technology Building in Shekou, Shenzhen on 28 February 2003. Shareholders, shareholder's representatives attending the meeting and representing shares were in conformity with Articles of Association of the Company and the relevant regulations. Through witness of Lawyer Huang Sizhou worked in Guangdong Hengtongcheng Law Firm and the notary Xu Mo worked in Shenzhen Notary Office, they respectively issued law opinion and notarization document, and the meeting was legal and effective.

(ii) According to the resolution of the 6th meeting of the 3rd Board of Directors, the Company

published the Public Notice on holding the 2002 Shareholders' General Meeting on Securities Times, China Securities Journal and Ta Kung Pao dated 4 April 2003. The 2002 Shareholders' General Meeting was held on schedule at the meeting room on the 7th floor of Southern Glass Technology Building in Shekou, Shenzhen on 9 May 2003. Shareholders, shareholder's representatives attending the meeting and representing shares were in conformity with Articles of Association of the Company and the relevant regulations. Through witness of Lawyer Hong Guoan worked in Guangdong Tianhao Law Firm, he issued law opinion, and the meeting was legal and effective.

(iii) According to the resolution of the 10th meeting of the 3rd Board of Directors, the Company published the Public Notice on holding the 2nd Extraordinary Shareholders' General Meeting of 2003 on Securities Times, China Securities Journal and Ta Kung Pao dated 27 October 2003. The 2nd Extraordinary Shareholders' General Meeting of 2003 was held on schedule at the meeting room on the 7th floor of Southern Glass Technology Building in Shekou, Shenzhen on 28 November 2003. Shareholders, shareholder's representatives attending the meeting and representing shares were in conformity with Articles of Association of the Company and the relevant regulations. Through witness of Lawyer Hong Guoan worked in Guangdong Tianhao Law Firm and the notary Xu Mo worked in Shenzhen Notary Office, they respectively issued law opinion and notarization document, and the meeting was legal and effective.

ii The resolutions of the Shareholders' General Meeting

(i) The following resolutions were approved by means of registered voting in the 1st Extraordinary Shareholders' General Meeting of 2003:

- a. The Proposal on Changing the Company's Name
- b. The Proposal on Amendment of Articles of Association of the Company

The resolutions of this Shareholders' General Meeting were published on Securities Time, China Securities and Ta Kung Pao dated 1 March 2003.

(ii) The following resolutions were approved by means of registered voting in the 2002 Shareholders' General Meeting:

- a. 2002 Work Report of the Board of Directors of CSG
- b. 2002 Work Report of the Supervisory Committee of CSG
- c. 2002 Annual Report and Summary of CSG
- d. 2002 Profit Distribution Preplan of CSG
- e. The Proposal on Changing the Partial Directors
- f. The Proposal on Establishing Recompense of Independent Directors
- g. The Proposal on Engagement of Law Consultant for the year 2003
- h. The Proposal on Engagement of Auditing Organization for the year 2003

The resolutions of this Shareholders' General Meeting were published on Securities Time, China Securities and Ta Kung Pao dated 9 May 2003.

(iii) The following resolutions were approved by means of registered voting in the 2nd Extraordinary Shareholders' General Meeting of 2003:

- a. The Proposal on Increasing Investment to Guangzhou CSG Glass Co., Ltd.
- b. The Proposal on Authorizing the Board of Directors by the Shareholders' General Meeting on Investment Examination Purview
- c. The Proposal on Amendment of Articles of Association of the Company

The resolutions of this Shareholders' General Meeting were published on Securities Time, China Securities and Ta Kung Pao dated 29 November 2003.

iii Election and changing of the directors and supervisors of the Company

In accordance with the resolutions of the 2002 Shareholders' General Meeting, Mr. Zhang Jianjun and Mr. Zhou Daozhi were elected as independent director and director of the Company respectively. Meanwhile, Mr. Zhou Daozhi no longer took the post of independent director of the Company, and Mr. Sun Chengming no longer took the post of director of the Company.

VII Report of the Board of Directors

i Discussion and analysis of the operation

In the first half year of 2003, the demand in national economy was mild and operation was restricted due to the influence of SARS. The price of the Company's main products declined generally. At the same time, the international price of crude oil ascended which influenced by the War of Iraq, and international exchange rate fluctuated acutely. The Company's operating pressure increased suddenly. Facing these negative influences, the Company adjusted product structure actively and persisted in enhancing additional value of products through developing high-tech products, stabilized the confidence, strengthened the preponderant industries, enlarged the productive capability and sped up the construction of those projects newly constructed, organized and managed in scientific and elaborate way, reinforced the cost and expense control. The Company not only dispelled the above negative completely, but also has still kept the steady growth in the achievement. In the second half year of 2003, the country implemented active financial policies continuously and widen the domestic demand, and export increased in a fast way. The national economy recovered quickly and increased strongly. The demand for glass products in the market was prosperous and their prices recovered in a stable way. The Company saw a delightful condition that the production and sales were both prosperous and the main products' supply fell short of demand. The Company's benefits ascended in a large margin. The Company finished the productive & operative targets and tasks in investment & construction for 2003 completely. In the report period, the Company realized net profit more than RMB 200 million, and reached the highest historical level of the Company.

The glass market outlook for 2004 in China, we estimate that it will still keep a relatively high growth speed and the prices of main products shall be relatively stable with good market environment. Thus the Company has established operating management strategy: combines the market demand tightly, adjusts product structure continually, reinforces the development of new products, improves further objective cost management system, controls the cost and expense strictly, speeds the construction of newly projects constructed, cultivates and enhances the core competitiveness continually, catches the advantageous chances, expands market share continually, strengthens the profitability and keeps the Company's continued and rapid development.

ii Operation in the report period

(i) Scope of main operations and their operations

The industry type of the Company falls into the category of nonmetal mineral products industry (C61). The scope of main operations is: R&D, production and operation of raw sheet of high-grade float glass, architectural glass, refined glass, automobile glass, new-typed electronic components and structure ceramic materials, and design and installation of glass wall, and investing, holding and developing industries and so on.

a. Sales classified according to products:

Unit: RMB'000

	<u>2003</u>	<u>2002</u>
Sales of glass products	1,198,944	947,214
Sales of ceramics products	53,195	44,398
Sales of properties	39,667	42,688
Glass installation service revenue	29,094	13,531
Total	1,320,990	1,047,831

b. Sales classified according to location:

Unit: RMB'000

	<u>2003</u>	<u>2002</u>
PRC	1,156,459	806,652
United States	57,492	83,762
Australia	26,847	19,968
Others	80,102	137,449
Total	1,320,990	1,047,831

Business segment information is not presented as the sales of glass products accounted for more than 90% of the consolidated revenue and results of the Company.

(ii) Particulars about the wholly owned and jointly controlled subsidiaries

Please refer to Note 29 of the Auditors' Report.

(iii) Major suppliers and customers

In the report period, the total purchase amount of the top five suppliers of the Company was RMB 210.20 million, taking 28.36% of the total annual purchase amount, while the total sales amount of the top five customers of the Company was RMB 189.00 million, taking 14.21% of the total annual sales amount.

(iv) Problems and difficulties in the operation and solutions

- a. Since the international price of crude oil keep fluctuating in a high level, the Company's cost of fuel increased in a big margin. The Company reinforced the cost and expense control through effective objective cost management and increased the finished product rate, which has eliminated this disadvantageous factor basically.
- b. In the second half year, since national economy grew strongly, the demand for the glass products in the market was prosperous and main products' supply fell short of demand. The Company still could not meet customers' demands with full load production. The Company tried its best to enhance the service quality and strengthen customers' satisfaction through digging internal potential, increasing equipment utility and productive efficiency, perfecting customers' service system and establishing rapid feedback market mechanism.
- c. The progress in disposing real estate assets left in previous years was still not ideal. The Company has reinforced the operating management and has sped up the disposal to try its best to liquidize assets and recover capital.

iii Investment

(i) In the report period, the Company did not raise any fund through share offering or used any fund raised through previous share offering till the report period.

