China Specialty Glass AG

Annual Report 2011

CHINA SPECIALTY GLASS AG

KEY FINANCIAL HIGHLIGHTS

	2011	2010	Change
	EUR'000	EUR'000 [4]	%
Operational data			
Revenues	76,884	69,564	10.5
Cost of sales	41,823	38,111	9.7
Gross profit	35,061	31,453	11.5
Gross profit margin	45.6%	45.2%	0.9
EBITDA	27,769	26,056	6.6
EBITDA margin	36.1%	37.5%	(1.4)
EBIT	26,448	26,054	1.5
EBIT margin	34.4%	37.5%	(3.1)
Adjusted EBIT	27,752	26,054	6.5
Adjusted EBIT margin [1]	36.1%	37.5%	1.4
Net profit	20,844	22,108	(5.7)
Net profit margin	27.1%	31.8%	(4.7)
Average earnings per share [2]	1.28	N/A	N/A
Cash flow data			
Cash flow from operating activities	8,803	-	N/A
Cash flow from investing activities	(25,383)	-	N/A
Cash flow from financing activities	33,507	-	N/A
Cash and bank balances at the end of the year	56,572	-	N/A
Balance sheet data			
Total equity and liabilities	123,766	60,374	105.0
Cash and cash equivalents	56,572	37,912	49.2
Short-term liabilities	24,694	10,563	133.8
Shareholders’ equity	99,072	49,811	98.9
Average Headcount	496	442 [3]	12.2

[1] Adjusted for one-off expenses relating to the IPO of approximately TEUR1,304 in 2011. There were no IPO costs in 2010.

[2] Based on average number of 16,236,676 shares, calculated as of registration of the IPO capital increase with the trade register on 19 July 2011.

[3] Based on short financial year.

[4] All figures except for balance sheet data and average headcount show the consolidated figures on HWG HK-Holding-level for the year ended 31 December 2010.

COMPANY PROFILE

China Specialty Glass Group is one of the leading specialty glass manufacturers in China. The company develops, produces and sells security glass for the Chinese banking and security automotive industry under its "Hing Wah" brand and also provides various specialty glass products for the construction glass market.

The Group has sold its products since 1994 and its end customers are exclusively commercial enterprises: Banks, refitting automobile manufacturers and construction service providers. China Specialty Glass AG benefits from China's increasing consumer wealth and commercial activities resulting in a higher demand for its products.

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CEO's LETTER TO SHAREHOLDERS

Dear Shareholders,

It is my pleasure to present the first annual report of China Specialty Glass AG ("CSG") as a listed company. For CSG, 2011 was a very challenging but exciting transition period to establish a solid foundation for strong growth in the future.

Our revenue increased year-on-year by EUR 7.3 million to EUR 76.9 million in 2011. The gross profit increased from EUR 31.5 million to EUR 35.1 million in 2011, with a gross profit margin of 45.6% after 45.3% in 2010. The slight improvement in gross profit margin was a result of:

(1) increase in sales of automotive security glass products, which have the highest gross profit margin in our product portfolio;

(2) increase in sales of high-margin construction glass products

For the year, the growth of our profit before tax and net profit did not keep in pace with the increase in sales and gross profit due to the one-time IPO costs and the compensation loss payable on termination of the exclusive distributorship rights agreement with Saint Gobain. These effects had negative impacts on our net earnings: Net profit decreased year-on-year by 5.7% to EUR 20.8 million. Despite this, the operating profit was up 7.6% to EUR 28.2 million.

Our debut on the Frankfurt Stock Exchange, under extremely difficult capital market conditions, on July 1, 2011 immediately imposed a challenge to the CSG management; the lower than expected funding could not support an immediate full-scale expansion as originally planned. Nevertheless, we could nearly complete the expansion at the Guangzhou headquarter as well as the first phase of CSG's production facility in Sichuan. We expect to operate with the increased production capacities in the first half of 2012. We believe, that this will improve our overall financial performance and broaden the geographic and market coverage of CSG in the near future. The expansion has been executed while continuing to completely fulfil the demands from our existing clients.

Additionally we continued to develop innovative high margin products for the banking, automotive, and construction markets. Specifically, the new intruder resistant glass products for our new automotive OEM clients concluded the testing phase and are expected to place high volume orders in the upcoming years. On top of this, the existing and new banking clients started to utilize intruder resistant glass for security improvement. With the expanded capacity in Guangzhou and Sichuan, we expect to increase our market coverage both domestically and internationally with a broader product range and enhanced services.

Our outlook for 2012 is positive: Given the growth opportunities we expect to achieve a revenue of approximately EUR 100 million and a net profit margin of approximately 30% for 2012.

I thank you, our shareholders, for your trust and commitment to us. And on behalf of CSG group, I want to assure you, that we will do our utmost to deliver the performance and sustainable growth that we all can be proud of.

Yours Sincerely,

Nang Heung Sze

Chief Executive Officer of China Specialty Glass AG, 26 April 2012

HIGHLIGHTS 2011

- **Security glass – a fast growing niche market**

  The awareness of utilizing security solutions for the personal safety has been accelerating in China. Turnover of bullet proof glass grew at an average rate of approximately 26% for the past three years, and is expected to continue to grow at an average rate of approximately 26% for the next 5 years according to the industry forecast.

- **CSG further increased its market coverage**

  CSG has reinforced its market leading position in the Chinese security glass market for the banking and automotive sector with a market share of nearly 45% in terms of overall group turnovers. We successfully expanded into neighbouring markets, where CSG had not been active before.

- **Leading innovator in the security glass market**

  CSG is a well-known innovator in the Chinese security glass market, with an established brand for high quality products. CSG has further optimized its product portfolio and with tailor-made solutions completely fulfilled its customers' demands. The leading research and development team continued to introduce products with improved features and new performance levels. The following products were introduced to the market in 2011:

  - Intruder resistance glass series for banking, automotive and construction/home improvement industry; and
  - Integrated security products include ATM station, border patrol stations, and jewelry counters.

- **Strong growth and high profitability**

  CSG continues to demonstrate strong growth and high profitability focusing on high margin products, efficient production processes, economies of scale and a stringent cost control.

THE CSG SHARE

CSG Share Price Performance

Since its IPO, the share price of CSG has suffered from the turbulence of global capital markets in general and the reservation of investors towards Chinese companies listed in overseas exchanges in particular. Since 1 July until 30 December 2011, German major index DAX has lost 20.1% and small cap index SDAX, has lost 19.1% in value. As of 30 December 2011, CSG's share was traded at EUR 4.50 (-41.6%), which prices CSG at EUR 79.65 million in market capitalization.

In the first months of the current financial year, CSG share could not keep up with the positive development of its index peers DAX and SDAX. After a strong increase at the beginning of 2012 to a level of EUR 5.90 at 30 January 2012, CSG share price decreased sharply. At 13 April 2012 it closed at EUR 3.58.

CSG Share Basic Data

ISIN / WKN / Ticker	DE000A1EL8Y8 / A1EL8Y / 8GS
Stock exchange	Frankfurt Stock Exchange
Market segment	Prime Standard
Share capital	EUR 17,700,000
Designated sponsors	Viscardi AG, VEM Aktienbank AG
Market capitalisation (as of December 30, 2011)	EUR 79.65 million

REPORT OF THE SUPERVISORY BOARD

In the financial year 2011, the supervisory board fulfilled the tasks incumbent upon it pursuant to the law and the company articles and advised and supervised the management board in the management of the company. The management board informed the supervisory board about the business development and the economic situation of the company. The supervisory board voted correspondingly as regards the reports and resolutions proposed by the management board, insofar as this was required pursuant to the law or the company articles.

The company's risk management and risk controlling system is currently being expanded and where necessary built up to meet the standards applicable to the group's German holding company. The management board is committed to implement a sufficiently documented and adequately dimensioned risk management system based on the risk management measures already existing in the Chinese subsidiaries.

Subject matters of the supervisory board meetings

In the financial year 2011, the supervisory board convened six meetings, namely on 30 March, 27 April, 06 May, 20 June, 04 July and 09 November 2011.

In each supervisory board meeting, the current developments and any important business matters were discussed.

The subject matter of the meeting on 30 March was particularly the discussion on the investment budget for FY 2011, the proposed cooperation with St. Gobain, the preparation for the IPO as well as setting out standards for the management board's reports to the supervisory board and implementation of a risk management system according to German standards.

In the meeting on 27 April, the company's stand-alone and the group consolidated 2010 financials were presented and discussed with the auditors, the Dependency Report for FY 2010 was passed, the supervisory board report for FY 2010 was adopted, the agenda for the annual general meeting for FY 2010 was approved, a review of the by-laws for the management board was discussed, the status of implementation of a risk management system was addressed, the progress with the intended cooperation with St. Gobain related and an update was given by the management board on the IPO preparations.

The sole subjects of the meeting on 06 May were to adopt the group consolidated financials for FY 2010 and to discuss the draft of an exclusive distributorship agreement with St. Gobain.

The purpose of the meeting on 20 June was to approve the IPO capital increase resolution of the management board, by which the company's capital was increased by EUR 2,650,000.00, and on 04 July to resolve upon the necessary changes to the Articles of Association to reflect the completion of said capital increase.

In the meeting that took place on 09 November, the supervisory board took the occasion, now that the company is Frankfurt Stock Exchange main board listed, to résumé the cooperation between the management board and the supervisory board, in particular concerning communication and reporting and made suggestions on improvements. Other topics were to ensure adequate and timely funding of the German holding company's expenses, the presentation and explanation of the company's Q3 financials, status of the cooperation agreement with St. Gobain, consequences of IPO fundraising shortfall on the company's growth strategy and budgeting and the status of the implementation of a risk management documentation. The attending supervisory board members conducted a site visit of the new Sichuan plant to inform themselves on the status of completion.

Committees

In view of its size with only 3 members, the supervisory board did not form any committees.

Changes in personnel of the boards

There was no change in the composition of either the supervisory or the management board in FY 2011.

Attendance at meetings

No supervisory board member attended to less than one half of all supervisory board meetings in FY 2011.

Company and group consolidated financials for FY 2011

The principal subject matter of the supervisory board meeting on 20 April 2012 were the annual financial statement of the company for the financial year ending 31 December 2011 according to the statutory accounting requirements of the German Commercial Code ("HGB") and the group consolidated financial statements for the financial year ending 31 December 2011 according to IFRS, all of which were prepared by the management board and subsequently audited and certified by Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf. Both the management board and the auditors presented the financials and answered all questions of the supervisory board members comprehensively.

After discussing the presented financials, the supervisory board approved the result of the audit regarding both the annual financial statement and the group consolidated financial statement. The annual financial statements are thus adopted pursuant to section 172 German Stock Corporation Act ("AktG").

In the supervisory board meeting held on 20 April 2012, the supervisory board furthermore approved the report of the management board on the relation with affiliated companies (dependency report pursuant to section 312 AktG) as well as the report prepared by the auditor on the audit of the dependency report.

The dependency report prepared by the management board discloses that the company was not put at a disadvantage within the scope of the presented legal transactions with affiliated companies and that it received appropriate arms-length consideration. The dependency report was audited by the auditor, who issued the following audit statement:

> *"Upon completion of our audit and assessment in accordance with our professional duties, we hereby certify that*
>
> 1. *the factual statements in the report are correct,*
> 2. *in relation to the legal transactions listed in the report, either the payments made by the company were not unduly high or disadvantages were compensated,*
> 3. *in relation to the legal transactions listed in the report, nothing speaks for a conclusion significantly different from the management board's conclusion."*

The supervisory board approves the result of the dependency report audit.

There were no conflicts of interests concerning any activity of the members of the supervisory board in the reporting period.

The supervisory board thanks the management board and all staff members for their commitment and their excellent work in the past financial year.

Grünwald, this 26 April 2012

For the Supervisory Board

Hao Chun "Rick" Chang
Chairman of the supervisory board

CORPORATE GOVERNANCE REPORT

China Specialty Glass AG ("CSG") is committed to the principles of good and responsible Corporate Governance and focused on responsible long-term value creation. The Management Board and Supervisory Board merit the trust of CSG's shareholders, clients and employees by close and constructive cooperation between the Supervisory Board and the Management Board. The close cooperation between the two boards is characterized by open communication and discussion on all matters submitted to them, as well as due care in relation to accounting, audit and risk management.

The Supervisory Board and Management Board of China Specialty Glass AG explicitly support the German Corporate Governance Code and the objectives purposed by the German Corporate Governance Code.

In accordance with Section 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code, the corporate governance report of CSG includes the corporate governance statement (Erklärung zur Unternehmensführung) of the Company.

Shareholders and General Meetings

The shareholders exercise their rights and voting rights at the General Shareholders' Meetings. According to the statutory provisions and the Articles of Association, the Annual General Shareholders' Meeting takes place within the first eight months of each financial year. Each share grants one vote in the General Shareholders Meeting. There are neither shares conferring multiple voting rights nor limited voting rights nor are there preference shares. The shareholders are entitled to exercise their voting rights in the General Shareholders Meetings in person or by proxy, for which they can authorize a representative of their choice or a company-nominated proxy acting on their instructions. The invitation for the Annual General Shareholders' Meetings as well as invitations for all other General Shareholders' Meetings will include provisions on the attendance, the procedure pertaining to the exercise of voting rights (in person or by proxy) as well as the rights of the shareholders. All reports and documents which are legally required to be made available for General Shareholders' Meetings, including the annual report, will be published on the Company's website at www.csg-ag.de together with the agenda.

Management Board

The members of the Management Board are appointed by the Supervisory Board. The Management Board is responsible for the executive management of the Company. The Management Board sets out the strategic goals, the main business strategy and the group's policy and organisation. This includes the steering of the group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the engagement of key employees and the presentation of CSG Group to the capital market and the public domain.

The Management Board of China Specialty Glass AG comprises three members. The current members of the Management Board are Nang Heung Sze (Chairman and Chief Executive Officer), Chun Li Shi (Chief Operating Officer) and Chi-Hsiang Michael Lee (Chief Financial Officer).

The Company has entered into a D&O insurance for its members of the Management Board which is in line with the statutory requirements of Section 93 para. 2 sentence 3 of the German Stock Corporation Act.

Details pertaining to the remuneration of the members of the Management Board for the financial year 2011 can be found in the Remuneration Report in the annual report.

The members of the Management Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. Although there were no concrete instances of conflicts of interest, potential conflicts of interest of Management Board members persisted in the financial year 2011 due to the indirect shareholdings of Management Board Members Nang Heung Sze and Chun Li Shi, adding up to currently 63.2 % of voting rights, which allow to pass resolutions at general meetings, which do not require a qualified majority of attending and valid votes (75%) and, depending on attendance at such general meeting, might also allow to pass votes which require a qualified majority decision.

Supervisory Board

The task of the Supervisory Board is above all to control and advise the Management Board. The Supervisory Board is furthermore responsible for the appointment of the members of the Management Board, the determination of their remuneration as well as the review and approval of the annual financial statements of the Company. In addition, the Supervisory Board is responsible to decide on granting the approval to business transactions which require the prior consent of the Supervisory Board.

The Supervisory Board is composed in accordance with Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz/AktG) and consists of three members. The current members of the Supervisory Board are Hao Chun Chang, Xin Young Shi and Andreas Grosjean.

The former supervisory board members Helmut Meyer and Volker Schlegel both resigned from their posts, Mr. Meyer with notice dated 31 March 2012, Mr Schlegel with notice dated 17 April 2012. The new members Hao Chun Chang and Andreas Grosjean were appointed by the competent commercial court on 23 April 2012. In the supervisory board meeting held on 25 April 2012, Hao Chun Chang was appointed as the chairman.

CSG has not established any committees. This is due to the rather small size of CSG's Supervisory Board, which consists of three members only. The Supervisory Board believes that its comparably small size allows for adequate discussions and that, in general, it is advantageous for the Company and the Supervisory Board to include the know-how of all Supervisory Board members.

The Company has entered into a D&O insurance for its members of the Supervisory Board. The D&O insurance for Supervisory Board members does not contain a deductible (Selbstbehalt) for the Supervisory Board members.

Details pertaining to the remuneration of the members of the Supervisory Board for the financial year 2011 can be found in the Remuneration Report in the annual report.

The members of the Supervisory Board are obliged to disclose conflicts of interest to the Supervisory Board. In financial year 2011, the Supervisory Board did not report on any conflicts of interest to the shareholders. There were no potential conflicts of interest of Supervisory Board members in the financial year 2011.

Corporate Governance Statement

The corporate governance statement in accordance with Section 289a of the German Commercial Code includes the (1) declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG), (2) relevant disclosures relating to corporate governance practices, (3) a description of the workings of the Management Board and Supervisory Board, including, (4) the composition and workings of their committees.

Compliance Statement

China Specialty Glass AG (the „Company“) has since admission of its shares to trading on the Frankfurt Stock Exchange on 1 July 2011 complied with the recommendations of the German Corporate Governance Code (the „Code“) as amended on 26 May 2010, currently complies with them and will comply with them, with the exception of the following recommendations of the Code:

1. The Supervisory Board has not specified the Management Board’s information and reporting duties in more detail (deviation from no. 3.4 s. 4 of the Code). The German Stock Corporation Act already explicitly stipulates the Management Board’s duty to provide the Supervisory Board with regular as well as additional reports. China Specialty Glass AG is of the opinion that the Supervisory Board is sufficiently supplied with information according to the provisions of law, and thus considers the implementation of further reporting duties for the Management Board as unnecessary.
2. The D&O insurance taken out by the Company does not provide for a deductible with respect to the members of the Supervisory Board (deviation from no. 3.8 s. 5 of the Code). The Management Board and the Supervisory Board believe that a deductible is not necessary to strengthen the sense of responsibility of the members of the Supervisory Board in the performance of their duties. Further, one member of the Supervisory Board is not German but a national of the People’s Republic of China, where such deductibles are not customary. While the D&O insurance provides for a deductible for Management Board members due to legal requirements, with respect to the Supervisory Board members, a deductible was dispensed with.
3. The risk management system is currently being built up and expanded (deviation from no. 4.1.2. of the Code). The Management Board has set itself the goal to implement a sufficiently documented and adequately dimensioned (with respect to the size of the Company) risk management and risk controlling.
4. A Management Board compensation system has not yet been resolved (deviation from no. 4.4.2 of the Code). However, the Supervisory Board has taken the standards of a uniform compensation system as a basis for the implementation of the respective compensation of the current Management Board members.
5. At the time when this Declaration of Compliance is made, the following is not intended for the variable remuneration elements of the remuneration of Management Board members: an exclusion of subsequent amendments to the targets of success or the comparison parameters (deviation from no. 4.2.3 s. 9 of the Code). The Supervisory Board is of the opinion that, due to the relatively low performance remuneration of the Management Board, such exclusion is not necessary.
6. The Supervisory Board and the Management Board members have not stipulated how to proceed in case of a premature termination of the Management Board contract without good reason (deviation from no. 4.2.3 s. 11 and s. 12 of the Code). Therefore the provisions of law apply in this case. China Specialty Glass AG is of the opinion that the provisions of law are sufficient regarding the respective interests when it comes to the resignation of a Management Board member and are thus an appropriate basis.

