CSG HOLDING CO., LTD.

FINANCIAL STATEMENTS AND
REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2006

CSG HOLDING CO., LTD.

Contents	**Pages**

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CSG HOLDING CO., LTD.
(incorporated as a joint stock limited company in the People's Republic of China)

Report on the financial statements

We have audited the accompanying consolidated financial statements of CSG Holding Co., Ltd. and its subsidiaries (together, the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management's responsibility for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

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 2006, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Certified Public Accountants

Hong Kong, 16 March 2007

CSG HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006
(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2006	**2005**
ASSETS			
Non-current assets			
Property, plant and equipment	6	5,223,044	4,392,810
Land use rights	7	215,945	158,954
Intangible assets	8	17,896	13,451
Investment in an associate	9	6,765	-
Deferred income tax assets	10	1,482	3,227
Available-for-sale financial assets	11	9,078	9,078
Prepayment for land use rights		15,001	-
		5,489,211	4,577,520
Current assets			
Inventories	12	249,417	217,412
Properties held for sale	13	72,077	93,507
Trade and other receivables	14	424,862	350,188
Derivative financial instruments	15	1,985	3,416
Pledged bank deposits	16	58,304	54,458
Cash and cash equivalents	16	480,467	227,763
		1,287,112	946,744
Total assets		6,776,323	5,524,264
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	1,015,463	1,015,463
Other reserves	18	975,837	935,869
Retained earnings		641,211	535,759
		2,632,511	2,487,091
Minority interest in equity		312,300	239,819
Total equity		2,944,811	2,726,910
LIABILITIES			
Non-current liabilities			
Other payable	19	45,000	-
Borrowings	22	717,042	913,987
		762,042	913,987
Current liabilities			
Trade and other payables	20	960,230	807,705
Current tax liabilities	21	31,266	24,217
Borrowings	22	2,056,888	1,049,203
Derivative financial instruments	15	1,013	2,242
Provisions for other liabilities and charges	23	20,073	-
		3,069,470	1,883,367
Total liabilities		3,831,512	2,797,354
Total equity and liabilities		6,776,323	5,524,264

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

CSG HOLDING CO., LTD.

CONSOLIDATED INCOME STATEMENT
FOR YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2006**	**2005**
Revenue	5	2,957,589	2,293,980
Cost of sales		(2,006,282)	(1,562,329)
Gross profit		951,307	731,651
Distribution costs		(196,442)	(162,520)
Administrative expenses		(235,771)	(123,132)
Other gains, net	24	26,326	29,493
Operating profit		545,420	475,492
Finance costs, net	27	(105,403)	(69,751)
Profit before income tax		440,017	405,741
Income tax expense	28	(32,331)	(24,805)
Profit for the year		407,686	380,936
Attributable to:			
Equity holders of the Company		325,920	318,660
Minority interest		81,766	62,276
		407,686	380,936
Earnings per share for profit attributable to the equity holders of the Company during the year			
- Basic/Diluted (RMB cents per share)	29	32.10	31.38

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CSG HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company					
		Share capital Note 17	**Other reserves** Note 18	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2005		676,975	1,226,857	424,236	2,328,068	128,362	2,456,430
Derecognition of negative goodwill	8	-	-	9,662	9,662	-	9,662
Capital contributed by minority shareholders		-	-	-	-	69,410	69,410
Capitalization of other reserves		338,488	(338,488)	-	-	-	-
Capital exchange reserve recognised		-	(165)	-	(165)	-	(165)
Cash flow hedges		-	470	-	470	157	627
Currency translation differences		-	(360)	-	(360)	-	(360)
Profit for the year		-	-	318,660	318,660	62,276	380,936
Dividend relating to 2004	30	-	-	(169,244)	(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	2,487,091	239,819	2,726,910
Balance at 1 January 2006		1,015,463	935,869	535,759	2,487,091	239,819	2,726,910
Capital contributed by minority shareholders		-	-	-	-	40,749	40,749
Cash flow hedges							
- Fair value gains during the year		-	6,890	-	6,890	-	6,890
- Transfer to property, plant and equipment	6	-	(5,375)	-	(5,375)	(157)	(5,532)
Acquisition of minority interest	34	-	-	-	-	(6,250)	(6,250)
Currency translation differences		-	768	-	768	-	768
Profit for the year		-	-	325,920	325,920	81,766	407,686
Dividend relating to 2005	30	-	-	(182,783)	(182,783)	(43,627)	(226,410)
Appropriation to reserve funds		-	37,685	(37,685)	-	-	-
Balance at 31 December 2006		1,015,463	975,837	641,211	2,632,511	312,300	2,944,811

