

CSG HOLDING CO., LTD.

2004 ANNUAL REPORT



CEO:ZENG NAN

March 2005

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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

Securities Affairs Representative: 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: csg@csgholding.com

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: Securities & Law Department, 4/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: 11/F., Pricewaterhouse Center, No.202, Huhin 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	398,126
Net profit	337,806
Gross profit	629,005
Other operating income	12,283
Profit from operating	425,336
Net cash from operating activities	530,532
Net increase in cash and cash equivalents	93,590

In the year 2004, the Company realized a net profit amounting to RMB339,017 thousand and RMB337,806 thousand 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 CAS:	339,017
Recognition of deferred income tax	108
Derecognition of deferred pre-operating expenses and other assets	(4,275)
Recognition of sales differences arising from different revenue recognition basis	2,956
As reported under IAS:	337,806

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

	Unit: RMB'000		
<u>Items</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	1,849,421	1,320,900	1,047,831
Net profit	337,806	202,632	162,802
Total assets	4,729,642	3,526,990	2,978,128
Shareholder's equity	2,328,068	2,132,202	2,011,116
Earnings per share (RMB)	0.50	0.30	0.24
Equity per share (RMB)	3.44	3.15	2.97
Net cash flows from operating activities per share (RMB)	0.78	0.58	0.42
Return on equity (%)	14.51	9.50	8.10

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	927,902	152,525	95,051	259,138	2,132,202
Increase in the period	-	27	33,902	16,950	337,806	388,685
Decrease in the period	-	-	-	-	172,708	192,819
Balance at the period-end	676,975	927,929	186,427	112,001	424,236	2,328,068
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>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>	<u>Sub-total</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 & share structure of the Company for the previous three years at the end of the report period.

ii Particulars about the principal shareholders ended by the report period

(i) Ended by the report period, the Company had totally 51,275 shareholders, of them, 20,131 shareholders of A-share and 31,144 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	0	
China North Industries Corporation	+87,175,364	87,175,364	12.88	Non-circulating	0	
Xin Tong Chan Development (Shenzhen) Co., Ltd.	+5,878,371	82,083,004	12.12	Non-circulating	0	
HTHK-Value Partners Intelligent FD-China B SHS FD	Unknown	11,064,603	1.63	Circulating	Unknown	Foreign shareholder
China Merchants (Glass Industry) Holding Co., Ltd.	0	11,015,268	1.63	Circulating	Unknown	Foreign shareholder
Jinfu Securities Investment Fund	Unknown	8,368,093	1.24	Circulating	Unknown	
Value Partners Intelligent Funds-Chinese Mainland Focus Fund	Unknown	8,191,491	1.21	Circulating	Unknown	Foreign shareholder
Guotai Junan Securities Hong Kong Limited	Unknown	5,376,305	0.79	Circulating	Unknown	Foreign shareholder
China Merchants Securities Co., Ltd.	0	3,808,883	0.56	Non-circulating	2,343,008	
Dacheng Blue Chips Steady Securities Investment Fund	Unknown	3,680,029	0.54	Circulating	Unknown	

Note A: 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.

HTHK-Value Partners Intelligent FD-China B SHS FD and Value Partners Intelligent Funds-Chinese Mainland Focus Fund belonged to Value Partners Ltd.

Jinfu Securities Investment Fund and Dacheng Blue Chips Steady Securities Investment Fund belonged to Da Cheng Fund Management Co., Ltd.

Except for this, there is no associated relationship had been found among the other shareholders.

Note B: China North Industry Shenzhen Group, the original second largest shareholder of the Company, transferred 87,175,364 legal person's shares (taking 12.88% of total shares) of the Company to its parent company--China North Industry Group. The procedure of equity transfer has been handled on 6 April 2004. For details of equity transfer, please referred to the relevant notices on Securities Times, China Securities Journal and Ta Kung Pao dated 17 February 2004, 19 February 2004, 30 March 2004, 6 April 2004, 10 April 2004.

(iii) Brief introduction of actual controller of the Company

The actual controller of the Company is Shenzhen International Holdings Limited established in Bermuda in November 1989, which listed in main board of Hong Kong Exchanges and Clearing Co., Ltd..

Chairman of the Board: Li Heihu

The Group, comprising the company and its subsidiaries and associates, is principally engaged in the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects.

The property relationship between the actual controller and the Company was following:



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

Yiwan Industrial Development (Shenzhen) Co., Ltd. was founded in 1980. 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.

China North Industries Corporation was founded on 22 May 1981. Its registered capital is RMB 1 billion.

Legal representative: Zhang Guoqing

Business scope: import & export of goods and technology, carrying trade, barter trade, domestic trade, equipment introduction, project contract, labor cooperation, process raw materials on clients' demands, assemble parts for the clients and process according to the clients' samples, engage in compensation trade, industry investment etc., as well as dealing with storage transportation, exhibition advertisement, record publishing, information consultancy, real estate development, finance, hotel and travel service.

Xin Tong Chan Development (Shenzhen) Co., Ltd. was founded on 8 September 1993. Its registered capital is RMB 200 million.

Legal representative: Chen Chao

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

(v) 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>
HTHK-Value Partners Intelligent FD-China B SHS FD	11,064,603	B-share
China Merchants (Glass Industry) Holding Co., Ltd.	11,015,268	B-share
Jinfu Securities Investment Fund	8,368,093	A-share
Value Partners Intelligent Funds-Chinese Mainland Focus Fund	8,191,491	B-share
Guotai Junan Securities Hong Kong Limited	5,376,305	B-share
Dacheng Blue Chips Steady Securities Investment Fund	3,680,029	A-share
Tianyuan Securities Investment Fund	3,134,509	A-share
Nomura TB / Nomura ITM	3,000,000	B-share
SYWG BNP PARIBAS Shenli Well-chosen Securities Investment Fund	2,711,701	A-share
Noan Balance Securities Investment Fund	2,404,231	A-share

Note: HTHK-Value Partners Intelligent FD-China B SHS FD and Value Partners Intelligent Funds-Chinese Mainland Focus Fund belonged to Value Partners Ltd.

Jinfu Securities Investment Fund and Dacheng Blue Chips Steady Securities Investment Fund belonged to Da Cheng Fund Management Co., Ltd.

Except for this, the Company is unknown whether there exists no associated relationship among the other circulating shareholders.