7. There is no general age limit for Management Board members (deviation from no. 5.1.2 s. 7 of the Code) and for Supervisory Board members (deviation from no. 5.4.1 s. 2 of the Code). All currently valid Management Board contracts, however, include an age limit of 65 years. The Supervisory Board does not consider strict age limits useful as a general rule. In the opinion of the Supervisory Board, it is not plausible why qualified persons with comprehensive experience in career and life shall not be eligible for the Management Board or the Supervisory Board only because of their age. The appointment of members of the Management Board and the Supervisory Board shall rather be guided by the knowledge, skills and specialised experience of the relevant persons. Apart from that, the Supervisory Board of China Specialty Glass AG respects diversity and therefore strives to achieve a mixing in ages of the members of the Management Board and the Supervisory Board to which a fixed age limit would be an obstacle.
8. The Supervisory Board has not implemented by-laws for itself (deviation from no. 5.1.3 of the Code). Considering the small size of the Supervisory Board and high number of legal requirements applicable for the Supervisory Board, the Company is of the opinion that the provisions of law are sufficient.
9. The Supervisory Board has not established any committees (deviation from no. 5.3 of the Code). Due to its relatively small size with three members, the Supervisory Board does not consider the establishment of committees absolutely necessary and, beyond this, is of the opinion that all items falling within the scope of responsibilities of the Supervisory Board should be discussed and decided by the full Supervisory Board.
10. The Supervisory Board has not explicitly stipulated specific targets for its structure (deviation from no. 5.4.1 s. 2 to 5 of the Code). As recommended in no. 5.4.1 s. 2 and s. 3 of the Code, the Supervisory Board certainly takes the Company's situation, its international business activity and possible conflicts of interest into consideration when it comes to its current and future structure. At the moment and considering the small size of the Supervisory Board with only three members, the Company is of the opinion, however, that it is more appropriate to select candidates for the Supervisory Board according to the targets mentioned above but on a case-by-case basis instead of stipulating explicit regulations for the structure of the Supervisory Board in written form. The Company is of the opinion that the implementation of such regulations and continuous compliance with them would mean an inappropriately high effort at this point of time.
11. The members of the Supervisory Board receive a fixed salary without performance-related components (deviation from no. 5.4.6 s. 4 of the Code). In particular with respect to the supervisory function of the Supervisory Board, the Management Board and the Supervisory Board do not consider it to be expedient to pay a performance-related compensation to the members of the Supervisory Board. A performance-related compensation could lead to a negative influence on the independence of the decisions of the Supervisory Board from any financial interests of its members and could, in particular, induce them to approve transactions that are too risky.
12. Apart from permanently assessing the efficiency, the Supervisory Board does not carry out any efficiency assessments on a regular basis (deviation from no. 5.6 of the Code) as the Company is convinced of Supervisory Board's efficiency considering the size of the Supervisory Board and the size of the Company.

13. The Company has not met the deadline of 90 days after the end of the financial year for the publication of its Consolidated Financial Statements and the deadline of 45 days after the end of the reporting period for the publication of its interim reports (deviation from no. 7.1.2 s. 4 of the Code). As a young and international holding company, China Specialty Glass AG places emphasis on applying great care in preparing its first financial statements as a listed company. Also the required translations from Chinese language make the preparations of the financial statements time-consuming. China Specialty Glass AG strives to comply with the recommendations for the publication deadlines in the future.

Corporate Governance Practices

- Corporate Compliance: At China Specialty Glass AG compliance, i.e. measures to ensure adherence to statutory provisions, internal statues and Company policies and observance of these measures and rules by affiliated companies, is a key management duty. The Company has developed internal rules as well as a code of conduct through which any employee of the Company itself and/or its affiliated entities is obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis to fully comply with both German and Chinese statutory legal provisions and conventions.
- Risk Management: Good corporate governance includes dealing responsibly with risks. The Management Board keeps the Supervisory Board timely and duly informed about existing risks and their development. The Supervisory Board regularly deals with monitoring of the accounting process, the effectiveness of internal control, risk management and internal auditing systems as well as monitoring the auditing of the financial statements. The internal control, risk management and internal auditing systems are continuously evolved and adapted to changing conditions.

Cooperation between Management Board and Supervisory Board

In accordance with statutory requirements, China Specialty Glass AG has a so-called two-tier governance system which is characterized by the Management Board and the Supervisory Board being two separate and independent corporate bodies. The Management Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. The Supervisory Board supervises and advises the Management Board and is directly involved in decisions which are of fundamental importance for the Company and, therefore, require the prior approval of the Supervisory Board.

The Management Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the continued existence of the Company the sustainable creation of value. The internal rules of procedure within the Management Board and Supervisory Board, as well as the cooperation between the two boards, are laid out in detail in the Company's by-laws for the Supervisory Board and by-laws for the Management Board.

The Management Board provides the Supervisory Board with regular detailed reports and updates on business policy and all issues of relevance for the Company relating to regarding the planning, business development, the risk situation and the risk management system. The Management Board also reports about compliance, i.e. the implemented means through which adherence to statutory provisions and CSG's internal statutes is ensured.

The Management Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for CSG Group. This information includes the intended business policy, the group's profitability, recent developments of the business activities and the financial and economic status of the Company, the business planning, the actual risk situation, the risk management and the compliance. The Management Board must immediately inform the Chairman of the Supervisory Board on matters of major importance.

For certain business transactions and measures as more specifically set forth in the rules of procedure (Geschäftsordnung) for the Management Board, the Management Board must obtain the Supervisory Board's prior approval.

Directors' Dealings and directors' shareholdings

According to Section 15a of the Securities' Trading Act (Wertpapierhandelsgesetz/WpHG), the members of the Management Board and the Supervisory Board and/or persons close to them are obliged to disclose the purchase and sale of China Specialty Glass AG shares and related financial instruments whenever the value of such transaction amounts to EUR 5,000 or more within a calendar year. For the financial year 2011 China Specialty Glass AG has not been notified of any such transactions.

On 31 December 2011, the total volume of shares in China Specialty Glass AG directly or indirectly held by all members of the Management Board amounted to 63.2% of the aggregate amount of issued shares. This was comprised of 63.2% of the shares held by Luckyway Global Group Limited, which is wholly owned by the Company's Chief Executive Officer (Mr. Sze Nang Heung).

On July 1, 2011, Luckyway Global Group Ltd. (“Luckyway”) and its shareholder Mr. Sze Nang Heung made a statutory disclosure that Luckyway voting rights as of 30 June 2011 amounted to 55.05% (8,284,609 voting rights). After the IPO, Luckyway received back the shares it had lent to the IPO Bank for delivery of the shares to IPO investors after creation of the new shares subscribed in the IPO. The IPO capital increase was registered on 19 July 2011. The increase from 55.05% at 1 July 2011 to now 63.2% (corresponding to 11,194,957 shares and voting rights) did not have to be published under applicable WpHG rules. The members of the Supervisory Board do not hold any shares in the Company.

Accounting and Audit

China Specialty Glass AG prepares its annual consolidated financial statements as well as all quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU. The individual annual financial statements are prepared in accordance with the German generally accepted accounting principles and the statutory provisions of the German Commercial Code (Handelsgesetzbuch/HGB). The sole basis for the profit distribution is the individual annual financial statements prepared under HGB.

The individual and consolidated financial statements are prepared by the Management Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor appointed by the Annual General Meeting. For the financial year 2011, Warth & Klein Grant Thornton AG, Düsseldorf, has been appointed as auditor by the Annual General Meeting on May 9th, 2011. The individual and consolidated financial statements as prepared by the Management Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

Transparency

Our investors and shareholders as well as the interested public domain are provided with information on China Specialty Glass AG as well as on major business events particularly through financial reports (annual reports and quarterly reports), analyst meetings and conferences, balance sheet conferences, press releases, ad hoc notifications as well as other notifications required by law. All this information is published in German and English. In addition, our shareholders are provided with respective information at the Annual General Meeting and all other General Shareholders Meetings. The financial statements, ad hoc releases and notifications on directors' dealings as well as press releases can also be viewed on the Company's website at www.csg-ag.com.

Management Report

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COMBINED MANAGEMENT REPORT

THE CSG GROUP

The CSG Group comprises the listed holding company China Specialty Glass AG ("CSG AG") , Hing Wah Holdings (Hong Kong) Limited (“HWG HK-Holding”), its 100% subsidiaries Guangzhou Hing Wah Glass Industry Co., Limited ("HWG-Ltd."), and Sichuan Hing Wah Glass Co., Ltd. ("HWG-SC"), (hereafter “the Group”).

The current structure of the Group with China Specialty Glass AG as controlling company was formed on 22 November 2010 when the capital increase of CSG AG was registered in the German trade register of companies. In the process of this capital increase, 100% shares in Hing Wah Holdings (Hong Kong) Limited were contributed to CSG AG.

The CSG Group develops, produces and sells specialty glass under its “Hing Wah” brand. The Group distributes its products to customers in the domestic market in China directly through its own sales network.

The Group is one of the leading security glass manufacturers in China producing security glass, a class of specialty glass used primarily for personal protection against physical violence and forced intrusion, for the Chinese banking security and automotive security industry. It also provides various specialty glass products for the construction glass market.

The Group provides technical consultation and installation guidance to its customers in connection with the sales. China Specialty Glass-Group’s current production facility is located in Guangzhou, Guangdong Province in Southern China, and operated by the Group’s wholly-owned operative subsidiary HWG-Ltd. The Group’s new production facility in Sichuan Province, which is to be operated by Sichuan Hing Wah Glass Co., Ltd. will commence production soon.

China Specialty Glass-Group’s major products sold under its “Hing Wah” brand are categorized into 3 business segments: (i) Bank security glass; (ii) Automotive security glass; and (iii) Construction glass.

ECONOMIC AND INDUSTRY ENVIRONMENT

Due to the rapid surge in inflation in the first half of 2011 and the concern for the potential overheating of economy in China, Chinese government had introduced a series of monetary and policy measures to counteract. These measures have produced desired positive effects: inflation came down from its highest level in July of 6.5% to 6.1% in September. In October, inflation rate was further reduced to 5.5%. Growth in Chinese economy also cooled down from 9.7% in the first quarter of 2011 to 9.5% in the second quarter and 9.1% in the year. The newest forecast from the World Bank on the GDP growth in China for the whole year 2011 (Source: “East Asia and Pacific Economic Update”, World Bank, November 2011) was corrected to 9.1%, down from the previous forecast of 9.3%. As the inflation fear fades and an economic slowdown looms large, it is expected that the Chinese government would reverse its tight monetary policy to stimulate the country’s economic growth again.

INDUSTRY ENVIRONMENT

Along with the rapid economic development of the Chinese economy and the increasing general awareness for safety, bulletproof glass has been widely adopted in China. The use of bulletproof glass can be divided into different sectors: Approximately 55% is used in the banking industry, approximately 27% for automobiles and approximately 18% in buildings.

The production output of bulletproof glass in China has grown at an average annual rate of 26% over the past four years. The total production output in 2011 amounted to around 1.54 million square meters, after 1.19 million square meters in 2010.

Production Output Bullet Proof Glass China (in million square meters)

YEAR	QUANTITY (million m^2)
2011	1.54
2010	1.19
2009	0.96
2008	0.77

However, the increasing output has not kept pace with the increase in demand. In 2011 the market showed a demand gap of 371,000 square meters. Exports exacerbated the demand-supply imbalance.

The market for bulletproof glass grew by 19% to RMB 1.35 billion (about EUR 125.7 million) in 2011. 44% of the demand in 2011 for bulletproof glass came from the banking industry, automobiles accounted for 41% of overall demand and 15% of the demand came from the building industry.

Sales Bullet Proof Glass China (in billion RMB)

YEAR	AMOUNT (RMB' billion)
2011:	1.35
2010:	1.13
2009:	0.97
2008:	0.92

If compared to the whole industry for bullet proof glass in China, CSG holds the leading position in the three major market segments, with a total market share of more than 50%. The market share of the next four biggest competitors sums up to around 11%.

Bank security glass

Bulletproof glass installation in the large first-tier cities is widespread and still growing, whereas less than half of the bank branches in second- and third-tier cities or in rural areas are equipped with bulletproof glass. Additionally, although the bulletproof property of the security glass is normally guaranteed by the manufacturers for ten years, it is frequently replaced by the bank outlets earlier since the branches are often renovated every few years in order to make them more appealing to their customers and to stay competitive. New and existing bank branches are reliable sources of demand for bulletproof glass.

Automotive security glass

The increase in number of bank branches in China is accompanied by an increase in demand for secure means of transporting cash and other valuable goods (cash-in-transit vehicles), which leads to an increasing demand for bulletproof glass. Other types of vehicles equipped with bulletproof glass include police vehicles and military armoured personnel carriers.

Furthermore, private luxury limousines are increasingly refitted to add security features. These include bulletproof or bomb blast-resistant windshields and side windows to provide protection.

Construction glass

Normal flat glass, when processed to add technical features, becomes specialty glass which includes insulating, architecture laminated, architecture tempered and surface-coated glass. Windows (hollow glass), glass-containing doors (tempered or laminated glass), glass facades and partition glass walls are some products, for which specialty glass is typically used. The most common use of specialty glass products is as architecture glass for real estate and related decorations in the construction market.

DEVELOPMENT OF THE GROUP

On 1 July 2011, the initial public offering of our shares in the Prime Standard, a special segment of the regulated market of the Frankfurt Stock Exchange, was completed under difficult market conditions. With shares sold at the low-end of the offering range and a reduced offering volume, the IPO proceeds we received were far below expectation. We readjusted and prioritized our investment plans by directing the available financial resources to our new production site in Sichuan and the expansion of our facility in Guangzhou. The expanded production capacity will address the demands from the existing clients and expected new product orders for intruder resistant glass products. Consequently, a significant increase in capital expenditure in the fourth quarter of 2011; and a modest increase both in production capacity and in revenue in early 2012 are to be expected.

The core business, specifically bullet proof glass product series, continued its solid performance in the banking and automotive sector, within existing and new territories. Additionally, we began to expand the application of bullet proof product series to different market sectors by introducing more refined products with more specified functions such as bullet proof guard station for military border patrol and private villas/residences of high net-worth individuals.

We began to promote our intruder resistance glass series at full scale in 2011. These new product types offered security to prevent intrusion by different force patterns; and are gaining a lot of popularity by both old and new banking and automotive clients. In addition, new business sectors, specifically, stores of luxury and high-end goods (e.g. jewellery, top fashion), started to place orders for this product application. The intruder resistant glass series has a higher sales price with a more attractive profit margin and is expected to become one of the major sales generating series in 2012.

INCOME AND EARNINGS

In order to present the result of operations for the last two financial years in relation to the business of CSG Group, the following table represents the consolidated income statement of CSG Group for the year ended 31 December 2011. Due to the fact that the Group only came into existence on 22 November 2010, comparatives show the consolidated figures on HWG H-Holding-level for the year ended 31 December 2010.

(in TEUR)	2011	2010 1)	+/- %	22/11/2010 - 31/12/2010 *
Revenue	**76,884**	69,564	10.5	9,066
Cost of sales	**(41,823)**	(38,111)	9.7	(4,900)
Gross profit	**35,061**	31,453	11.5	4,166
Selling and distribution expenses	**(3,166)**	(2,277)	39.0	(398)
Administrative expenses	**(5,592)**	(1,244)	349.5	(214)
Finance income	**270**	170	58.8	34
Finance costs	**(431)**	(110)	291.8	(9)
Other revenue	**2,053**	-	N/A	-
Compensation for terminating exclusive distributorship right agreement	**(1,957)**	-	N/A	-
Research and development costs	**(1,908)**	(1,878)	1.6	(173)
Profit before taxation	**24,330**	26,114	-6.8	3,406
Income tax	**(3,486)**	(4,006)	-13.0	(643)
Profit for the year	**20,844**	22,108	-5.7	2,763
Other Comprehensive Income: Currency translation reserve movement	**6,028**	3,571	68.8	1,365
Total Comprehensive Income	**26,872**	25,679	4.6	4,128
Profit attributable to: owners of the parent	**20,844**	22,108		2,763
Total Comprehensive income attributable to: owners of the parent	**26,872**	25,679		4,128
Earnings per share (undiluted= diluted)	**1.28**	1.47		0.18
Weighted average number of shares	**16,236,676 2)**	**15,050,000**		**15,050,000**

1) Due to the fact that the Group only came into existence on 22 November 2010, comparatives show the consolidated figures on HWG HK-Holding-level for the year ended 31 December 2010.

2) Calculated as registration of the IPO capital increase in the trade register on 19 July 2011.