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

CSG HOLDING CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2006
(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2006**	**2005**
Cash flows from operating activities			
Cash generated from operations	31	818,426	1,011,314
Interest paid		(97,201)	(86,413)
Income tax paid		(30,598)	(28,160)
Net cash generated from operating activities		690,627	896,741
Cash flows from investing activities			
Investment in an associate		(6,765)	-
Payments for acquisition of property, plant and equipment		(1,053,409)	(1,009,352)
Proceeds from sale of property, plant and equipment		32,000	5,807
Increase in other payable		45,000	-
Payments for acquisition of land use rights		(77,013)	(32,588)
Payments for acquisition of intangible assets		(6,188)	(63)
Acquisition of minority interest		(6,250)	-
Interest received		3,064	1,541
Net cash used in investing activities		(1,069,561)	(1,034,655)
Cash flows from financing activities			
Proceeds from borrowings		3,404,468	3,314,910
Repayments of borrowings		(2,578,682)	(3,142,715)
Payments of bonds issuance costs		(3,200)	-
Dividends paid to Company's shareholders		(182,792)	(166,802)
Dividends paid to minority shareholders		(43,627)	(20,386)
Capital contributed by minority shareholders		40,749	69,245
Pledged bank deposits (placed)/withdrawn		(3,846)	18,047
Net cash generated from financing activities		633,070	72,299
Net increase/(decrease) in cash and cash equivalents		254,136	(65,615)
Cash and cash equivalents at beginning of the year		227,763	307,449
Exchange losses on cash		(1,432)	(14,071)
Cash and cash equivalents at end of the year	16	480,467	227,763

The notes on pages 6 to 45 are an integral part of these consolidated financial statements.

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 32.

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

These group consolidated financial statements were authorised for issue by the Board of Directors on 16 March 2007.

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 of CSG Holding Co., Ltd. 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 liabilities.

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 Group'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.

2. Summary of significant accounting policies (Continued)

A Basis of preparation (Continued)

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

IAS 19 (Amendment), Actuarial gains and losses, group plans and disclosures;
IAS 21 (Amendment), Net Investment in a Foreign Operation;
IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 (Amendment), The Fair Value Option;
IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
IFRS 6, Exploration for and Evaluation of Mineral Resources;
IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
IFRIC 4, Determining whether an Arrangement contains a Lease; and
IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations have been published but are not effective for 2006 and have not been early adopted:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations;

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;

2. Summary of significant accounting policies (Continued)

A Basis of preparation (Continued)

- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

- IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

B Consolidation

(1) 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.

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 but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(2) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interest, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative posit-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (Continued)

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. A Geographical segment is engaged in providing products or services within a particular economic environment that are 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 are presented in Renminbi ("RMB"), which is the functional and presentation currency.

(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.

(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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2. Summary of significant accounting policies (Continued)

E Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 the proceeds with carrying amount and are recognised within other (losses)/gains – net, in the income statement.

F Land use rights

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

2. Summary of significant accounting policies (Continued)

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.

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.

2. Summary of significant accounting policies (Continued)

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 the 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 for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the income statement. 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 securities classified as available for sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities. Dividends on available-for-sale equity instrument are recognised in the income statement as part of other income when the Group’s right to receive payments is established.

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 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 dependents 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 probable 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 18. The full fair value of a hedging derivative 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.

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 meet 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 development cost attributable to the properties. Net realisable value is determined by reference to the sale proceeds fo properties sold in the ordinary course of business, less applicable variable selling expenses or by management estimates based on prevailing marketing conditions.

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 fair value, 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.

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. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. Summary of significant accounting policies (Continued)

T Provisions

Provisions for warranty, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured a the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

U 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, returns, rebates and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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 sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured.

2. Summary of significant accounting policies (Continued)

U Revenue recognition (continued)

(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.

V 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.

W Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant 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 that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

X 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.

2. Summary of significant accounting policies (Continued)

Y Comparatives

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

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 Stated 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.

(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.