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	49	2002/5~2005/5	-	-	-
Zeng Nan	Director / CEO	Male	60	2002/5~2005/5	67,680	67,680	0
Long Long	Independent Director	Male	49	2002/5~2005/5	-	-	-
Yan Ganggang	Independent Director	Male	45	2002/5~2005/5	-	-	-
Zhang Jianjun	Independent Director	Male	40	2003/5~2005/5	-	-	-
Zhou Daozhi	Director	Male	55	2002/5~2005/5	-	-	-
Li Jingqi	Director	Male	48	2002/5~2005/5	-	-	-
Ding Jiuru	Director	Male	42	2002/5~2005/5	-	-	-
Liu Jun	Director	Male	41	2002/5~2005/5	-	-	-
Jiao Zhiren	Chairman of the Supervisory Committee	Male	58	2002/5~2005/5	-	-	-
Yang Hai	Supervisor	Male	43	2002/5~2005/5	-	-	-
Zhao Xijun	Supervisor	Male	36	2004/4~2005/5	-	-	-
Sun Jingbo	Chief Financial	Female	42	2002/5~2005/5	24,816	24,816	0
Ke Haiqi	Deputy General Manager	Male	39	2003/1~2005/5	-	-	-
Lu Wenhui	Deputy General Manager	Male	41	2003/1~2005/5	-	-	-
Yuan Dingfu	Deputy General Manager	Male	43	2003/11~2005/5	-	-	-
Wu Guobin	Secretary of the Board of Directors	Male	40	2002/5~2005/5	-	-	-

(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
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
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) Major work experience of directors, supervisors and senior executives, and particulars about holding the post or concurrent posts in other company.

Chen Chao, took posts of Deputy Director General of Road Bureau of Department of Communications, Secretary to the undersecretary of Department of Communications, Deputy General Manager of Industrial and Trade Company of Zhongtong Group, belonging to Department of Communications. Presently, besides taking the post of shareholding companies, he holds concurrently posts of President and Vice Chairman of Shenzhen International Holdings Ltd., Chairman of Shenzhen Expressway Co., Ltd..

Zeng Nan, took posts of Director General Manager and Director President of the Company. At the present, he takes the Director, President and CEO of the Company. And he holds concurrently posts of Chairman of Shenzhen CSG Float Glass Co., Ltd., Guangzhou CSG Glass Co., Ltd., Chengdu CSG Glass Co., Ltd., Tianjin CSG Architectural Glass Co., Ltd.,

CSG (HK) Ltd., CSG (Australia) Pty. Ltd., Shenzhen CSG Display Technology Co., Ltd. and Shenzhen CSG Wellight Conductive Coating Co., Ltd..

Long Long, takes the post of Director Researcher of Industry Economy Information Center of Comprehensive Development Academe (Shenzhen.China), and holds concurrently post of Independent Director of Guizhou Huachuang Securities Co., Ltd..

Yan Ganggang, took posts of Deputy Director General of Regulatory Section of Legislative Affairs Bureau of Shenzhen Municipality, and lawyer of Shenzhen Tianjun Law Office. At present, he is the Legal Representative of Guangdong Liang & Yan Law Office.

Zhang Jianjun, took posts of Subdecanal of Accounting College of Jiangxi University of Finance & Economics, Vice-president of Sino-Hawk Credit Rating Co., Ltd.. At present, he is Dean and Professor of Economy College of Shenzhen University.

Zhou Daozhi, took posts of Vice-president of China Everbright Bank, Standing Deputy Manager of Everbright Securities Co., Ltd. and Everbright Financial Holding (HongKong), Chairman of Boshi Fund Management Co., Ltd.. Presently, he is Executive Director and Secretary of the Party Committee of Boshi Fund Management Co., Ltd..

Li Jingqi, took posts of Assistant General Manager of exchange center of Bank of China (Hong Kong), Section Chief of exchange capital section of Bank of China, Shenzhen branch, President of Bank of China, Shatoujiao sub-branch, President Assistant of Shenzhen Investment Management Company. Presently, besides taking the post of shareholding companies, he holds concurrently posts of Executive Director and Associate President of Shenzhen International Holdings Ltd., Supervisor of Shenzhen West Logistics Co., Ltd..

Ding Jiuru, took posts of Deputy Director General, Director and Deputy Chief Accountant at the financial department of China North Industry (Shenzhen) Group. At present, he takes posts of Deputy General Manager and Chief Accountant of China North Industry (Shenzhen) Group, and holds concurrently posts of Chairman of Board of Shenzhen Xinjiye Futures Brokerage Co., Ltd., Chairman of Board of Shenzhen North Property Management Co., Ltd., Chairman of Supervisory Committee of DFD Investment Co., Ltd..

Liu Jun, took posts of Accountant at the financial department of China North Industries Group Corporation, Undersecretary of planning & finance department of Shenzhen Investment Management Company, Deputy Director General of comprehensive division of Shenzhen State-owned Assets Management Office, Director of merchant's department of Shenzhen governmental Foreign Investment Bureau. Presently, besides taking the post of shareholding companies, he holds concurrently posts of Executive Director and Vice President of Shenzhen International Holdings Ltd..

Jiao Zhiren, took posts of Secretary of the Party Committee, Vice Manager and General Manager of China North Industry (Shenzhen) Group. Presently, he is General Manager of DFD Investment Co., Ltd. as well as Chairman of Board of Shenzhen North Building Co., Ltd..

Yang Hai, took posts of Assistant Director of the Second Highway Transport Engineering Bureau of Transportation Department, Deputy General Manager of Shenzhen Expressway Co., Ltd.. Presently, besides taking the post of shareholding companies, he holds post of Vice President of Shenzhen International Holdings Ltd..

Zhao Xijun, took the posts of Finance Manager of Architectural Glass Department of the Company, Assistant of General Manager of Shenzhen CSG Electronic Co., Ltd., Finance Manager of Guangzhou CSG Glass Co., Ltd.. At present, he is supervisor and Manager of Audit Department of the Company.

Sun Jingbo, took post of Finance Manager of the Company. At present, she is Chief Financial of the Company.

Ke Hanqi, took posts of General Manager of Refined Glass & Microelectronics Department of the Company, General Manager of Shenzhen CSG Wellight Conductive Coating Co., Ltd..

At present, he is Deputy General Manager of the Company as well as the Chairman of Board of Shenzhen CSG Electronic Co., Ltd. and Shenzhen CSG Structure Ceramics Co., Ltd..

Lu Wenhui, took posts of General Manager of Shenzhen CSG Automotive Glass Co., Ltd. and Shenzhen CSG Float Glass Co., Ltd., Assistant of General Manager of the Company, General Manager of Guangzhou CSG Glass Co., Ltd.. At present, he is Deputy General Manager of the Company.

Yuan Dingfu, took posts of Manager of the audit department of the Company, Assistant of the General Manager of the Company. At present, he is Deputy General Manager of the Company, and holds post of General Manager of the Real Estate Department of the Company.

Wu Guobin, took posts of Manager of securities department of the Company. At present, he is Secretary of Board of Directors as well as Assistant of General Manager of the Company.