For better comparability the following analysis is based on full 12 months figures for 2010 (on HWG HK-Holding-level):

Sales

Revenue of EUR 76.9 million was generated during the year ended 31 December 2011, representing an increase of EUR 7.3 million or 10.5% compared to the same period in 2010 (2010: EUR 69.6 million). The increase in sales was mainly attributable to the increase in the sales of automotive security glass and construction glass. Revenue of automotive security glass increased from EUR 30.0 million during the year ended 31 December 2010 by EUR 5.0 million or 16.7% to EUR 35.0 million. Revenue of construction glass increased from EUR 8.0 million during the year ended 31 December 2010 by EUR 2.0 million or 25.0% to EUR 10.0 million.

Cost of sales

Cost of sales increased to approximately EUR 41.8 million in the year by approximately EUR 3.7 million or 9.7% from 38.1 million in the year ended 31 December 2010. It was due to the increases in unit purchase price of raw materials and production overheads.

Raw material prices increased to approximately EUR 38.2 per square meter by approximately EUR 2.6 or 7.3% from EUR 35.6 per square meter compared to prior year. Direct labor cost increased to approximately EUR 1.9 per square meter in 2011 by approximately EUR 0.4 or 26.1 % from EUR 1.5 per square meter in 2010. In addition electricity cost increased to EUR 2.0 per square meter by approximately EUR 0.2 or 9.5% from EUR 1.8 per square meter.

Raw material accounted for approximately 83% of cost of sales in FY2011 while it accounted for approximately 87% in FY 2010, and direct labor cost and electricity cost each accounted for approximately 4% of cost of sales in both FY 2011 and FY 2010. These three elements together accounted for 91% of cost of sales in FY 2011 while they accounted for 95% in FY 2010. The Group may not be able to shift the increased cost of these three elements to consumer.

Gross profit

Gross profit during the year ended 31 December 2011 increased by EUR 3.6 million or 11.5% from EUR 31.4 million in 2010 to approximately EUR 35.0 million. This was mainly due to the increase in the sales of automotive security glass as well as construction glass. Gross profit of automotive security glass increased from EUR 16.0 million for the year by EUR 3.0 million or 18.8% to EUR 19.0 million. Gross profit of construction glass remained at EUR 3.0 million for the year.

The overall gross profit margin improved slightly from 45.2% in year ended 31 December 2010 to 45.6% in year ended 31 December 2011. This increase was mainly the result of an increase in sales contribution of auto security glass, which has a higher gross profit margin than that of the other two segments (bank security glass and construction glass), to the total sales in year ended 31 December 2011.

Selling and distribution expenses

Selling and distribution expenses increased from EUR 2.3 million in 2010 by EUR 0.9 million or 39.0% to EUR 3.2 million primarily due to the increases in staff salary, travelling, advertisement and transportation expenses.

The percentage of selling and distribution expenses in relation to total sales was 4.1% in 2011 and 3.3% in 2010.

Administrative expenses

Administrative expenses increased significantly from EUR 1.2 million in 2010 by EUR 4.4 million or 349.5% to EUR 5.6 million in 2011. This increase was primarily due to costs in connection with the IPO and the increases in operative entity staff's salaries, consulting expenses, motor vehicle expenses, entertainment expenses, year-end bonus and company celebration costs incurred during the reporting period.

The ratio of administrative expenses to sales was 7.3% in year ended 31 December 2011 and 1.8% in year ended 31 December 2010.

IPO costs amounted to kEUR 1,304 in 2011.

Total IPO cost	3.289 kEUR
Set off against equity	1.390 kEUR
Deferred tax effect	595 kEUR
Net expenses	1.304 kEUR

Research and development expenses in year ended 31 December 2011 of the Group's sole operating company amounted to EUR 1.9 million representing 2.5% of overall revenue.

Compensation paid on termination of exclusive distributorship rights

CSG and Saint Gobain concluded to terminate the exclusive distributorship agreement and signed a settlement agreement in December 2011. The overall impact of such termination upon profit was EUR 2 million, whereas EUR 1.5 million was already paid in 2011 and a remaining of EUR 0.5 million is reflected as short-term liability and will be cashed out in 2012.

Operating profit for the year

Profit before taxation decreased from EUR 26.1 million in year ended 31 December 2010 by EUR 1.8 million or 6.8% to EUR 24.3 million in year 2011. This decrease was mainly due to the increases of IPO expenditure as well as compensation for terminating the exclusive distributorship right agreement with Saint Gobain and significant increase of administrative expenses during the year of 2011. Adjusted for one-off costs relating to the IPO, operating profit was kEUR 28,462 in 2011 and kEUR 26,984 in 2010.

Taxation

The Group’s tax rate is substantially that of its sole operating company, which since 2010 has been deemed a “high tech enterprise” subject to a reduced tax rate of 15% for three years. The average tax rate was 15.3% in 2010 and 14.3% in 2011.

Net profit

Net profit for the year ended 31 December 2011 decreased from EUR 22.1 million in year 2010 by EUR 1.3 million or 5.7% to EUR 20.8 million in 2011.

Net profit margin

The net profit margin decreased from 31.8% in 2010 to 27.1% in 2011 mainly due to compensation made for the termination of the exclusive distributorship right agreement during the last quarter of 2011 with Saint Gobain and IPO costs.

SEGMENT REPORT

The following table presents an analysis of sales and gross profit according to product segments of the Group for 2011 in comparison to 2010:

Analysis of Business Segments					
SAFETY GLASS	**2010**		**2011**		**+/- (in %)**
Automotive security glass					
Quantity (m^2)	173,233		197,827		14.2%
Sales (EUR' mil)	30.0	42.9%	35.0	45.5%	16.7%
Cost of sales (EUR' mil)	-14.0		-16.0		14.3%
Gross profit (EUR' mil)	16.0	50.0%	19.0	54.3%	18.8%
Gross margin (in %)	53.3%		54.3%		
Bank security glass					
Quantity (m^2)	371,178		349,839		-5.7%
Sales (EUR' mil)	32.0	45.7%	32.0	41.6%	0.0%
Cost of sales (EUR' mil)	-19.0		-19.0		0.0%
Gross profit (EUR' mil)	13.0	40.6%	13.0	37.1%	0.0%
Gross margin (in %)	40.6%		40.6%		
CONSTRUCTION GLASS					
Quantity (m^2)	377,399		399,118		5.8%
Sales (EUR' mil)	8.0	11.4%	10.0	13.0%	25.0%
Cost of sales (EUR' mil)	-5.0		-7.0		40.0%
Gross profit (EUR' mil)	3.0	9.4%	3.0	8.6%	0.0%
Gross margin (in %)	37.5%		30.0%		
TOTAL					
Quantity (m^2)	921,810		946,784		2.7%
Sales (EUR' mil)	70.0	100.0%	77.0	100.0%	10.0%
Cost of sales (EUR' mil)	-38.0		-42.0		10.5%
Gross profit (EUR' mil)	32.0	100.0%	35.0	100.0%	9.4%
Gross margin (in %)	45.7%		45.9%		

Automotive security glass

Sales growth in automotive security glass segment was maintained in the year ended 31 December 2011. In comparison to the same period in 2010, sales growth of automotive security glass segment was 16.7% while its gross profit growth was 18.8%. The gross profit margin of automotive security glass was improved slightly from 53.3% in 2010 to 54.3% in 2011. In 2011, automotive security glass segment accounted for 45.5% of the total sales while it was 42.9% in 2010.

Bank security glass

Sales revenue and gross profit of bank security glass in 2011 was the same as that of 2010 and amounted to EUR 32 million and EUR 13 million respectively. Its gross profit margin was kept at 40.6% but its quantity was decreased slightly by 5.7% due to the launch of a new product, i.e. bank intruder resistant glass. Most of PRC banks planned to use this new product to replace the traditional bank bulletproof glass in their branches. In 2011, bank security glass segment accounted for 41.6% of the total sales while it was 45.7% in 2010.

Construction glass

In 2011, sales revenue of construction glass improved significantly from EUR 8 million in 2010 to EUR 10 million in 2011 while its gross profit was increased from EUR 5 million in 2010 to EUR 7 million in 2011. However, its overall gross profit margin was decreased from 37.5% in 2010 to 30% in 2011 due to the increase in quantity of lower profit margin construction glass products and the significant increase in cost of sales in 2011. In 2011, construction glass segment accounted for 13.0% of the total sales while it was 11.4% in 2010.

Overall

The overall sales revenue was improved from EUR 70 million in 2010 to EUR 77 million in 2011 while the overall gross profit was increased from EUR 32 million in 2010 to EUR 35 million. The average gross profit margin was kept at 45.9%.

FINANCIAL POSITION

The Group's asset and capital structure developed as follows: the balance sheet total increased from kEUR 60.374 by kEUR 63.392 to kEUR 123.766. This rise is mainly attributable to an increase in property, plant and equipment, trade and other receivables, inventories as well as cash and bank balances.

Amounts in kEUR	2011	2010	% of change
Assets			
Non-current assets			
Property, plant and equipment	28,873	3,764	667.1%
Deferred tax assets	1,078	-	n/a
Other assets	5,471	3,173	72.4%
Lease prepayment for leasehold land	801	751	6.7%
Intangible assets	10	13	-23.1%
	36,233	7,701	370.5%
Current assets			
Inventories	2,434	1,591	53.0%
Trade and other receivables	28,050	12,727	120.4%
Tax receivable	472	438	7.8%
Loan to related party	5	5	0.0%
Cash and bank balances	56,572	37,912	49.2%
	87,533	52,673	66.2%
Total assets	123,766	60,374	105.0%
Equity and Liabilities			
Capital and Reserves			
Share capital	17,700	15,050	17.6%
Capital reserves	19,739	-	n/a
Statutory reserves	724	724	0.0%
Foreign currency translation reserve	9,549	3,521	171.2%
Retained earnings	51,360	30,516	68.3%
	99,072	49,811	98.9%
Current Liabilities			
Corporate income tax payable	846	1,311	-35.5%
Trade and other payables	8,043	4,996	61.0%
Interest-bearing bank borrowings	15,805	1,813	771.8%
Related party payables	-	2,443	-100.0%
	24,694	10,563	133.8%
Total equity and liabilities	123,766	60,374	105.0%

NON-CURRENT ASSETS

Property, plant and equipment (PPE)

The Group's PPE increased from EUR 3.8 million as of 31 December 2010 by EUR 25.1 million or 667.1% to EUR 28.9 million as of 31 December 2011 mainly due to the increases in office equipment by kEUR 871, leasehold buildings by kEUR 10,416 and construction in progress by kEUR 12,438 and the effect of foreign exchange conversion, but partially offset by depreciation charge of kEUR 207 for the year.

The Group had completed the first phase of building construction and acquired 2 production lines in its new production base in Sichuan by end of 2011.

Moreover, certain leasehold buildings had been reconstructed and new production facilities had been acquired in Guangzhou factory by end of 2011.

Other assets and prepayments for leasehold land

Other assets represent mainly the advance payment of land use rights made by our subsidiary, Sichuan Hing Wah Glass Co., Ltd. and the prepayment of costs of leasehold land for the workshops and buildings in Guangzhou.

Loan to related party

It includes the operating lease deposit made to a related PRC company which is controlled by one of directors, Mr. Shi Chunli.

CURRENT ASSETS

Inventories

Inventories comprise raw materials, finished goods and goods-in-transit. Inventories increased from EUR 1.6 million as of 31 December 2010 by EUR 0.8 million or 53.0% to EUR 2.4 million as of 31 December 2011 due to the need to hold higher level of stocks to meet expected demands from the increase in sales.

Trade and other receivables

Trade and other receivables increased from EUR 12.7 million as of 31 December 2010 by EUR 15.4 million or 120.4% to EUR 28.1 million as of 31 December 2011, which was in line with the increase in gross sales during the year ended 31 December 2011. The amount of trade receivables with a maturity of less than 90 days as of 31 December 2011 represented 100% of the total trade receivables as of 31 December 2011.

Restricted cash

The new bank loan to the wholly-owned operating subsidiary in China was secured by the fixed bank deposits of EUR 11.5 million in the same bank in Hong Kong as collateral.

Cash and bank balances

Cash and bank balances of the Group increased by EUR 18.7 million from EUR 37.9 million as at 31 December 2010 to EUR 56.6 million as at 31 December 2011 mainly due to receipt of the net IPO proceeds of EUR 22.4 million, of which EUR 11.5 million was pledged as bank loan collateral, the new bank loan of EUR 11.5 million at closing exchange rate as of 31 December 2011, and cash generated from the operation.

Equity

The ultimate holding company, China Specialty Glass AG, was listed on the Prime Standard segment of the German Stock Exchange on 1 July 2011. In the course of the listing a capital increase of 2.650.000 shares also took place, which became effective when it was registered in the German trade registry on 19 July 2011. This led to an increase in the share capital from 15.050.000 shares to 17.700.000 shares and a corresponding reduction in authorized capital from 7.525.000 shares to 4.875.000 shares. The proceeds received in excess of the nominal value of the shares issued were credited to capital reserves after related issuance costs were deducted (net of the tax saving thereon).

The total equity of the Group is kEUR 99,072 while the total capital of the Group is kEUR 123,766. Accordingly, the equity ratio is about 80.0%.

CURRENT LIABILITIES

Trade and other payables

Trade and other payables increased significantly from EUR 5.0 million as of 31 December 2010 by EUR 3.0 million to EUR 8.0 million as of 31 December 2011 in line with increase in purchases during the year.

Interest-bearing bank borrowings

Interest-bearing bank borrowings increased from EUR 1.8 million as of 31 December 2010 by EUR 14.0 million to EUR 15.8 million as of 31 December 2011 mainly due to increase of new short-term bank borrowings with terms of period from 14 July 2011 to 13 July 2012 and interest rate of 7.216% per annum. It was secured by the Group's bank fixed deposits of EUR 11.5 million which were pledged to a bank in Hong Kong in order to secure a PRC bank's borrowings of EUR 11.5 million granted by a PRC bank to the wholly-owned operating subsidiary. As China has restricted control over the exchange of RMB against foreign currency, the Group had sought an effective and legal way to transfer the fund of net IPO proceeds from HWG HK-Holding to HWG-Ltd. by pledging fixed deposits of EUR 11.5 million with a financial institution in Hong Kong in order to be granted loans of EUR 15.8 million to HWG-Ltd.

CASH FLOWS AND LIQUIDITY

The following table is extracted from the Group's cash flows data, which was derived from the Group's consolidated financial statements under IFRS for the year ended 31 December 2011:

Amounts in kEUR	2011	22/11/2010-31/12/2010
Net cash generated from operating activities	8,803	3,932
Net cash used in investing activities	(25,383)	(3,785)
Net cash generated from financing activities	33,507	-
Net increase in cash and bank balances	**16,927**	**147**
Cash and bank balances at beginning of the period	**37,912**	**36,666**
Effects of currency translation	**1,733**	**1,099**
Cash and bank balances at end of the period	**56,572**	**37,912**

The net cash position as of 31 December 2011 has increased. The Group generated a net cash inflow amounting to EUR 8.8 million from its operations, and EUR 33.5 million from financing activities due mainly to the portion of cash inflows from net IPO proceeds of EUR 22.4 million and also to new bank loans of net EUR 14.0 million, offset by the bank loan pledge of EUR 11.5 million. Cash outflows of EUR 25.4 million came from the investing activities during the year ended 31 December 2011. Investment activities include acquisition of production plants and equipment in both Guangzhou and Sichuan production bases and the building construction of the first phase in Sichuan project as well as the reconstruction of certain leasehold buildings in Guangzhou factory during the reporting period.

Cash at end of year

Cash and bank balances at the end of the year amounted to EUR 56.6 million as of 31 December 2011. Most of cash and bank balances were in China and comprised of mainly RMB, HKD and EUR.

Results of Operations, Financial Position and Net Assets of CSG AG

The statement of financial position of CSG AG shows a net equity of kEUR 121,379. In the financial year 2011 CSG AG realized a loss of kEUR 2,379 mainly caused by IPO expenses as well as other legal and advisory fees.

The investment in affiliated companies amounts to kEUR 100,121 and refers to the investment in HWG HK-Holding. Receivables due from affiliated companies of kEUR 20,742 mainly relate to intercompany loans. Other receivables amount to kEUR 14 and relate to rental deposits and other short-term receivables. Cash and cash equivalents of kEUR 60 relate to liquid funds on current bank accounts.

Other provisions of kEUR 253 are accrued costs relating to the preparation and audit of the annual financial statements and the consolidated financial statements as well as costs in respect of the annual shareholder meeting regarding the financial year 2011 and the remuneration of both management and supervisory board.

Other operating income of kEUR 531 relates mainly to interest income received on intercompany loans. Other operating expenses of kEUR 3,902 relate to current business expenses, mainly for the preparation and review of quarterly reports and annual financial statements, fees for lawyers and other advisors and IPO expenses. Due to tax losses carried forward deferred taxes of kEUR 1,078 are capitalized. The net gain for the financial year amounts to kEUR -2,379. Due to the loss realized in 2011 no income tax arises on the result.

General Statement on Business Development of the Group

In the financial year 2011, CSG achieved financial results in line with expectations.

OTHER FACTORS THAT IMPACTED ON RESULTS

RESEARCH AND DEVELOPMENT

The Group's Research and Development is built on a system of inter-departmental coordination and participation. The Group considers research and development as well as product design to be of key importance for its success. During the reporting year, the Group had launched its innovative product, intruder resistant glass for banking and automobile security glass markets and also security display counters for jewellery stores and banks. The Group does not consider that it meets the criteria to capitalize development costs as an intangible asset.

The Group incurred research and development costs of EUR 1.9 million in the reporting year (2010: EUR1.9 million). Major R&D activity in 2011 was the successful innovation of the above mentioned intruder resistant glass.