3. Financial risk management (Continued)

A Financial risk factors (Continued)

(c) Liquidity risk

The Group's current liabilities exceed its current assets. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. 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.

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 properties held for sale

Net realisable value of properties held for sale is the estimated selling price in the ordinary course of business, less estimated selling expenses. The estimated selling prices are based on that of similar properties with reference to the current market condition. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

C Fair value estimation

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.

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment information

(a) Primary reporting format - business segment

At 31 December 2006, the Group is organised into four main business segments:

i. Manufacture and sale of float glass products;
ii. Manufacture and sale of architectural glass products;
iii. Manufacture and sale of automotive glass products; and
iv. Manufacture and sale of display glass products.

Other group operations mainly comprise the sale of electronic and ceramics products, property and glass installation service. Neither of these constitutes a separately reportable segment.

The segment results are as follows:

	Float glass	Architectural glass	Automotive glass	Display glass	Other	Elimination	Group
Year ended 31 December 2006							
External sales	1,206,016	944,773	207,060	424,929	174,811	-	2,957,589
Inter-segment sales	179,632	14,386	-	-	1,572	(195,590)	-
Total revenue	1,385,648	959,159	207,060	424,929	176,383	(195,590)	2,957,589
Segment result	200,275	188,220	23,601	140,628	17,076	-	569,800
Unallocated corporate expenses							(24,380)
Operating profit							545,420
Finance costs – net							(105,403)
Profit before income tax							440,017
Income tax expense							(32,331)
Profit for the year							407,686
Year ended 31 December 2005							
External sales	822,775	721,935	183,257	395,891	170,122	-	2,293,980
Inter-segment sales	193,959	5,504	-	-	4,175	(203,638)	
Total revenue	1,106,734	727,439	183,257	395,891	174,297	(203,638)	2,293,980
Segment result	202,965	132,476	2,694	140,061	14,403	-	492,599
Unallocated corporate expenses							(17,107)
Operating profit							475,492
Finance costs – net							(69,751)
Profit before income tax							405,741
Income tax expense							(24,805)
Profit for the year							380,936

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment information (Continued)

Other segment items included in the income statement are as follows:

	Float glass	Architectural glass	Automotive glass	Display glass	Other	Unallocated	Group
Year ended 31 December 2006							
Depreciation	115,081	36,541	21,203	40,230	23,545	2,258	238,858
Amortisation	4,016	1,106	384	1,107	151	-	6,764
Restructuring costs	-	13,715	-	-	-	-	13,715
Warranty provision	1,976	6,908-	-	-	-	-	8,884
Year ended 31 December 2005							
Depreciation	106,785	47,205	20,685	37,809	11,223	2,270	225,977
Amortisation	2,600	1,146	567	1,107	839		6,259

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, land use rights, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets mainly comprise deferred taxation, available-for-sale financial assets, and treasury function and other assets held of the parent company, which are not directly attributable to the segments.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise borrowings and other liabilities which are not directly attributable to the segments.

Capital expenditure comprises additions to property, plant and equipment (Note 6), land use rights (Note 7) and intangible assets (Note 8).

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment information (Continued)

The segment assets and liabilities and capital expenditure are as follows:

	Float glass	Architectural glass	Automotive glass	Display glass	Other	Unallocated	Group
Year ended 31 December 2006							
Assets	3,499,172	1,351,580	399,419	837,402	460,608	228,142	6,776,323
Liabilities	491,490	301,128	55,323	75,505	99,199	2,808,867	3,831,512
Capital expenditure	594,810	305,592	11,397	161,215	91,586	296	1,164,896
Year ended 31 December 2005							
Assets	3,066,644	1,014,217	415,317	656,219	325,120	46,747	5,524,264
Liabilities	413,048	200,913	92,797	67,894	40,920	1,981,782	2,797,354
Capital expenditure	860,044	99,330	13,829	56,303	6,490	594	1,036,590

(b) Secondary reporting format - geographical segment

The Group's revenue is mainly in Hong Kong and mainland, the PRC.

	2006	**2005**
The Mainland, PRC	2,057,253	1,610,908
Hong Kong	502,939	357,457
Others	397,397	325,615
	2,957,589	2,293,980

Revenue is allocated based on the country/area in which the customer is located.

The Group's assets are located predominantly in the mainland, PRC.

