

CSG HOLDING CO., LTD.

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

CSG HOLDING CO., LTD.

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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 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 2 to 41 are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial position of the Group as of 31 December 2005, and of the 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, 17 March 2006

CSG HOLDING CO., LTD.

**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005**

	Note	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	4,392,810	3,608,271
Land use rights	7	158,954	130,846
Intangible assets	8	13,451	5,505
Available-for-sale financial assets	9	9,078	9,078
Deferred income tax assets	20	3,227	1,035
		<u>4,577,520</u>	<u>3,754,735</u>
Current assets			
Inventories	10	217,412	150,517
Properties held for sale	11	93,507	150,532
Trade and other receivables	12	350,188	286,057
Derivative financial instruments	13	3,416	7,847
Pledged bank deposits	14	54,458	72,505
Cash and cash equivalents	14	227,763	307,449
		<u>946,744</u>	<u>974,907</u>
Total assets		<u>5,524,264</u>	<u>4,729,642</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	1,015,463	676,975
Other reserves	16	935,869	1,226,857
Retained earnings		535,759	424,236
		<u>2,487,091</u>	<u>2,328,068</u>
Minority interest		<u>239,819</u>	<u>128,362</u>
Total equity		<u>2,726,910</u>	<u>2,456,430</u>
LIABILITIES			
Non-current liabilities			
Borrowings	19	<u>913,987</u>	<u>562,150</u>
Current liabilities			
Trade and other payables	17	807,705	447,906
Current tax liabilities	18	24,217	26,464
Borrowings	19	1,049,203	1,236,692
Derivative financial instruments	13	2,242	-
		<u>1,883,367</u>	<u>1,711,062</u>
Total liabilities		<u>2,797,354</u>	<u>2,273,212</u>
Total equity and liabilities		<u>5,524,264</u>	<u>4,729,642</u>

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

CSG HOLDING CO., LTD.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 RMB'000	2004 RMB'000
Sales	5	2,293,980	1,849,421
Cost of sales		(1,562,329)	(1,220,416)
Gross profit		731,651	629,005
Other gains, net	21	28,799	6,348
Selling and marketing costs		(162,520)	(122,291)
Administrative expenses		(118,416)	(91,169)
Other income		10,959	12,283
Other expenses		(13,440)	(4,861)
Profit from operations		477,033	429,315
Finance costs, net	24	(71,292)	(31,189)
Profit before income tax		405,741	398,126
Income tax expense	25	(24,805)	(30,463)
Profit for the year		380,936	367,663
Attributable to:			
Equity holders of the Company		318,660	337,806
Minority interest		62,276	29,857
		380,936	367,663
Earnings per share for profit attributable to the equity holders of the Company			
- Basic (RMB cents per share)	26	31.38	33.27

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

CSG HOLDING CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	Attributable to equity holders of the Company			Minority interest	Total equity
		Share capital RMB'000 Note 15	Other reserves RMB'000 Note 16	Retained earnings RMB'000	RMB'000	RMB'000
Balance at 1 January 2004		676,975	1,196,089	259,138	91,272	2,223,474
Capital contributed by minority shareholders		-	-	-	18,959	18,959
Capital exchange reserve recognised		-	27	-	-	27
Cash flow hedges		-	(19,924)	-	-	(19,924)
Currency translation differences		-	(187)	-	-	(187)
Profit for the year		-	-	337,806	29,857	367,663
Dividend		-	-	(121,856)	(11,726)	(133,582)
Appropriation to reserve funds		-	50,852	(50,852)	-	-
Balance at 31 December 2004		676,975	1,226,857	424,236	128,362	2,456,430
Balance at 1 January 2005		676,975	1,226,857	424,236	128,362	2,456,430
Derrecognition of negative goodwill	8	-	-	9,662	-	9,662
Capital contributed by minority shareholders		-	-	-	69,410	69,410
Capitalisation of other reserves		338,488	(338,488)	-	-	-
Capital exchange reserve recognised		-	(165)	-	-	(165)
Cash flow hedges		-	470	-	157	627
Currency translation differences		-	(360)	-	-	(360)
Profit for the year		-	-	318,660	62,276	380,936
Dividend	27	-	-	(169,244)	(20,386)	(189,630)
Appropriation to reserve funds		-	47,555	(47,555)	-	-
Balance at 31 December 2005		1,015,463	935,869	535,759	239,819	2,726,910