(ii) Investment of the funds not raised through share offering in 2003

- a. Tianjin Architectural Glass Project. The actual total investment of the 1st term of project was RMB 340 million. Its construction was basically finished and production lines were still in experiment and adjustment. The project will be put into production totally in the first quarter of 2004.
- b. Color Light-filter Glass Project. The investment of this project was USD 32 million,

whose product was the main component of LCD. The factory building was almost finished. The project will be put into production around July to August in 2004.

- c. Invested and established Guangzhou CSG Glass Co., Ltd. and construct U type special glass production line. The register capital of the company was RMB 120 million, and the Company invested RMB 90 million, taking 75% of the total equity. The total investment planned of the project was RMB 730 million. The main production is special glass such as super thin glass, glass used in optical instrument, environmental protection glass and so on. At present, majority of the basic engineering of furnace has been completed. The basic construction and installation & adjustment of equipments imported will be completed as a whole in 2004. The project will be put into production gradually from 2005.
- d. The 3rd term of Automobile Glass Production Line project. The investment planned of the project was RMB 200 million, which was used to enlarge the production ability of the integral automobile glass and import relevant instruments. At present, the factory building was almost finished and parts of the important instruments were in place for adjustment. The project will be put into production around July to August in 2004.

iv Financial status

Unit: RMB'000

<u>Item</u>	<u>2003</u>	<u>2002</u>	<u>Increase / decrease (%)</u>	<u>Reasons</u>
Total assets	3,526,990	2,978,128	18.43	Increasing liabilities and investment industrial projects.
Shareholders' equity	2,132,202	2,011,116	6.02	Net profit realized in the year.
Gross profit	475,369	394,317	20.56	Newly constructed projects put into production and bloom of market demand.
Net profit	202,632	162,802	24.47	Newly constructed projects put into production and bloom of market demand.
Net increase (decrease) in cash and cash equivalents	33,994	(2,304)	1,575.43	Expansion of the Company's scale and increase of working capital.

v In the report period, the production environment tends to be favorable, and the microscopic policy and the regulations are relatively stable. It put a positive effect on the achievement increase.

vi Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd. and Pricewaterhouse Coopers CPAs issued 2003 standard Auditor's Report for the Company without reserved opinion.

vii Routine work of the Board of Directors

(i) The meeting and resolutions of the Board of Directors

In the report period, the 3rd Board of Directors held seven meetings.

- a. The 5th meeting of the 3rd Board of Directors was held in the Fuying Hotel in Dongguan, Guangdong on 22 January 2003. 9 directors were supposed to attend the meeting, 8 of whom were actually present. Absent director entrusted other director to attend the meeting and vote on his behalf. The meeting examined and approved the Proposal on Changing the Name of CSG and the Proposal on Amendment of Articles of Association of the Company, and confirmed to hold the 1st Extraordinary Shareholders' General Meeting of 2003. The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 24 January 2003.
- b. The 6th meeting of the 3rd Board of Directors was held in the meeting room on the 7th floor of the Southern Glass Building in Shekou, Shenzhen on 2 April 2003. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting examined and approved the proposals as following:
 - a) 2002 Work Report of the Board of Directors of CSG

- b) 2002 Annual Report and Summary of CSG
 - c) 2002 Financial Settlement Report of CSG
 - d) 2002 Profit Distribution Preplan of CSG
 - e) Policy of 2003 Expected Profit Distribution
 - f) Proposal on Changing Partial Directors
 - g) Proposal on Establishing Recompense of Independent Directors
 - h) Proposal on Engagement of Law Consultant for the year 2003
 - i) Proposal on Engagement of Auditing Organ for the year 2003
 - j) Confirmed the holding 2002 Shareholders' General Meeting of CSG
- The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 4 April 2003.
- c. The 7th meeting of the 3rd Board of Directors was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 24 April 2003. 9 directors were supposed to attend the meeting, 7 of whom were actually present. Absent directors entrusted other directors to attend the meeting and vote on their behalf. The meeting examined and approved the proposals as following:
- a) The 1st Quarter Report of 2003 of CSG
 - b) The Feasibility Report on Investing Special Glass Production Line
 - c) The Feasibility Report on Increase Investment to Shenzhen CSG Automobile Glass Co., Ltd.
- The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 26 April 2003.
- d. The 8th meeting of the 3rd Board of Directors was held in the meeting room on Longquan International Hotel, Dongguan, Guangdong on 10 June 2003. 9 directors were supposed to attend the meeting, 8 of whom were actually present. Absent director entrusted other director to attend the meeting and vote on his behalf. The meeting discussed the investment project approved on the 4th & 7th meeting of the 3rd Board of Directors, and evaluated the risks of all this projects once again.
- e. The 9th meeting of the 3rd Board of Directors was held in the Zhuhai International Meeting Center, Guangdong on 25 July 2003. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting examined and approved the proposals as following:
- a) Work Report on the 1st half year of 2003 and Work Scheme on the next half year of 2003 of CSG
 - b) 2003 Semi-year Report and Summary of CSG
 - c) Preplan of Profit Distribution in the Semi-year of 2003 of CSG
- The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 29 July 2003.
- f. The 10th meeting of the 3rd Board of Directors was held in the meeting room on 7th floor in Southern Glass Building in Shekou, Shenzhen on 24 October 2003. 9 directors were supposed to attend the meeting, 8 of whom were actually present. Absent director entrusted other director to attend the meeting and vote on his behalf. The meeting examined and approved the proposals as following:
- a) Report of the 3rd Quarter in 2003 of CSG
 - b) Proposal on Increasing Investment to Guangzhou CSG Glass Co., Ltd.
 - c) Proposal on Authorizing the Board of Directors by the Shareholders' General Meeting on Investment Examination purview
 - d) Proposal on Amendment of Articles of Association of the Company
 - e) Confirmed to hold the 2nd Extraordinary Shareholders' General Meeting of 2003

The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 27 October 2003.

- g. The 11th meeting of the 3rd Board of Directors was held in the meeting room on 8th floor in Shenzhen North Building, Shenzhen on 22 November 2003. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting appointed Mr. Yuan Dingfu to be the Deputy General Manager of CSG. The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 25 November 2003.

(ii) Implementation of the resolutions of Shareholders' General Meeting by the Board of Directors

- a. The 1st Extraordinary Shareholders' General Meeting of 2003 approved that changed the Company's name from CSG Technology Holding Co., Ltd. to CSG Holding Co., Ltd.. Sate Administration for Industry & Commerce approved it with (G) MCBHWQZ [2003] No.7 document, and the new name has been registered in Sate Administration for Industry & Commerce, Shenzhen Municipal office on 28 September 2003.
- b. 2002 Shareholders' General Meeting of the Company approved 2002 profit distribution plan: Based on the total share capital of 676,975,416 shares at the end of 2002, cash dividends were distributed to all shareholders at the rate of cash RMB 1.5 (tax included) for every 10 shares. The Company implemented the cash distribution in June 2002.
- c. The 2nd Extraordinary Shareholders' General Meeting of 2003 approved that invest additional capital to Guangzhou CSG Glass Co., Ltd. and it is progress.
- d. The 2nd Extraordinary Shareholders' General Meeting of 2003 approved that amend the Articles of the Association with respect to guarantee. The corresponding Articles of the Association have been changed in Sate Administration for Industry & Commerce.

viii Preplan of profit distribution

As audited by Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd., the net profit of the Company was RMB 203,910,236. The Board of Directors proposed to make profit distribution as follows: 10% of the net profit is to be withdrew as statutory common reserve fund amounting to RMB 20,391,546 and 5% of the net profit is to be withdrew as statutory public welfare fund amounting to RMB 10,195,512. Plus RMB 196,331,546 undistributed profit carried down from the previous year and minus the cash dividend RMB 101,546,312 distributed in the last year, the profit available for distribution for shareholders is 268,108,934. Based on the total share capital of 676,975,416 shares at the end of 2003, the dividends will be distributed to the whole Shareholders in cash at the rate of RMB 1.80 for every 10 shares (including tax), and the totally amounts of cash dividends is RMB 121,855,575. The surplus profit will be retained for distribution in future year.