(All amounts in Renminbi thousands unless otherwise stated)

6. Property, plant and equipment

	Buildings	Machinery and equipment	Vehicles and others	Construction-in-progress	Total
At 1 January 2005					
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
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 (Note 27)	-	-	-	15,121	15,121
Capitalised exchange differences	-	-	-	5,538	5,538
Disposals (Note 31)	(789)	(4,168)	(1,266)	-	(6,223)
Depreciation charge (Note 25)	(23,586)	(186,717)	(15,674)	-	(225,977)
Impairment charge (Note 25)	-	(7,610)	(100)	(149)	(7,859)
Closing net book amount	809,925	2,828,764	80,423	673,698	4,392,810
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	(5,634)	(9,873)	(173)	(5,393)	(21,073)
Net book amount	809,925	2,828,764	80,423	673,698	4,392,810

(All amounts in Renminbi thousands unless otherwise stated)

6. Property, plant and equipment (Continued)

	Buildings	Machinery and equipment	Vehicles and others	Construction-in-progress	Total
Year ended 31 December 2006					
Opening net book amount	809,925	2,828,764	80,423	673,698	4,392,810
Reclassification	160,329	878,062	8,967	(1,047,358)	-
Additions	39,070	60,941	22,592	974,093	1,096,696
Capitalised borrowing costs (Note 27)	-	-	-	13,022	13,022
Capitalised exchange differences	-	-	-	1,396	1,396
Capitalised hedging reserve (Note 18)	-	(5,375)	-	-	(5,375)
Impairment charges (Note 25)	-	(452)	(332)	-	(784)
Disposals (Note 31)	(30,136)	(5,069)	(658)	-	(35,863)
Depreciation charge (Note 25)	(25,572)	(198,029)	(15,257)	-	(238,858)
Closing net book amount	953,616	3,558,842	95,735	614,851	5,223,044
At 31 December 2006					
Cost	1,075,760	4,270,719	191,280	614,851	6,152,610
Accumulated depreciation	(117,853)	(710,229)	(95,162)	-	(923,244)
Provision for impairment	(4,291)	(1,648)	(383)	-	(6,322)
Net book amount	953,616	3,558,842	95,735	614,851	5,223,044

The borrowing costs are calculated at 5.61% (2005: 4.91%) per annum which represented the weighted average interest rate on the loans used to finance the projects.

At 31 December 2006, property, plant and equipment with net book amount of RMB10,300,000 pledged as security for the Group’s bank borrowings (Note 22) amounted to RMB19,993,000 (2005: Nil).

(All amounts in Renminbi thousands unless otherwise stated)

7. Land use rights

	2006	**2005**
Opening net book amount	158,954	130,846
Additions	62,012	32,588
Amortisation charge (Note 25)	(5,021)	(4,480)
Closing net book amount	215,945	158,954
Represented by:		
Cost	258,838	196,826
Accumulated amortisation	(42,893)	(37,872)
Net book amount	215,945	158,954

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.

(All amounts in Renminbi thousands unless otherwise stated)

8. Intangible assets

	Computer software	Patents and licenses	Negative goodwill	Total
At 1 January 2005				
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 (Note 25)	(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
Year ended 31 December 2006				
Opening net book amount	1,215	12,236	-	13,451
Additions	182	6,006	-	6,188
Amortisation charge (Note 25)	(75)	(1,668)	-	(1,743)
Closing net book amount	1,322	16,574	-	17,896
At 31 December 2006				
Cost	4,174	21,405	-	25,579
Accumulated amortisation	(2,852)	(4,831)	-	(7,683)
Net book amount	1,322	16,574	-	17,896

9. Investment in an associate

	2006	2005
Beginning of year	-	-
Additions	6,765	-
End of year	6,765	-

The Group holds 35% interest in Wise Channel Limited, which is a private company incorporated in Hong Kong. Wise Channel Limited holds 25% interest in Yichang CSG Silicon Co., Ltd., which has not commenced operation as at 31 December 2006.

(All amounts in Renminbi thousands unless otherwise stated)

10. Deferred income tax assets

	2006	2005
Deferred income tax assets:		
- to be recovered after more than 12 months	808	2,545
- to be recovered within 12 months	674	682
	1,482	3,227

Movements of deferred tax assets are as follows:

	Impairment losses	Pre-operating expenses	Tax losses	Total
At 1 January 2005	869	-	166	1,035
Credited to the income statement	1,676	-	516	2,192
At 31 December 2005	2,545	-	682	3,227
Credited/(Charged) to the income statement (Note 28)	(2,220)	1,020	(545)	(1,745)
At 31 December 2006	325	1,020	137	1,482

Certain companies of the Group had unused tax losses totalling RMB50,453,000 (2005: RMB32,368,000) 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.

