China Specialty Glass AG

ANNUAL REPORT 2012

CHINA SPECIALTY GLASS AG

KEY FINANCIAL HIGHLIGHTS

	2012	2011 (Restated)	Change
	EUR'000	**EUR'000**	**%**
Operational data			
Revenues	**113,707**	76,884	47.9
Cost of sales	**61,818**	41,754	48.1
Gross profit	**51,889**	35,130	47.7
Gross profit margin	**45.6%**	45.7%	(0.1) pp
EBITDA	**28,163**	24,632	14.3
EBITDA margin	**24.8%**	32.0%	(7.2) pp
EBIT	**26,717**	24,456	9.2
EBIT margin	**23.5%**	31.8%	(8.3) pp
Net profit	**16,315**	20,809	(21.6)
Net profit margin	**14.3%**	27.1%	(12.8) pp
Average earnings per share[1)]	**0.92**	1.28	(28.1)
Cash flow data			
Cash flow from operating activities	**29,220**	19,658	48.6
Cash flow from investing activities	**(10,644)**	(37,409)	71.5
Cash flow from financing activities	**12,176**	32,348	(62.4)
Cash and bank balances at the end of the year	**84,412**	56,572	49.2
Balance sheet data			
Total equity and liabilities	**167,948**	123,720	35.7
Cash and cash equivalents	**84,412**	56,572	49.2
Short-term liabilities	**11,818**	24,694	(52.1)
Shareholders' equity	**114,845**	99,026	16.0
Average headcount	**588**	496	18.5

[1)]Based on average number of 17,700,000 shares, calculated as of registration of the IPO capital increase with the trade register on 31 December 2012.

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.

China Specialty Glass has sold its products since 1994 and its ultimate customers are exclusively commercial enterprises: banks, refitting automobile manufacturers and construction service providers. The group benefits from China’s increasing consumer wealth and commercial activities resulting in a higher demand for its products. For the efficient distribution it currently relies on its own broad sales network consisting of 20 regional sales contact points in China.

For security glass products in the Chinese banking and automotive industry, the Group is one of the market leaders, both in terms of production output and market share.

OUR VISION

China Specialty Glass Group believes the following strategic objectives and their implementation will drive its future growth:

- Profit from the growth of the Chinese security glass market by expanding China domestic sales network and strengthening the “Hing Wah” brand and in mid-range scope from market diversification through international expansion
- Expand production capacity and participate in consolidation of Chinese security glass industry and growth in western and central regions in China
- Focus on higher-margin products and product innovation in the security glass market as well as in the lower-margin construction glass market
- Strengthen Research & Development capacity and capability

OUR COMPETITIVE STRENGTHS

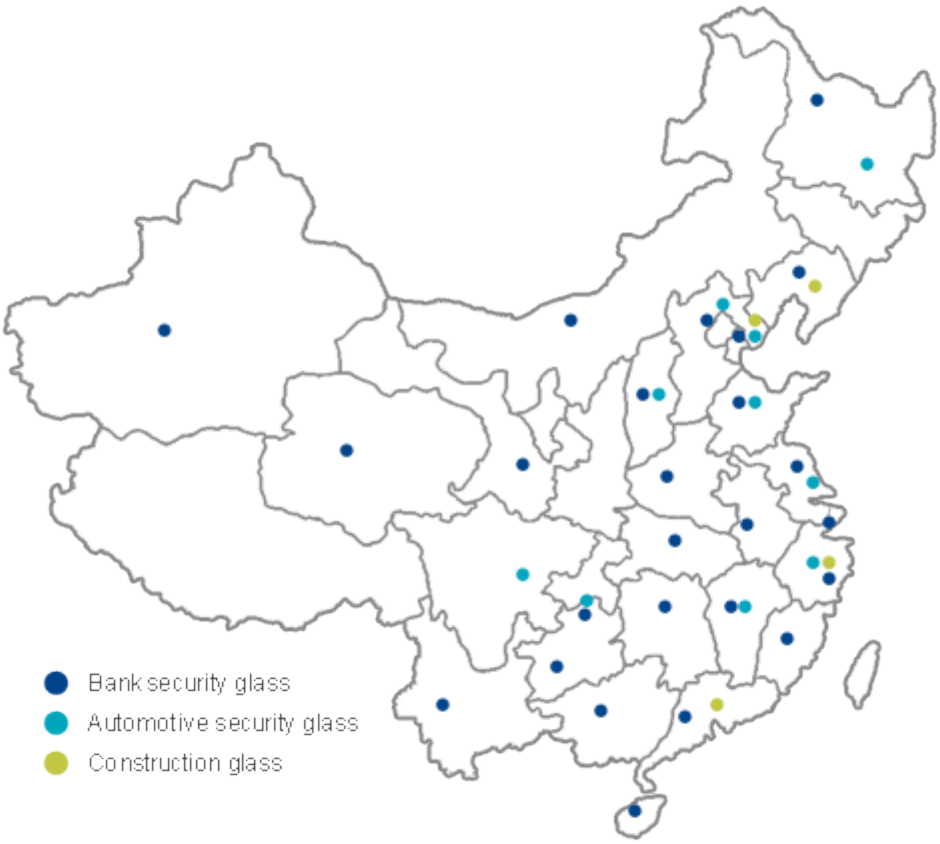
The Group considers the following competitive strengths as essential for its future growth:

- Industry pioneer, strong market presence and well-recognized brand in China
- Largest security glass manufacturer in China benefitting from economies of scale, extensive distribution channel and strong customer loyalty
- Cost-efficient production, effective cost control and profitable operation
- Focus on regulated product segment benefitting from government policy and restrictive regulations
- Strong product innovation capability
- Experienced management team with industrial expertise and extensive business network in the Chinese economy

OUR STRONG FOOTPRINT IN CHINA

China Specialty Glass Group sells its products directly through its own sales network. The Group has sales representatives in different provinces and regions outside of Guangzhou, covering 20 provinces and regions in China.

The Group's products are available throughout China. The bulk of the sales occurs in coastal provinces and major cities such as Beijing and Shanghai. Over 60% of total group sales are realised in the southern part of China and in major cities such as Beijing, Shanghai and Chongqing.



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LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

It is my pleasure to present our full-year results to you. Despite the difficult market environment, China Specialty Glass AG ("CSG") achieved very satisfying results in the 2012 financial year.

Total group revenues increased year-on-year by 47.9% to EUR 113.7 million. Our gross profit has also even been doubled from EUR 35.1 million to EUR 51.9 million in 2012 (+47.7%) with a gross profit margin of 45.5% and therewith on the same level as in 2011.

In 2012, EBIT decreased by 9.2% to EUR 26.7 million with an EBIT margin of 23.5% while net profit decreased to EUR 16.3 million. This decrease was owing to the losses arising from initial recognition of convertible loan's loan and convertible components as well as the fair value change in fair value of convertible loan convertible component. However, the above-mentioned losses did not have any impact upon the Group's cash position as at the year ended 31 December 2012.

In May 2012, we secured additional financing for the expansion of our second production site in Sichuan. This new facility will significantly increase our capacity for lamination glass and thermal tempering glass. Initial test operations of the first phase have started but due to the delay in the financing as well as government approvals the production will not go into full operation until 2013.

Additionally the new intruder resistant glass products for our banking clients had placed high volume orders during the reporting period. With the expanded capacity in Guangzhou and Sichuan, both our domestic and international market coverage can be strengthened with a broader product range and enhanced services.

Our outlook for 2013 stays positive: Given the growth opportunities for the Group in 2012 and beyond, we expect to increase sales around 40% and 21% in 2013 and 2014 respectively. We expect the growth of net profit will grow at the same pace.

During the successful 2012 financial year, we continued to develop innovative high-margin products for the banking, automotive, and construction markets. With our expanded capacity in Guangzhou and Sichuan, we expect to further increase our market share domestically and internationally with a broader product range and enhanced services.

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,

Mr. Nang Heung SZE, 12 July 2013

Chairman and CEO
China Specialty Glass AG

HIGHLIGHTS 2012

- **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 20% for the past four years, and is expected to continue to grow at an average rate of approximately 13% to 22% for the next 4 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 with a market share of nearly 40% 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 2012:

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

Share Price Performance

XETRA closing prices as of 2013/04/12:

CSG share: EUR 2.00

During the first six weeks of 2012, the CSG share showed a very volatile development. The share price increased significantly to EUR 5.71 as of 10 February, followed by a strong downward trend resulting in a share price of EUR 3.42 as of 15 March. Afterwards our share moved sideways. It amounted to EUR 3.33 after the first half of the current year – 26.0% below year-end price 2011. In the third quarter the share continued on a fluctuant course, falling down to its year-low of EUR 2.72 on 8 August. Afterwards losses could be temporarily compensated and the share price exceeded the 3-euro-threshold amounting to EUR 3.19 as of 27 August. In September it stabilized around a level of EUR 2.80 and at the end of the third quarter it quoted at EUR 2.85. During the fourth quarter the share price dropped further. On 28 December 2012, CSG share price amounted to EUR 2.50, representing a 44.4% decrease during 2012.