The aforesaid profit distribution preplan should be submitted to the 2003 Shareholders' General Meeting for examination.

ix Other events

(i) Securities Times, China Securities and Ta Kung Pao were the publications chosen by the Company for disclosing the information in the year 2003.

(ii) The explanation from the CPA on the cash tied up by the Company's holding shareholders and other related parties.

According to the requirements of the Notification on Regulating the Fund Intercourse of Listed Company and Related Parties, and Several Problems on External Guarantee of Listed Company by CSRC with No.56 ZJF [2003], Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd. explained: There was no such situation that the Company's holding shareholders and

other related parties tied up cash at the end of the report period.

(iii) The explanation from the Independent Directors on the situation external guarantee and independent opinion

The Independent Director thought that: In the report period, the Company did not provide guarantee to the Company's holding shareholders, other related parties hold 50% of equity by the Company, any illegal unit and natural person. At the end of report period, the total guarantee amount of the Company's subsidiaries was about RMB 572.99 million, taking 27.13% of the total net assets in the Consolidated Balance Sheet dated 31 December 2003. The Company has amended the Articles of the Associations according to relevant stipulations, and regulated the approval procedure of external guarantee and credit criteria of the guaranteed. So as a conclusion, there was no guarantee behavior against the regulations in the report period.

VIII Report of the Supervisory Committee

i Work of the Supervisory Committee

In the report period, the 3rd Supervisory Committee held seven meetings.

(i) The 5th meeting of the 3rd Supervisory Committee was held in the Fuying Hotel in Dongguan, Guangdong on 22 January 2003. The meeting examined and approved the Proposal on Changing the Name of CSG and the Proposal on Amendment of Articles of Association of the Company.

(ii) The 6th meeting of the 3rd Supervisory Committee was held in the meeting room on the 7th floor of the Southern Glass Building in Shekou, Shenzhen on 2 April 2003. The meeting examined and approved the proposals: 2002 Work Report of the Supervisory Committee of CSG, 2002 Annual Report and Summary of CSG, 2002 Financial Settlement Report of CSG, 2002 Profit Distribution Preplan of CSG, Proposal on Changing Partial Directors and Proposal on Establishing Recompense of Independent Directors.

(iii) The 7th meeting of the 3rd Supervisory Committee was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 24 April 2003. The meeting examined and approved The 1st Quarter Report of 2003 of CSG.

(iv) The 8th meeting of the 3rd Supervisory Committee was held in the meeting room on Longquan International Hotel in Dongguan, Guangdong on 10 June 2003. The meeting discussed the investment project approved on the 4th & 7th meeting of the 3rd Board of Directors, and evaluated the risks of all this projects once again.

(v) The 9th meeting of the 3rd Supervisory Committee was held in the Zhuhai International Meeting Center, Guangdong on 25 July 2003. The meeting examined and approved Work Report on the 1st half-year of 2003 and Work Scheme on the next half year of 2003 of CSG, 2003 Semi-year Report and Summary of CSG and Preplan of Profit Distribution in the Semi-year of 2003 of CSG.

(vi) The 10th meeting of the 3rd Supervisory Committee was held in the meeting room on 7th floor in Southern Glass Building in Shekou, Shenzhen on 24 October 2003. The meeting examined and approved Report of the 3rd Quarter in 2003 of CSG and Proposal on Increasing Investment to Guangzhou CSG Glass Co., Ltd..

(vii) The 11th meeting of the 3rd Board of Directors was held in the meeting room on 8th floor in Shenzhen North Building, Shenzhen on 22 November 2003. The meeting appointed that Mr. Yuan Dingfu quit his duty of supervisor because of work change and commended Mr. Zhao

Xijun as the candidate of supervisor.

ii Independent opinion of the Supervisory Committee

(i) Operation according to the Law

The Supervisory Committee knew and mastered the operation and financial situation of the Company through attending as nonvoting delegate and take part in the Shareholders' General Meeting, the Board of Directors and operation & management meetings. The Supervisory Committee believes that the Board of Directors of the Company worked strictly according to the laws, regulations and Articles of Association in 2003, and performed its duties in the scope of Articles of Association and its decision procedure was legal. The Company has a complete internal control system and normative operation. The directors and senior executives of the Company had neither violated the laws, regulation and the Articles of Association nor damaged the Company's interests when they implemented their duties.

(ii) Financial Inspection

The Supervisory Committee believes that the auditor's report issued by Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd. and Pricewaterhouse Coopers CPAs was true and reliable. The Company's financial report and auditor's opinion reflected truly the financial situation and operation achievements of the Company.

(iii) There was no capital raised in the report period.

(iv) There was no significant purchase and sale of assets in the report period.

(v) There was no significant related transaction in the report period.

IX Significant Events

i Significant Lawsuits and Arbitration

The case of the Home of Overseas Chinese between Hainan CSG Industrial Development Co. (hereinafter referred to as Hainan CSG), the Company's wholly owned subsidiary, and Hainan Yuehai Construction Economic Development Company (hereinafter referred to as Yuehai Company) received two judgments from Hainan Provincial High People's Court on 17 December 2003. According to the retrial judgment of the Supreme Court, Hainan Provincial High People's Court made the final judgment for the two cases including Hainan CSG and Yuehai Company, Hainan Zhongda Industrial Development Co., Ltd. (hereinafter referred to as Zhongda Company) and Qiongsan Overseas Chinese Development Construction Company (hereinafter referred to as Overseas Chinese) on the dissension of presale contract of commercial house, Home of Overseas Chinese, according to procedure of trial and supervision. (2003) QMZZZ No.12 Civil Judgment judged Overseas Chinese delivers the corresponding houses of the integrated building in Home of Overseas Chinese to Zhongda Company according to payment for buying houses, RMB 5.21 million paid by Zhongda Company and pays Zhongda Company amount of breaching of faith RMB 0.9 million and amount of refunds advertisement RMB 78,000. The houses that Zhongda Company has attained after applying for execution and conducting the procedure of transferring owner in register over the above amount, Zhongda Company should refund them to Overseas Chinese. The house sold, paid debt in kind to the well-meaning third-person by Zhongda Company and cannot be returned, Zhongda Company should refund the corresponding payment. (2002) QGFMZZZ No.4 Civil Judgment maintained the original trial, namely Yuehai Company should refund payment for buying houses of Hainan CSG amounting to RMB 17,153,423.36 and 70% of the lost interest of the payment. And meanwhile judged Overseas Chinese should

undertake repayment responsibilities on the expense that was caused by Yuehai Company's not repaying the debt of Hainan CSG. Whereas Yuehai Company and Overseas Chinese lack seriously of abilities of repaying debt, it is estimated that mostly above payment cannot be received. Against the case, the Company has withdrawn provision of inventory accumulatively amounting to RMB 22.81 million. So the result of execution of the case will not influence on the achievement of the Company in future.

ii In the report period, the Company conducted neither sales and purchase of assets nor consolidation and merge.

iii Significant related transaction of the Company

Total Logistics (Shenzhen) Co., Ltd. is a company controlled by Shenzhen International Holdings Limited. In report period, the transportation fee of the Company for Total Logistics (Shenzhen) Co., Ltd. accumulatively amounted to RMB 16,953 thousand, taking 32.65% of the transportation fee of the Company. The price of transportation is absolute public market price.

iv Significant contract and implementation

(i) In the report period, the Company did not entrust other Company to manage its assets.