(iv) 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 7 directors (excluding independent directors), supervisors and senior executives drew their salary from the Company. The total annual salary is RMB 2.71 million. Of them, one person enjoyed between RMB 600~690 thousand, three person enjoyed between RMB 400~490 thousand, two person enjoyed between RMB 300~390 thousand, and one person enjoyed between RMB 100~190 thousand respectively. The total annual payment of the top three director drawing the highest salary from the Company is RMB 610 thousand, and the total annual payment of the top three senior executives drawing the highest salary from the Company is RMB 1,480 thousand.

C. Mr. Long Long, Mr. Yan Ganggang and Mr. Zhang Jianjun draw allowance of RMB 50,000 per year respectively as Independent Directors.

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.

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

In the 2003 Shareholders' General Meeting held on 23 April 2004, the original supervisor Mr. Yuan Dingfu resigned the post of supervisor due to work change.

ii Employee of the Company

<u>Categories</u>	<u>Number of person</u>	<u>Proportion (%)</u>
Generative personnel	3,208	76.05
Marketing personnel	208	4.93
Technical personnel	355	8.42
Financial personnel	83	1.97
Administrative personnel	364	8.63
Total	4,218	100

At the end of the report period, there were 1,222 employees having received college and polytechnic school or higher education, accounting 28.97% 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, Shenzhen Stock Exchange and the relevant department of State, 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 Board of Directors of the Company established four special committees such as Strategic Committee, Auditing Committee, Nomination Committee, Remuneration and Check Committee based on the relevant requirements of Administration Rules for Listed Company. Additionally, the Company enacted Management Measure of Investor Relationship (Draft). It made the Company's administrative system perfected.

ii Performance of independent directors

The Company engaged three independent directors. In the special committees established by the Board of Directors, three independent directors take convener of Auditing Committee, Remuneration and Check Committee respectively. Except for this, 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, attended the Board meeting and shareholder's general meeting actively with the serious and responsible attitude, put toward independent opinion on significant matters and safeguarded the interests of the Company and small or medium shareholders.

(i) Particulars about independent directors' presenting the Board meeting:

<u>Name</u>	<u>Times that should be attend the Board Meeting</u>	<u>Times of personal presence</u>	<u>Times of commission presence</u>	<u>Times of absence</u>
Long Long	6	6	0	0
Yan Ganggang	6	6	0	0
Zhang Jianjun	6	6	0	0

(ii) Particulars about objection proposed by the independent directors on the relevant matters:

In the report period, three independent directors of the Company didn't propose the objection on all proposals and other issues of the Company examined at the Board meetings in 2004.

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 Board of Directors approved the encouragement method of outstanding achievement to management team based on total net profit after tax in the current year with annual return on equity as assessment basis. Namely, the Company could give the encouragement to them only by the annual return on equity reached to 8%. Otherwise, they could not take encouragement of outstanding achievement. The Board of Directors agreed that management team would take bonus of outstanding achievement on proportion of 6% based on total net profit after tax in the current year when the return on equity reached to 8%. While the return on equity exceeded 8%, the proportion of bonus of outstanding achievement increased by 0.2% accordingly based on proportion of 6% with increasing of per 1% to return on equity 8%. And the Board of Directors authorized the management team to implement this method.

VI Brief Introduction to Shareholder's General Meeting

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

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

According to the resolution of the 12th meeting of the 3rd Board of Directors, the Company published the Public Notice on holding the 2003 Shareholders' General Meeting on Securities Times, China Securities Journal and Ta Kung Pao dated 16 March 2004. The 2003 Shareholders' General Meeting was held on schedule at the meeting room on the 7th floor of Southern Glass Technology Building in Shekou, Shenzhen on 23 April 2004. 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.

ii The resolutions of the Shareholders' General Meeting

The following resolutions were approved by means of registered voting in the 2003 Shareholders' General Meeting:

A. 2003 Work Report of the Board of Directors of CSG

B. 2003 Work Report of the Supervisory Committee of CSG

C. 2003 Annual Report and Summary of CSG

D. 2003 Profit Distribution Preplan of CSG

E. The Proposal on Changing the Partial Supervisors

G. The Proposal on Engagement of Law Consultant for the year 2004

H. The Proposal on Engagement of Auditing Organization for the year 2004

The resolutions of this Shareholders' General Meeting were published on Securities Time, China Securities and Ta Kung Pao dated 24 April 2004.

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

In accordance with the resolutions of the 2003 Shareholders' General Meeting held on 23 April 2004, the original supervisor Mr. Yuan Dingfu resigned the post of supervisor due to work change. And Mr. Zhao Xijun was elected as supervisor of the Company.

VII Report of the Board of Directors

i Discussion and analysis of the operation

In the year 2004, the Company got a preferable outstanding achievement. The operation and the development speed of the Company create the highest level in the history. The Company realized income RMB 1,849,421 thousand and net profit RMB 337,806 thousand, and increase of 40.01% and 66.71% respectively compared with the last year. The Company benefited from the high-speed growth of domestic economy in the first half year. At the same time, the Company endured the severe baptism of macroeconomic adjustment and control of the State, rising of raw materials and fuel. In the face of opportunity and challenge, the Company adopted the different operation measure that "I have what others don't have. What others have, I have excellent." actively, insisted on high level and refined product, controlled the expense strictly, strengthened management and operated elaborately, enhanced the organization and practice of projects in progress and new projects, constructed a group of projects and put its into production on schedule or in advance. That means the Company grasped the opportunity, endured test and got the development.

Due to the excessive increase of production capability of glass industry in whole state in 2004, the price of main raw materials and fuel remained high level. In addition to the lag of macroeconomic adjustment and control of the State, the Company predicts that the market competition will be furious in 2005. The Company made the following management strategies for this situation: combines with the market tight, adjusts industrial structure further, stresses on raising soft strength of operation of the Company, quickens development of new products, gets the opportunity to accomplish establishment of new projects as soon as possible, perfects management system of target cost continually, controls various of costs and expenses strictly, implements rigorous anti-risk system, enlarges the anti-risk of operation and financing.

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:

	2004	2003
Sales of glass products	1,599,900	1,198,944
Sales of ceramics products	59,037	53,195
Sales of properties	160,762	39,667
Glass installation service revenue	29,722	29,094
Total	1,849,421	1,320,990

B. Sales classified according to location:

D. Sales classified according to location.			Unit: RMB'000
	<u>2004</u>	<u>2003</u>	
PRC	1,672,889	1,156,459	
United States	33,884	57,492	
Australia	36,638	26,847	
Others	106,010	80,102	
Total	1,849,421	1,320,990	

Business segment information is not presented as no individual segment except glass segment accounted for more than 10% of revenue, results and net assets.

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

Please refer to Note 30 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 200.35 million, taking 17.84% of the total annual purchase amount, while the total sales amount of the top five customers of the Company was RMB 257.91 million, taking 13.95% of the total annual sales amount.