During the period under review, the CSG share could not keep up with the positive development of the German benchmark indices: DAX increased by 29.1% and stood at the end of the year at 7,612.39 points while SDAX went up by 18.7% to 5,249.35 points.

At the beginning of 2013, this negative trend continued until the end of the first quarter. In April our share developed positively and stabilised at nearly EUR 2 as of 12 April 2013. This corresponds to a market capitalisation of EUR 34.7 million. CSG's Management Board is disappointed by the negative share price performance since it does not reflect the successful business development of the company.

CSG strives to continuously meet the information needs of investors with an open and transparent communication policy. Shareholders can obtain relevant capital market-related information on the internet at www.csg-ag.de/investor-relations/.

CSG Share Basic Data

ISIN / WKN / Ticker	DE000A1EL8Y8 / A1EL8Y / 8GS
Stock exchange, Market segment	Frankfurt Stock Exchange, Prime Standard
Share capital	EUR 17,700,000
Designated sponsor	VEM Aktienbank AG
Market capitalisation (as of 12 April 2013)	EUR 34.7 million

REPORT OF THE SUPERVISORY BOARD

In the financial year 2012, 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 has been completely reworked with the help of an external service-provider from Germany.

Subject matters of the supervisory board meetings

In the financial year 2012, the supervisory board convened six meetings, namely on 25 April, 29 May, 08 June, 01 August, 30 August and 26 November 2012.

The following recount of the discussions in the supervisory board meetings focuses on relaying subjects other than current developments and any important business matters, which were routinely discussed in the supervisory board meetings.

The subject matter of the meeting on 25 April was firstly for the supervisory board to appoint a new chairman owing to the change in the composition of the supervisory board. Next the loan agreements with Credit Suisse were discussed at length and approved by the supervisory board. Finally, the financial reports of the CSG group (IFRS) and the CSG AG (HGB) were discussed and adopted.

In the meeting on 29 May, the agenda for the annual general meeting was discussed. The Q1 financial report was presented by the CFO, discussed and adopted by the supervisory board. The supervisory board requested management reporting to the supervisory board as well as risk management system elaboration.

The sole subject of the discussion on 08 June, which exceptionally took place via email, was to approve the final invitation draft for the annual general meeting.

The purpose of the meeting on 01 August was to discuss the ongoing DPR (German Financial Reporting Enforcement Panel) audit, to again urge the management board to regularly report to the supervisory board and install a more elaborate and documented risk management system, to report on the annual general meeting that took place in Frankfurt and to discuss possible methods to achieve a better valuation of the Company's shares.

In the meeting that took place on 30 August, the half-year 2012 financials were discussed at length and approved by the supervisory board.

The discussion in the meeting held on 26 November revolved around the newly implemented risk management system documentation as well as the Q3 financial report, which was subsequently passed by the supervisory board.

Committees

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

Changes in personnel of the boards

There was no change in the composition of the management board in the financial year 2012. The supervisory board members Helmut Meyer and Volker Schlegel resigned from the supervisory board and were replaced by Hao Chun "Rick" Chang and Andreas Grosjean on 24 April 2012. Subsequent to the financial year 2012, the management board member Chi Hsiang "Michael" Lee resigned due to personal reasons and was replaced by Ms Jing He on 01 March 2013.

Attendance at meetings

No supervisory board member attended to less than one half of all supervisory board meetings in the financial year 2012.

Company and group consolidated financials for FY 2012

The principal subject matter of the supervisory board meeting on 22 April 2013 were the annual financial statement of the company for the financial year ending 31 December 2012 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 2012 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 statements and the group consolidated financial statements. The annual financial statements are thus adopted pursuant to section 172 German Stock Corporation Act ("AktG").

In the supervisory board meeting held on 22 April 2013, 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.