11. Available-for-sale financial assets

	2006	2005
Unlisted equity securities, in the PRC:		
Cost	25,499	25,499
Provision for impairment in value	(16,421)	(16,421)
Net book amount	9,078	9,078

No quoted market prices are available for the above unlisted equity securities. The directors of the Company are of the opinion that the carrying value approximated their recoverable amount as of year end.

(All amounts in Renminbi thousands unless otherwise stated)

12. Inventories

	2006	2005
Raw materials	136,950	111,044
Work-in-progress	12,667	14,153
Finished goods	99,800	92,215
	249,417	217,412

The carrying amount of inventories carried at fair value less costs to sell is as follows:

	2006	2005
Raw materials	427	2,736
Finished goods	2,069	3,759
	2,496	6,495

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,405,236,000 (2005: RMB1,037,008,000) (Note 25).

13. Properties held for sale

All properties held for sale 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.

The cost of properties held for sale recognised as expenses and included in cost of sales amounted to RMB27,819,000 (2005: RMB113,051,000) (Note 25).

The Group has recognised a provision of RMB1,100,000 for the impairment of its properties held for sale during the year (2005: write back of provision of RMB55,676,000) (Note 25). The amount has been included in administrative expenses in the income statement.

(All amounts in Renminbi thousands unless otherwise stated)

14. Trade and other receivables

	2006	**2005**
Trade receivables	304,202	293,306
Notes receivable	89,232	31,708
	393,434	325,014
Less: Provision for impairment of receivables	(6,691)	(6,456)
	386,743	318,558
Prepayments	12,319	6,125
Other receivables	25,800	25,505
	424,862	350,188

The Group has written off provision of RMB1,230,000 and recognised a provision of RMB1,465,000 (2005: RMB616,000) for the impairment of its trade receivables during the year (Note 25). The loss has been included in administrative expenses in the income statement.

15. Derivative financial instruments

	2006		**2005**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward foreign exchange contracts				
- cash flow hedges	1,985	-	2,869	2,242
- fair value hedges	-	1,013	547	-
	1,985	1,013	3,416	2,242

Gain and losses recognised in the hedging reserve in equity (Note 18) on forward foreign exchange contracts as of 31 December 2006 will be transferred to the cost of property, plant and equipment at various dates within twelve months from the balance sheet date.

16. Cash and cash equivalents

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

	2006	2005
Cash at banks and in hand	538,771	282,221
Less: pledged bank deposits (Note (a))	(58,304)	(54,458)
Cash and cash equivalents	480,467	227,763

(a) At 31 December 2006, bank deposits of RMB58,304,000 (2005: RMB54,458,000) 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.

17. Share capital

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

		Listed A shares subject to			
	Unlisted A shares	Restrictions on disposal	No restrictions on disposal	Listed B shares	Total
	Number'000	Number'000	Number'000	Number'000	
At 1 January 2005	270,757	-	107,166	299,052	676,975
Addition by means of capitalisation of other reserve	135,378	-	53,583	149,527	338,488
At 31 December 2005	406,135	-	160,749	448,579	1,015,463
Reclassification due to share segregation reform (Note (a))	(406,135)	349,209	56,926	-	-
At 31 December 2006	-	349,209	217,675	448,579	1,015,463

(a) Pursuant to the share segregation reform scheme approved by relevant government authorities and relevant shareholders meeting of the listed A share shareholders, the unlisted A shares shareholders offered 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. The total number of shares of the Company remained unchanged and the unlisted shares became listed A shares, which were subject to certain restrictions on disposal.

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.