(iv) Problems and difficulties in the operation and solutions

A. Main raw materials and fuel has increased by a larger margin, including the highest growth of soda ash in 2004 reached to 45% and the highest growth of heavy oil reached to 24%, which resulted in great pressure of controlling of production cost. However, the Company digested the disadvantageous basically through effective target cost management, enhancing production efficiency and yield as well as rising of products price.

B. Due to influence of macroeconomic adjustment and control of the State, the market environment of architecture glass has changed badly, the expectant demand has weakened, and the price of products has taken back. It made the market competition furious daily although the Company got the smaller influence. The Company upgraded its competition through different operation strategy, development of new products, enhancing proportion of high added-value products and perfecting market service system. The Company not only took the lowest negative effects but also enlarged market share using the opportunity of market structure adjustment.

C. Shenzhen CSG Automotive Glass Co., Ltd. has deficit because that the market demand went slowness, the internal management was bad, production capability has enlarged and market development out of join. It influenced the whole benefit of the Company. The Company has adjusted the management team of the said company timely, strengthened guidance and supervision on the said company in order to change this passive situation thoroughly in 2005.

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 2004

A. Tianjin Architectural Glass Project. The actual total investment of the 1st term of project is RMB 340 million. It produced and operated the architectural glass with low-radiation glass as core product. By the end of the first quarter of 2004, this project has been put into production totally.

B. The 1st line of Color Filter Glass Project. The investment of this project is USD 32 million, whose product was the main component of LCD. The output of this project is about 30,000 pieces per month. This project has been put into production at the end of July 2004.

C. The 2nd line of Color Filter Glass Project. The investment planned of this project is RMB 76 million, whose product was almost same as the 1st line. The output of this project is about 10,000 pieces per month. At present, the main equipments have already been purchased. The Company planned that this project will be put into production during the second quarter in 2005.

D. The special glass production line of Guangzhou CSG Glass Co., Ltd.. The total investment planned of the project is 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. At present, the 1st float glass line has been ignited successfully at the end of November 2004. The 2nd float glass line has been ignited successfully at February 2005. The Company estimated that the annual output of these two lines will reach to 360,000 tons after the two lines will has been put into production completely.

E. The 3rd term of Automobile Glass Production Line project. The investment of the project is about RMB 200 million, which was used to enlarge the production ability of the integral automobile glass and import relevant instruments. This project has been put into production at July 2004.

F. Chengdu CSG glass industries base. The investment planned of 1st term of this project is RMB 330 million, which was used to build the production line of high-grade float special glass. At present, capital construction has started. The 1st float line will be ignited at the end of 2055.

iv Financial status

Unit: RMB'000

<u>Item</u>	<u>2004</u>	<u>2003</u>	<u>Increase / decrease (%)</u>	<u>Reasons</u>
Total assets	4,729,642	3,526,990	34.10	Increasing liabilities and investment industrial projects.
Shareholders' equity	2,328,068	2,132,202	9.19	Net profit realized in the year.
Gross profit	629,005	475,369	32.32	Newly constructed projects put into production and bloom of market demand.
Net profit	337,806	202,632	66.71	Bloom of market demand and better controlling of cost.
Net increase (decrease) in cash and cash equivalents	93,590	33,994	175.31	Expansion of the Company's scale and increase of working capital.

v The influence of the production environment and microscope policy and regulations:

In the report period, the production environment is relatively stable as well as the microscopic policy and the regulations.

vi Routine work of the Board of Directors

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

A. The 12th meeting of the 3rd Board of Directors was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 12 March 2004. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting examined and approved

the proposals as following:

- a. 2003 Work Report of the Board of Directors of CSG
- b. 2003 Annual Report and Summary of CSG
- c. 2003 Financial Settlement Report of CSG
- d. 2004 Work Planning and Financial Budget Report of CSG
- e. 2004 Profit Distribution Preplan of CSG
- f. Policy of 2004 Expected Profit Distribution
- g. Proposal on Relevant Investment Project of CSG in 2004
- h. Proposal on Engagement of Law Consultant for the year 2004
- i. Proposal on Engagement of Auditing Organ for the year 2004
- 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 16 March 2004.

B. The 13th meeting of the 3rd Board of Directors was held in the meeting room on the Shenzhen North Building in Shenzhen on 7 April 2004. 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 their behalf. The meeting examined and approved the Proposal on establishing CSG Industries base in Chendu, Sichuan. The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 10 April 2004.

C. The 14th meeting of the 3rd Board of Directors was held in the meeting room on Southern Glass Building in Shekou, Shenzhen on 20 April 2004. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting examined and approved the proposals as following:

- a. The 1st Quarter Report for 2004 of CSG
- b. Proposal on Establishing Special Committee of the Board of Director
- c. Management Measures on Investor Relationship of CSG (Draft)

The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 21 April 2004.

D. The 15th meeting of the 3rd Board of Directors was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 2 August 2004. 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 2004 and Work Scheme on the Next Half Year of 2004 of CSG
- b. 2004 Semi-year Report and Summary of CSG

The resolutions of this meeting were published on Securities Time, China Securities Journal and Ta Kung Pao dated 4 August 2004.

E. The 16th meeting of the 3rd Board of Directors was held in the meeting room on 7th floor in Southern Glass Building in Shekou, Shenzhen on 7 September 2004. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting discussed the Encouragement Measures on Outstanding Achievements of Management Team of CSG (Draft).

F. The 17th meeting of the 3rd Board of Directors was held in the meeting room on Longquan International Hotel in Dongguan, Guangdong on 22 October 2004. 9 directors were supposed to attend the meeting, all of whom were actually present. The meeting examined and approved the Report of the 3rd Quarter in 2004 of CSG.

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

2003 Shareholders' General Meeting of the Company approved 2003 profit distribution plan: Based on the total share capital of 676,975,416 shares at the end of 2003, cash dividends were distributed to all shareholders at the rate of cash RMB 1.8 (tax included) for every 10 shares. The Company published the public notice of 2003 Dividend Distribution on Securities Time, China Securities Journal and Ta Kung Pao dated 17 June 2004. And the Company implemented the cash distribution.

vii Preplan of profit distribution

As audited by Pricewaterhouse Coopers Zhong Tian CPAs Co., Ltd., the net profit of the Company was RMB 339,016,740. 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 33,901,674 and 5% of the net profit is to be withdrew as statutory public welfare fund amounting to RMB 16,950,837. Based on the total share capital of 676,975,416 shares at the end of 2004, the dividends will be distributed to the whole Shareholders in cash at the rate of RMB 2.50 for every 10 shares (including tax), and the totally amounts of cash dividends is RMB 169,243,854.

Based on the total share capital of 676,975,416 shares at the end of 2004, the public reserve has been suggested to convert into share capital at the rate of 5 shares for every 10 shares. After the conversion, the total share capital of the Company will increase to 1,015,463,124 shares, and the share structure will be no change.

The aforesaid profit distribution preplan should be submitted to the 2004 Shareholders' General Meeting for examination.

viii 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 2004.