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 2005**

	Note	2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	28	1,011,314	600,158
Interest paid		(86,413)	(45,412)
Income tax paid		(28,160)	(23,841)
Net cash generated from operating activities		<u>896,741</u>	<u>530,905</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,009,352)	(1,057,622)
Purchase of land use rights		(32,588)	(43,053)
Purchase of intangible assets		(63)	(10,906)
Proceeds from sale of property, plant and equipment		5,807	2,772
Interest received		1,541	1,709
Net cash used in investing activities		<u>(1,034,655)</u>	<u>(1,107,100)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,314,910	3,170,575
Repayments of borrowings		(3,142,715)	(2,327,952)
Dividends paid to Company's shareholders		(166,802)	(121,420)
Dividends paid to minority shareholders		(20,386)	(11,726)
Capital contributed by minority shareholders		69,245	18,986
Pledged bank deposits withdrawn/(placed)		18,047	(70,748)
Net cash generated from financing activities		<u>72,299</u>	<u>657,715</u>
Net (decrease)/increase in cash and cash equivalents		(65,615)	81,520
Cash and cash equivalents at beginning of the year		307,449	213,859
Exchange (losses)/gains on cash		<u>(14,071)</u>	<u>12,070</u>
Cash and cash equivalents at end of the year	14	<u>227,763</u>	<u>307,449</u>

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 2005

1. General information

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

The 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 properties. The business activities of its subsidiaries are shown in Note 29.

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

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

This basis of accounting differs from that used in the statutory accounts of the Company and its principal 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 IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

A Basis of preparation (Continued)

In 2005, the Group adopted the new/revised IFRS below, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement
IFRS 3 (issued 2004) Business Combinations

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 32, 33, 36 and 39 (all revised 2003) didn't result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 has affected the presentation of minority interest and other disclosures.
- IAS 2, 8, 10, 16, 17, 27, 32, 33, 36 and 39 had no material effect on the Group's policies.
- IAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.
- IAS 24 has affected the identification of related parties and some other related-party disclosures.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

A Basis of preparation (Continued)

The adoption of IFRS 3, and IAS 38 resulted in a change in the accounting policy for negative goodwill. Until 31 March 2004:

- The excess (the “Excess”) of the fair value of the Group’s share of the net assets of the acquired subsidiary at the date of acquisition over the cost of an acquisition is recognised as negative goodwill. Negative goodwill is presented in the same balance sheet classification as goodwill.
- 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.

In accordance with the provision of IFRS 3:

- The Excess arising from business combination for which the agreement date is on or after 31 March 2004 is recognised as income immediately.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

A Basis of preparation (Continued)

In accordance with the transitional provision of IFRS 3:

- The carrying amount of negative goodwill that arose from a business combination for which the agreement date was before 31 March 2004 was derecognised as at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings.

The adoption of IFRS 3 resulted in:

	2005 RMB'000
Increase in intangible assets	6,633
Increase in retained earnings	<u>6,633</u>
Increase in administrative expenses	3,029
Decrease in basic earnings per share	<u>RMB 0.30 cents</u>

B Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

B Consolidation (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

C Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

D Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements and balance sheet of the Company are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company and its principal subsidiaries.

(2) Transactions and balances

Foreign currency transactions are translated into the functional 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items and available-for-sale investments are reported as part of the fair value gain or loss.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

D Foreign currency translation (Continued)

(3) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

E Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost of property, plant and equipment also includes transfers from equity of any gains/losses on qualifying cash flow hedges relating to purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

E Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	20 - 35 years
Machinery and equipment	10 - 20 years
Vehicles and others	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(H)).

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

F Land use rights

Land use rights are stated at cost and amortised over the period of lease on a straight-line basis.