(All amounts in Renminbi thousands unless otherwise stated)

18. Other reserves

	Capital reserve	Statutory common reserve fund Note (a)	Statutory public welfare fund Note (b)	Discretionary common reserve fund Note (c)	Hedging reserve	Exchange reserve	Total
Balance at 1 January 2005	927,929	186,427	112,001	-	-	500	1,226,857
Capitalisation of other reserves	(338,488)	-	-	-	-	-	(338,488)
Capital exchange reserve recognised	(165)	-	-	-	-	-	(165)
Cash flow hedges:							
- Fair value gains during the year	-	-	-	-	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
Balance at 1 January 2006	589,276	218,130	127,853	-	470	140	935,869
Reclassification	-	-	(127,853)	127,853	-	-	-
Cash flow hedges							
- Fair value gains during the year	-	-	-	-	6,890	-	6,890
- Transfer to property, plant and equipment	-	-	-	-	(5,375)	-	(5,375)
Currency translation differences	-	-	-	-	-	768	768
Appropriation to reserve funds	-	37,685	-	-	-	-	37,685
Balance at 31 December 2006	589,276	255,815	-	127,853	1,985	908	975,837

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

Pursuant to relevant PRC regulations, the Company ceased to transfer any percentage of the profit after tax to statutory public welfare fund from the financial year beginning on 1 January 2006.

The balance of statutory public welfare fund as at 31 December 2005 was reclassified to the discretionary common reserve fund.

(All amounts in Renminbi thousands unless otherwise stated)

18. Other reserves (Continued)

(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.

19. Other payable

Other payable represented amount received from Yichang Dongshan Construction Development Holding Company for the construction of utility facilities including transformer sub-station and steam and gas pipelines. The related construction work is not yet completed.

20. Trade and other payables

	2006	**2005**
Trade payables	236,402	212,739
Notes payable	319,482	316,770
Payable for construction work and purchase of equipment	221,292	165,892
Advance from customers	60,172	26,010
Salary payable and welfare payable	31,422	30,106
Accruals	37,648	25,819
Dividend payable	3,709	3,717
Others	50,103	26,652
	960,230	807,705

21. Current tax liabilities

	2006	**2005**
Provision for income tax	11,204	11,216
Value-added tax payable	14,200	10,740
Business tax payable	2,922	1,394
Others	2,940	867
	31,266	24,217

(All amounts in Renminbi thousands unless otherwise stated)

22. Borrowings

	2006	2005
Non-current		
Unsecured bank borrowings	698,355	913,987
Secured bank borrowings	18,687	—
	717,042	913,987
Current		
Unsecured bank borrowings	1,255,582	1,049,203
Debentures	800,000	-
Secured bank borrowings	1,306	-
	2,056,888	1,049,203
	2,773,930	1,963,190

	2006	2005
Interests on bank borrowings are:		
- At fixed rates	1,582,538	846,915
- At floating rates	1,191,392	1,116,275
	2,773,930	1,963,190

The effective interest rates of bank borrowings at the balance sheet date was 5.47% (2005: 4.37%) per annum.

On 10 April 2006, the Company issued short-term finance bonds totalling RMB800,000,000 to finance the business operation of the Group, which has been repaid on 5 January 2007.

The carrying amounts of borrowings approximate their fair value. 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.

The maturity of non-current bank borrowings is as follows:

	2006	2005
Between 1 and 2 years	311,135	192,527
Between 2 and 3 years	22,957	455,540
Between 3 and 4 years	27,404	137,920
Between 4 and 5 years	355,546	128,000
	717,042	913,987

As at 31 December 2006, the Group has undrawn borrowing facilities totalling RMB4,235,343,000 (2005: RMB3,119,843,000).

(All amounts in Renminbi thousands unless otherwise stated)

23. Provisions for other liabilities and charges

	Warranty	Restructuring	Total
At 1 January 2005	-	-	-
Charged to the income statement			
- Additional provisions	8,884	14,023	22,907
Used during the year	-	(2,834)	(2,834)
At 31 December 2006	8,884	11,189	20,073

(a) Warranty

The amounts represent a provision for certain claims against the Group by customers due to quality issues. The Group was still negotiating with these customers on compensation amounts. As at 31 December 2006, the provision was recognised within administrative expenses in the income statement. The ending balance is expected to be utilised during 2007.

(b) Restructuring

In 2006, the Group scheduled to move its architectural glass processing plant in Shenzhen to Dongguan in 2007. A compensation plan has been defined and announced to the employees, according to which, if the employees refuse to accept the proposed relocation arrangement, the Group will cease the employment relationship and give them a payment as compensation.