HUMAN RESOURCES

In the year ended 31 December, the Group had an average of 496 employees (2010: 442 employees). The breakdown of the average number of employees of the Group in years ended 31 December 2011 and 2010 are as follows:

Function	**Average number of employees**	
	2011	**2010**
Management and Administration	59	53
Sales and marketing	57	57
Production	380	332
	496	**442**

For the year ended 31 December of 2011, total costs of payroll for the Group amounted to EUR 3.0 million compared to EUR 2.4 million in the full financial year 2010. This represents 4.1% and 3,5% to the total revenue in 2011 and 2010 respectively. The increase of employees is in accordance with the expected expansion of the facilities in both Sichuan and Guangzhou.

REMUNERATION REPORT

The compensation is paid pursuant to the different employment agreements of the several members of the Management Board with the Company and the Group, respectively. The members of the Management Board receive salaries on an annual basis. These salaries consist of monthly payments and certain additional social benefits.

The tables below provide an overview over the gross remuneration and the social benefits paid to the current members of the Management Board for the financial years 2010 and 2011:

Compensation in 2010:

Name	Annual Salary	Social Securities	Others	total
Sze, Nang Heung	€ 18,182.48	€ 311.26	€ 1,346.85	€ 19,840.59
Shi, Chun Li	€ 16,162.21	€ 527.40	€ 1,346.85	€ 18,036.46
Lee, Chi Hsiang Michael	€ 13,254.06	€ 0	€ 0	€ 13,254.06

For his services in the financial year 2010, Mr. Chi Man Wong who is still employed by the Group received around EUR 44,000 from the Group which also includes his compensation as member of the Management Board during his term of office.

The members of the Supervisory Board will receive compensation for the financial year 2010 and the following years. The amount for the short financial year 2010 was determined by a resolution of the General Shareholders' Meeting on 9 May 2011:

Member	Appointed on	Term ended	Compensation
Helmut Meyer	27 May 2010 [2]	31 March 2012	EUR20,416.67
Xin Young Shi	27 May 2010	–	EUR 0
Shun Yao Huang	27 May 2010[1]	–	EUR 0
Volker Schlegel	29 October 2010	–	EUR 10,000

[1] Term ended on 29 October 2010.
[2] Term ended on 31 March 2012.

Compensation in 2011

Name	Annual Salary	Social Securities	Others	total
Sze, Nang Heung	€ 18,692.21	€ 0	€ 1,335.16	€ 20,027.37
Shi, Chun Li	€ 17,690.84	€ 633.70	€ 4,895.58	€ 23,220.12
Lee, Chi Hsiang Michael	€ 74,951.06	€ 0	€ 0	€ 74,951.06

The members of the Management Board are insured up to a certain amount under a directors and officers insurance (D & O insurance) against claims arising in connection with their conduct as members of the Management Board. The premiums of this insurance are to be borne by the Company. In accordance with the German Stock Corporation Act the insurance contains a deductible of at least 10% of the damage caused that amounts to at least one and a half times the fixed yearly income of the Management Board member.

Other remuneration than set out above are not provided by the Company or the Group to the members of the Management Board.

For 2011 the General Shareholders' Meeting on 9 May 2011 has determined a compensation of EUR 30,000.00 per Supervisory Board member. The chairman of the Supervisory Board shall receive an additional EUR 20,000.00, i.e. a total compensation of EUR 50,000.00.

Member	Appointed on	Term ended	Compensation
Helmut Meyer[1]	27 May 2010	31 March 2012	EUR 50,000.00
Xin Young Shi	27 May 2010	–	EUR 30,000.00
Volker Schlegel	29 October 2010	–	EUR 30,000.00

[1] Term ended on 31 March 2012.

STATEMENTS AND REPORT PURSUANT TO SEC. 289 PARA. 4, 315 PARA. 4 GERMAN COMMERCIAL CODE (HGB)

Composition of Capital Subscribed

The current registered share capital of the holding company, China Specialty Glass AG, amounts to EUR 17,700,000 and is divided into 17,700,000 non-par value bearer shares (Stückaktien) with proportionate value of EUR 1.00 each.

Restrictions of Voting Rights or on the Transfer of Shares

Each share in China Specialty Glass AG carries one vote; no restrictions apply to voting rights.

The Company and the initial shareholders have committed themselves to the following lock-up periods after IPO. The Company was listed on Prime Standard segment of the German Exchange on 1 July 2011.

- China Specialty Glass AG: 6 months hard lock-up and another 6 months soft lock-up
- Luckyway Global Group Ltd.: 12 months hard lock-up and another 6 months soft lock-up
- Other initial shareholders: 6 months hard lock-up

Except for the above mentioned lock-up periods there are no prohibitions with respect to the disposal or the transferability of the shares of the Company. The Management Board does not have any knowledge about corresponding shareholder agreements effective as at the reporting date 31 December 2011 and after the reporting period.

Direct or Indirect Interests in the Capital Exceeding 10%

Under the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), any investor whose shareholding reaches, exceeds or falls below specified voting rights thresholds as a result of purchase, sale or any other transactions or at the time of admission of the shares to trading on a regulated market is required to notify the Company and German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdientsleistungsaufsicht, BaFin).

The Company received the following notifications by shareholders of the Company with direct or indirect interest exceeding 10% in the reporting period:

Luckyway Global Group Ltd., Road Town, Tortola, British Virgin Islands, informed us on 1 July 2011 in accordance with Sec. 21 (1a) WpHG that its shares of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 55.05% (8,284,609 voting rights) and were held directly. After this disclosure, Luckyway Global Group Ltd. Received back the shares it had lent to the IPO Bank for delivery of the shares to IPO investors after creation of the new shares subscribed in the IPO. The IPO capital increase was registered on 19 July 2011. The increase from 55.05% at 1 July 2011 to now 63.2% (corresponding to 11,194,957 shares and voting rights) did not have to be published under applicable WpHG rules.

Mr. Nang Heung SZE, PRC, informed us on 1 July 2011 in accordance with Sec. 21 (1a) WpHG that his shares of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 55.05% (8,284,609 voting rights). Hereof, 55.05% (8,284,609 voting rights) were attributed to him through **Luckyway Global Group Ltd.**, Road Town, Tortola, British Virgin Islands, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG. After this disclosure, Luckyway Global Group Ltd. Received back the shares it had lent to the IPO Bank for delivery of the shares to IPO investors after creation of the new shares subscribed in the IPO. The IPO capital increase was registered on 19 July 2011. The increase from 55.05% at 1 July 2011 to now 63.2% (corresponding to 11,194,957 shares and voting rights) did not have to be published under applicable WpHG rules.

Sea Dragon Investments Ltd., Road Town, Tortola, British Virgin Islands, informed us on 2 July 2011 in accordance with Sec. 21 (1a) WpHG that its shares of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 10.42% (1,567,730 voting rights) and were held directly.

Mr. Yan Kong Wong, PRC, informed us on 2 July 2011 in accordance with Sec. 21 (1a) WpHG that his shares of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 10.42% (1,567,730 voting rights). Hereof, 10.42% (1,567,730 voting rights) were attributed to him through **Sea Dragon Investments Ltd.**, Road Town, Tortola, British Virgin Islands, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

Sea Dragon Investments Ltd., Road Town, Tortola, British Virgin Islands, informed us on 20 July 2011 in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company fell below the 10% threshold on 19 July 2011, and held 9.21% (1,629,638 voting rights) as of this date.

Mr. Yan Kong Wong, PRC, informed us on 20 July 2011 in accordance with Sec. 21 (1) WpHG that his shares of voting rights in the Company fell below the 10% threshold on 19 July 2011, and held 9.21% (1,629,638 voting rights) as of this date. Hereof, 9.21% (1,629,638 voting rights) were attributed to him through **Sea Dragon Investments Ltd.**, Road Town, Tortola, British Virgin Islands, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

biw Bank für Investments und Wertpapiere AG, Willich, Germany, informed us on 4 July 2011 in accordance with Sec. 21 (1a) WpHG that its share of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the

Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 20.87% (3,140,882 voting rights).

XCOM Finanz GmbH, Willich, Germany, informed us on 11 August 2011 in accordance with Sec. 21 (1a) WpHG that its share of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 20.87% (3,140,882 voting rights). Hereof, 20.87% (3,140,882 voting rights) were attributed to it through **biw Bank für Investments und Wertpapiere AG**, Willich, Germany, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

XCOM AG, Willich, Germany, informed us on 11 August 2011 in accordance with Sec. 21 (1a) WpHG that its share of voting rights in the Company at the time of admission of the shares of China Specialty Glass AG to trading on the regulated market of the Frankfurt Stock Exchange for the first time on 30 June 2011 amounted to 20.87% (3,140,882 voting rights). Hereof, 20.87% (3,140,882 voting rights) were attributed to it through **XCOM Finanz GmbH**, Willich, Germany, and **biw Bank für Investments und Wertpapiere AG**, Willich, Germany, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

biw Bank für Investments und Wertpapiere AG, Willich, Germany, informed us on 4 July 2011 in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company fell below the 20%, 15%, 10% threshold on 1 July 2011, and held 2.741% (412,512 voting rights) as of this date.

XCOM Finanz GmbH, Willich, Germany, informed us on 12 August 2011 in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company fell below the 20%, 15%, 10%, 5%, 3% threshold on 1 July 2011, and held 2.741% (412,512 voting rights) as of this date. Hereof 2.741% (412,512 voting rights) were attributed to it through **biw Bank für Investments und Wertpapiere AG**, Willich, Germany, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

XCOM AG, Willich, Germany, informed us on 12 August 2011 in accordance with Sec. 21 (1) WpHG that its shares of voting rights in the Company fell below the 20%, 15%, 10%, 5%, 3% threshold on 1 July 2011, and held 2.741% (412,512 voting rights) as of this date. Hereof 2.741% (412.512 voting rights) were attributed to it through **XCOM Finanz GmbH**, Willich, Germany, and **biw Bank für Investments und Wertpapiere AG**, Willich, Germany, in accordance with Sec. 22 (1) sentence 1 no. 1 WpHG.

Holders of Shares with Special Rights Conferring Control Powers

The Company has not issued shares with special rights conferring control powers.

Voting Right Control in the Event of Employee Ownership of Capital

No voting right controls apply.

Statutory Regulations and Provisions of the Articles of Association concerning the Appointment and Recall of Members of the Management Board and Amendments to the Articles of Association

The appointment and dismissal of the Management Board are governed by Sec. 84 AktG. Accordingly, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. In accordance with Sec. 6 of the Articles of Association, the Management Board of China Specialty Glass AG comprises at least one member. The number of members is determined by the Supervisory Board. If the Management Board consists of more than one person the Supervisory Board can appoint one member of the Management Board as Chairman and one member of the Management Board as Vice Chairman. The Supervisory Board can dismiss a member of the Management Board, the Chairman of the Management Board for good cause.

Amendments to the Articles of Association can be resolved by the Annual General Meeting by a simple majority of the capital represented (Sec. 179 para. 2 AktG in conjunction with Sec. 18 para. 4 of the Articles of Association) unless the provisions of statute impose larger majority requirements. In addition, the Supervisory Board is entitled to amend the Articles of Association, provided that such amendments affect only the wording (Section 10 para. 3 of the Articles of Association), and to amend the Articles of Association accordingly after a utilization of authorized capital or the lapse of the period for the utilization of authorized capital (Section 5 of the Articles of Association).

Management Board's Authorizations concerning the Possibility of Issuing or Buying Back Share

The Company has an authorized capital of EUR 4,875,000. According to Sec. 5 of the Company's Articles of Association, the Management Board is authorized to increase the share capital of the Company with the consent of the Supervisory Board until 18 July 2016 once or several times by up to this amount. On principle, shareholders are to be offered subscription rights; the statutory subscription rights may also be offered in such a way that the new shares are taken over by a bank or a syndicate of banks with the obligation to offer them to the company's shareholders for subscription. The Management Board is further authorized, in each case with the approval of the Supervisory Board, to resolve on the exclusion of the subscription right of the shareholders. An exclusion of the subscription right, however, shall only be admissible in the following cases:

(a) if the new shares are issued to acquire companies, shares in companies or parts of a company;

(b) for fractional amounts.

The Management Board decides, with the approval of the Supervisory Board, on the content of the rights to shares and the conditions of issuance of the shares.

Significant Agreements that apply in the Event of a Change of Control resulting from Takeover Bid

China Specialty Glass AG is not a party to significant agreements which apply in the event of a change of control resulting from a takeover bid.

Indemnity Agreements with the Management and Employees that apply in the Event of a Change of Control Resulting from a Takeover Bid

There are no indemnity agreements with the management or employees in place which apply in the event of a change of control resulting from a takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE FINANCIAL REPORTING PROCESS PURSUANT TO SEC. 315 PARA. 2 (5) GERMAN COMMERCIAL CODE (HGB)

The objective of the internal control and risk management system of the accounting process is to ensure the correctness and effectiveness of the accounting and financial reporting of China Specialty Glass AG Group (“the CSG Group”). It will continue to be further developed for integration of the accounting and financial reporting process in other legal entities and central functions.

The main features of the internal control and risk management system relating to the financial reporting process of the CSG Group are described as follows:

(1) Appropriate distinct division of responsibilities was carried out in the accounting reporting process. An independent accounting department is established to integrate the functions of finance and financial reporting. The Group also seek for external sources of professional service such as tax consultation and statutory audit.

(2) Financial information received or transferred is continuously checked for completeness and correctness, i.e. by way of random sample.

(3) CSG AG and CSG Group respectively have a distinct management and company structure. Queries concerning several areas are decided on and managed by the Board of Directors.

(4) Provisions are made to the computer system of CSG Group to ensure that the financial system used are tamper-proof. At present, standard software is used. The Group aim to equip the departments involved in the financial reporting system appropriately in qualitatively as well as quantitatively aspects.

Explanation of the main attributes the internal control and risk management system in relation to financial reporting system is described as follows:

1. To ensure corporate measures and transactions are correctly and timely validated, processed and recorded for the financial reporting in accordance with legal provisions, the Articles of Association and other internal guidelines.

2. To guaranty a correct, unified and continued financial reporting system by input of adequate and various resources.

3. To ensure a correct and responsible accounting by distinct segregation of responsibilities, monitoring and reviewing processes.

4. To ensure that the assets and the liabilities are determined, declared and valued appropriately in financial statements and consolidated financial statements of the Group.

RISK AND OPPORTUNITY REPORT

Good Corporate Governance includes dealing responsibly with risks. The Management Board keeps the Supervisory Board regularly informed about existing risks and their development. The Management Board provides the Supervisory Board with regular reports and updates on business policy and all issues of relevance for the Company relating to the planning, business development, the risk situation and the risk management system currently being implemented. The Management Board assessed that the following risk and opportunities are essential:

Competition and sale expansion risks and opportunities

The markets and competition for security glass and construction glass in which the Group operates and distributes its products are both growing. Increasing competition could lead to negative effects for the Group. The Group's expansion plan to expand its sales network both domestically and internationally may fail and the Group may experience difficulties in seeking new markets and may even lost its market share in the existing market. However we consider that the Group is well placed in the PRC markets for its famous "Hing Wah" brand products and has significant experience of operating in this business, such that we feel well placed to meet future challenges posed by competition in both existing and new markets and the challenges concerning our growth plans.

Development of production capacity risk

The Group intends to expand its production capacity. For this purpose, the Group started to set up a production base in Sichuan, China since 2011. Also the Group is seeking opportunities to acquire smaller competitors to gain access to experienced personnel and increase production capacity. The construction of new production site or planned acquisitions may prove more difficult than expected, face regulatory constraints and the Group's business projections may prove to be inaccurate. Moreover, the additional production capacity may prove to be unnecessary if demand for security glass declines below expectations. We will continue to analysis the security glass market and monitor the demand gap consistently, and adjust our production capacity to fill the demand gap.

Raw material and wage price inflation risk

Fluctuations in the costs of raw materials and labor continue to influence the profitability of all business activities of the Group. The ability of the Group to maintain its performance when faced with such risks depends greatly on its ability to transfer the additional costs onto its customers. The Group has reduced the risk of fluctuations in the costs of raw materials by signing long-term supply agreements.

Investment in innovative product risk

The Group intends to further invest in research and design to strengthen ability of developing innovative products and production process. There can be no assurance that the new product meets customers' expectation. Even if the new product meets customers' expectation, the new product may have a higher production cost and customers may not be willing to pay addition for this new product. We will continue to identify and address market opportunities, which have not been covered by our existing products, through product innovations and quality improvements in order to meet our customers' needs and stay ahead of competition.

DEPENDENCY REPORT

The Management Board of China Specialty Glass AG has prepared a report on the relations of the Company to affiliated enterprises pursuant to Sec. 312 Para. 1 Sentence 1 of the Stock Corporation Act. The Management Board of CSG AG declares as follows:

"For the transactions listed in the report on relationships with affiliated companies, based on the circumstances that we were aware of at the time such transactions took place, our company received appropriate consideration for each transaction. No measures subject to reporting requirements were taken during the fiscal year, which were detrimental to the company."

COMPLIANCE WITH CORPORATE GOVERNANCE

The declaration on Corporate Governance according to Sec. 289a of the German Commercial Code is openly available for inspection on the Company's website at www.csg-ag.de.

DEVELOPMENTS AFTER THE END OF THE REPORTING PERIOD

There are no significant non-adjusting events or any significant adjusting events to report between the reporting date and the date of the preparation of these consolidated financial statements.

OUTLOOK

The following statements on the future development and performance of the Group and the key underlying assumptions concerning market and industry developments are based on assessments which the Group considers realistic on the basis of the information currently available. They nevertheless involve a degree of uncertainty and an unavoidable risk that forecast developments may not actually occur, either in the general pattern or to the extent anticipated.