(ii) Significant contract

In the report period, the Company had never offered guarantee to any companies other than the Company's subsidiaries. The guarantees offered to the subsidiaries are as follows:

<u>Company</u>	<u>Amount (In 000'000)</u>		
	<u>USD</u>	<u>RMB</u>	<u>EUR</u>
Shenzhen CSG Southern Star Glass Processing Co., Ltd.	1.00	10.00	-
Shenzhen CSG Wellight Coating Co., Ltd.	1.00	-	-
Shenzhen CSG Wellight Conductive Coating Co., Ltd.	3.50	30.00	-
Shenzhen Nanbo Display Technology Co., Ltd.	1.50	50.00	-
Shenzhen Southern Float Glass Co., Ltd.	26.00	20.00	-
Shenzhen CSG Automotive Glass Co., Ltd.	9.45	-	0.27
Tianjin Southern Glass Industrial Development Co., Ltd.	-	3.60	-
Guangzhou CSG Glass Co., Ltd.	5.71	58.00	-
Total	48.16	171.60	0.27

(iii) In the report period, the Company did not entrust others to manage cash assets. Also, there was no organization of finance entrustment.

v Commitment events

(i) The estimated profit distribution policy for 2003 was disclosed in 2002 Annual Report of the Company. The details is: 20%~50% of the net profit to be realized in the year 2003 will be used for profit distribution, 10%~50% of the undistributed profit at the end of 2002 will be used for profit distribution in the year 2003. In fact, distribution proportion for 2003 proposed by the Board of Directors accords with the estimated profit distribution proposal.

(ii) The Shareholders holding over 5% shares of the Company made no commitment on the designated in the report period.

vi Engagement of Certified Public Accountants

In the report period, the Company engaged sequentially Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd. and Pricewaterhouse Coopers CPAs as the auditing organizations of A share and B share of the Company.

In the report period, the expenses that the Company paid to the auditing organization of A share and B share are RMB 1 million and RMB 0.5 million. And they conducted the other expenses, such as evection and living.

The auditing organization has provided auditing service for the Company for continuous two years.

vii Punishment

In the report period, the Company, the Board of Directors and its directors had never been checked and given administrative punishment or circular notices of criticism by the CSRC nor been condemned publicly by the Stock Exchange.

viii Other significant events

(i) The 1st Extraordinary Shareholders' General Meeting of 2003 approved to change the name of the Company from CSG Technology Holding Co., Ltd. to CSG Holding Co., Ltd.. And it was completed changed in State Administration for Industry & Commerce, Shenzhen Municipal office. It was published on Securities Time, China Securities Journal and Ta Kung Pao dated 1 March 2003.

(ii) The Company changed the short form of stock to CSG A and CSG B on 24 October 2003. It was published on Securities Time, China Securities Journal and Ta Kung Pao dated 24 October 2003.

(iii) On 17 February, China Northern Industry Shenzhen Corporation, the 2nd Director of the Company, announced that they signed Transfer of Shares Agreement with China Northern Industry Corporation, their parent company, on 18 November 2003. In the agreement, all legal person's shares 87,175,364 of the Company held by China Northern Industry Shenzhen Corporation would be transferred to China Northern Industry Corporation when the transfer is approved by State-owned Assets Supervision and Administration Commission of the State Council. Above event were published on Securities Time, China Securities Journal and Ta Kung Pao dated 17 & 19 February 2004.

X Financial Report

Attached hereafter.

XII Documents for Reference

i Original of Annual Report with the signature of CEO.

ii Financial statement with the signature and seal of the legal representative, CEO and the chief financing supervisor.

iii Original of the Auditor's Report with the seal of Pricewaterhouse Coopers Zhong Tian CPAs, and the signature and seal of the certified public accountants.

iv Original of the Auditor's Report from Pricewaterhouse Coopers CPAs.

v Original of the documents and public notices disclosed on the newspapers designated by CSRC in the report period.

**Board of Directors of
CSG Holding Co., Ltd.
12 March 2004**

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF CSG HOLDING CO., LTD.

(incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of CSG Holding Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) as of 31 December 2003 and the related consolidated income and cash flow statements for the year then ended. These consolidated financial statements set out on pages 2 to 34 are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2003 and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 March 2004

CSG HOLDING CO., LTD.
**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 RMB'000	2002 RMB'000
Sales	4	1,320,900	1,047,831
Cost of sales		<u>(845,531)</u>	<u>(653,514)</u>
Gross profit		475,369	394,317
Other operating income		14,742	26,031
Distribution costs		(108,029)	(90,141)
Administrative expenses		(119,023)	(112,167)
Other operating expenses		<u>(9,339)</u>	<u>(6,183)</u>
Profit from operations	5	253,720	211,857
Finance costs, net	6	<u>(20,608)</u>	<u>(17,578)</u>
Profit before tax		233,112	194,279
Income tax expense	8	<u>(17,182)</u>	<u>(17,772)</u>
Profit after tax		215,930	176,507
Minority interests	27	<u>(13,298)</u>	<u>(13,705)</u>
Net profit		<u>202,632</u>	<u>162,802</u>
Earnings per share	9	<u>RMB 0.30</u>	<u>RMB 0.24</u>

The accompanying notes form an integral part of these financial statements.

CSG HOLDING CO., LTD.
**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2003**

	Notes	2003 RMB'000	2002 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2,064,436	1,692,554
Construction-in-progress	12	559,601	454,615
Land use rights	13	91,283	89,243
Intangible assets	14	(5,954)	(7,089)
Available-for-sale investments	15	9,078	8,663
Deferred tax assets	23	927	446
		<u>2,719,371</u>	<u>2,238,432</u>
Current assets			
Inventories	16	103,887	93,819
Properties held for sale	17	231,558	246,972
Trade receivables	18	214,317	172,000
Other receivables and prepayments		38,154	38,327
Trading investments		859	500
Cash and cash equivalents	19	218,844	188,078
		<u>807,619</u>	<u>739,696</u>
Total assets		<u>3,526,990</u>	<u>2,978,128</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	24	676,975	676,975
Reserves	25	1,196,089	1,145,502
Retained earnings	26	259,138	188,639
		<u>2,132,202</u>	<u>2,011,116</u>
Minority interests	27	<u>91,272</u>	<u>76,035</u>
Non-current liabilities			
Borrowings	22	<u>163,337</u>	<u>50,000</u>
Current liabilities			
Trade and other payables	20	337,869	273,473
Current tax liabilities	21	18,626	7,770
Borrowings	22	<u>783,684</u>	<u>559,734</u>
		<u>1,140,179</u>	<u>840,977</u>
Total equity and liabilities		<u>3,526,990</u>	<u>2,978,128</u>

The accompanying notes form an integral part of these financial statements.

CSG HOLDING CO., LTD.
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	Share capital RMB'000	Capital reserve RMB'000	Statutory common reserve fund RMB'000	Statutory public welfare fund RMB'000	Hedging reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2002		676,975	927,897	115,803	76,689	-	1,063	138,341	1,936,768
Dividend relating to 2001		-	-	-	-	-	-	(88,007)	(88,007)
Currency translation differences		-	-	-	-	-	(447)	-	(447)
Net profit for the year		-	-	-	-	-	-	162,802	162,802
Appropriation to reserve funds	25	-	-	16,331	8,166	-	-	(24,497)	-
Balance at 31 December 2002 and 1 January 2003		676,975	927,897	132,134	84,855	-	616	188,639	2,011,116
Dividend relating to 2002	10	-	-	-	-	-	-	(101,546)	(101,546)
Capital exchange reserve recognised in current year		-	5	-	-	-	-	-	5
Net fair value gain in current year relating to cash flow hedge		-	-	-	-	19,924	-	-	19,924
Currency translation differences		-	-	-	-	-	71	-	71
Net profit for the year		-	-	-	-	-	-	202,632	202,632
Appropriation to reserve funds	25	-	-	20,391	10,196	-	-	(30,587)	-
Balance at 31 December 2003		<u>676,975</u>	<u>927,902</u>	<u>152,525</u>	<u>95,051</u>	<u>19,924</u>	<u>687</u>	<u>259,138</u>	<u>2,132,202</u>

The accompanying notes form an integral part of these financial statements.