Munich, 12 July 2013

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. CSG has not issued shares conferring multiple voting rights, limited voting rights nor preference shares, i.e. the only class of shares issued are ordinary 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 Mr Nang Heung Sze (Chairman and Chief Executive Officer), Mr Chun Li "Stanley" Shi (Chief Operating Officer) and Ms Jing He (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 2012 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 2012 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 Mr Hao Chun “Rick” Chang, Mr Xin Young “Rocky” Shi and Mr 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 small size of CSG's Supervisory Board, which consists of three members. 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 2012 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 2012, 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 2012.

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, two members of the Supervisory Board are not German but citizens 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. A Management Board compensation system has not yet been resolved (deviation from no. 4.2.3 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.
4. 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.
5. 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.

6. 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.
7. 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.
8. 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.
9. 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.
10. 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.

11. 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 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 statutes 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, as well as the cooperation between the two boards, are laid out in detail in the Company's 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 2012, China Specialty Glass AG has not been notified of any such transactions.

On 31 December 2012, 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. Of the members of the Supervisory Board, only Andreas Grosjean holds shares in the Company, which amount to 2,000 shares.

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 performed by the auditor appointed by the Annual General Meeting. For the financial year 2012, Warth & Klein Grant Thornton AG, Düsseldorf, has been appointed as auditor by the Annual General Meeting on 20 July 2012. 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, 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.

Combined Group Management Report

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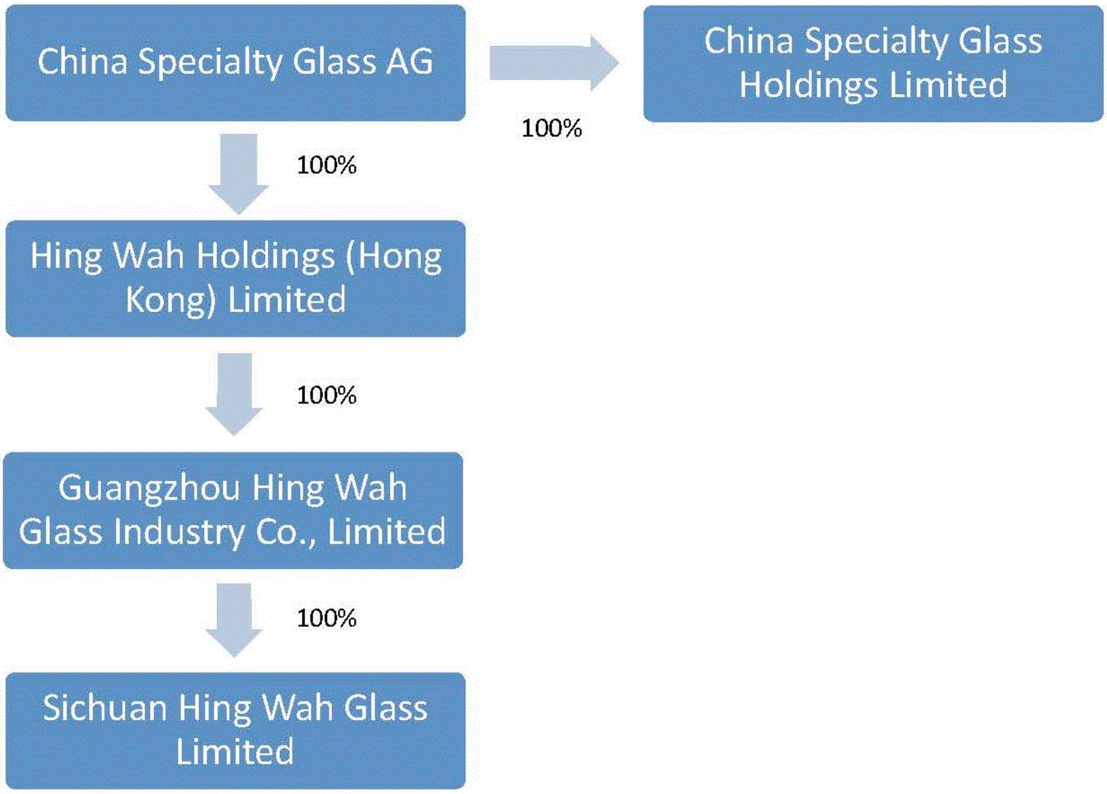
COMBINED GROUP MANAGEMENT REPORT

THE CSG GROUP

Group Structure



The group structure of CSG Group is basically unchanged to the structure disclosed in the audited consolidated annual financial statement as at 31 December 2011 except one more wholly-owned subsidiary, China Specialty Glass Holdings Limited was formed under CSG AG. The CSG Group was formed on 22 November 2010 upon completion of the transfer of the entire share capital in Hing Wah Holdings (Hong Kong) Limited to CSG AG. The operating business of CSG Group was and is carried out by Guangzhou Hing Wah Glass Industry Co., Limited (GHW) and Sichuan Hing Wah Glass Limited (SHW). China Specialty Glass Holdings Limited was incorporated in Cayman Islands on 19 December 2012.