(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

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], the Independent Director thought that: In the report period, the Company did not provide guarantee to any company or individual outside the Company as well as 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 993 million, taking 42.65% of the total net assets in the Consolidated Balance Sheet dated 31 December 2004. So as a conclusion, the Company controlled the guarantee well, and 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 five meetings.

A. The 12th meeting of the 3rd Supervisory Committee was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 12 March 2004. The meeting examined and approved the proposals: 2003 Work Report of the Supervisory Committee of CSG, 2003 Annual Report and Summary of CSG, 2003 Financial Settlement Report of CSG, 2003 Profit Distribution Preplan of CSG and Policy of 2004 Expected Profit Distribution.

B. The 13th meeting of the 3rd Supervisory Committee was held in the meeting room on the Shenzhen North Building in Shenzhen on 20 April 2004. The meeting examined and approved The 1st Quarter Report for 2004 of CSG.

C. The 14th meeting of the 3rd Supervisory Committee was held in the meeting room on the Parkview Hotel in Dongguan, Guangdong on 2 August 2004. The meeting examined and approved Work Report on the 1st Half Year of 2004 and Work Scheme on the Next Half Year of 2004 of CSG.

D. The 15th meeting of the 3rd Supervisory Committee was held in the meeting room on 7th floor in Southern Glass Building in Shekou, Shenzhen on 7 September 2004. The meeting discussed the Encouragement Measures on Outstanding Achievements of Management Team of CSG (Draft).

E. The 16th meeting of the 3rd Supervisory Committee was held in the meeting room on Longquan International Hotel in Dongguan, Guangdong on 22 October 2004. The meeting examined and approved the Report of the 3rd Quarter in 2004 of CSG.

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 2004, 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 In the report period, the Company has not been involved in any significant lawsuits or arbitrations.

ii In the report period, the Company conducted neither sale 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 18,418 thousand. 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 or individuals 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>	<u>HKD</u>
Shenzhen CSG Display Technology Co., Ltd.	-	37.50	-	-
Shenzhen CSG Float Glass Co., Ltd.	11.05	30.00	-	98.00
Shenzhen CSG Automotive Glass Co., Ltd.	7.70	45.00	-	73.20
Tianjin CSG Industrial Development Co., Ltd.	-	3.75	-	-
Guangzhou CSG Glass Co., Ltd.	23.36	315.00	-	-
Chengdu CSG Glass Co., Ltd.	0.73	18.75	0.55	-
Total	42.84	450.00	0.55	171.20

At the end of report period, the total guarantee amount of the Company's subsidiaries was about RMB 993 million, taking 42.65% of the total net assets in the Consolidated Balance Sheet dated 31 December 2004.

(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 2004 was disclosed on the 12th meeting of the 3rd Board of directors. The details is: 20%~60% of the net profit to be realized in the year 2004 will be used for profit distribution, 20%~60% of the undistributed profit at the end of 2003 will be used for profit distribution in the year 2004. In fact, distribution proportion for 2004 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. Since the year 2002, the above two auditing organizations have provided auditing services for the Company for continuous three years.

In the report period, the expenses that the Company paid to the auditing organization of A share and B share are RMB 1.2 million and RMB 0.63 million. And they conducted the other expenses, such as evection and living.

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

In the report period, the Company's administrative team of more than 60 people has founded Shenzhen Yuquan Investment Co., Ltd. in order to strengthen the agglomeration of the Company as well as to combine individual benefits with the Company's benefits tightly. This company's registered capital is RMB 46.8 million, and its legal representative is Mr. Zeng Nan. This company mainly business is purchase and hold of shares of CSG, so that the administrative team could management by participating share. At present, this company has already signed the Contract of Equity Transfer, and purchased 19,239,276 legal person's shares of CSG, taking 2.84% of the CSG's total shares, at a price higher than the net assets. The transfer procedure is in process. The individuals of the administrative team paid all the registered capital of this company in cash. CSG has not provided any financial support or guarantee in any form to this company or its shareholders. And CSG had not any economic or business contacts with this company.

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.
18 March 2005**

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 2004, the related consolidated income and cash flow statements and statement of changes in shareholders’ equity for the year then ended. These consolidated financial statements set out on pages 21 to 45 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 accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2004, 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.

Certified Public Accountants

Hong Kong, 18 March 2005

CSG HOLDING CO., LTD.
**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 RMB'000	2003 RMB'000
Sales	4	1,849,421	1,320,900
Cost of sales		<u>(1,220,416)</u>	<u>(845,531)</u>
Gross profit		629,005	475,369
Other operating income		12,283	14,742
Distribution costs		(122,291)	(108,029)
Administrative expenses		(91,169)	(119,023)
Other operating expenses		<u>(2,492)</u>	<u>(9,339)</u>
Profit from operations	5	425,336	253,720
Finance costs, net	6	<u>(27,210)</u>	<u>(20,608)</u>
Profit before tax		398,126	233,112
Income tax expense	8	<u>(30,463)</u>	<u>(17,182)</u>
Profit after tax		367,663	215,930
Minority interests	28	<u>(29,857)</u>	<u>(13,298)</u>
Net profit		<u>337,806</u>	<u>202,632</u>
Earnings per share	9	<u>RMB 0.50</u>	<u>RMB 0.30</u>

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

CSG HOLDING CO., LTD.
**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2004**

	Notes	2004 RMB'000	2003 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2,859,457	2,064,436
Construction-in-progress	12	748,814	559,601
Land use rights	13	130,846	91,283
Intangible assets	14	5,505	(5,954)
Available-for-sale investments	15	9,078	9,078
Deferred tax assets	23	1,035	927
		<u>3,754,735</u>	<u>2,719,371</u>
Current assets			
Inventories	16	150,517	103,887
Properties held for sale	17	150,532	231,558
Trade receivables, other receivables and prepayments	18	286,057	252,471
Trading investments		-	859
Derivative financial instruments	24	7,847	-
Cash and cash equivalents	19	379,954	218,844
		<u>974,907</u>	<u>807,619</u>
Total assets		<u>4,729,642</u>	<u>3,526,990</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	25	676,975	676,975
Reserves	26	1,226,857	1,196,089
Retained earnings	27	424,236	259,138
		<u>2,328,068</u>	<u>2,132,202</u>
Minority interests	28	<u>128,362</u>	<u>91,272</u>
Non-current liabilities			
Borrowings	22	<u>562,150</u>	<u>163,337</u>
Current liabilities			
Trade and other payables	20	447,906	337,869
Current tax liabilities	21	26,464	18,626
Borrowings	22	1,236,692	783,684
		<u>1,711,062</u>	<u>1,140,179</u>
Total equity and liabilities		<u>4,729,642</u>	<u>3,526,990</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 2004