G Intangible assets

(1) Computer software

Acquired computer software licenses 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).

(2) Patents and licenses

Patents and licenses are shown at historical cost and carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and licenses over their expected useful lives of not more than 15 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

H Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

I Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, hold to maturity, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The Group has only financial assets classified as loans and receivables and available for sale.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet (Note 2(M)).

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses, which are recognised directly in the income statement. When available-for-sale equity instruments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. Dividends on available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payments is established.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

I Financial assets (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate return for a similar financial assets. Such impairment losses shall not be reversed. Impairment testing of trade and other receivables is described in Note 2(M).

J Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); or (2) hedges of a particular risk associated with a highly forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturing of the hedged item is more than 12 months and as a current asset or liability if the remaining maturing of the hedged item is less than 12 months.

CSG HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2. Summary of significant accounting policies (Continued)

J Derivative financial instruments and hedging activities (Continued)

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment) or a non-financial 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.

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

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 applicable variable 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.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

M Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

N Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

O Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

P Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Q Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

R Deferred income tax

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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

S 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 contributions which are calculated based on certain percentage of basic salary set by the provincial government. The Group's contributions to the defined contribution retirement schemes are charged to the consolidated income statement when incurred.

(2) Bonus plans

The Group recognises a liability and an expense for bonuses calculated based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

T Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of properties

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.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income

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.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

U Leases

Leases in which 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 income statement on a straight-line basis over the period of the lease.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

2. Summary of significant accounting policies (Continued)

V Dividend distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which they are approved by the Company's shareholders.

W Comparatives

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

3. Financial risk management

A Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk.

(a) Market risk

(i) Foreign exchange risk

Sales of the Group are mainly made to customers in the PRC while purchases are mainly from suppliers in the PRC, Japan and Europe. The Group is therefore exposed to foreign exchange risk arising from various currency exposures primarily with respect to United States Dollars ("USD"), Japanese Yuan ("JPY") and EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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 12 months or less are, consistent with the related purchase commitments.

(ii) Price risk

The Group is exposed to commodity price risk. It has not used any commodity futures to hedge its price risk exposure.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

3. Financial risk management (Continued)

A Financial risk factors (Continued)

(b) Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flow are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

B Fair value estimation

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The fair value of quoted investments is based on current bid prices. The fair value of unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

The nominal values less any estimated impairment provision for financial assets with a maturity of less than one year, if any, are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A Useful lives of property, plant and equipment

The Group's management determined the estimated useful lives and related depreciation charges for its fixed assets. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical innovations and competitors actions in response to serve industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

B Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

C Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial position of customers. Management will reassess the provision at the balance sheet date.

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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

5. Sales and segment information

(a) Business segment

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

	2005	2004
	RMB'000	RMB'000
Sales of glass products	2,120,626	1,599,900
Sales of ceramics products	68,963	59,037
Sales of properties	73,574	160,762
Glass installation service revenue	30,817	29,722
	2,293,980	1,849,421

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:

	2005	2004
	RMB'000	RMB'000
PRC	1,968,365	1,672,889
United States	74,634	33,884
Australia	47,015	36,638
Others	203,966	106,010
	2,293,980	1,849,421

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

6. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Vehicles and others RMB'000	Construction- in-progress RMB'000	Total RMB'000
At 1 January 2004					
Cost	547,054	2,054,864	138,960	564,845	3,305,723
Accumulated depreciation	(86,445)	(506,727)	(75,291)	-	(668,463)
Provision for impairment	(5,634)	(2,272)	(73)	(5,244)	(13,223)
Net book amount	454,975	1,545,865	63,596	559,601	2,624,037
Year ended 31 December 2004					
Opening net book amount	454,975	1,545,865	63,596	559,601	2,624,037
Reclassification	169,542	742,909	16,440	(928,891)	-
Additions	641	9,959	16,927	1,126,208	1,153,735
Transfer from equity of gains on cash flow hedges (Note 16)	-	-	-	(19,924)	(19,924)
Capitalised borrowing costs	-	-	-	14,223	14,223
Capitalised exchange difference	-	-	-	(2,403)	(2,403)
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	607,692	2,171,117	80,648	748,814	3,608,271
At 31 December 2004					
Cost	716,847	2,803,869	162,626	754,058	4,437,400
Accumulated depreciation	(103,521)	(630,490)	(81,905)	-	(815,916)
Provision for impairment	(5,634)	(2,262)	(73)	(5,244)	(13,213)
Net book amount	607,692	2,171,117	80,648	748,814	3,608,271