Business Purpose

CSG AG is the German holding company of the CSG Group of companies, mainly active in China. 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 distribution channels.

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, mainly 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 facilities are located in both Guangzhou, Guangdong Province in Southern China, and Chengdu, Sichuan Province in Western China. The former is operated by the Group's wholly-owned operative subsidiary Guangzhou Hing Wah Glass Industry Co. Ltd (GHW) while the latter is operated by another wholly-owned subsidiary of the Group (Sichuan Hing Wah Glass Limited) (SHW).

Products

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

Management

The members of Board of management are also the key members of the management. Top decisions are made by members of Board of management and passed down, and the middle management and other staffs are responsible for implementation of their decisions. Members of Board of management meet with the middle management regularly per week in order to gather feedback from them. With such feedback information, the Board of management compares the actual with the forecast and update the business strategies accordingly. In next meeting, the middle management can be informed about the updated strategies and they will follow and implement.

Geographic reach of business

The Group is selling all their products in the PRC, with a main focus on the Guangdong and Sichuan Provinces, the areas our production facilities are located in.

ECONOMIC AND INDUSTRY ENVIRONMENT

Economic environment

Mainland China's real GDP growth rebounded to 7.9% in the last quarter of 2012, reversing the downward growth trend of the previous seven quarters. For 2012 as a whole, the economy expanded by 7.8%, which was the slowest since 1999, but still above the Central Government's target growth of 7.5%.

The breakdown of the various sectors' contribution to real GDP growth showed that domestic demand was the main source of growth in 2012, while the external sector remained a drag.

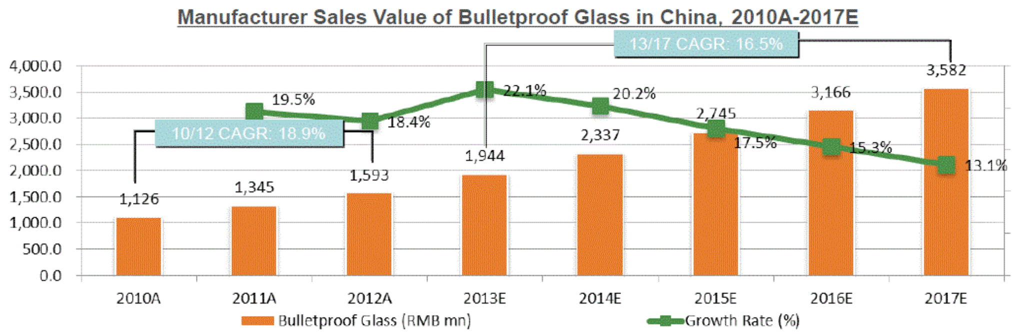
More encouraging was that inflation remained well contained in 2012, though consumer prices rebounded by 2.1% in the last quarter from 1.9% in the third quarter. For 2012 as a whole, consumer prices rose 2.6%. Meanwhile, home prices in major cities began to rise in the second half of the year.

Looking into 2013, mainland China's economy is expected to rebound modestly, to a growth of 8.0%, from 7.8% in 2012. There are a number of risk factors, including renewed rises in food and house prices, as well as a deterioration in Sino-Japanese relations.

Industry environment

Over the 12th Five-Year Plan period of the Chinese Government (from 2011–2015), the urbanization process will presumably accelerate; with the overall recovery of the property market, the commercial property market continues its booming growth; banks and other financial services companies will further expand their networks; infrastructure construction like highways, high-speed railways and city rail transit systems will push forward; incomes continue to grow as the middle class population increases; consumption of premium cars, residential buildings and luxury products continues with rapid growth.