	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 2003		676,975	927,897	132,134	84,855	-	616	188,639	2,011,116
Dividend relating to 2002		-	-	-	-	-	-	(101,546)	(101,546)
Capital exchange reserve recognised		-	5	-	-	-	-	-	5
Net fair value gain relating to cash flow hedge		-	-	-	-	19,924	-	-	19,924
Currency translation differences		-	-	-	-	-	71	-	71
Net profit		-	-	-	-	-	-	202,632	202,632
Appropriation to reserve funds	26	-	-	20,391	10,196	-	-	(30,587)	-
Balance at 31 December 2003 and 1 January 2004		676,975	927,902	152,525	95,051	19,924	687	259,138	2,132,202
Dividend relating to 2003	10	-	-	-	-	-	-	(121,856)	(121,856)
Capital exchange reserve recognised		-	27	-	-	-	-	-	27
Net fair value gain relating to cash flow hedge transferred to assets	11	-	-	-	-	(19,924)	-	-	(19,924)
Currency translation differences		-	-	-	-	-	(187)	-	(187)
Net profit		-	-	-	-	-	-	337,806	337,806
Appropriation to reserve funds	26	-	-	33,902	16,950	-	-	(50,852)	-
Balance at 31 December 2004		676,975	927,929	186,427	112,001	-	500	424,236	2,328,068

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 2004**

	Notes	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Cash generated from operations	29	599,786	434,122
Interest paid		(45,413)	(23,723)
Income tax paid		(23,841)	(16,324)
Net cash from operating activities		530,532	394,075
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,057,622)	(599,040)
Purchase of land use rights		(43,053)	(5,626)
Purchase of intangible assets		(10,906)	(185)
Purchase of trading investments		-	(359)
Pledged bank deposits placed		(64,103)	-
Proceeds from sale of property, plant and equipment		2,772	754
Proceeds from sale of trading investments		373	-
Interest received		1,709	1,345
Net cash used in investing activities		(1,170,830)	(603,111)
Cash flows from financing activities			
Proceeds from borrowings		3,170,575	1,841,546
Repayments of borrowings		(2,327,952)	(1,504,259)
Dividends paid to shareholders		(121,420)	(101,146)
Dividends paid to minority interests		(11,726)	(11,653)
Capital contributed by minority shareholders		18,986	13,592
Pledged bank deposits withdrawn/(placed)		(6,645)	3,228
Net cash generated from financing activities		721,818	241,308
Effect of exchange rate changes		12,070	1,722
Net increase in cash and cash equivalents		93,590	33,994
Cash and cash equivalents at beginning of year		213,859	179,865
Cash and cash equivalents at end of year	19	307,449	213,859

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

CSG HOLDING CO., LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004****1. General information**

CSG Holding Co., Ltd. (the “Company”) (formerly known as “CSG Technology Holding Co., Ltd.”) 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 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 30.

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 as modified by the revaluation of forward contract assets and available-for-sale investments. 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.

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) 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 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.

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (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.

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.

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.

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.

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 performed.

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.

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 amortised 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 foreign currencies. The forward contracts used in its programme mature in twelve months or less are, consistent with the related purchase commitments.

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 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in equity. Where the forecasted transaction or firm commitment results 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 or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same period during which the hedged firm commitment or forecasted transaction affects the income statement.

E 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.

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.

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.

4. Sales

(a) Business segment

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

	2004	2003
	RMB'000	RMB'000
Sales of glass products	1,599,900	1,198,944
Sales of ceramics products	59,037	53,195
Sales of properties	160,762	39,667
Glass installation service revenue	<u>29,722</u>	<u>29,094</u>
	<u>1,849,421</u>	<u>1,320,900</u>

Business segment information is not presented as no individual segment except glass segment accounted for more than 10% of revenue, results or net assets.

(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:

	2004	2003
	RMB'000	RMB'000
PRC	1,672,889	1,156,459
United States	33,884	57,492
Australia	36,638	26,847
Others	<u>106,010</u>	<u>80,102</u>
	<u>1,849,421</u>	<u>1,320,900</u>

5. Profit from operations

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

	2004	2003
	RMB'000	RMB'000
Inventories cost (included in cost of sales)	1,220,416	845,531
Depreciation on property, plant and equipment	158,775	129,822
Provision/(Write back) of impairment of property, plant and equipment *	(10)	1,674
Impairment of construction-in-progress*	-	5,244
Loss/(Profit) on disposals of property, plant and equipment *	(150)	393
Amortisation of land use rights #	3,490	3,586
Amortisation of intangible assets #		
- negative goodwill	(1,585)	(1,586)
- other intangible assets	1,032	636
(Write back of provision)/Provision for doubtful receivables #	(5,474)	2,335
Provision for obsolescence of inventories #	533	2,485
Write back of impairment charge for available-for-sale investments *	-	(415)
Write-back of net realisable value of properties held for sale #	(66,138)	(7,843)
Government subsidy for sales of properties	-	(2,690)
Staff costs (Note 7)	197,538	139,331

* included in other operating income or expenses.

included in administrative expenses.

6. Finance costs, net

	2004	2003
	RMB'000	RMB'000
Interest payable on bank borrowings	(45,412)	(23,547)
Less: interest capitalised in construction-in-progress	14,223	4,260
Interest expense	(31,189)	(19,287)
Interest income	1,709	1,345
Net foreign exchange transaction losses	(3,208)	(434)
Fair value gains on forward contracts	7,847	-
Other finance charges	(2,369)	(2,232)
	(27,210)	(20,608)

7. Staff costs

	2004	2003
	RMB'000	RMB'000
Wages and salaries	135,119	106,266
Staff and workers' welfare	31,939	24,264
Retirement scheme contributions (Note (a))	9,480	8,801
Management bonus (Note (b))	21,000	-
	197,538	139,331

- (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.
- (b) During 2004, the Board of Directors of the Company approved that a bonus be paid to management on the basis of return on net assets of the Company.
- The average number of employees in 2004 was 4,021 (2003: 3,063).

8. Income tax expense

	2004 RMB'000	2003 RMB'000
Current tax	30,571	17,663
Deferred tax (Note 23)	<u>(108)</u>	<u>(481)</u>
	<u>30,463</u>	<u>17,182</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.

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

	2004 RMB'000	2003 RMB'000
Profit before tax	<u>398,126</u>	<u>233,112</u>
Tax calculated at tax rates of 15 to 33% (2003: 15 to 33%)	63,175	32,805
Tax benefits arising from preferential policies	(31,332)	<u>(21,862)</u>
Expenses not deductible for tax purposes	670	591
Tax losses on certain subsidiaries not recognised as deferred tax assets	6,310	6,129
Tax loss recovered but not recognised as deferred tax assets	(8,252)	-
Temporary differences in recognition of income and expenses	<u>(108)</u>	<u>(481)</u>
	<u>30,463</u>	<u>17,182</u>

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.