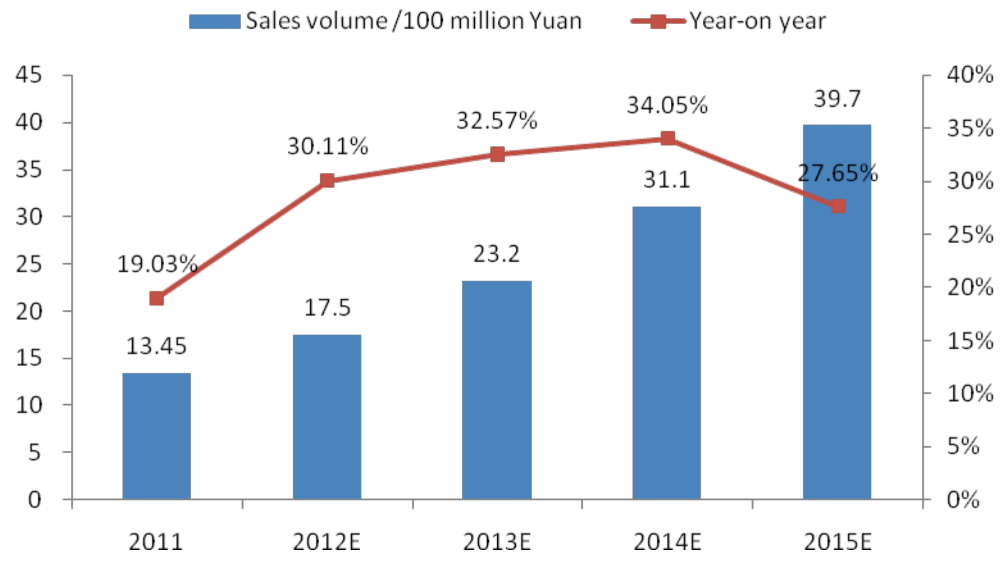
2011 Business Achievement

With the strengthening of the security consciousness, security glass industry has become a sunrise industry in China. In 2011, the sales of security glass reached RMB 1.345 billion by a year-on-year growth of 19.03%. Among them, the market scale of security glass for banking industry was RMB 477.95 million, by a year-on-year growth of 17.95%; the market scale of security glass for automobile was RMB 595.9 million, up by 18%; and the market scale for building was RMB 270.9 million, by a year-on-year increase of 21.40%.

The Chinese economy is likely to experience slower growth in 2012 than in 2011. However, China will continue to face risks from high level of debt-financed investment that took place over the past years.

Future Business Environment

According to the downstream demand of bulletproof glass, it is expected that the sales volume of bulletproof glass will keep increasing in the next five years and the sales volume of the entire industry will reach around RMB 4 billion in 2015.



The increase of demand for security glass in China is driven by rapid expansion and upgrade of service network of financial institutions that demand banking security glass and growth in demand for Chinese automotive security glass.

Future Development of the Group

The Chinese market for security glass has grown significantly over the last few years, and the Group expects this growth to continue in the foreseeable future. As the leader of the security glass industry in China, the Group has a market share of more than 50%. In order to benefit from the market growth and keeps its place as market leader, the Group intends to expand its sales network and production base, invest in research, development and design of its products and participate in the industry consolidation.

Sales Network Expansion

As a fundamental part of the Group's business model, the Group intends to increase its product sales through sales network expansion both domestically and internationally. The Group will continue to expand its sales network in western, central and northeastern parts of the country. Moreover, in selected Asian countries, the Group intends to initially focus on the automotive security glass market and expand to other product segments later on.

Expand Production Base

The Group will continue its efforts in expanding its production capacity in the new production site in Sichuan, operated by its wholly-owned subsidiary, Sichuan Hing Wah Glass Industry Co. Ltd., and production expansion in its current operating facility in Guangzhou, China. The Group began construction of the second production site in Sichuan in the second half of 2011; the first phase has already been finished and has begun production in March 2012. Due to this new production site, the Group's capacity to produce lamination glass has increased by 34% from 1.04 million to 1.39 million; and the capacity to produce thermal tempering glass has increased by 89% from 1.23 million to 2.33 million.

Investment into Research and Design

The Group will continue to setup a separate R&D centre in Guangzhou with additional R&D staff to strengthen the Group's ability of developing innovative products and production processes. The Group will also strengthen its ability to collaborate with established industrial experts and academic institutions to keep and extend its marketing edge.

Participate in industry consolidation

The Group will use all its opportunities to find and acquire smaller competitors to expand the Group's production capacities and to gain access to experienced personnel and local markets in other parts of China.

Given the growth opportunities for the Group in 2012 and beyond, we expect to achieve a revenue of approximately EUR 100 million (assuming an average exchange rate of RMB against EUR of 8.2253) and a net profit margin of approximately 30% for 2012.

Outlook of China Specialty Glass AG

As CSG AG is a holding company for CSG Group with major business in the PRC the future perspective of CSG AG highly depends on the world economy and expectations and perspectives of the operational entities in the PRC as discussed above. Without considering potential dividend payments from its subsidiaries, CSG AG expects to sustain a small net profit including a positive operating cash flow in 2012 and beyond.

General Statement of future business development

With our increased capacity, our innovative products and our “Hing Wah” brand being further strengthened; the Group is well prepared for the coming changes in the Chinese security glass industry. Therefore, we strongly believe that the Group will be able to further strengthen its market position in the Chinese security market and further increase sales and profit.

Gruenwald, 26 April 2012
China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO) Chun Li Shi (COO) Chi-Hsiang Michael Lee (CFO)

Consolidated Financial Statements

CONTENTS

Consolidated Statement of Comprehensive Income

	Notes	**Period from 01 January 2011 to 31 December 2011**	Period from 22 November 2010 to 31 December 2010
		kEUR	kEUR
Revenue	4	**76,884**	9,066
Cost of sales	5	**-41,823**	-4,900
Gross profit		**35,061**	4,166
Selling and distribution expenses		**-3,166**	-398
Administrative expenses		**-5,592**	-214
Other income		**2,053**	0
Finance income	6	**270**	34
Finance costs	6	**-431**	-9
Other non-operating expenses		**-1,957**	0
Research and development costs		**-1,908**	-173
Profit before taxation	7	**24,330**	3,406
Taxation	8	**-3,486**	-643
Net profit		**20,844**	2,763
Other Comprehensive Income:			
Currency translation reserve movement		**6,028**	1,365
Total Comprehensive Income		**26,872**	4,128
Profit attributable to owners of the parent		**20,844**	2,763
Total comprehensive income attributable to owners to the parent		**26,872**	4,128
Weighted average number of ordinary shares outstanding		**16,236,676**[1)]	15,0500,00
Earnings per share (diluted and undiluted)		**1.28**	0.18

1) Calculated as registration of the IPO capital increase in the trade register on 19 July 2011.

The comparability is affected by movements in the relative value of the functional currency (RMB) of the Chinese operating subsidiary compared to the presentational currency (EUR). Due to the fact that the Group only came into existence on 22 November 2010, the figures of the short fiscal year 2010 are not representatively comparable with the fiscal year 2011.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2011 kEUR	31 December 2010 kEUR
Assets			
Non-current assets			
Property, plant and equipment	9	**28,873**	3,764
Intangible assets	9	**10**	13
Prepayment for land use rights	10	**801**	751
Other assets	11	**5,471**	3,173
Deferred tax assets	14	**1,078**	0
		36,233	7,701
Current assets			
Inventories	12	**2,434**	1,591
Related party receivables	13	**5**	5
Trade and other receivables	13	**28,050**	12,727
Tax receivable	8	**472**	438
Cash and bank balances	16	**56,572**	37,912
		87,533	52,673
Total assets		**123,766**	60,374
Equity and Liabilities			
Capital and Reserves			
Share capital	17	**17,700**	15,050
Capital reserve	17	**19,739**	-
Statutory reserve	17	**724**	724
Foreign currency translation reserve	17	**9,549**	3,521
Retained earnings	17	**51,360**	30,516
		99,072	49,811
Current liabilities			
Corporate income tax payable	8	**846**	1,311
Trade and other payables	18	**8,043**	4,996
Interest-bearing bank borrowings	19	**15,805**	1,813
Related party payables	15	**-**	2,443
		24,694	10,563
Total equity and liabilities		**123,766**	60,374

The comparability is affected by movements in the relative value of the functional currency (RMB) of the Chinese operating subsidiary compared to the presentational currency (EUR).

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Consolidated Statement of Changes in Equity

	Share capital kEUR	Capital reserve kEUR	Statutory reserve kEUR	Translation reserve kEUR	Retained earnings kEUR	Total Equity kEUR
Balance at 22 November 2010	15,050	-	724	2,156	27,753	**45,683**
Total comprehensive income	-	-	-	1,365	2,763	**4,128**
Balance at 31 December 2010	**15,050**	**-**	**724**	**3,521**	**30,516**	**49,811**
Shares issued	2,650	19,739		-	-	**22,389**
Total comprehensive income	-	-	-	6,028	20,844	**26,872**
Balance at 31 December 2011	**17,700**	**19,739**	**724**	**9,549**	**51,360**	**99,072**

A detailed analysis of the changes in equity is shown in Note 17.

The comparability is affected by movements in the relative value of the functional currency (RMB) of the Chinese operating subsidiary compared to the presentational currency (EUR).

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

Consolidated Statement of Cash Flows

	Note	Period from 1 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Cash flows from operating activities			
Profit before taxation		**24,330**	3,406
Adjustments for:			
Depreciation and amortization	9	**210**	18
Finance income	6	**(270)**	(34)
Finance costs	6	**431**	9
(Increase)/Decrease in prepayment for leasehold land		**(50)**	2
Operating profit before working capital changes		**24,651**	3,401
(Increase)/Decrease in inventories		**(666)**	950
(Increase)/Decrease in trade and other receivables		**(13,906)**	432
Decrease/(Increase) in trade and other payables		**2,405**	(749)
Cash from operations		**12,484**	4,034
Finance income		**270**	34
Income tax paid		**(3,951)**	(136)
Net cash from operating activities		**8,803**	3,932
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	**(11,809)**	(3)
Construction in progress	9	**(13,574)**	(939)
Deposit for land used right		**0**	(2,843)
Net cash from investing activities		**(25,383)**	(3,785)
Cash flows from financing activities			
Amount due to related parties		**0**	9
Bank loans obtained, net		**13,992**	0
IPO proceeds		**22,389**	0
Finance costs		**(431)**	(9)
Advance to related parties		**(2,443)**	0
Net cash used in financing activities		**33,507**	-
Net increase in cash and bank balances		**16,927**	147
Cash and bank balances at beginning of the period		**37,912**	36,666
Effects of currency translation		**1,733**	1,099
Cash and bank balances at end of the period		**56,572**	37,912

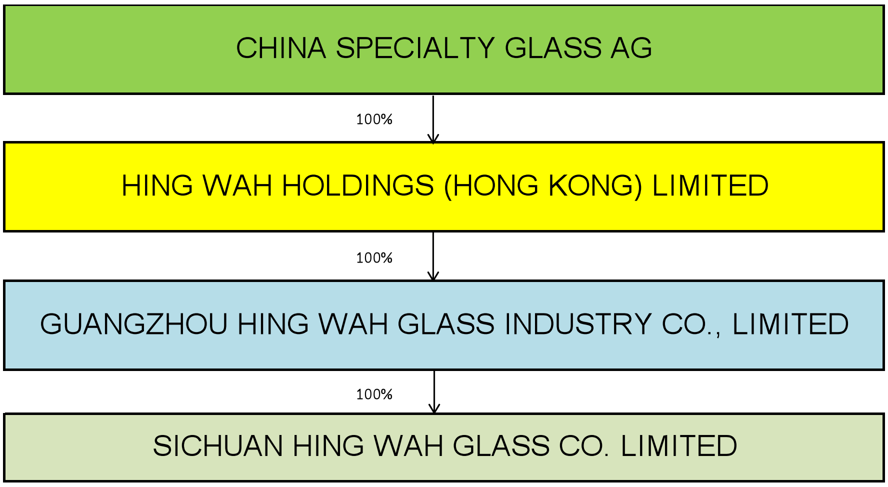
The comparability is affected by movements in the relative value of the functional currency (RMB) of the Chinese operating subsidiary compared to the presentational currency (EUR). Due to the fact that the Group only came into existence on 22 November 2010, the figures of the short fiscal year 2010 are not representatively comparable with the fiscal year 2011.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE GROUP

Group Structure



China Specialty Glass AG ("CSG AG") is the Group's legal parent company. This company is a publicly traded German limited liability stock corporation which is domiciled in Germany. The address of CSG AG's registered office is An den Römerhügeln 1, 82031 Grünwald, Germany. CSG AG's shares are traded in the Prime Standard, a special segment of the regulated market of the Frankfurt Stock Exchange. The first day of trading of CSG's shares occurred on 1 July 2011.

The CSG Group comprises CSG AG, Hing Wah Holdings (Hong Kong) Limited ("HWG HK-Holding"), its 100% subsidiaries Guangzhou Hing Wah Glass Industry Co., Limited ("HWG-Ltd.") and Sichuan Hing Wah Glass Co., Ltd. ("HWG-SC") (hereafter referred to as "Group").

The CSG Group develops, produces and sells specialty glass under its "Hing Wah" brand. The Group distributes its products to customers in the domestic market in China directly through its own sales network.

The Group is one of the leading security glass manufacturers in China producing security glass, a class of specialty glass used primarily for personal protection against physical violence and forced intrusion, for the Chinese banking security and automotive security industry. It also provides various specialty glass products for the construction glass market.

The Group provides technical consultation and installation guidance to its customers in connection with the sales. CSG Group's current production facility is located in Guangzhou, Guangdong Province in Southern China, and operated by the Group's wholly-owned operative subsidiary HWG-Ltd. The Group's new production facility in Sichuan Province, which is to be operated by HWG-SC will commence production soon.

The Group is active in the following three business segments:

- Automotive Security Glass
- Bank Security Glass and
- Construction Glass

Whereas the security glass segment products might have properties like intruder resistant or bullet proof the construction glass can be categorized into architecture laminated glass, architecture tempered glass and fire-resistant glass.

The Group's principal place of business is located at No.6, Hougang Xijie, Guanghai Road, Guangzhou the People's Republic of China (the "PRC"). The Group sells its products to customers in the PRC.

The Group was formed with legal effect as of 22 November 2010 when the transfer of the entire share capital in HWG HK-Holding into CSG AG, Gruenwald, Munich, Germany, took legal effect. The first consolidated financial statements of the Group are for the short financial year from 22 November to 31 December 2010, prepared in accordance with IFRS, as endorsed for application in the EU. Comparative figures are therefore presented for the consolidated financial statements for the short financial year ended 31 December 2010.

As at the date of this report, there is only one class of shares in CSG AG, being ordinary shares. The rights and privileges of the shares are stated in the Articles of Association. There is no founder, management or deferred or unissued shares reserved for issuance for any purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance and basis of preparation

These consolidated financial statements of the Group are prepared for the period from 01 January to 31 December 2011 with comparatives.

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in so far as these have been adopted by the European Union ("EU") in effect at 31 December 2011 and in accordance with Sec. 315a Para. 3 of the German Commercial Code.

The consolidated financial statements of the Group have been rounded to the nearest thousand Euro. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The consolidated financial statements of the Group for the period from 01 January to 31 December 2011 were approved and authorized for issue by the Management Board of CSG AG at the end of April 2012. They were approved by the Supervisory Board in its meeting of at the end of April 2012.

2.2 Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the financial year 2011

The Group has applied the following standards and interpretations of the IASB as well as their changes or revisions for the first time in the financial year 2011:

- Amendments to IFRS 7 – Financial Instruments – Transfer of Financial Assets
- Improvements to IFRS (issued by IASB in May 2010)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
- Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions
- Improvements to IFRS (issued by IASB in April 2009)

No material effect arose on the consolidated financial statement of financial position, consolidated financial statement of cash flows or consolidated statement of comprehensive income of the Group as a result of the first-time application of the above mentioned standards, interpretations or changes to them, as well as changes from the Annual Improvements Project 2009.

2.3 Published but not yet applied Standards, Interpretations and Amendments

At the time of preparation of these consolidated financial statements, the following standards and interpretations of the IASB as well as their changes and revisions have either not been endorsed by the EU or were not compulsorily applicable in the financial year ended 31 December 2011 and were therefore not applied by the Group:

- IFRS 9 - Financial Instruments and subsequent amendments (amendments to IFRS 9 and IFRS 7)

  Under IFRS 9, all recognised financial assets that are within the scope of the IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically under IFRS 9, for all financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss. The standard is effective for annual periods beginning on or after 1 January 2015.

- IFRS 10 - Consolidated Financial Statements

This builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 - Disclosures of Interests in other Entities

  This includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13 – Fair Value Measurement

  Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 – Joint Arrangements
- IAS 27 – Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures
- IAS 12 (Amendments) – Deferred Tax: Recovery of Underlying Assets
- IFRS 1 (Amendments) - Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters
- IAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income
- IAS 19 (Amendments) – Employee benefits
- IFRS 7 (Amendments) – Disclosures – Offsetting Financial Assets and Financial Liabilities

The Management Board of CSG AG is currently assessing the impact of the new and amended IFRSs upon initial application. So far, the Management Board assumes that all the new and amended standards and interpretations mentioned above will likely not have a material effect on the consolidated financial statements when they are applied by the Group.

2.4 Overall Considerations

The consolidated financial statements have been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with IFRS as endorsed for application in the EU.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial years.

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The financial statements have been prepared using the measurement bases and accounting policies specified by IFRS for each type of asset, liability, income and expense. These are more fully described below.

2.5 Presentation of Financial Statements

The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The statement of comprehensive income has been prepared using the cost of sales method. The Group has elected to adopt IAS 1 (Revised 2007) by presenting the "Statement of Comprehensive Income" in one statement.

2.6 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are discussed below:

2.7 Key sources of estimation uncertainty

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be within 3 to 30 years and reviews the useful lives of depreciable and amortizable assets at each reporting date. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Income tax

The Group has exposure to income taxes primarily in the PRC. Significant judgement is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. Changes in these estimates could result in revisions to the valuation of inventories. The Group’s core business is subject to raw material price changes and changes in customer behaviour which may cause selling prices to change rapidly. The carrying value of inventories at 31 December 2011 is kEUR 2,434 (kEUR 1,591 at 31 December 2010).