CSG HOLDING CO., LTD.
**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 RMB'000	2002 RMB'000
Cash flows from operating activities			
Cash generated from operations	28	434,122	317,815
Interest paid		(23,723)	(24,312)
Income tax paid		(16,324)	(9,138)
Net cash from operating activities		394,075	284,365
Cash flows from investing activities			
Purchase of property, plant and equipment		(599,040)	(467,208)
Purchase of land use rights		(5,626)	(6,206)
Purchase of intangible assets		(185)	(641)
Purchase of trading investments		(359)	-
Purchase of interests in subsidiaries from minority shareholders		-	(3,880)
Proceeds from sale of property, plant and equipment		754	27,000
Interest received		1,345	1,534
Net cash used in investing activities		(603,111)	(449,401)
Cash flows from financing activities			
Proceeds from borrowings		1,841,546	1,324,688
Repayments of borrowings		(1,504,259)	(1,116,717)
Dividends paid to shareholders		(101,146)	(91,050)
Dividends paid to minority interests		(11,653)	(836)
Capital contributed by minority shareholders		13,592	36,221
Pledged bank deposits withdrawn		3,228	10,374
Net cash generated from financing activities		241,308	162,680
Effect of exchange rate changes		1,722	52
Net increase (decrease) in cash and cash equivalents		33,994	(2,304)
Cash and cash equivalents at beginning of year		179,865	182,169
Cash and cash equivalents at end of year	19	213,859	179,865

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. General information

CSG Holding Co., Ltd. (the “Company”) was incorporated in 1984 in the People’s Republic of China (the “PRC”) as a joint venture enterprise under the laws of the PRC and was reorganised as a joint stock limited company in 1991.

The name of the Company was changed from CSG Technology Holding Co., Ltd. to CSG Holding Co., Ltd. in 2003.

The Company’s domestic shares (“A Shares”) and domestically listed foreign shares (“B Shares”) have been listed on the Shenzhen Stock Exchange since 1992.

The Company and its subsidiaries (the “Group”) are principally engaged in the manufacture and sales of glass and ceramics products and property development. The business activities of its subsidiaries are shown in Note 29.

The registered address of the Company is as follows:
CSG Building,
No. 1 of the 6th Industrial Road, Shekou,
Shenzhen, the PRC.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention. This basis of accounting differs from that used in the statutory accounts of the Company and its main subsidiaries (the “PRC Accounts”) which are prepared in accordance with generally accepted accounting principles and relevant financial regulations applicable to enterprises in the PRC (“PRC GAAP”).

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

2. Accounting policies (Continued)

B Group accounting

(1) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(2) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

C Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the Company.

2. Accounting policies (Continued)

C Foreign currency translation (Continued)

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items and available-for-sale investments are reported as part of the fair value gain or loss.

(3) Group companies

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange difference is recognised in the consolidated income statement as part of the gain or loss on sale.

D Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Cost includes transfers from equity of any gains/losses on qualifying cash flow hedges of currency purchase costs.

Depreciation is calculated on the straight-line method to write off the cost amount of each asset to their residual values over their estimated useful lives as follows:

Buildings	20 - 35 years
Machinery and equipment	10 - 20 years
Vehicles and others	8 - 10 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

2. Accounting policies (Continued)

E Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs, including transfers from equity of any gains or losses on qualifying cash flow hedges of currency purchase costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into its intended use.

F Land use rights

Land use rights are stated at cost less accumulated amortisation. Land use rights are amortised over their lease terms using the straight-line method.

G Intangible assets

i. Computer software

The cost of acquisition of new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware and will probably generate economic benefits exceeding cost beyond one year. Software is amortised on a straight-line basis over a period of 5 to 10 years.

ii. Patents and licenses

Expenditure to acquire patents and licenses is capitalised and amortised on a straight-line basis over the expected useful lives of not more than 15 years.

iii. Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition over the cost of an acquisition. Negative goodwill is recognised in the consolidated income statement as follows:

- (a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably but which cannot be accrued for at the date of acquisition, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- (b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets.
- (c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Negative goodwill is presented as a deduction from intangible assets. Amortisation of negative goodwill is offset against administrative expenses in the consolidated income statement.

2. Accounting policies (Continued)

H Impairment of long lived assets

Property, plant and equipment, construction-in-progress and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

I Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as three months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets; during the year the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the income statement in the period in which they arise.

The fair value of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

J Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment in the consolidated balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2. Accounting policies (Continued)

K Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

L Properties held for sale

Properties held for sale are stated at the lower of cost or net realisable value. Cost of properties held for sale comprises cost and interest of borrowings for the purpose of financing the construction for the period prior to their being in a condition to enter into service. Net realisable value is calculated based on the estimated selling price less all further costs of construction and the related marketing expenses.

M Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

N Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdraft.

O Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings.

P Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. Accounting policies (Continued)

Q Employee benefits

(1) Pension schemes

The Group participates in defined contribution retirement schemes organised by the respective municipal governments where the Group operates. The Group has no obligation beyond the contribution which are calculated based on certain percentage of basic salary set by the provincial government. The Group's contribution to the defined contribution retirement schemes are charged to the consolidated income statement when incurred.

(2) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the consolidated financial statements; or
- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the consolidated financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

R Revenue recognition

Revenue is recognised when it is probable that the economic benefit associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised on the following basis:

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue from sale of properties is recognised when the significant risks and rewards of ownership of the properties have been transferred to customers and the bill of settlement has been submitted and confirmed by customers.

Revenue from rendering of services is recognised based on the stage of completion determined by reference to services performed to date as a percentage of total services to be preformed.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

S Government subsidies

Subsidies from the government are recognised at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

2. Accounting policies (Continued)

T Dividends

Dividends are recorded in the Group's consolidated financial statements in the period in which they are approved by the Group's shareholders.

U Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

V Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

W Financial assets and liabilities

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, investments, trade receivables, other receivables and prepayments, trade and other payables and borrowings. Investments, trade receivables and borrowings are stated at carrying amounts determined in accordance with Notes 2(I), 2(M) and 2(O) respectively. Other financial assets and financial liabilities are stated at cost.

3. Financial risk management

A Credit risk

The carrying amount of cash and cash equivalents and trade receivables represented the Group's maximum exposure to credit risk in relation to these financial assets.

Cash is placed with reputable banks in the PRC. Majority of the Group's trade receivables relate to sales of goods to third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

B Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies.

The Group hedges the foreign currency exposure of its contract commitments to purchase certain plant and equipment payable in Euro. The forward contracts used in its programme mature in twelve months or less, consistent with the related purchase commitments.

3. Financial risk management (Continued)

C Interest rate risk

The Group has no significant interest-bearing assets but borrowed substantial amount of short-term loans from banks at fixed rates. The interest rates of short-term loans of the Group are disclosed in Note 22.

D Fair values

The carrying amounts of the following financial assets and liabilities approximate to their fair values: bank balances and cash, investments, trade receivables and payables, other receivables and payables, short-term borrowings and long-term borrowings. Information on the fair values of borrowings is included in Note 22.

Fair value estimates are made at a specific point in time and are based on relevant market information. These estimates are subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

E Accounting for derivative financial instruments and hedging activities

The Group designates hedges of firm commitments to purchase certain plant and equipment as cash flow hedges which are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. Changes in the fair value of hedge that are highly effective, are recognised in equity. Where the firm commitments result in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed transaction is ultimately recognised in the income statement. When a committed transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all hedges to specific firm commitments. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the hedge are highly effective in offsetting changes in cash flows of hedged items.

The fair values of hedge of firm commitment to purchase plant and equipment are included in the ending balance of the account of other receivables and prepayments. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in shareholders' equity.