	2004	2003
Net profit attributable to shareholders (RMB)	337,806,000	202,632,000
Weighted average number of ordinary shares in issue (Number)	676,975,000	676,975,000
Basic earnings per share (RMB per share)	<u>0.50</u>	<u>0.30</u>

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

10. Dividend per share

Pursuant to the Board resolution passed on 18 March 2005, a dividend in respect of 2004 of RMB0.25 (2003: RMB0.18) per share amounting to a total of RMB169,244,000 (2003: RMB121,856,000) and a bonus issue of 5 shares per 10 shares were 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 2005.

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	454,975	1,545,865	63,596	2,064,436
Transfer from construction-in-progress	162,808	762,833	23,174	948,815
Additions	641	9,959	16,927	27,527
Net fair value gain relating to cash flow hedge transferred to assets	-	(19,924)	-	(19,924)
Reclassification	6,734	-	(6,734)	-
Disposals	(294)	(275)	(2,063)	(2,632)
Depreciation charge	(17,172)	(127,351)	(14,252)	(158,775)
Write back of impairment charge	-	10	-	10
Closing net book amount	<u>607,692</u>	<u>2,171,117</u>	<u>80,648</u>	<u>2,859,457</u>
At 31 December 2004				
Cost	716,847	2,803,869	162,626	3,683,342
Accumulated depreciation	(103,521)	(630,490)	(81,905)	(815,916)
Provision for impairment	(5,634)	(2,262)	(73)	(7,969)
Net book amount	<u>607,692</u>	<u>2,171,117</u>	<u>80,648</u>	<u>2,859,457</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>

12. Construction-in-progress

	2004	2003
	RMB'000	RMB'000
Opening net book amount	559,601	454,615
Additions	1,106,284	609,190
Capitalised borrowing costs	14,223	4,260
Capitalised exchange difference	(2,403)	-
Transfer to property, plant and equipment	(928,891)	(503,220)
Impairment charge	-	(5,244)
	<u>748,814</u>	<u>559,601</u>
Closing net book amount		
Represented by:		
Cost at end of the year	754,058	564,845
Provision for impairment	<u>(5,244)</u>	<u>(5,244)</u>
Net book amount	<u>748,814</u>	<u>559,601</u>

The borrowing costs are calculated at 3.91% (2003: 3.17%) per annum which represented the weighted average interest rate on the loans used to finance the projects.

13. Land use rights

	2004	2003
	RMB'000	RMB'000
Opening net book amount	91,283	89,243
Additions	43,053	5,626
Amortisation charge	<u>(3,490)</u>	<u>(3,586)</u>
Closing net book amount	<u>130,846</u>	<u>91,283</u>
Represented by:		
Cost at end of the year	164,238	121,185
Accumulated amortisation at end of the year	<u>(33,392)</u>	<u>(29,902)</u>
Net book amount	<u>130,846</u>	<u>91,283</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 30 to 50 years. The period of use is the land use period granted according to the land use right certificate. As of 31 December 2004, the certificates of land use rights held by two subsidiaries, Guangzhou CSG Glass Company Limited and Chengdu CSG Glass Company Limited, are still under process.

14. Intangible assets

	Computer software RMB'000	Patents and licenses RMB'000	Negative goodwill RMB'000	Total RMB'000
Opening net book amount	1,507	3,786	(11,247)	(5,954)
Additions	59	10,847	-	10,906
Amortisation charge	(359)	(673)	1,585	553
Closing net book amount	<u>1,207</u>	<u>13,960</u>	<u>(9,662)</u>	<u>5,505</u>
At 31 December 2004				
Cost	3,929	15,399	(17,075)	2,253
Accumulated amortisation	(2,722)	(1,439)	7,413	3,252
Net book amount	<u>1,207</u>	<u>13,960</u>	<u>(9,662)</u>	<u>5,505</u>
At 31 December 2003				
Cost	3,870	4,552	(17,075)	(8,653)
Accumulated amortisation	(2,363)	(766)	5,828	2,699
Net book amount	<u>1,507</u>	<u>3,786</u>	<u>(11,247)</u>	<u>(5,954)</u>

15. Available-for-sale investments

	2004 RMB'000	2003 RMB'000
Unlisted investments in the PRC:		
Opening net book amount	9,078	8,663
Write back of impairment charge	<u>-</u>	<u>415</u>
Closing net book amount	<u>9,078</u>	<u>9,078</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>(16,421)</u>
Net book amount	<u>9,078</u>	<u>9,078</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

	2004 RMB'000	2003 RMB'000
Raw materials (at cost)	91,947	55,655
Work-in-progress (at cost)	11,067	4,645
Finished goods (at cost)	50,226	45,777
	<u>153,240</u>	<u>106,077</u>
Less: provision	<u>(2,723)</u>	<u>(2,190)</u>
	<u>150,517</u>	<u>103,887</u>

As at 31 December 2004, finished goods of RMB1,671,000 (2003: RMB1,296,648) and raw materials of RMB2,104,000 (2003: RMB1,583,136) were stated at net realisable value.

17. Properties held for sale

	2004 RMB'000	2003 RMB'000
Opening net book amount	231,558	246,972
Additions	42,323	14,823
Sales	(189,487)	(38,080)
Write back of net realisable value provision	<u>66,138</u>	<u>7,843</u>
Closing net book amount	<u>150,532</u>	<u>231,558</u>
Represented by:		
Cost at end of the year	258,029	405,193
Provision for net realisable value at end of the year	<u>(107,497)</u>	<u>(173,635)</u>
Net book amount	<u>150,532</u>	<u>231,558</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.

18. Trade receivables, other receivables and prepayments

	2004 RMB'000	2003 RMB'000
Accounts receivable	216,637	192,457
Notes receivable	36,888	33,174
	<u>253,525</u>	<u>225,631</u>
Less: provision for doubtful accounts	<u>(5,840)</u>	<u>(11,314)</u>
	<u>247,685</u>	<u>214,317</u>
Prepayments	21,946	4,136
Other receivables	16,426	34,018
	<u>286,057</u>	<u>252,471</u>

19. Cash and cash equivalents

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

	2004 RMB'000	2003 RMB'000
Cash in hand	178	298
Cash at banks	379,776	218,546
	379,954	218,844
Less: pledged bank deposits (Note (a))	(72,505)	(4,985)
Cash and cash equivalents	307,449	213,859

(a) At 31 December 2004, bank deposits of RMB72,505,000 (2003: RMB4,985,000) were pledged to banks as security deposits for property mortgage loans granted by the banks to customers of the Group and banking facilities granted to the Group.