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

6. Property, plant and equipment (Continued)

	Buildings	Machinery and equipment	Vehicles and others	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2005					
Opening net book amount	607,692	2,171,117	80,648	748,814	3,608,271
Reclassification	216,371	830,119	2,850	(1,049,340)	-
Additions	10,237	26,023	13,965	953,714	1,003,939
Capitalised borrowing costs	-	-	-	15,121	15,121
Capitalised exchange difference	-	-	-	5,538	5,538
Disposals	(789)	(4,168)	(1,266)	-	(6,223)
Depreciation charge	(23,586)	(186,717)	(15,674)	-	(225,977)
Impairment charge	-	(7,610)	(100)	(149)	(7,859)
Closing net book amount	<u>809,925</u>	<u>2,828,764</u>	<u>80,423</u>	<u>673,698</u>	<u>4,392,810</u>
At 31 December 2005					
Cost	942,526	3,654,213	171,466	679,091	5,447,296
Accumulated depreciation	(126,967)	(815,576)	(90,870)	-	(1,033,413)
Provision for impairment	<u>(5,634)</u>	<u>(9,873)</u>	<u>(173)</u>	<u>(5,393)</u>	<u>(21,073)</u>
Net book amount	<u>809,925</u>	<u>2,828,764</u>	<u>80,423</u>	<u>673,698</u>	<u>4,392,810</u>

The borrowing costs are calculated at 4.91% (2004: 3.91%) per annum which represented the weighted average interest rate on the loans used to finance the projects.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

7. Land use rights

	2005	2004
	RMB'000	RMB'000
Opening net book amount	130,846	91,283
Additions	32,588	43,053
Amortisation charge	(4,480)	(3,490)
Closing net book amount	<u>158,954</u>	<u>130,846</u>
Represented by:		
Cost at end of the year	196,826	164,238
Accumulated amortisation at end of the year	<u>(37,872)</u>	<u>(33,392)</u>
Net book amount	<u>158,954</u>	<u>130,846</u>

Land use rights comprise fees paid for acquiring the rights to use the land where the Group's 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 2005, the certificates of land use rights held by four subsidiaries, Guangzhou CSG Glass Company Limited and Sichuan Luxian Silica Sand Co., Ltd., Dongguan CSG Architectural Glass Co., Ltd. and Dongguan CSG Solar Glass Co., Ltd. are still under process.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

8. Intangible assets

	Computer software RMB'000	Patents and licenses RMB'000	Negative goodwill RMB'000	Total RMB'000
At 1 January 2004				
Cost	3,870	4,552	(17,075)	(8,653)
Accumulated amortisation	(2,363)	(766)	5,828	2,699
Net book amount	1,507	3,786	(11,247)	(5,954)
Year ended 31 December 2004				
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	1,207	13,960	(9,662)	5,505
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	1,207	13,960	(9,662)	5,505
Year ended 31 December 2005				
Opening net book amount	1,207	13,960	(9,662)	5,505
Transfer to retained earnings	-	-	9,662	9,662
Additions	63	-	-	63
Amortisation charge	(55)	(1,724)	-	(1,779)
Closing net book amount	1,215	12,236	-	13,451
At 31 December 2005				
Cost	3,992	15,399	-	19,391
Accumulated amortisation	(2,777)	(3,163)	-	(5,940)
Net book amount	1,215	12,236	-	13,451

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. Available-for-sale financial assets

	2005	2004
	RMB'000	RMB'000
Unlisted equity securities, in the PRC:		
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 approximated their recoverable amount as of year end.