4. Sales

(a) Business segment

Sales, as disclosed net of applicable business tax and value-added tax, comprise:

	2003 RMB'000	2002 RMB'000
Sales of glass products	1,198,944	947,214
Sales of ceramics products	53,195	44,398
Sales of properties	39,667	42,688
Glass installation service revenue	29,094	13,531
	<u>1,320,900</u>	<u>1,047,831</u>

Business segment information is not presented as the sales of glass products accounted for more than 90% (2002: more than 90%) of the consolidated revenue and results of the Group.

(b) Geographical segment

The Group's activities are carried out and assets are located predominantly in the PRC.

Sales for the year, by locations of customers, are analysed as follows:

	2003 RMB'000	2002 RMB'000
PRC	1,156,459	806,652
United States	57,492	83,762
Australia	26,847	19,968
Others	80,102	137,449
	<u>1,320,900</u>	<u>1,047,831</u>

5. Profit from operations

The following items have been included in arriving at profit from operations:

	2003 RMB'000	2002 RMB'000
Inventories cost (included in cost of sales)	845,531	653,514
Depreciation on property, plant and equipment	129,822	105,767
Impairment of property, plant and equipment *	1,674	1,978
Impairment of construction-in-progress*	5,244	-
Loss/(Profit) on disposals of property, plant and equipment *	393	(4,084)
Amortisation of land use rights #	3,586	3,387
Amortisation of intangible assets #		
- negative goodwill	(1,586)	(1,424)
- other intangible assets	636	601
Write-off of negative goodwill #	-	(1,447)
Provision for doubtful receivables #	2,335	515
Provision/(Write back of provision) for obsolescence of inventories #	2,485	(122)
(Write back of impairment charge)/Impairment charge for available-for-sale investments *	(415)	455
Write-back of net realisable value provision for properties held for sale #	(7,843)	(6,710)
Government subsidy for sales of properties	(2,690)	-
Staff costs (Note 7)	139,331	104,839

* included in other operating income or expenses.

included in administrative expenses.

6. Finance costs, net

	2003 RMB'000	2002 RMB'000
Interest payable on bank borrowings	(23,547)	(24,263)
Less: interest capitalised in construction-in-progress (Note 12)	4,260	3,562
Interest expense	(19,287)	(20,701)
Interest income	1,345	1,534
Net foreign exchange transaction gains/(losses)	(434)	3,194
Other finance charges	(2,232)	(1,605)
	(20,608)	(17,578)

7. Staff costs

	2003 RMB'000	2002 RMB'000
Wages and salaries	106,266	80,515
Staff and workers' welfare	24,264	18,540
Retirement scheme contributions (Note (a))	8,801	5,784
	<u>139,331</u>	<u>104,839</u>

- (a) The Company and its domestic subsidiaries participate in certain defined contribution retirement schemes managed by governmental organisation. According to the relevant provisions, these companies and their employees are required to make contributions to local governmental organisation at specified rates, depending on the respective place of incorporation, based on the basic salaries of the employees. The portion of expenses contributed by the Group is charged to the consolidated income statement.

The average number of employees in 2003 was 3,063 (2002: 2,431).

8. Income tax expense

	2003 RMB'000	2002 RMB'000
Current tax	17,663	13,185
Deferred tax (Note 23)	(481)	4,587
	<u>17,182</u>	<u>17,772</u>

In accordance with the prevailing Enterprise Income Tax ("EIT") regulations, the Company and its subsidiaries in the PRC are subject to income tax at rates of 15% or 33%, depending on their respective place of incorporation. Subsidiaries located abroad are subject to tax rates of their place of incorporation.

Those subsidiaries that are enterprises with foreign investment in the PRC and meet certain criteria are entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the following three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous years.

8 Income tax expense (Continued)

The reconciliation of the statutory tax rates to the effective tax rate is as follows:

	2003 RMB'000	2002 RMB'000
Profit before tax	233,112	194,279
Tax calculated at tax rates of 15 to 33% (2002: 15 to 33%)	32,805	29,142
Tax benefits arising from preferential policies	(21,862)	(19,060)
Expenses not deductible for tax purposes	591	495
Tax losses on certain subsidiaries not recognised as deferred tax assets	6,129	2,608
Temporary difference in recognition of income and expenses	(481)	4,587
	17,182	17,772

9. Earnings per share

Basic earnings per share amount is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2003	2002
Net profit attributable to shareholders (RMB)	202,632,000	162,802,000
Weighted average number of ordinary shares in issue (Number)	676,975,000	676,975,000
Basic earnings per share (RMB per share)	0.30	0.24

The Company has no dilutive potential shares and diluted earnings per share amount is not presented.

10. Dividend per share

Pursuant to the Board resolution passed on 12 March 2004, a dividend in respect of 2003 of RMB 0.18 (2002: RMB0.15) per share amounting to a total of RMB121,856,000 (2002: RMB101,546,000) was proposed. These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2004.

11. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Vehicles and others RMB'000	Total RMB'000
Opening net book amount	398,501	1,227,211	66,842	1,692,554
Transfer from construction-in-progress	59,697	439,619	3,904	503,220
Additions	8,725	10,331	8,683	27,739
Adjustments/Reclassifications (Note (b))	5,078	(26,063)	(5,449)	(26,434)
Disposals	(691)	(135)	(321)	(1,147)
Depreciation charge	(14,661)	(105,098)	(10,063)	(129,822)
Impairment charge (Note (a))	(1,674)	-	-	(1,674)
Closing net book amount	<u>454,975</u>	<u>1,545,865</u>	<u>63,596</u>	<u>2,064,436</u>
At 31 December 2003				
Cost	547,054	2,054,864	138,960	2,740,878
Accumulated depreciation	(86,445)	(506,727)	(75,291)	(668,463)
Provision for impairment	(5,634)	(2,272)	(73)	(7,979)
Net book amount	<u>454,975</u>	<u>1,545,865</u>	<u>63,596</u>	<u>2,064,436</u>
At 31 December 2002				
Cost	481,322	1,625,486	139,659	2,246,467
Accumulated depreciation	(78,861)	(395,984)	(72,744)	(547,589)
Provision for impairment	(3,960)	(2,291)	(73)	(6,324)
Net book amount	<u>398,501</u>	<u>1,227,211</u>	<u>66,842</u>	<u>1,692,554</u>

- (a) The impairment charge was mainly resulted from the change in glass-manufacturing technologies. The recoverable amount (the higher of the value in use or net selling price) was determined at the cash-generating unit level and represented the net selling price, determined by reference to market prices for equivalent or similar assets.
- (b) The adjustments included a discount of RMB26,434,000 received for purchases made in previous years. The discount was offered by the supplier to settle a quality issue.

12. Construction-in-progress

	2003 RMB'000	2002 RMB'000
Opening net book amount	454,615	169,755
Additions	609,190	435,922
Capitalised borrowing costs (Note 6)	4,260	3,562
Transfer to property, plant and equipment	(503,220)	(154,624)
Impairment charge	<u>(5,244)</u>	<u>-</u>
	<u>559,601</u>	<u>454,615</u>
Represented by:		
Cost at end of the year	564,845	454,615
Provision for impairment	<u>(5,244)</u>	<u>-</u>
Net book amount	<u>559,601</u>	<u>454,615</u>

The borrowing costs are calculated at 3.17% (2002: 3.15%) per annum which represented the weighted average of interest rate on the loans used to finance the projects.

Full impairment provision was made for those equipment with quality issue.

13. Land use rights

	2003 RMB'000	2002 RMB'000
Opening net book amount	89,243	86,424
Additions	5,626	6,206
Amortisation charge	<u>(3,586)</u>	<u>(3,387)</u>
Closing net book amount	<u>91,283</u>	<u>89,243</u>
Represented by:		
Cost at end of the year	121,185	115,559
Accumulated amortisation at end of the year	<u>(29,902)</u>	<u>(26,316)</u>
Net book amount	<u>91,283</u>	<u>89,243</u>

Land use rights comprise fees paid for acquiring the rights to use the land where the Group's factory buildings are located.