Provisions

The respective legislation of the Group’s primary operating environment in the PRC requires the Group to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by the Group and hence has not provided for this.

2.8 Critical judgment made in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the Group’s accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amount of revenue and expenses during the reporting period. The management is of the opinion that there are no instances of application of judgments which are expected to have a significant effect on the amounts recognised in the financial statements.

Allocation of cost attributable to other assets (land use rights) and to property plant and equipment

In 2007, the Group made an advance payment for land use rights and building, which it intended to purchase. The advance payment of EUR 1,801,000 was not attributed separately to land use rights and to the building at the time of making the advance payment. Management obtained a valuation report which stated the market value of the land use rights and the market value of the building. The total market value was above the total of the advanced payment made. Management then allocated the advanced payment pro rata the market valuation to the land use rights and the building. In 2009, the Group decided no longer to purchase the land use rights and building but to lease them and a lease agreement was made for a period of 30 years commencing on 1 July 2009. This agreement was subsequently replaced by one dated April 2010, also with a 30 year term. The lease agreement can be extended by negotiation by 60 days before the lease term expires. According to PRC law, the period in excess is invalid. Therefore, the term of the legal lease expires on 31 March 2040 as the lease is invalid after 1 April 2040. However the Group assumes it will be able to extend the lease as described above and an extension is legal under the laws of the PRC.

Impairment of trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The Group’s management assesses and judges the collectability of trade receivables. This estimate is based on the credit history of the Group’s customers and the current market condition. Management assesses the impairment loss at the date of the statement of financial position and makes the provision, if any.

2.9 Detailed accounting policies

Lease prepayment for land-use rights

The lease prepayment for land-use rights relates exclusively to land use rights, which the Group is leasing under a lease, which it has determined to be an operating lease and for which it has paid the lease payments due over the entire initial lease term in advance. The prepayment is being expensed to income over the term of the lease.

Other assets

Other assets comprise an advance payment for land use rights and design rights in connection with the construction work for the Group's facility in Sichuan.

Other assets are recognized at cost less accumulated impairment losses and are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally recognized in profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Advance payments for property, plant and equipment acquired are recognised as an asset when payment for the property, plant and equipment has been made in advance of the final delivery of the property, plant and equipment.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Leasehold building	30 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years

The estimated residual values, estimated useful lives and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each statement of financial position date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognized in profit or loss is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets relate primarily to software licences and are stated at cost less accumulated amortization. The cost of intangible assets comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for intended use. Software is amortized on a straight line basis over 3 years.

Impairment of non-financial assets

Other assets and property, plant and equipment, prepayment for leasehold land and intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit (“CGU”) to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revaluated amount, in which case, such impairment loss is treated as a revaluation decrease.

Financial assets

The financial assets of the Group are categorised as loans and receivables. The Group does not have any other financial assets. The Group’s loans and receivables comprise trade receivables, related party receivables and cash and cash equivalents in the statement of financial position.

Regular purchases and sales of financial assets are accounted for at trade date.

The Group's loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally via the provision of goods and services to distributors (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue if any, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of receivables, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. For trade receivables and related party receivables, which are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expense in the statement of comprehensive income. On confirmation that the trade receivables or related party receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision. Gains on loans and receivables are primarily from interest and are determined on the effective interest method. Losses are primarily from impairment and are determined by management analysis of the ageing of loans and receivables based on experience of default risk and history.

Loans and receivables are presented as current assets, as all mature within 12 months after the end of the reporting period. Loans and receivables are measured on initial recognition at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Allowances for impairment are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour and other overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. In valuing inventory, it is assumed that inventory is utilised on a first in first out basis.

Equity reserves and dividend payments

Share capital represents the nominal value of shares that have been issued by CSG AG.

Capital reserves include any premiums received on the issue of share capital. Any transactions costs associated with the issuing of shares have been deducted from capital reserves, net of any related income tax benefits.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Foreign currency translation differences arising on the translation are included in the translation reserve.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

In accordance with the relevant laws and regulations of PRC, the subsidiaries of the Group established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years’ losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary’s share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiaries subject to the approval of the relevant authorities. However, except for offsetting prior years’ losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value, plus in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value. All interest related charges are recognised as an expense in profit or loss.

Financial liabilities are derecognised when the obligation for the liabilities is discharged or cancelled or expired. For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, and through the amortisation process.

The Group’s financial liabilities include trade and other payables, interest bearing bank borrowings and related party payables.

Trade and other payables

Trade and other payables, interest bearing bank borrowings and related party payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. 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. Provisions are discounted to their present values, where the time value of money is material.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Management considers that environmental damage has not been caused by the Group and hence has not provided for environmental protection.

Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable and presented net of goods and services taxes and trade discounts.

The Group sells bullet proof and toughened security glass to various customers in the automotive, banking and construction sectors. Revenue from the sale of manufactured products are recognised when the Group has transferred to customers the significant risks and rewards of ownership of the goods, which generally coincides with the delivery to and acceptance of goods by the customers; and when the Group can reliably measure the amount of revenue and the cost incurred and to be incurred in respect of the transaction; and it is probable that the collectability of the related receivables is reasonably assured. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Finance income

Finance income is recognised using the effective interest method.

Employee benefits - Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government and HKSAR government, the Group participates in local municipal government retirement benefits schemes (the "Scheme"), whereby the subsidiaries located in the PRC and HKSAR are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries located in the PRC and the HKSAR. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are recognized in profit or loss as incurred.

There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the national pension schemes. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered as key management personnel of the Group.

Income tax

Tax expense recognised in profit or loss comprises the sum of current and deferred tax charges.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the country in which the Group is operating.

Foreign currencies

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The Group conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB). The presentation currency of the Group is Euro (EUR), being the presentation currency of its ultimate German domiciled legal parent and holding Group, and therefore the financial information has been translated from RMB to EUR and HKD to EUR before consolidation in EUR at the following rates:

	Year end rates	Average rates
31 December 2010	EUR 1.00 = RMB8.8231	EUR 1.00 = RMB 8.9789
31 December 2011	EUR 1.00 = RMB8.2253	EUR 1.00 = RMB 8.9877
31 December 2010	EUR 1.00 = HKD10.3247	EUR 1.00 = HKD10.2342
31 December 2011	EUR 1.00 = HKD10.0579	EUR 1.00 = HKD10.8309

The results and financial positions of the Group entities in their respective functional currencies are translated into the presentation currency as follows:

(1) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(2) Income and expenses for each statement of comprehensive income 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

(3) All resulting exchange differences are recognised in the foreign currency translation reserve, a separate component of equity.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. 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 profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

The Group has the following types of related parties:

(i) entities or individuals which directly, or indirectly through one or more intermediaries, (1) control, or are under common control with, the Group; (2) have an interest in the Group that gives them significant influence over the Group;

(ii) the key management personnel of the Group or its ultimate parent;

(iii) close members of the family of any individual referred to in (i) or (ii);

Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are recognised in profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Leases where substantially all the risks and rewards of ownership are transferred to the lessee are accounted for as finance leases.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Group which makes strategic decisions.

The management of the Group bases its decisions on the internal reporting on sales to car manufacturers, banks and financial institutions and construction companies, which are the Group's three business segments.

Segment information is presented in respect of the Group's business segments.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements for the period from 1 January to 31 December 2011.

Development activities

Expenditure on research (or the research phase of an internal project) is recognized as an expense in the period in which it is incurred.

Costs that are directly attributable to the development phase of new products are also expensed, as they do not meet the criteria of IAS 38 for recognition as an intangible asset.

3. FORMATION OF THE GROUP AND BASIS OF CONSOLDIATION

The Group was formed on 22 November 2010 when the transfer of the entire share capital in HWG HK-Holding into CSG AG, Gruenwald, Munich, Germany took legal effect.

The ultimate holding company, China Specialty Glass AG, is listed on the Prime Standard segment of the German Stock Exchange since 1 July 2011. In the course of the listing CSG AG's share capital was increased by 2.650.000 to 17.700.000 shares, which became effective with registration in the German commercial register on 19 July 2011. The capital increase resulted in a corresponding reduction of CSG AG's authorized capital from 7.525.000 shares to 4.875.000 shares. The proceeds received in excess of the nominal value of the shares issued were credited to capital reserves after related issuance costs were deducted (net of the tax saving thereon).

At the time of this transaction, CSG AG was essentially a shell company, without its own business. The purpose of the transaction was to enable the operating group of HWG HK-Holding to obtain a listing on the Prime Standard segment of the German Stock Exchange. Hence this transaction has been accounted for similarly to a reverse acquisition, without the recognition of goodwill.

HWG HK-Holding is itself the sole shareholder of HWG-Ltd. which in turn is the sole shareholder of HWG-SC.

HWG HK-Holding was incorporated by GNL07 Limited under the laws of Hong Kong on 26 July 2007. On 3 October 2007, Mr. SZE Nang Heung acquired one subscriber share from GNL07 Limited for a consideration of HKD 1. On the same date, a total of 9,999 shares of HKD 1 each were issued and allotted, credited as fully paid to Mr. SZE Nang Heung and as a result, HWG HK-Holding was owned 100% by Mr. SZE Nang Heung.

Prior to the establishment of HWG HK-Holding, several share purchase agreements were concluded as follows. On 8 November 2006, an agreement was entered into among Mr. SZE Nang Heung, Guangzhou Hing Wah Glass Industry Co. Ltd ("HWG-Ltd") and Mr. CHI Mang Cheung. On the same date, another agreement was entered into among Mr. SZE Nang Heung, HWG-Ltd. and Mr. YAN Kong Wong. On 20 September 2006, an agreement was entered into among Mr. SZE Nang Heung, HWG-Ltd. and Mr. CHING Hoi Sze and on 22 September 2006, an agreement was entered into among Mr. SZE Nang Heung, HWG-Ltd. and Mr. HUNG Hui Ke (together the "**Sale and Purchase Agreements**"). Except for the

3. FORMATION OF THE GROUP AND BASIS OF CONSOLDIATION (continued)

contracting parties, the terms of the Sale and Purchase Agreements are substantially the same. Under the terms of the Sale and Purchase Agreements, HWG-Ltd. underwent a reorganisation to streamline the group structure in preparation for an overseas listing. HWG HK-Holding was established to hold 100% equity interest in HWG-Ltd. and an ultimate holding company was to be established outside of China as a listing vehicle for HWG-Ltd. After establishment of HWG HK-Holding, Mr. SZE Nang Heung agreed to transfer 25.7% of his shares to four minority investors. Mr. SZE Nang Heung remained controlling shareholder with 74.3% of shares.

On 30 April 2010, the authorised share capital of HWG HK-Holding, was increased from HKD 10,000 to HKD 1,000,000 by the creation of 990,000 new shares of HKD 1 each. On the same date, 3,459 new shares were allotted to the aforementioned four minority investors and the paid up capital was increased from HKD 10,000 to HKD 13,459. Mr. SZE Nang Heung remained controlling shareholder with 74.3% of shares following this capital increase.

HWG HK-Holding holds all shares of HWG-Ltd, which so far is the only operationally trading company of the Group.

HWG-Ltd. was incorporated on 24 October 1994 as a sino-foreign joint venture company under the laws of the People’s Republic of China by Guangzhou Property Management Center (70%) and Hong Kong Chung Hwa Enterprises Development Co. (“HK Chung Hwa”) (30%). As of the time of its establishment, HWG-Ltd. had a registered capital of HKD 4,000,000.00 and the business name Guangzhou HingWah Auto Glass Industry Co., Ltd. with the business address at Nantougang, Chatou, Baiyun District, Guangzhou City, PRC.

On 15 January 2008, HWG-Ltd. became a wholly foreign owned enterprise by the share transfers from its initial shareholders Guangzhou Property Management Center which held 70% of the shares and HK Chung Hwa which held 30% of the shares to HWG HK-Holding. The restructuring in the ownership of HWG-Ltd. was executed by Mr. SZE Nang Heung together with his son Mr. SHI Chun Li who directly or indirectly controlled Guangzhou Property Management Center and HK Chung Hwa as well as the HWG HK-Holding. At the time of the share transfer from Guangzhou Property Management Center and HK Chung Hwa to the HWG HK-Holding, Mr. SZE Nang Heung held all shares in the HWG HK-Holding and Mr. SHI Chun Li who is the son of Mr. SZE Nang Heung held 100% of the shares in

3. FORMATION OF THE GROUP AND BASIS OF CONSOLDIATION (continued)

Guangzhou Property Management Center and Mr. Zhefen Li held 100% of the shares in HK Chung Hwa as trustee for Mr. SZE Nang Heung.

In 2010, HWG-Ltd's share capital was increased from HKD 4,000,000.00 by HKD 10,000,000.00 to HKD 14,000,000.00 through the issuance of new shares to its sole shareholder HWG HK-Holding against cash contributions. This capital increase became legally effective with approval from the Guangzhou Liwan BOFTEC on 3 March 2010 and registration with the Guangzhou AIC on 8 September 2010.

On May 25, 2010, HWG-Ltd. incorporated a wholly owned subsidiary, HWG-SC in Chengdu City, Sichuan Province, China. HWG-SC has not been operationally trading at the date of these consolidated financial statements, although it has made significant investments and assumed liabilities in respect of these investments and entered into commitments in respect of planned investments in connection with the Group's planned facility in Sichuan. The business scope of HWG-SC is the production and processing of all kinds of glass product and sales of its products.

With the exception of the reverse acquisition, the transactions described above did not represent business combinations as defined in IFRS 3 'Business Combinations', but are deemed to be transactions under common control, as there was one ultimate controlling party involved. There is no guidance elsewhere in IFRS which covers the accounting for such transactions under common control. In the absence of an international standard or interpretation that specifically applies to such a transaction, paragraphs 10 to 12 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' set out the approach to be followed. This requires, inter alia, that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards.

The Group financial statements consolidate those of the parent company and all of its subsidiary's undertakings drawn up to 31 December 2011. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. All subsidiaries have an annual reporting date of 31 December.

Intercompany receivables and liabilities as well as intercompany revenue, income and expenses are eliminated. Unrealised gains or losses on transactions between members of the Group are eliminated. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

4. REVENUE

An analysis of the Group's revenue, which is generated on sales of bullet proof and toughened security glass within the PRC, is as follows:

	01 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Revenue		
Sales of goods	**76,884**	9,066

Further details are given in the segment analysis in Note 24.

5. COST OF SALES

Cost of sales comprises purchasing materials, labour costs for personnel employed in production, depreciation and amortization of non-current assets used for production purposes, trading goods and others (mainly tools, packaging materials and maintenance costs). The following table shows a breakdown of costs of sales for the year under review for each category:

	01 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Materials	**36,560**	3,795
Labour	**1,662**	180
Depreciation of property, plant and equipment	**198**	18
Operating lease expense	**65**	8
Electricity and water	**1,973**	204
Others	**1,365**	695
	41,823	4,900

Selling and distribution expenses

Selling and distribution expenses involved an amortization of about kEUR634 in relation to an exclusive distributorship right agreement entered by the Group with Saint Gobain in May 2011 and incurred upon the exclusive distributorship right but such amortization was reversed by end of 2011 due to the termination of such exclusive distributorship right agreement by end of 2012.

Administrative expenses

Administrative expenses comprise IPO costs which amounted to kEUR 1,304 in 2011.

Total IPO cost	3.289 kEUR
Set off against equity	1.390 kEUR
Deferred tax effect	595 kEUR
Net expenses	1.304 kEUR

6. FINANCE INCOME AND FINANCE COSTS

	01 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Finance income		
Finance income on bank balance	**270**	34
Finance costs		
Finance expense on bank borrowings	**431**	9

7. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging:

	01 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Depreciation of property, plant and equipment		
- included in cost of sales	198	18
- included in administrative expenses	9	-*
Cost of inventories sold recognised as expenses	36,560	3,795
Operating lease expense	65	-*
Research costs expensed	1,908	173

* Amount less than EUR 1,000.

Costs relating to employees are disclosed in detail in note 25.

8. TAXATION

	Period from 1 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Current income tax on profit arising from Operations	**3.486**	529
Non-refundable withholding tax	**-**	114
	3.486	643

According to PRC laws, any dividends declared out of profits earned from 1 January 2008 onwards to foreign investors attract withholding tax. The amount of withholding tax payable is dependent on the country of residence of the investor. In the case of Hong Kong, the applicable tax rate is 10%. In 2010 HWG HK-Holding received a dividend from HWG-Ltd. on which withholding tax of kEUR 114 was levied and which was a definitive expense of HWG HK-Holding as it was not refundable. In financial year 2011 no dividend was distributed from HWG-Ltd. to HWG HK-Holding.

Reconciliation between current income tax on profit arising from operations and profit before taxation at statutory tax rates is as follows:

	Period from 1 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Consolidated profit before taxation	**24.330**	3,337
PRC income tax expense calculated at statutory tax rate on PRC statutory profits (2011: 15%)	**3.968**	501
Deferred Tax Income on German Losses Carried Forward	**-483**	0
Other	**1**	27
	3.486	528

The Group’s subsidiary (“Guangzhou Hing Wah Glass Industry Co., Ltd.) is subject to PRC income tax on profit arising or derived from the tax jurisdiction in which it operates and is domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The provision for PRC income tax on profits arising from operations in the PRC is calculated based on enterprise income tax rates of 15% for the period from 1 January

2011 to 31 December 2011, in accordance with the relevant PRC income tax rules and regulations. The Group was granted status as a high tech enterprise in 2010 and as such gained the benefit of the lower 15% tax rate. The Group assumes that the tax rate will be renewed for every 3 years.

For the calculation of deferred tax on the German tax losses carried forward at CSG AG-level a tax rate of 30% was applied.