10. Inventories

	2005	2004
	RMB'000	RMB'000
Raw materials (at cost)	112,412	91,947
Work-in-progress (at cost)	14,153	11,067
Finished goods (at cost)	<u>95,595</u>	<u>50,226</u>
	222,160	153,240
Less: provision	<u>(4,748)</u>	<u>(2,723)</u>
	<u>217,412</u>	<u>150,517</u>

As at 31 December 2005, finished goods of RMB3,759,000 (2004: RMB1,671,000) and raw materials of RMB2,736,000 (2004: RMB2,104,000) were stated at net realisable value.

CSG HOLDING CO., LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005****11. Properties held for sale**

	2005	2004
	RMB'000	RMB'000
Opening net book amount	150,532	231,558
Additions	350	42,323
Transfer to cost of sales upon sale	(113,051)	(189,487)
Write back of impairment provision upon sale	55,676	66,138
Closing net book amount	93,507	150,532
Represented by:		
Cost at end of the year	145,328	258,029
Impairment provision at end of the year	(51,821)	(107,497)
Net book amount	93,507	150,532

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.

12. Trade and other receivables

	2005	2004
	RMB'000	RMB'000
Trade receivables	293,306	216,637
Notes receivable	31,708	36,888
	325,014	253,525
Less: provision for doubtful accounts	(6,456)	(5,840)
	318,558	247,685
Prepayments	6,125	21,946
Other receivables	25,505	16,426
	350,188	286,057

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

13. Derivative financial instruments

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Forward foreign exchange contracts				
- cash flow hedges	2,869	2,242	-	-
- fair value hedges	547	-	7,847	-
	<u>3,416</u>	<u>2,242</u>	<u>7,847</u>	<u>-</u>

Gain and losses recognised in the hedging reserve in equity (Note 16) on forward foreign exchange contracts as of 31 December 2005 will be transferred to the cost of construction-in-progress at various dates between the six months to nine months from the balance sheet date.

14. Cash and cash equivalents

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

	2005	2004
	RMB'000	RMB'000
Cash in hand	18,087	178
Cash at banks	264,134	379,776
	<u>282,221</u>	<u>379,954</u>
Less: pledged bank deposits (Note (a))	<u>(54,458)</u>	<u>(72,505)</u>
Cash and cash equivalents	<u>227,763</u>	<u>307,449</u>

- (a) At 31 December 2005, bank deposits of RMB54,458,000 (2004: RMB72,505,000) 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.

CSG HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

15. Share capital

Registered, issued and fully paid ordinary shares of RMB1 each:

	Unlisted A shares Number'000 Note (b)	Listed A shares Number'000 Note (b)	Listed B shares Number'000	Total
At 1 January 2004 and 31 December 2004	270,757	107,166	299,052	676,975
Capitalisation Issue (Note (a))	135,378	53,583	149,527	338,488
At 31 December 2005	406,135	160,749	448,579	1,015,463

- (a) On 18 March 2005, the directors of the Company resolved to increase the share capital by means of capitalisation of the capital reserves of the Company to the extent of 5 shares per 10 shares (the "Capitalisation Issue"). The capitalisation Issue was approved by the shareholders and took effect on 26 May 2005 and 31 May 2005 for the Company's A share and B share capital respectively.
- (b) The unlisted A shares are owned by domestic legal persons. Agreements were entered into in 2004 between Shenzhen Yuquan Investment Limited ("Yuquan Investment") and certain domestic shareholders of the Company, whereby Yuquan Investment would acquire 28,858,914 unlisted A shares (after Capitalisation Issue) from these shareholders. The acquisition of 23,501,394 shares had been cancelled in 2005 and the registration of the remaining shares was still under process as at 31 December 2005. In addition, Yuquan Investment acquired 8,239,294 listed A shares during the year, which represents approximately 0.81% of the issue share capital of the Company. Yuquan Investment was incorporated in 2004 and owned by certain management staff of the Company.