As at 31 December 2006, there had been 96 employees leaving the Group and the Group had paid compensation amounting to RMB2,526,000. Management estimated that there will be further approximately 130 employees who will leave the Group and made a compensation provision amounting to RMB5,388,500 accordingly. In addition, a provision of RMB5,800,000 was also made for disassembly cost and other direct costs attributable to the transplant based on the management’s estimation. The provision was included within administrative expenses in the income statement. The ending balance is expected to be utilised during 2007.

(All amounts in Renminbi thousands unless otherwise stated)

24. Other gains, net

	2006	2005
Losses on disposal of property, plant and equipment (Note 31)	(2,890)	(291)
Net foreign exchange transaction gains	23,120	26,711
Fair value gains on fair value hedge	(1,013)	547
Subsidy income	6,489	2,526
Waiver of payment by debtors	620	-
	26,326	29,493

25. Expenses by nature

	2006	2005
Employee benefit expense (Note 26)	303,586	213,904
Less: amount capitalised in property, plant and equipment	(29,057)	-
	274,529	213,904
Changes in inventories of finished goods and work in progress	(6,099)	(46,746)
Raw materials and consumable used	1,405,236	1,037,008
Utility costs	197,965	161,456
Properties held for sale transferred to cost of sales	27,819	113,051
Depreciation, amortisation and impairment charges	248,971	187,060
Transportation expenses	120,256	92,715
Other expenses	169,818	89,533
Total cost of sales, distribution costs and administrative expenses	2,438,495	1,847,981

(All amounts in Renminbi thousands unless otherwise stated)

26. Employee benefit expense

	2006	2005
Wages and salaries	220,792	155,055
Staff and workers' welfare	32,490	23,601
Retirement scheme contributions (Note (a))	27,044	13,718
Management bonus (Note (b))	23,260	21,530
	303,586	213,904

(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) Pursuant to the bonus scheme approved by the Board of Directors in 2004, the Company accrued a bonus amounted to RMB23,260,000 during the year (2005: RMB21,530,000) on the basis of return on net assets of the Company. The bonus has been included in administrative expenses.

27. Finance costs, net

	2006	2005
Interest expenses on bank borrowings	121,489	86,413
Less: interest capitalised in property, plant and equipment (Note 6)	(13,022)	(15,121)
	108,467	71,292
Interest income	(3,064)	(1,541)
	105,403	69,751

(All amounts in Renminbi thousands unless otherwise stated)

28. Income tax expense

	2006	**2005**
Current tax	30,586	26,997
Deferred tax (Note 10)	1,745	(2,192)
	32,331	24,805

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 tax on the Group's profit before tax differs from the theoretical amount that would arise using the weight average tax rate applicable to profit of the consolidated entities as follows:

	2006	**2005**
Profit before income tax	440,017	405,741
Tax calculated at applicable tax rates of 15% to 33% (2005: 15% to 33%)	81,607	70,947
Tax benefits arising from preferential policies	(56,470)	(48,745)
Expenses not deductible for tax purposes	1,276	938
Tax losses on certain subsidiaries not recognised as deferred tax assets	5,918	4,907
Utilisation of unrecognised tax losses	-	(3,242)
Tax charge	32,331	24,805

(All amounts in Renminbi thousands unless otherwise stated)

29. Earnings per share

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

	2006	**2005**
Profit attributable to equity holders of the Company	325,920,000	318,660,000
Number of ordinary shares in issue (Number)	1,015,463,000	1,015,463,000
Basic earnings per share (RMB cents per share)	32.10	31.38

The Company has no dilutive potential shares.

30. Dividend per share

The dividends paid in 2006 and 2005 were RMB182,783,000 (RMB0.18 per share) and RMB169,244,000 (RMB0.17 per share) respectively. A dividend in respect of the year ended 31 December 2006 of RMB0.20 per share, amounting to a total dividend of RMB203,093,000, is to be proposed at the Annual General Meeting on 20 April 2007. These financial statements do not reflect this dividend payable.