Payments for land use rights represent prepaid lease payments for the land and are recognised as an expense on a straight-line basis over the period of use of the rights ranging from 27 to 50 years. The period of use of a land use right is the land use period granted according to the land use right certificate. As of 31 December 2003, the Group had no significant future lease payment obligations in respect of the above land use rights.

14. Intangible assets

	Computer software RMB'000	Patents and licenses RMB'000	Negative goodwill RMB'000	Total RMB'000
Opening net book amount	1,647	4,097	(12,833)	(7,089)
Additions	185	-	-	185
Amortisation charge	<u>(325)</u>	<u>(311)</u>	<u>1,586</u>	<u>950</u>
Closing net book amount	<u>1,507</u>	<u>3,786</u>	<u>(11,247)</u>	<u>(5,954)</u>
At 31 December 2003				
Cost	3,870	4,552	(17,075)	(8,653)
Accumulated amortisation	<u>(2,363)</u>	<u>(766)</u>	<u>5,828</u>	<u>2,699</u>
Net book amount	<u>1,507</u>	<u>3,786</u>	<u>(11,247)</u>	<u>(5,954)</u>
At 31 December 2002				
Cost	3,685	4,552	(17,075)	(8,838)
Accumulated amortisation	<u>(2,038)</u>	<u>(455)</u>	<u>4,242</u>	<u>1,749</u>
Net book amount	<u>1,647</u>	<u>4,097</u>	<u>(12,833)</u>	<u>(7,089)</u>

15. Available-for-sale investments

	2003 RMB'000	2002 RMB'000
Unlisted investments in the PRC:		
Opening net book amount	8,663	9,118
Impairment charge/(Write back of impairment charge)	<u>415</u>	<u>(455)</u>
Closing net book amount	<u>9,078</u>	<u>8,663</u>
Represented by:		
Cost at end of the year	25,499	25,499
Provision for impairment in value at end of the year	<u>(16,421)</u>	<u>(16,836)</u>
Net book amount	<u>9,078</u>	<u>8,663</u>

No quoted market prices are available for the above unlisted companies. The directors of the Company are of the opinion that the carrying value of the long-term investments approximated their recoverable amount as of year end.

16. Inventories

	2003 RMB'000	2002 RMB'000
Raw materials (at cost)	55,655	47,569
Work-in-progress (at cost)	4,645	5,698
Finished goods (at cost)	<u>45,777</u>	<u>43,259</u>
	106,077	96,526
Less: provision	<u>(2,190)</u>	<u>(2,707)</u>
	<u>103,887</u>	<u>93,819</u>

As at 31 December 2003, finished goods of RMB1,296,648 (2002: RMB12,031,000) were stated at net realisable value; raw materials of RMB1,583,136 (2002: RMB3,217,000) were stated at net realisable value and none of work-in-progress (2002: RMB78,000) were stated at net realisable value.

17. Properties held for sale

	2003 RMB'000	2002 RMB'000
Opening net book amount	246,972	279,333
Additions	14,823	-
Sale	(38,080)	(39,071)
Write back of net realisable value provision	<u>7,843</u>	<u>6,710</u>
Closing net book amount	<u>231,558</u>	<u>246,972</u>
Represented by:		
Cost at end of the year	405,193	428,450
Provision for net realisable value at end of the year	<u>(173,635)</u>	<u>(181,478)</u>
Net book amount	<u>231,558</u>	<u>246,972</u>

All properties are stated at net realisable value. The provision for net realisable value of properties held for sale was determined by the directors based on the net selling price of similar properties with reference to the property market.

Certain properties held for sale were rented to third party tenants during the year. The rental income derived was included in other operating income. The net book value of these properties as at 31 December 2003 amounted to RMB35,700,000 (2002: RMB62,158,000).

18. Trade receivables

	2003 RMB'000	2002 RMB'000
Accounts receivable	192,457	177,081
Notes receivable	<u>33,174</u>	<u>8,742</u>
	225,631	185,823
Less: provision for doubtful accounts	<u>(11,314)</u>	<u>(13,823)</u>
	<u>214,317</u>	<u>172,000</u>

19. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2003 RMB'000	2002 RMB'000
Cash in hand	298	283
Cash at banks	<u>218,546</u>	<u>187,795</u>
	218,844	188,078
Less: pledged bank deposits (Note (a))	<u>(4,985)</u>	<u>(8,213)</u>
Cash and cash equivalents	<u>213,859</u>	<u>179,865</u>

(a) At 31 December 2003, bank deposits of RMB4,985,000 (2002: RMB8,213,000) were pledged to banks as security for property mortgage loans granted by the banks to customers of the Group.

20. Trade and other payables

	2003 RMB'000	2002 RMB'000
Trade payable	111,699	99,076
Notes payable	46,041	21,396
Payable for construction work and purchase of equipment	77,538	79,393
Deposits from customers	30,926	22,618
Salary payable and welfare payable	13,874	11,979
Accruals	32,291	17,765
Dividend payable	840	440
Others	24,660	20,806
	<u>337,869</u>	<u>273,473</u>

21. Current tax liabilities

	2003 RMB'000	2002 RMB'000
Provision for income tax	5,649	4,310
Value-added tax payable	10,271	888
Business tax payable	1,639	1,844
Others	1,067	728
	<u>18,626</u>	<u>7,770</u>

22. Borrowings

	2003 RMB'000	2002 RMB'000
Current		
- Bank loans	<u>783,684</u>	<u>559,734</u>
Non-current		
- Bank loans	<u>163,337</u>	<u>50,000</u>
	<u>947,021</u>	<u>609,734</u>

As of 31 December 2003, all borrowings were unsecured.

	2003 RMB'000	2002 RMB'000
Interests on bank loans are:		
- At fixed rates	822,749	609,734
- At floating rates	<u>124,272</u>	<u>-</u>
	<u>947,021</u>	<u>609,734</u>

22. Borrowings (Continued)

The effective interest rates of these bank loans, including subsidised loans of RMB 60,000,000 with interest rate of 4.94% to 6% per annum for which the interest charge were borne by Shenzhen Finance Bureau, were ranging from 1.74% to 6% (2002: 4.54% to 6%).

The carrying amounts of borrowings approximate their fair values. The fair values are based on discounted cash flows using a discount rate based upon the borrowing rates which the directors expect would be available to the Group at the balance sheet date.

Maturity of non-current bank loans:

	2003 RMB'000	2002 RMB'000
Between 1 and 2 years	116,038	50,000
Between 2 and 3 years	47,299	-
	<u>163,337</u>	<u>50,000</u>

As at 31 December 2003, the Group has unused bank facilities totalling RMB1,241,300,000 (2002:RMB751,400,000).

23. Deferred tax assets

Movements of deferred tax assets are as follows:

	At 1 January 2003 RMB'000	Credit (charged) to consolidated income statement RMB'000	At 31 December 2003 RMB'000
Provision for doubtful receivables	166	20	186
Provision for obsolescence of inventory	-	253	253
Provision for impairment of construction-in progress	-	393	393
Provision for impairment of property, plant and equipment	280	(185)	95
	<u>446</u>	<u>481</u>	<u>927</u>

Certain companies of the Group had unused tax losses totalling RMB25,413,000 (2002: RMB17,387,000) for which no deferred tax asset was recognised in the consolidated balance sheet due to the uncertainty of its recoverability. Apart from this, there were no material unprovided deferred tax assets and liabilities at the balance sheet dates.

24. Share capital

	31 December 2003 and 2002	
	Number of shares '000	RMB'000
Authorised, issued and fully paid		
Unlisted shares		
Shares owned by domestic legal persons	270,757	270,757
Listed shares		
A Shares	107,166	107,166
B Shares	299,052	299,052
	406,218	406,218
	676,975	676,975

All shares of the Company have a par value of RMB1 each and carry equal rights except for the currency in which dividend is payable.