Pursuant to the relevant rules and regulations issued by the PRC authorities, share segregation reform of the Company commenced on 20 February 2006 and a proposed reform scheme was revised and announced on 15 March 2006 (the "Revised Reform Scheme"). Under the Revised Reform Scheme, the unlisted A shares shareholders agreed to offer 3.55 shares for every 10 shares held by listed A shares shareholders in exchange for listed A shares shareholders to agree that all the unlisted A shares be converted into listed A shares. Total number of shares of the Company will remain unchanged after the said exchange and the unlisted share will become listed A shares, subject to certain restrictions on disposal of such shares, on the first day when the Revised Reform Scheme is completed. The Revised Reform Scheme is subject to the approval by relevant government authorities including State-owned Supervision and Administration Commission, and by the relevant shareholders' meeting of the listed A shares shareholders.

All shares carry equal rights with respect to the distribution of the Company's assets and profits and rank pari passu in all other respects except for the currency in which dividend is payable.

CSG HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. Other reserves

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 Note (a)	Statutory public welfare fund RMB'000 Note (b)	Hedging reserve RMB'000	Exchange reserve RMB'000	Total RMB'000
Balance at 1 January 2004	927,902	152,525	95,051	19,924	687	1,196,089
Capital exchange reserve recognised	27	-	-	-	-	27
Transfer to property, plant and equipment of fair value gains on cash flow hedges (Note 6)	-	-	-	(19,924)	-	(19,924)
Currency translation differences	-	-	-	-	(187)	(187)
Appropriation to reserve funds	-	33,902	16,950	-	-	50,852
Balance at 31 December 2004	927,929	186,427	112,001	-	500	1,226,857
Balance at 1 January 2005	927,929	186,427	112,001	-	500	1,226,857
Capitalisation of other reserves (Note 15)	(338,488)	-	-	-	-	(338,488)
Capital exchange reserve recognised	(165)	-	-	-	-	(165)
Fair value gains on cash flow hedges	-	-	-	470	-	470
Currency translation differences	-	-	-	-	(360)	(360)
Appropriation to reserve funds	-	31,703	15,852	-	-	47,555
Balance at 31 December 2005	589,276	218,130	127,853	470	140	935,869

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

16. Other reserves (Continued)

(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 2005, the directors of the Company proposed that 10% and 5% (2004: 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 RMB47,555,000 (2004: RMB50,852,000). 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.

17. Trade and other payables

	2005	2004
	RMB'000	RMB'000
Trade payables	212,739	147,320
Notes payable	316,770	39,324
Payable for construction work and purchase of equipment	165,892	156,522
Advance from customers	26,010	32,679
Salary payable and welfare payable	30,106	14,557
Accruals	25,819	21,761
Dividend payable	3,717	1,275
Others	26,652	34,468
	807,705	447,906

CSG HOLDING CO., LTD.

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18. Current tax liabilities

	2005	2004
	RMB'000	RMB'000
Provision for income tax	11,216	12,379
Value-added tax payable	10,740	9,544
Business tax payable	1,394	3,759
Others	867	782
	<u>24,217</u>	<u>26,464</u>

19. Borrowings

	2005	2004
	RMB'000	RMB'000
Unsecured bank loans		
- current	1,049,203	1,236,692
- non-current	913,987	562,150
	<u>1,963,190</u>	<u>1,798,842</u>
	2005	2004
	RMB'000	RMB'000
Interests on bank loans are:		
- At fixed rates	846,915	1,232,284
- At floating rates	1,116,275	566,558
	<u>1,963,190</u>	<u>1,798,842</u>

The effective interest rates of these bank loans were ranging from 4.37% (2004: 3.15%) per annum.

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.

CSG HOLDING CO., LTD.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Borrowings (Continued)

Maturity of non-current bank loans:

	2005	2004
	RMB'000	RMB'000
Between 1 and 2 years	192,527	263,000
Between 2 and 3 years	455,540	47,817
Between 3 and 4 years	137,920	209,976
Between 4 and 5 years	128,000	41,357
	913,987	562,150

As at 31 December 2005, the Group has unused bank facilities totalling RMB3,119,843,000 (2004: RMB1,538,410,000).