(All amounts in Renminbi thousands unless otherwise stated)

31. Cash generated from operations

	2006	2005
Profit before income tax	440,017	405,741
Adjustments for:		
- Depreciation (Note 6)	238,858	225,977
- Amortisation (Note 7 and 8)	6,764	6,259
- Loss on disposals of property, plant and equipment (Note 24)	2,890	291
-Provision of impairment charge for property, plant and equipment (Note 6)	784	7,859
-Provision for obsolescence of inventories	-	2,025
-Provision/(Write back) of impairment for properties held for sale (Note 13)	1,100	(55,676)
-Provision for doubtful receivables (Note 14)	1,465	616
- Interest expense (Note 27)	108,467	71,292
- Interest income (Note 27)	(3,064)	(1,541)
- Fair value gains on fair value hedges (Note 24)	1,013	-
-Exchange gain on borrowings	(33,446)	-
	764,848	662,843
Changes in working capital:		
- Inventories	(32,005)	(68,920)
- Properties held for sale	20,330	112,701
- Trade and other receivables	(58,539)	(67,536)
- Trade and other payables	123,792	372,226
Cash generated from operations	818,426	1,011,314

In the cash flow statements, proceeds from sale of property, plant and equipment comprise:

	2006	2005
Net book amount (Note 6)	35,863	6,223
Loss on disposal of property, plant and equipment (Note 24)	(2,890)	(291)
Receivables	(973)	(125)
Proceeds from disposal of property, plant and equipment	32,000	5,807

(All amounts in Renminbi thousands unless otherwise stated)

32. Principal subsidiaries

As of 31 December 2006, the Company has direct/indirect interest in the following principal subsidiaries:

Name	Place of incorporation	Principal activities	Percentage of equity interest held 2006	2005
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%
Dongguan CSG Architectural Glass Co., Ltd.	PRC	Production of specidly	100%	75%
Dongguan CSG Solar Glass Co., Ltd.	PRC	Production of solar glass	75%	75%
Yichang CSG Silicon Co., Ltd.	PRC	Production of silicon related materials	67%	-
Wujiang CSG North-east Architectural Glass Co., Ltd.	PRC	Production of specially processed glass	100%	-
Tianjin Energy Conservation Glass Co., Ltd.	PRC	Production of energy conservation glass	100%	-
Shenzhen CSG PV-tech Co., Ltd.	PRC	Production of solar battery	100%	-

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

(All amounts in Renminbi thousands unless otherwise stated)

33. Commitments

As at 31 December 2006, capital expenditure contracted for but not recognised in the consolidated financial statements is as follows:

	2006	**2005**
Purchase of property, plant and equipment	1,010,220	660,122

34. Significant related party transactions

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

	2006	**2005**
Transportation fee for the year	33,423	26,487

	2006	**2005**
Balance included in accounts payables at year end	8,901	6,063

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) On 12 April 2006, CSG (HK) Limited entered into an agreement with Honest United Development Limited ("Honest Limited"), a company controlled by Shenzhen International, for the transfer of 100% interest in Pinestep Investments Limited ("Pinestep Limited") to CSG (HK) Limited at a consideration of HKD6,200,000. Pinestep Limited holds 25% interest in Dongguan CSG Architectural Glass Co., Ltd. ("Dongguan Architectural"). After the acquisition, the Company held 100% interest in Dongguan Architectural directly and indirectly. As at 31 December 2006, Dongguan Architectural has not commenced operation.

iii) Key management compensation

	2006	**2005**
Wages and salaries	2,215	1,937
Welfare	230	242
Retirement scheme contributions	45	42
Management bonus	1,840	1,139
	4,330	3,360

35. Post balance sheet events

i) On 7 March 2007, the Company issued short-term finance bonds totalling RMB800,000,000, which are due on 6 March 2008. The effective interest rate of the short-term finance bonds is 3.78% per annum.

ii) According to the resolution of the shareholders' meeting held on 1 March 2007, subject to approval of China Securities Regulatory Commission, the Company intended to issue A shares of not exceeding 180,000,000 shares by way of placement to not more than 10 investors.

CSG HOLDING CO., LTD.

SUPPLEMENTARY INFORMATION
FOR YEAR ENDED 31 DECEMBER 2006

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

	Net consolidated profit for year ended 31 December 2006	Net consolidated assets as at 31 December 2006
As per the PRC Accounts	332,112	2,628,345
Impact of IFRS adjustments:		
Recognition of deferred income tax	(1,746)	1,482
Derecognition of deferred pre-operating expenses and other assets	4,056	(2,883)
Reversal of amortisation of goodwill and derecognition of negative goodwill	(9,390)	5,486
Recognition of subsidy income	250	-
Recognition of waiver of payment by debtors as other gains	620	-
Minority interest	81,784	312,381
After IFRS adjustments	407,686	2,944,811