20. Trade and other payables

	2004 RMB'000	2003 RMB'000
Trade payable	141,581	111,699
Notes payable	39,324	46,041
Payable for construction work and purchase of equipment	156,522	77,538
Deposits from customers	32,679	30,926
Salary payable and welfare payable	14,557	13,874
Accruals	27,500	32,291
Dividend payable	1,275	840
Others	34,468	24,660
	447,906	337,869

21. Current tax liabilities

	2004 RMB'000	2003 RMB'000
Provision for income tax	12,379	5,649
Value-added tax payable	9,544	10,271
Business tax payable	3,759	1,639
Others	782	1,067
	26,464	18,626

22. Borrowings

	2004 RMB'000	2003 RMB'000
Current		
- Bank loans	1,236,692	783,684
Non-current		
- Bank loans	562,150	163,337
	<u>1,798,842</u>	<u>947,021</u>

As of 31 December 2004, all borrowings were unsecured.

	2004 RMB'000	2003 RMB'000
Interests on bank loans are:		
- At fixed rates	1,232,284	822,749
- At floating rates	566,558	124,272
	<u>1,798,842</u>	<u>947,021</u>

The effective interest rates of these bank loans, including subsidised loans of RMB60,000,000 with interest rate of 4.94% to 5.84% per annum for which the interest charge were borne by Shenzhen Finance Bureau, were ranging from 0.80% to 6.00% (2003: 1.74% to 6.00%).

The carrying amounts of borrowings approximate amortised cost. 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:

	2004 RMB'000	2003 RMB'000
Between 1 and 2 years	263,000	116,038
Between 2 and 3 years	47,817	47,299
Between 3 and 4 years	209,976	-
Between 4 and 5 years	41,357	-
	<u>562,150</u>	<u>163,337</u>

As at 31 December 2004, the Group has unused bank facilities totalling RMB1,538,410,000 (2003: RMB1,241,300,000).

23. Deferred tax assets

Movements of deferred tax assets are as follows:

	At 1 January 2004 RMB'000	Credit/(charge) to consolidated income statement RMB'000	At 31 December 2004 RMB'000
Provision for doubtful receivables	186	(144)	42
Provision for obsolescence of inventories	253	29	282
Provision for impairment of construction-in-progress	393	(241)	152
Provision for impairment of property, plant and equipment	95	298	393
Tax loss available for tax deduction	-	166	166
	<u>927</u>	<u>108</u>	<u>1,035</u>

Certain companies of the Group had unused tax losses totalling RMB12,368,000 (2003: RMB25,413,000) 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. Derivative financial instruments

This represented fair value of forward foreign exchange contracts at year end.

Forward foreign exchange contracts are entered into by the Group to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.

The net fair value of derivative financial instruments as at 31 December 2004 and designated as fair value hedges is :

	2004 RMB'000	2003 RMB'000
Contract with positive fair values		
- forward foreign exchange contracts	<u>7,847</u>	<u>-</u>

25. Share capital

	31 December 2004 and 2003	
	Number of shares '000	RMB'000
Authorised, issued and fully paid		
Unlisted shares		
Shares owned by domestic legal persons	<u>270,757</u>	<u>270,757</u>
Listed shares		
A Shares	107,166	107,166
B Shares	<u>299,052</u>	<u>299,052</u>
	<u>406,218</u>	<u>406,218</u>
	<u>676,975</u>	<u>676,975</u>

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.

26. 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 2004, the directors of the Company proposed that 10% and 5% (2003: 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 RMB50,852,000 (2003: RMB30,587,000). 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.

27. Profit available for distribution

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 Accounts and the distributable profit adjusted according to IFRS.

28. Minority interests

	2004 RMB'000	2003 RMB'000
At 1 January	91,272	76,035
Capital contribution	18,959	13,592
Share of net profit of subsidiaries	29,857	13,298
Dividend	<u>(11,726)</u>	<u>(11,653)</u>
At 31 December	<u>128,362</u>	<u>91,272</u>

29. Cash generated from operations

	2004 RMB'000	2003 RMB'000
Net profit	337,806	202,632
Adjustments for:		
Minority interests	29,857	13,298
Income tax expense	30,463	17,182
Depreciation	158,775	129,822
Amortisation of intangible assets	(553)	(950)
Amortisation of land use rights	3,490	3,586
Loss/(Profit) on disposals of property, plant and equipment	(150)	393
Provision/(Write back) of impairment charge for property, plant and equipment	(10)	1,674
Impairment charge for construction-in-progress	-	5,244
Write back of net realisable value provision for properties held for sale	(66,138)	(7,843)
Write back of impairment charge for available-for-sale investments	-	(415)
Provision for obsolescence of inventories	533	2,485
Provision/(Write back of provision) for doubtful receivables	(5,474)	2,335
Interest expense	31,189	19,287
Interest income	(1,709)	(1,345)
	<u>518,079</u>	<u>387,385</u>
Changes in working capital:		
Inventories	(47,163)	(12,553)
Properties held for sale	147,164	23,257
Trade receivables, other receivables and prepayments	(51,639)	(24,479)
Trade and other payables	<u>33,345</u>	<u>60,512</u>
	<u><u>599,786</u></u>	<u><u>434,122</u></u>

30. Principal subsidiaries

As of 31 December 2004, the Company has direct/indirect interest in the following principal subsidiaries:

Name	Place of incorporation	Principal activities	Percentage of equity interest held	
			2004	2003
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 monitor display glass	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%	75%
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%	75%
CSG (HK) Limited	Hong Kong	Glass trading	100%	100%
Chengdu CSG Glass Company Limited	PRC	Production of glass (not yet commenced operation)	75%	-
Sichuan Luxian Silica Sand Co., Ltd.	PRC	Mining of silica sand	99.5%	-
Dongguan CSG Nantian Shanzhuang Management Co., Ltd.	PRC	Property management and indoor decoration	100%	-

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

31. Commitments

As at 31 December 2004, capital expenditure contracted for but not recognised in the consolidated financial statements is as follows:

	2004	2003
	RMB'000	RMB'000
Purchase of property, plant and equipment	623,489	747,253
Purchase of patents	-	2,610
	<u>623,489</u>	<u>749,863</u>

32. 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:

	2004	2003
	RMB'000	RMB'000
Transportation fee for the year	<u>18,418</u>	<u>16,953</u>
Balance included in accounts payables at year end	<u>1,312</u>	<u>8,249</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.

33. Approval of financial statements

These financial statements have been approved for issue by the Board of Directors on 18 March 2005.

**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004**

The impact of IFRS adjustments on PRC Accounts are as follows:

	Net consolidated profit for the year ended 31 December 2004 RMB'000	Net consolidated assets as at 31 December 2004 RMB'000
As per the PRC Accounts	339,017	2,328,813
Impact of IFRS adjustments:		
Recognition of deferred income tax	108	1,035
Derecognition of deferred pre-operating expenses and other assets	(4,275)	(1,780)
Recognition of sales differences arising from different revenue recognition basis	<u>2,956</u>	<u>-</u>
After IFRS adjustments	<u>337,806</u>	<u>2,328,068</u>