As approved by the shareholders of the Company on 22 November 2005, the Company applied to issue short-term financing bond of not more than RMB800,000,000 to finance the business operation of the Group. The application is still under process of the People's Bank of China as at the approval date of these financial statements.

20. Deferred income tax assets

Movements of deferred tax assets are as follows:

	At 1 January 2005	Credit/(charge) to consolidated income statement	At 31 December 2005
	RMB'000	RMB'000	RMB'000
Provision for impairment of receivables	42	(42)	-
Provision for impairment of inventories	282	46	328
Provision for impairment of construction-in-progress	152	657	809
Provision for impairment of property, plant and equipment	393	1,015	1,408
Unutilised tax losses	166	516	682
	1,035	2,192	3,227

Certain companies of the Group had unused tax losses totalling RMB32,388,000 (2004: RMB12,368,000) 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.

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21. Other gains, net

	2005 RMB'000	2004 RMB'000
Interest income	1,541	1,709
Net foreign exchange gains/(losses)	26,711	(3,208)
Fair value gains on fair value hedge (Note 13)	547	7,847
	<u>28,799</u>	<u>6,348</u>

22. Expenses by nature

	2005 RMB'000	2004 RMB'000
Raw materials and consumable used	1,037,008	744,662
Properties held for sale transferred to cost of sales (Note 11)	113,051	189,487
Employee benefit expense (Note 23)	213,904	197,538
Depreciation of property, plant and equipment (Note 6)	225,977	158,775
Amortisation of land use rights (Note 7)	4,480	3,490
Amortisation of intangible assets (Note 8)	1,779	(553)
Provision/(Write back) of impairment of property, plant and equipment (Note 6)	7,859	(10)
Provision for obsolescence of inventories (Note 10)	2,025	533
Write-back of impairment provision of properties held for sale (Note 11)	(55,676)	(66,138)
(Write back of provision)/Provision for doubtful receivables	616	(5,474)
Transportation	92,715	65,846
Loss/(Profit) on disposals of property, plant and equipment	291	(150)
Other expenses	199,236	145,870
Total cost of sales, selling and marketing costs and administrative expenses	<u>1,843,265</u>	<u>1,433,876</u>

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23. Employee benefit expense

	2005	2004
	RMB'000	RMB'000
Wages and salaries	155,055	135,119
Staff and workers' welfare	23,601	31,939
Retirement scheme contributions (Note (a))	13,718	9,480
Management bonus (Note (b))	21,530	21,000
	213,904	197,538

- (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 2005, the Board of Directors of the Company approved that a bonus amounted to RMB21,530,000 (2004: RMB21,000,000) be paid to management on the basis of return on net assets of the Company. The bonus was included in administrative expenses.

24. Finance costs, net

	2005	2004
	RMB'000	RMB'000
Interest expenses on bank borrowings	86,413	45,412
Less: interest capitalised in property, plant and equipment (Note 6)	(15,121)	(14,223)
	71,292	31,189

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25. Income tax expense

	2005 RMB'000	2004 RMB'000
Current tax	26,997	30,571
Deferred tax (Note 20)	<u>(2,192)</u>	<u>(108)</u>
	<u>24,805</u>	<u>30,463</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% to 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:

	2005 RMB'000	2004 RMB'000
Profit before income tax	<u>405,741</u>	<u>398,126</u>
Tax calculated at tax rates of 15% to 33% (2004: 15% to 33%)	70,947	63,175
Tax benefits arising from preferential policies	(48,745)	(31,332)
Expenses not deductible for tax purposes	938	562
Tax losses on certain subsidiaries not recognised as deferred tax assets	4,907	6,310
Utilisation of unrecognised tax losses	<u>(3,242)</u>	<u>(8,252)</u>
	<u>24,805</u>	<u>30,463</u>

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26. Earnings per share

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

	2005	2004 (Adjusted)
Profit attributable to shareholders of the Company (RMB)	<u>318,660,000</u>	<u>337,806,000</u>
Weighted average number of ordinary shares in issue (Number) (Note (a))	<u>1,015,463,000</u>	<u>1,015,463,000</u>
Basic earnings per share (RMB cents per share)	<u>31.38</u>	<u>33.27</u>

Diluted earnings per share for both years were not presented as the Company has no dilutive potential shares.