25. Reserves

In accordance with relevant PRC regulations applicable to joint stock limited companies by shares and the Articles of Association of the companies within the Group, the Group is required to allocate its profit after tax to the following reserves:

(a) Statutory common reserve fund

Each year to transfer 10% of the profit after tax as reported under the PRC Accounts to the statutory common reserve fund until the balance reaches 50% of the paid-up share capital. This reserve can be used to make up prior years' losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(b) Statutory public welfare fund

Each year to transfer between 5% to 10% of the profit after tax as reported under the PRC Accounts to the statutory public welfare fund which is restricted to finance capital expenditure for staff welfare facilities which are owned by the Group. The statutory public welfare fund is not available for distribution to shareholders (except in liquidation). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount will be transferred from the statutory public welfare fund to the discretionary common reserve fund.

For the year ended 31 December 2003, the directors of the Company proposed that 10% and 5% (2002: 10% and 5%) of the net profit as reported in the PRC Accounts be appropriated to statutory common reserve fund and statutory public welfare fund respectively totalling RMB30,587,000 (2002: RMB24,497,000). The resolution is subject to approval by shareholders in the coming annual general meeting.

(c) Discretionary common reserve fund

The discretionary common reserve fund can be set up by means of appropriation from the retained profits or transfer from the statutory public welfare fund. Subject to the approval of shareholders in general meeting, the reserve can be used to make up any losses, to increase share capital or to pay dividends.

The Group has not made any appropriation from the retained profits or transfer any amount from the statutory public welfare fund to the discretionary common reserve fund during the year.

26. Retained earnings

Pursuant to PRC regulations and the Company's Articles of Association, the profit available for distribution as dividends is determined based on the lower of the distributable profits as reported in the PRC statutory financial statements and the distributable profit adjusted according to IFRS.

27. Minority interests

	2003 RMB'000	2002 RMB'000
At 1 January	76,035	34,066
Capital contribution	13,592	36,221
Disposal to the Group	-	(7,243)
Share of net profit of subsidiaries	13,298	13,705
Dividend	(11,653)	(714)
	<u>91,272</u>	<u>76,035</u>
At 31 December	<u>91,272</u>	<u>76,035</u>

28. Cash generated from operations

	2003 RMB'000	2002 RMB'000
Net profit	202,632	162,802
Adjustments for:		
Minority interests	13,298	13,705
Income tax expense	17,182	17,772
Depreciation	129,822	105,767
Amortisation and write-off of intangible assets	(950)	(2,270)
Amortisation of land use rights	3,586	3,387
Loss/(Profit) on disposals of property, plant and equipment	393	(4,084)
Impairment charge for property, plant and equipment	1,674	1,978
Impairment charge for construction-in-progress	5,244	-
Write back of net realisable value provision for properties held for sale	(7,843)	(6,710)
(Write back of impairment charge)/Impairment charge for available-for-sale investments	(415)	455
Provision/(Write back of provision) for obsolescence of inventories	2,485	(122)
Provision for doubtful receivables	2,335	515
Interest expense	19,287	20,701
Interest income	(1,345)	(1,534)
	<u>387,385</u>	<u>312,362</u>
Changes in working capital:		
Inventories	(12,553)	(5,719)
Properties held for sale	23,257	39,071
Trade receivables	(44,652)	(15,594)
Other receivables and prepayments	20,173	7,737
Trade and other payables	60,512	(20,042)
	<u>434,122</u>	<u>317,815</u>

29. Principal subsidiaries

As of 31 December 2003, the Company has direct/indirect interest in the following principal subsidiaries:

Name	Place of incorporation	Principal activities	Percentage of equity interest held	
			2003	2002
Shenzhen CSG Southern Star Glass Processing Co., Ltd.	PRC	Glass processing	100%	100%
Shenzhen CSG Architectural Glass Co., Ltd.	PRC	Production of architectural glass	100%	100%
Hainan CSG Industrial Development Co., Ltd.	PRC	Property development	100%	100%
CSG (Wuhan) Industrial Development Co., Ltd.	PRC	Property development	100%	100%
CSG (Australia) Pty. Limited	Australia	Glass trading	100%	100%
Shenzhen CSG Spandrel and Tempglass Co., Ltd.	PRC	Production of colour-coated glass	100%	100%
Shenzhen CSG Structure Ceramics Co., Ltd.	PRC	Production of structural ceramic products	100%	100%
Shenzhen CSG Curtain Wall Engineering Co., Ltd.	PRC	Glass curtain wall installation	100%	100%
Shenzhen CSG Electronic Co., Ltd.	PRC	Production of electronic ceramic products	100%	100%
Shenzhen CSG Float Glass Co., Ltd.	PRC	Production of float glass	100%	100%
Shenzhen CSG Automotive Glass Co., Ltd.	PRC	Production of automotive glass	100%	100%
Sichuan CSG Industrial Development Co., Ltd.	PRC	Property development	100%	100%
Hainan Wen Chang CSG Silica Sand Mine Co., Ltd.	PRC	Mining of silica sand	100%	100%
Beihai CSG Real Estate Development Co., Ltd.	PRC	Property development	100%	100%
Tianjin CSG Industrial Development Co., Ltd.	PRC	Property development	100%	100%
Shenzhen CSG Wellight Coating Glass Co., Ltd.	PRC	Production of coated glass and mirrors	100%	100%
Shenzhen CSG Display Technology Co., Ltd.	PRC	Production of monitors	75%	75%
Shenzhen Hong Da Mirrors Limited	PRC	Production of glass mirrors	100%	100%
Shenzhen CSG Safety Glass Co., Ltd.	PRC	Production of safety glass	100%	100%
Shenzhen CSG Wellight Conductive Coating Co., Ltd.	PRC	Production of conductive glass products	70%	70%
Tianjin CSG Architectural Glass Company Limited	PRC	Production of special floating glass and specially processed glass (not yet commenced operation)	75%	61%
Hainan CSG Property Management Co., Ltd.	PRC	Property management	100%	100%
Guangzhou CSG Glass Company Limited	PRC	Production of specially processed glass (not yet commenced operation)	75%	-
CSG (HK) Limited	Hong Kong	Glass trading	100%	-

(Names of those subsidiaries incorporated in the PRC are direct translation of their Chinese names.)

30. Commitments

As at 31 December 2003, capital expenditure contracted for but not recognised in the consolidated financial statements is as follows:

	2003 RMB'000	2002 RMB'000
Purchase of property, plant and equipment	747,253	246,106
Purchase of patents	<u>2,610</u>	<u>-</u>
	<u>749,863</u>	<u>246,106</u>

31. Significant related party transactions

Significant related party transactions and balances with Total Logistics (Shenzhen) Co., Ltd., a company controlled by a major shareholder, are as follows:

	2003 RMB'000	2002 RMB'000
Transportation fee for the year	<u>16,953</u>	<u>7,718</u>
Balance included in accounts payables at year end	<u>8,249</u>	<u>3,874</u>

These transactions were carried out at ordinary course of business and at market prices. The amount due is payable in accordance with the terms of the contracts.

32. Approval of financial statements

These financial statements have been approved for issue by the Board of Directors on 12 March 2004.

**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2003**

The impact of IFRS adjustments on PRC statutory financial statements are as follows:

	Net consolidated profit for the year ended 31 December 2003 RMB'000	Net consolidated assets as at 31 December 2003 RMB'000
As per the PRC statutory financial statements	203,910	2,111,812
Impact of IFRS adjustments:		
Recognition of deferred income tax	481	927
Derecognition of deferred pre-operating expenses	(3,638)	(4,066)
Recognition of sales of properties based on transfer of title	1,879	3,605
Recognition of fair value gain on cash flow hedge	-	19,924
After IFRS adjustments	<u>202,632</u>	<u>2,132,202</u>