Movements in corporate income tax payable are as follows:

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
As at beginning of period	**1.311**	656
Current year tax expenses on profit	**3.969**	528
Withholding tax		114
Income tax paid	**-4.370**	-
Exchange difference on translation	**-64**	13
End of period	**846**	1.311

A tax receivable of kEUR 472 at 31 December 2011 (kEUR 438 at 31 December 2010 exchange rates) results from the fact that the Group's subsidiary ("Guangzhou Hing Wah Glass Industry Co., Ltd.) paid taxes on the assumption that the standard tax rate of 25% would be applicable. The status as a high tech enterprise awarded in 2010 led to a lower rate of 15% which was to be applied retrospectively in 2010.

The Group's German parent company incurred taxable losses brought forward of approximately kEUR 1,610. This was mainly caused by the IPO costs in July 2011. Due to the fact that there is a reliable expectation that the German parent company will be able to generate sufficient taxable income due to the interest income from the intercompany loan in the foreseeable future to offset these losses, a deferred tax asset of approximately kEUR 483 has been set up assuming a tax rate of 30%.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The following table shows property plant and equipment during the reporting period.

	Motor vehicles	Leasehold buildings	Plant and machinery	Furniture fixtures and office equipment	Construction In Progress	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Cost						
At 01 January 2011	36	1.768	1.661	44	955	4.464
Additions	-	10.416	871	180	12.438	23.905
Disposals	-	-	-23	-7	-	-30
Transfers	-	-30	-	-	-938	-968
Translation adjustment	2	1.091	199	19	1.136	2.447
At 31 December 2011	38	13.245	2.708	236	13.591	29.818
Accumulated depreciation						
At 01 January 2011	1	77	583	39	-	700
Depreciation	3	60	136	8	-	207
Disposals	-	-	-22	-7	-	-29
Translation adjustment	-	11	53	3	-	67
At 31 December 2011	4	148	750	43	-	945
Net book value						
At 31 December 2011	34	13.097	1.958	193	13.591	28.873
At 31 December 2010	35	1.691	1.078	5	955	3.764

*Amount is less than EUR 1,000

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

The following table shows intangible assets during the reporting period:

	Software Licences	Distributorship Agreement
	kEUR	kEUR
Cost		
At 1 January 2011	13	-
Additions	-	19,300
Disposals	-	19,300
At 31 December 2011	13	-
Accumulated amortization		
At 1 January 2011	-	-
Amortization	3	4,565
Disposals	-	4,565
At 31 December 2011	3	-
Net book value		
At 31 December 2011	10	-
At 31 December 2010	13	-

Intangible assets comprised in financial year 2011 an exclusive distributorship agreement with a subsidiary of Saint Gobain Group signed in May 2011. The distributorship rights have been capitalized at kEUR 19,300 payable according to a defined payment schedule over the contract term and have been amortized based on the term of the distributorship agreement of 10 years. Due to a renegotiation with Saint Gobain the exclusive distribution rights have been impaired by kEUR 3,600 in September 2011.

On 27 December 2011 the distributorship agreement was terminated with effect as of 31 December 2011, which resulted in the disposal of the capitalized distribution rights. Under consideration of instalments made the parties agreed on a termination fee of about kEUR 2,000. As at 31 December 2011 kEUR 503 of the compensation are considered in trade and other payables and fall due in March 2012. The major part of the agreed compensation has already been settled before the date of these consolidated financial statements.

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

During 2007, an interest free deposit of RMB 18,751,554 (equivalent EUR 1,801,000) was made by HWG Ltd. to acquire land use rights and buildings from a related party. However, during 2009 the subsidiary decided to lease the land and buildings instead. Accordingly, a tenancy agreement was signed for a period of 30 years commencing on 1 July 2009. This agreement was subsequently replaced by one dated April 2010, also with a 30 year term. Based on a valuation report the acquisition costs were split pro rata between land use rights (kEUR 670) and buildings (kEUR 1,131). Due to the relatively long-term nature of the lease in relation to the buildings, this agreement is treated as a finance lease, hence the recognition of the buildings in the statement of financial position under property plant and equipment as leasehold buildings from the signing of the lease agreement in 2009. The related lease agreement is between Guangzhou Hing Wah Glass Industry Co., Limited and its related party Mr. Chun Li Shi and its terms include staged rent increases over the term of the lease. Until the signing of the lease agreement, the buildings were not used by the subsidiary and the advance payment was disclosed as advance payment for leasehold buildings. The lease agreement can be extended by negotiation by 60 days before the lease term expires. According to the PRC law, the lease term may not exceed 20 years however. If it exceeds twenty years, the period in excess is invalid. Therefore, the term of the legal lease expires on 31 March 2039 as the lease is invalid after 1 April 2039. However the subsidiary assumes it will be able to extend the lease as described above and an extension is legal under the laws of the PRC. The rental payments under this agreement have been paid in advance until 2039; hence there are no future lease payments to be made under the current lease agreement.

During 2009 and 2010 the Group paid land levelling costs in connection with the construction of a new building as well as the construction of the building at the Company’s main operational premises on behalf of a related party who will retain title to the building. It was intended that the Group would lease the building from the related party, who will waive lease payments in consideration for the land levelling costs and construction paid by the Group. Hence the amount has been treated as advance payment for leasehold buildings, as due to the likely long term nature of the lease, the arrangement would be considered to be a finance lease. The advance payment has since been re-classified as leasehold building. All property, plant and equipment held by the Group are located in the PRC.

As at 31 December 2011, the Group has invested kEUR 13,591 in construction in progress related to its new facility in Sichuan.

10. PREPAYMENT FOR LEASEHOLD LAND

This relates to the land use rights for which an advance payment was made in 2007. Following the conclusion of the lease agreement described in note 9, which the Group determined to be an operating lease in respect of the land, as the term is relatively short compared to the useful life of the land, the advance payment was reclassified as a prepayment for leasehold land. It is being amortized to income over the 30 years term of the lease.

With regard to the leasehold buildings, please refer to note 9.

11. OTHER ASSETS

Other assets comprise advance payments for land-use rights and design/greening scheme fees in respect of the Group's facility in Sichuan. In respect of the advance payments for land-use rights, the Group made the advance payment in the context of a bidding process which has been formally completed. The Management Board expects that the process will be formally completed in 2012 and that the title to the land-use rights will successfully pass to the Group.

12. INVENTORIES

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Raw materials	**1.137**	694
Finished goods	**1.297**	897
	2.434	1,591

The amount of inventories recognized as an expense during the year was kEUR 41.823 included in cost of sales.

13. TRADE AND OTHER RECEIVABLES, DEFERRED CAPITAL INCREASE COSTS

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Trade receivables	**13.888**	11.219
Other receivables	**14.162**	760
Sub total	**28.050**	11.979
Payments in advance	**0**	748
Total	**28.050**	12.727

Trade receivables are non-interest bearing and generally have credit terms of 30 to 60 days (2010: 30 to 60 days).

Other receivables at 31 December 2011 relate mainly to prepayments given to construction companies for the building construction of both Guangzhou and Sichuan factories.

The aging of trade receivables and other receivables are as follows:

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Within 30 days	**22.512**	7.319
31 to 60 days	**4.998**	3.684
More than 60 days	**540**	976
	28.050	11.979

All trade receivables are denominated in Renminbi.

13. TRADE AND OTHER RECEIVABLES, DEFERRED CAPITAL INCREASE COSTS (continued)

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Financial Assets		
Loans and receivables		
Trade and other receivables	**28.050**	11.979
Cash and cash equivalents	**56.572**	37.912
Related party receivables	**5**	5
Total financial assets classified as loans and receivables	**84.627**	49.896

All financial assets classified as loans and receivables are current and non-interest bearing. Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value due to the short duration. Finance income of kEUR 270 was earned on cash and cash equivalents in the period from 01 January 2011 to 31 December 2011. Apart from this no net gains or losses on loans and receivables occurred in the period from 01 January 2011 to 31 December 2011. The maximum credit risk is assessed by management to be the amounts shown in the above table as at the respective reporting dates. Management aims to deal only with customers of good to high credit quality.

14. DEFERRED TAX ASSETS

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Balance at 1 January 2011 Deferred tax expenses in relation to:	**0**	0
IPO costs set off against equity	**595**	0
Loss brought forward	**483**	0
As at 31 December 2011	**1.078**	0

The Group's German parent company incurred taxable losses brought forward of approximately kEUR 1,610. This was mainly caused by the IPO costs in July 2011. Due to the fact that there is a reliable expectation that the German parent company will be able to generate sufficient taxable income due to the interest income from the intercompany loan in the foreseeable future to offset these losses, a deferred tax asset of approximately kEUR 483 has been set up assuming a tax rate of 30%.

Further there is a difference of approximately kEUR 1,985 between the balancing in accordance with the German Commercial Code and the International Financial Reporting Standards which belongs to costs of capital expenditure because of the IPO in 2011. In accordance with the German Commercial Code these costs are expenses in 2011 but in accordance with the International Financial Reporting Standards these costs have to be deducted from equity. Because of this a deferred tax asset of approximately kEUR 595 has been set up on this difference of kEUR 1,985 assuming a tax rate of 30%.

15. RELATED PARTY RECEIVABLES/PAYABLES

Related party receivables of kEUR 5 relate to a rental deposit paid to Guangzhou City Liwan District Yaoxiang Property Management Center, for the renewal of a rental agreement. For related party disclosure we refer to Note 23.

Related party payables relate both to a financing agreement made between Luckyway Global Group Limited and CSG AG, whereby Luckyway Global Group Limited finances the IPO costs on an interest free and short term basis, and is to be refunded after the IPO and also to payments paid on behalf by a controlling shareholder and director of the Company, Mr. SZE Nang Heung, to fund the Group’s investment in Guangzhou Hing Wah Glass Industry Co., Ltd and for other expenses.

Amounts of related party liabilities at the respective reporting dates are as follows:

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Luckyway Global Group Limited	-	865
Mr. SZE Nang Heung	-	1,578
	-	2,443

The amounts are unsecured, not interest bearing and without fixed terms of re-payment.

16. CASH AND BANK BALANCES

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Cash at banks	**56.560**	37.898
Cash on hand	**12**	14
	56.572	37.912

The cash at banks are denominated in Renminbi and bear an effective interest rate of 3% per annum for the period from 01 January 2011 to 31 December 2011. Cash and bank balances are denominated in the following currencies:

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Renminbi	**45,072**	37,878
Euro	**11,500**	34
Hong Kong $	**-***	-*
	56,572	37,912

*Amount is less than EUR 1,000.

Renminbi is not freely remissible for use by the Group because of currency exchange restrictions.

17. SHARE CAPITAL AND RESERVES

As a result of the issuance of 2,650,000 new shares at € 9 per share in the IPO in July 2011, the share capital of CSG AG increased to 17,7000,000 share. The issuance of shares led to an increase in capital reserves as follows:

Gross proceeds (2,650,000 shares at € 9 per share)	€ 23.8 million
Less nominal value of shares	€ 2.7 million
Less issuance costs (1.9 million) after deducting tax saving (€ 0.5 million)	€ 1.4 million
Net credit to capital reserves	€ 19.7 million.

Statutory reserves, retained earnings and the foreign currency translation reserve are shown as a continuation of the consolidated statement of changes in equity of HWG HK-Holding.

CSG AG was incorporated on May 10, 2010 with share capital of EUR 50,000 divided into 50,000 non par value bearer shares of EUR 1.00 each. These shares were issued at par on incorporation. Subsequently the share capital was increased on 22 November 2010 to EUR 15,050,000 via non cash contribution by 15,000,000 non par-value bearer shares. The share capital is fully paid up. The shares all have equal rights pertaining to voting and dividends. Future dividend payments will probably depend on the Hong Kong holding company making a distribution to CSG AG, and this in turn will probably depend on HWG-Ltd. located in the PRC making a distribution to the Hong Kong holding company. Dividends from Chinese companies generally require government approval and can only be distributed if the statutory reserves comply with relevant legislation. Transfer of dividends outside of the PRC may be affected by regulations of State Administration of Foreign Exchange (SAFE) on transfers.

Pursuant to section 5 of the Articles of Association the Management Board - with the consent of the Supervisory Board - was authorized to decrease the authorized capital of CSG AG by up to EUR 4,875,000. The Management Board is authorized to exclude the pre-emptive rights of shareholders with permission of the Supervisory Board in certain cases. The authorization is valid until 18 July 2016. The capital increase described above resulted in a corresponding reduction of the authorized share capital from 7.525.000 shares to 4,875,000 shares.

Capital reserve

CSG AG is required to transfer 5% of the profit after tax as reported in its German statutory financial statements to statutory reserves (section 150 paragraph 2 of the German Stock Corporation Law), until this reserve together with the capital reserve attain at least 10% of the share capital. Under certain circumstances this reserve may be used to make up losses incurred or be converted into paid up capital, as long as the reserves amount to at least 10% of the share capital. The capital reserve of CSG AG amounts to kEUR 19,739 at 31 December 2011 (2010: EUR 0).

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the Group's subsidiaries which are established in the PRC are required to transfer 10% of profit after taxation prepared in accordance with the accounting regulation of the PRC to a statutory reserve until the reserve balance reaches 50% of each subsidiary's respective share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders. The statutory reserve of the PRC subsidiaries and hence also of the Group amounts to kEUR 724 at 31 December 2011 (kEUR 724 at 31 December 2010).

Foreign currency translation reserve

Foreign currency translation reserve represents the foreign currency translation difference arising from the translation of the financial statements from RMB to EUR.

Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognised in the Group's income statement.

Earnings per share and dividend

The basic earnings per share have been calculated using the profit attributable to the owners of CSG AG (the legal parent) as the numerator and correspond directly to the profit or loss attributable to the parent entity for the year without reconciliation. The weighted average number of shares used for basic earnings per share for the year ended 31 December 2011 amounted to 16.236.676 assuming 19 July 2011 was the date of share delivery of IPO shares. There are no dilutive or potentially dilutive effects, and so diluted earnings per share and undiluted earnings per share are equivalent.

The parent company CSG AG is a holding company without any significant operating business of its own. The Group's assets are largely located in the PRC. Current PRC regulations permit the payment of dividends only out of accumulated profits determined in accordance with Chinese accounting standards and regulations. In addition, a subsidiary of the Company, if it constitutes a foreign-invested entity under PRC law, is required to set aside at least 10% of its after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of its registered capital. Furthermore, foreign-invested entities may be required to set aside a portion of their after-tax profits to fund an employee welfare fund in an amount which lies within the discretion of the subsidiary's board. These reserves are not distributable as cash dividends.

Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operating-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange or its local counterparts, and repayment of the loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions.

There can be no assurance that the Group will be able to meet all of its foreign currency obligations under PRC laws or to remit profits out of China. Should any of the PRC subsidiaries of the Group be, or become, restricted and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China, this could have material adverse effects on the Group's financial condition.

Under the income tax law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in these consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. TRADE AND OTHER PAYABLES

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Trade payables	**4.472**	3.907
Compensation payable to Saint Gobain	**503**	0
Other payables and accrued operating expenses	**3.068**	1.089
	8.043	4.996

Trade payables generally have credit terms of 30 to 60 days (2010: 30 to 60 days). All trade and other payables are denominated in Renminbi.

During 2011 the Group entered into negotiation with the Saint-Gobain Group ("Saint Gobain") on the future structure of the agreement concerning exclusive distributorship rights which the Group had entered into with Saint Gobain in May 2011. Group management considered that it was in the best interest of CSG Group to terminate the above agreement during the fourth quarter of 2011. The maximum financial impact of the above termination upon the performance of the Group in 2011 was limited to the compensation of EUR 2 million. Compensation of kEUR 503 payable to Saint Gobain represents the outstanding compensation payable for terminating the exclusive distributorship right agreement made in May 2011.

Financial Liabilities at Amortized Cost

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Interest-bearing bank borrowings	**15.805**	1.813
Trade payables	**4.472**	3.907
Related party payables	**0**	2.443
	20.277	8.163

All financial liabilities recorded at amortized cost fall due within one year. Due to the short term nature of these, management considers the carrying amounts of financial liabilities measured at amortized cost in the statement of financial position to be reasonable approximation of their fair value.

19. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2011 kEUR	As at 31 December 2010 kEUR
Short-term bank loans	15.805	1.813

Interest-bearing bank borrowings increased from EUR 1.8 million as of 31 December 2010 by EUR 14.0 million to EUR 15.8 million as of 31 December 2011 mainly due to increase of new short-term bank borrowings with terms of period from 14 July 2011 to 13 July 2012 and interest rate of 7.216% per annum. The bank loans are secured by the Group's bank fixed deposits of EUR 11.5 million which were pledged to a bank in Hong Kong in order to secure a PRC bank's borrowings of EUR 11.5 million granted by a PRC bank to the wholly-owned operating subsidiary.

The Group granted a short term unsecured loan to its CEO Mr. SZE of approximately EUR 0.9 million. The loan bears interest at the rate of 5.58% per annum and has been repaid by end of 31 December 2011.

20. COMMITMENTS

The Group leases its production facilities and office premises under non-cancellable operating lease arrangements from a related party. The leases have varying terms and the total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

	As at 31 December 2011 EUR'000	As at 31 December 2010 EUR'000
Not later than one year	40	43
Later than one year and not later than five years	161	150
Later than five years	10	47
	211	240

The leases on the Group's production facilities and office premises on which rentals are payable will expire between the date of this report and 31 March 2017, and the current rent payable on the leases range between RMB 5,000 and RMB 18,000 per month which are subject to revision on expiry. The lease agreements can be extended by negotiation by 60 days before the lease term expires.

Capital Commitments for planned Sichuan facility.

On 30 May 2010 the Group concluded an Investment and Construction Project Contract with the Management Committee of Guangdong – Wenchuan Industrial Park (the "Management Committee") to invest and establish a glass production project and research and development base in Guangdong – Wenchuan Industrial Park, Sichuan. The total investment commitment of the project is RMB 300 million (equivalent to approximately EUR 36 million at 31 December 2011 exchange rates). As well as the investment commitment the Group is expected but not committed to pay annual taxes of more than RMB 18 million. However the Group will benefit under the contract from tax advantages and subsidies. Under the contract, the Management Committee will transfer usage rights for land to be used for the construction of the base to the Group at a preferential price and the Group shall pay a deposit of RMB 50 million (equivalent to EUR 6.1 million) as a down payment for the land use rights. The land use rights have a term of 50 years. This contract gives rise to various contingencies which are set out under Note 26.