- (a) In calculating the weighted average number of ordinary shares in issue, the Capitalisation Issue (Note 15) was treated as if it had occurred as at 1 January 2004. Accordingly, the 2004's figures have been adjusted retrospectively.

27. Dividend per share

Pursuant to the Board resolution passed on 17 March 2006, a dividend in respect of 2005 of RMB0.18 (2004: RMB0.25) per share amounting to a total of RMB182,783,000 (2004: RMB169,244,000). 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 2006.

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28. Cash generated from operations

	2005 RMB'000	2004 RMB'000
Profit for the year	380,936	367,663
Adjustments for:		
Income tax expense (Note 25)	24,805	30,463
Depreciation (Note 6)	225,977	158,775
Amortisation of intangible assets (Note 8)	1,779	(553)
Amortisation of land use rights (Note 7)	4,480	3,490
Loss/(Profit) on disposals of property, plant and equipment	291	(150)
Provision/(Write back) of impairment charge for property, plant and equipment (Note 6)	7,859	(10)
Provision for obsolescence of inventories (Note 10)	2,025	533
Write back of impairment provision for properties held for sale (Note 11)	(55,676)	(66,138)
Provision/(Write back of provision) for doubtful receivables (Note 12)	616	(5,474)
Interest expense (Note 24)	71,292	31,189
Interest income (Note 21)	(1,541)	(1,709)
	662,843	518,079
Changes in working capital:		
Inventories	(68,920)	(47,163)
Properties held for sale	112,701	147,164
Trade and other receivables	(67,536)	(51,266)
Trade and other payables	372,226	33,344
	<u>1,011,314</u>	<u>600,158</u>

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29. Principal subsidiaries

As of 31 December 2005, the Company has direct/indirect interest in the following principal subsidiaries:

Name	Place of incorporation	Principal activities	Percentage of equity interest held	
			2005	2004
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 (Australia) Pty. Limited	Australia	Glass trading	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%
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 CSG Wellight Conductive Coating Co., Ltd.	PRC	Production of colourful filter glass	70%	70%
Tianjin CSG Architectural Glass Co., Ltd.	PRC	Production of specially processed glass	75%	75%
Guangzhou CSG Glass Co., Ltd.	PRC	Production of float glass	75%	75%
CSG (HK) Limited	Hong Kong	Glass trading	100%	100%

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

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30. Commitments

As at 31 December 2005, capital expenditure contracted for but not recognised in the consolidated financial statements is as follows:

	2005	2004
	RMB'000	RMB'000
Purchase of property, plant and equipment	<u>660,122</u>	<u>623,489</u>

31. Significant related party transactions

- i) Significant related party transactions and balances with Total Logistics (Shenzhen) Co., Ltd., a company controlled by a major shareholder, who has influence over the Group, are as follows:

	2005	2004
	RMB'000	RMB'000
Transportation fee for the year	<u>26,487</u>	<u>18,418</u>
Balance included in accounts payables at year end	<u>6,063</u>	<u>2,958</u>

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

- ii) Key management compensation

	2005	2004
	RMB'000	RMB'000
Wages and salaries	1,937	1,599
Welfare	242	210
Retirement scheme contributions	42	38
Management bonus	<u>1,139</u>	<u>1,111</u>
	<u>3,360</u>	<u>2,958</u>

32. Approval of financial statements

These financial statements have been approved for issue by the Board of Directors on 17 March 2006.

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

	Net consolidated profit for the year ended 31 December 2005 RMB'000	Net consolidated assets as at 31 December 2005 RMB'000
As per the PRC Accounts	316,412	2,475,927
Impact of IFRS adjustments:		
Recognition of deferred income tax	2,192	3,227
Derecognition of deferred pre-operating expenses and other assets	1,741	(6,938)
Reversal of amortisation of goodwill and derecognition of negative goodwill	(1,685)	14,875
After IFRS adjustments	318,660	2,487,091