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to credit risk, liquidity risk, and interest rate risk. The Group's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Management Board provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Group's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposures to market risk are kept at minimum level, the Group has not used any derivatives or other financial instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2011, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables, related party balances, trade payables, accrued liabilities, other payables and bank borrowings.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations and arises principally from the Group's trade receivables.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group typically gives the existing customers credit terms from 30 days to 60 days. In deciding whether credit shall be extended, the Group will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. The Group's top ten customers in aggregate formed approximately 47% and 39% of the trade receivables balances as at 31 December 2011 and 31 December 2010 respectively.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers.

There is no impairment loss recognized in the income statements as all the receivables were subsequently received.

21. FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve for cash to meet its liquidity requirement in the short and long term. The bank borrowings for the period ended 31 December 2011 have maturity period of less than 1 year from the statement of financial position date.

The maturity profile of the Group's financial liabilities as at reporting date, based on the contracted undiscounted amounts, is as follows:

	Total carrying amount kEUR (all current)
At 31 December 2010	
Trade payables and other payables	3.907
Interest-bearing bank borrowings	1.813
Related party liabilities	2.443
	8.163
At 31 December 2011	
Trade payables and other payables	8.043
Interest-bearing bank borrowings	15.805
Related party liabilities	-
	23.848

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters.

21. FINANCIAL RISK MANAGEMENT (continued)

(iv) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group carries out its business in the PRC and most of its transactions are denominated in Renminbi. Accordingly, the Group’s exposure to currency risk resulting from transactions in foreign currency is minimal. However, the Group is exposed to currency risk resulting from the translation of its financial statements from Renminbi to the presentation currency.

The effect on the group’s net profit for the financial period if the exchange rate between Renminbi and Euro and Hong Kong Dollar and Euro changed by 5%, with all other variables held constant, is estimated to be approximately kEUR 1.042.

At the following financial position dates, if the exchange rate between Renminbi and Euro and Hong Kong Dollar and Euro changed by 5%, with all other variables held constant, the effect on the Group’s equity is estimated as shown below:

	Increase or (decrease) in Equity	
	5% increase	**5% decrease**
	kEUR	**kEUR**
Year ended 31 December 2011	-4,954	4.954
Year ended 31 December 2010	-2,633	2.633

(v) Interest rate risk

The Group is not exposed to interest rate risk as it did not have any financial instruments with variable interest rates.

22. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns to shareholders and benefits for other stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected investment opportunities. The Group currently does not adopt any formal dividend policy. Despite having surplus cash and bank balances the Group renewed its bank loans in order to maintain business relationships with financing banks.

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's net debt to equity ratio at financial position dates were as follows:

	As at 31 December 2011 kEUR	**As at 31 December 2010 kEUR**
Total borrowings	15.805	1.813
Cash and bank balances	-56.572	-37.912
Net debt/(cash)	-40.767	-36.099
Total equity	99.072	49.811
Net debt to equity ratio	-41.1%	-72.5%

23. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Group for the purposes of the financial statements if:

(i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or

(ii) it is subject to common control or common significant influence.

There were no sales or purchases of goods or services or other transactions between the Group and related parties.

The Group leases several buildings and land use rights under operating leases from Guangzhou City Liwan District Yaoxiang Property Management Center, and buildings under a finance lease and land use rights under an operating lease from Mr. SHI Chunli. Rentals amounted to EUR 21,000 in the year ended 31 December 2011. Current receivables from related parties in the statement of financial position relate to the rental deposit on the rental agreement renewal owed by Guangzhou City Liwan District Yaoxiang Property Management Center.
During the year of 2011 a short-term unsecured loan was granted to Mr. SZE but was repaid by end of 2011.

Related party payables relate both to payments made by Luckyway Global Group Limited and the ultimate controlling shareholder and director of the Group, Mr. SZE, Nang Heung, to fund the Group's investment in Guangzhou Hing Wah Glass Industry Co., Ltd and for other expenses. Repayments of EUR 3 million were made during the year ended 31 December 2011.
Related parties have provided security for the Group's bank loans: fixed bank deposits of EUR 11.5 million held by Hing Wah Holdings (Hong Kong) Limited were pledged to a PRC bank in order to be granted bank loans to Guangzhou Hing Wah Glass Industrial Co., Ltd..

Loan amount	As at 31 December 2011	As at 31 December 2010
RMB 50 million	17 August 2011 to 17 August 2012	-
RMB 50 million	17 August 2011 to 17 August 2012	-
RMB 30 million	4 November 2011 to 4 November 2012	-

During the year ended 31 December 2011, the Group repaid RMB 16 million (kEUR 1,780) of the mortgage.

23. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Related Party (natural person)	Relation to China Specialty Glass-Group
Mr. Nang Heung SZE, PRC	CEO and indirect major shareholder of the Company through Luckyway Global Group Ltd., Road Town, Tortola, British Virgin Islands
Mr. Chun Li SHI, PRC	Member of the Management Board and Son of Mr. Nang Heung SZE
Mr. Chi-Hsiang Michael LEE, Taiwan	Member of the Management Board of CSG AG
Mr. Helmut Meyer	Chairman of the Supervisory Board of CSG AG (term ended March 2012)
Mr. Xin Young Shi	Member of the Supervisory Board of CSG AG
Mr. Volker Schlegel	Member of the Supervisory Board of CSG AG
Guangzhou City Liwan District Yaoxiang Property Management Center (formerly known as Guangzhou City Liwan District Glass Factory), Guangzhou City, Guangdong Province, PRC	100% of the shares are held by Mr. Chun Li SHI, Son of Mr. SZE. Prior majority shareholder was Mr. SZE.
HK Chung Hwa Enterprises Development Company, Guangzhou City, Guangdong Province, PRC	100% of the shares are held by Mr. SZE.
Luckyway Global Group Ltd., Road Town, Tortola, British Virgin Islands	Its shareholding in CSG AG amounted to 55.05% (8,284,609 voting rights) prior to IPO and were held directly and it received back the shares it had lent to the IPO Bank for delivery of the shares to IPO investors after creation of the new shares subscribed in the IPO. The IPO capital increase was registered on 19 July 2011. The increase from 55.05% at 1 July 2011 to now 63.2%.

	Year ended 31 December 2011	Period from 22 November 2010 to 31 December 2010
	kEUR	kEUR
Guangzhou City Liwan District Yaoxiang <u>Property Management Center</u>		
Rental charged on factory and office building	**44**	4

Related party receivables and payables

The Group's related party receivables and payables are as explained in note 15.

Sale and purchase of goods

There were no sales or purchases of goods or services or other transactions between the Group and related parties.

Leasing

The Group leases several buildings and land use rights under operating leases from Guangzhou City Liwan District Yaoxiang Property Management Center and under a finance lease from Mr. SHI Chunli. The terms of this finance lease are disclosed under note 9.

Undertakings

Mr. SZE has given an undertaking for no consideration with the Group according to which he would reimburse the Group for any losses incurred for any additional social insurance and housing funds payments which may be levied in respect of prior periods.

Mr. SZE Nang Heung has given an undertaking for no consideration that he would take all responsibility for any damages or negative influence which may be caused to the Group by his failure to make a registration under the "Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies" ("SAFE Notice 75").

Mr. SHI Chunli has given an undertaking for no consideration to bear any administrative and civil liabilities in respect of land allocated to Guangzhou Property Management Center, on which buildings are located that are leased by the Company, for which the necessary legal formalities have not been completed.

23. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Transactions with Key Management Personnel

The compensation is paid pursuant to the different employment agreements of the several members of the Management Board with the Company and the Group, respectively. The members of the Management Board receive salaries on an annual basis. These salaries consist of monthly payments and certain additional social benefits.

The tables below provide an overview over the gross remuneration and the social benefits paid to the current members of the Management Board for the financial years 2010 and 2011:

Compensation in 2010:

Name	Annual Salary	Social Securities	Others	total
Sze, Nang Heung	€ 18,182.48	€ 311.26	€ 1,346.85	€ 19,840.59
Shi, Chun Li	€ 16,162.21	€ 527.40	€ 1,346.85	€ 18,036.46
Lee, Chi Hsiang Michael	€ 13,254.06	€ 0	€ 0	€ 13,254.06

For his services in the financial year 2010, Mr. Chi Man Wong who is still employed by the Group received around EUR 44,000 from the Group which also includes his compensation as member of the Management Board during his term of office.

The members of the Supervisory Board will receive compensation for the financial year 2010 and the following years. The amount for the short financial year 2010 was determined by a resolution of the General Shareholders' Meeting on 9 May 2011:

Member	Appointed on	Term ended	Compensation
Helmut Meyer	27 May 2010[2]	31 March 2012	EUR 20,416.67
Xin Young Shi	27 May 2010	–	EUR 0
Shun Yao Huang	27 May 2010	29 October 2010	EUR 0
Volker Schlegel	29 October 2010	–	EUR 10,000

Compensation in 2011

Name	Annual Salary	Social Securities	Others	total
Sze, Nang Heung	€ 18,692.21	€ 0	€ 1,335.16	€ 20,027.37
Shi, Chun Li	€ 17,690.84	€ 633.70	€ 4,895.58	€ 23,220.12
Lee, Chi Hsiang Michael	€ 74,951.06	€ 0	€ 0	€ 74,951.06

The members of the Management Board are insured up to a certain amount under a directors and officers insurance (D & O insurance) against claims arising in connection with their conduct as members of the Management Board. The premiums of this insurance are to be borne by the Company. In accordance with the German Stock Corporation Act the insurance contains a deductible of at least 10% of the damage caused that amounts to at least one and a half times the fixed yearly income of the Management Board member.

Other remuneration than set out above are not provided by the Company or the Group to the members of the Management Board.

For 2011 the General Shareholders' Meeting on 9 May 2011 has determined a compensation of EUR 30,000.00 per Supervisory Board member. The chairman of the Supervisory Board shall receive an additional EUR 20,000.00, i.e. a total compensation of EUR 50,000.00.

Member	Appointed on	Term ended	Compensation
Helmut Meyer	27 May 2010	31 March 2012	EUR 50,000.00
Xin Young Shi	27 May 2010	–	EUR 30,000.00
Volker Schlegel	29 October 2010	–	EUR 30,000.00

24. SEGMENT INFORMATION

The Management Board as Chief Decision Maker determines the operating segments, which represents product categories, based on reports reviewed and used for strategic decisions. The Group's business segments are organized into three main operating segments:

a. Automotive Security Glass

b. Bank Security Glass

c. Construction Glass

All of these segments are managed by the Group.

All operating segments are monitored and strategic decisions are made on the basis of the segmental gross margins. Items of expense and income below the gross profit margin are not analysed by management on a segmental basis, as these are not considered relevant for the operational and strategic analysis of the business.

The Group's revenues for financial period from 01 January 2011 to 31 December 2011 are derived solely from within the PRC and substantially all of its business assets are located there hence a further geographical segment analysis is not meaningful to the management of the Group. There were no inter-segment sales.

During the year, the top 10 customers contributed 30% of the Group's revenue. These sales were to external distributors. No customer accounted for more than 10% of sales.

Relevant items of income and expenditure and other financial data such as capital expenditure have been allocated to the segments as far as this was possible. Where this was not possible, they have been disclosed in total.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements for the period from 01 January 2011 to 31 December 2011.

The segment information provided to the Management Board for the reportable segments for the financial period from 01 January 2011 to 31 December 2011 is as follows:

24. SEGMENT INFORMATION (continued)

	Automotive Security Glass	Bank Security Glass	Construction Glass	Total
	kEUR	kEUR	kEUR	kEUR
Revenue	34.679	32.331	9.874	76.884
Cost of sales	16.162	18.922	6.739	41.823
Gross profit	18.517	13.409	3.135	35.061
Finance income				270
Unallocated corporate expenses				-12.623
Other revenue				2.053
Finance costs				-431
Profit before taxation				24.330
Income tax expenses				-3.486
Net profit				20.844
Other information				
Segment assets	8,577	4,651	1,958	15.186
Unallocated corporate assets				108.580
Consolidated total assets				123.766
Segment liabilities				-
Unallocated corporate liabilities				24.694
Consolidated total liabilities				24.694
Capital expenditure				23.905
Depreciation of property, plant and machinery	30	55	111	196
Unallocated depreciation of property, plant and machinery				11
				207

Unallocated assets for the period are assets that cannot be reasonably allocated to the operating segment and included property, plant & equipment, intangible assets, other receivables, tax receivables, related party receivables and cash and bank balances.

25. EMPLOYEES BENEFITS

	Period from 01 January 2011 to 31 December 2011	Period from 22 November 2010 to 31 December 2010
Average number of employees of the Group	496	442
Management and administration	59	53
Sales	57	57
Production	380	332
	496	442

The aggregate payroll costs of these employees were as follows:

	Period from 01 January 2011 to 31 December 2011 kEUR	Period from 22 November 2010 to 31 December 2010 kEUR
Wages and salaries	2,798	260
Social security cost	199	11
	2,997	271

Retirement Benefit Plans

The eligible employees of the Group who are citizens of the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The costs of retirement benefit contributions charged to the profit or loss in the period from 01 January 2011 to 31 December 2011 amount to approximately kEUR 199.

26. CONTINGENCIES

Investment and Construction Project Contract for planned Sichuan facility

On 30 May 2010, the Group concluded an Investment and Construction Project Contract with the Management Committee of Guangdong – Wenchuan Industrial Park (the "Management Committee") to invest and establish a glass production project and research and development base in Guangdong – Wenchuan Industrial Park, Sichuan. With the Management Committee's approval of the project construction plan, the Company will be responsible for the project construction and production processes in accordance with the rules and regulations in the People's Republic of China. In the event of non-compliance of construction speed and production of the various phases, or if the Company fails to satisfy the expected level of investment or the expected level of tax payments as required for the first stage within 5 years, the Management Committee has the right to take back all the land use rights of the project free of charge. The Company may also be liable for compensatory damages if it is responsible for a breach of contract with adverse effects for the Management Committee. Without the consent of the Management Committee, the Company is not allowed to (i) transfer the land use rights to a third party within 10 years and (ii) pledge the land use rights for any credit facility within 3 years.

Social insurance back payments

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, the Company is required to make contributions for the social insurance and for the housing funds to its employees. The Company has in the past not paid the full amount which should have been paid in respect of these contributions, but considers the risk for additional payments for prior periods to be not probable as there have been no known incidences of the relevant authorities demanding payments in respect of past years. Mr. SZE has undertaken an agreement with the Group according to which he would reimburse the Group for any losses incurred for such additional social insurance and housing funds payments.

Tax risks

Various uncertainties exist relating to the following matters which could result in additional tax liabilities for HWG-Ltd. or the Group:

26. CONTINGENCIES (Continued)

Tax risks (Continued)

i. Depreciation was over claimed by HWG-Ltd. in relation to residual values of property, plant and equipment in 2007. The additional tax payments, if any, which could arise from this matter are estimated to be in the region of TEUR 7.

ii. Entertainment expenses claimed by HWG-Ltd had exceeded the cap under the Old and New Enterprise Income Tax Law. The additional tax payments, if any, which could arise from this matter are estimated to be in the region of TEUR 47.

27. SUBSEQUENT EVENTS

There are no significant non-adjusting events or any significant adjusting events to report between the reporting date and the date of the preparation of these consolidated financial statements.

28. AUDITOR'S FEE

Expenses for services provided by the auditor of the Consolidated Financial Statements were recorded of kEUR 89 on audit services of the financial statements as well as kEUR 30 on other assurance services.

29. Declaration on Compliance with the German Corporate Governance Code

The Declaration on Compliance with the German Corporate Governance Code according to Sec. 289a of the German Commerical Code is openly available for inspection on the Company's website at www.csg-ag.de.

30. Group companies included in the consolidated financial statements

The following companies are included in the consolidated financial statements. All information presented on equity and net income refers to the annual financial statements as at 31 December 2011:

Consolidated Related Parties	Equity Ratio %	Equity kEUR	Net Profit kEUR
China Specialty Glass AG, Grünwald, Germany (Holding Company)	100	121.379	- 989
Hing Wah Holdings (Hong Kong) Ltd., Hong Kong	100	1.408	-574
Guangzhou Hing Wah Glass Industry Co., Ltd., Guangzhou, PRC	100	77.445	22,426
Sichuan Hing Wah Glass Co., Ltd., Sichuan, PRC	100	941	-239

31. Approval of the financial statements

The consolidated financial statements of the Group for the period from 01 January to 31 December 2011 were approved and authorized for issue by the Management Board of CSG AG at the end of April 2012. They were approved by the Supervisory Board in its meeting of at the end of April 2012.

Gruenwald, 26 April 2012

China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO) | Chun Li Shi (COO) | Chi-Hsiang Michael Lee (CFO)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for annual reporting, the condensed consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Group's management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the next fiscal year.

Gruenwald, 26 April 2012

China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO) | Chun Li Shi (COO) | Chi-Hsiang Michael Lee (CFO)

AUDITORS REPORT

We have audited the consolidated financial statements prepared by China Specialty Glass AG, Grünwald, – comprising a consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the group management report which is combined with the management report of China Specialty Glass AG, Grünwald, for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the combined group management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with paragraph 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined group management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of China Specialty Glass AG, Grünwald, for the financial year from 1 January to 31 December 2011 comply with IFRSs as adopted by the EU, the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The combined group management report of China Specialty Glass AG, Grünwald, is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 26. April 2012

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dirk Bauer
Wirtschaftsprüfer
[German certified auditor]

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IMPRINT

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FINANCIAL CALENDAR

Publication of
Interim report of the 1st quarter 2012
May 30, 2012

Annual General Meeting
July 20, 2012

CHINA SPECIALTY GLASS AG