Market Size of Bulletproof Glass in China



Specialty Glass	2010A	2011A	2012A	2013E	2014E	2015E	2016E	2017E
Manufacturer Sales Value (RMB mn)	99,452.9	129,487.7	166,391.7	216,465.7	277,725.5	352,711.4	442,652.8	548,546.5

Sales of bulletproof glass totaled RMB 1.59 billion in 2012, up 18% year-on-year. By 2012, the deep processing proportion of flat glass in China is only around 60%, much lower than that of developed countries in Europe and North America, which is higher than 90%. Therefore, China's specialty glass market still exhibits large growth potential.

National policies and industry regulations have been one of the main factors that have driven the growth of bulletproof glass in recent years. The Ministry of Public Security and People's Bank of China have imposed compulsory safety requirements upon banking and financial facilities, demanding that all banking, insurance and postal service outlets in China have glass installed that qualifies as bulletproof.

The financial system is still the single largest customer group for bulletproof glass. Renovation of banking outlets has directly boosted the sale of bulletproof glass. Within the financial system, domestic banks' record number of new outlet openings in 2011 was the reason for the fastest sales growth of bulletproof glass. Meanwhile, as financial services companies continue to increase their outlets , so does the demand for bulletproof glass used in armored cash carriers. Vehicle-use bulletproof glass is the second largest segment.

Competitors and market structure

China's specialty glass industry has seen its market concentration somewhat weakened in recent years as more regional and small- and-medium sized players have ventured into this marketplace. As the specialty glass business is more profitable and demands in various segments have not been fully met, predictably there will be even more glass manufacturers entering the specialty glass market. However, leading market players are confident to maintain their market share due to the following reasons.

Domestic specialty glass manufacturers are generally small in size. Most of them are SMEs with annual revenue of RMB 30 million to 50 million. Lack of advanced techniques and talent make it difficult for them to break through the technological bottleneck and realize 'technological' growth. In the fields of energy-saving glass, solar glass and ultrathin glass, the production and processing techniques are much more demanding than in traditional types of glass, requiring advanced technologies and talent. As a result, SMEs would face great technological barriers in high-end segments.

Moreover, even though most small and medium domestic specialty glass manufacturers can produce glass that meets the requirement imposed by national standards, they are still facing barriers when competing with large manufacturers in the invitation-for-bid process. Leading players are constantly raising the bar by inflating their registered capital and meanwhile getting clients to adopt a new rating system that appraises a supplier comprehensively in different aspects, such as registered capital and investment in equipment, so as to highlight the competitive advantage of large manufacturers.

Outlook

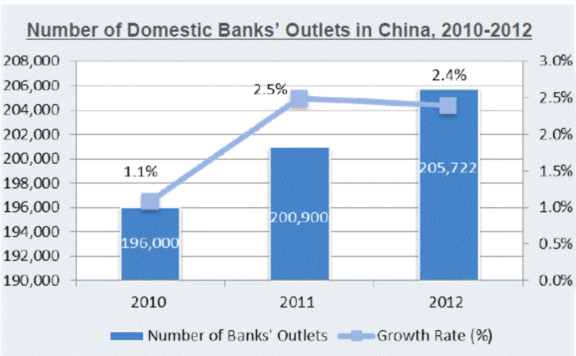
The bulletproof safety glass market is likely to sustain its rapid growth in the future as the financial services industry (especially the banking industry) in China steadily advances and the application of bulletproof glass broadens. The bulletproof glass market is predicted to grow at a CAGR of 17% over the next 5 years and reach RMB 3.6 billion in 2017 in terms of market size (up 118% over 2012).

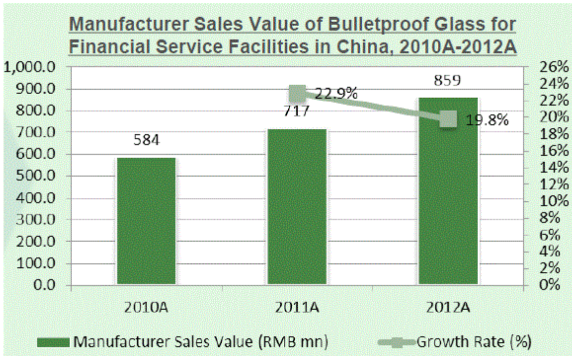
In the next 5 years, bulletproof glass used in financial services facilities and vehicles will still be the largest segment, but niche markets like ATM bulletproof exterior shields also have great potential.

Bulletproof glass will be more widely used in showcases for precious metals, highway toll stations, gas stations, sentry boxes and so forth, as government agencies become more security conscious and will have to comply with mandatory rules or regulations.

Bulletproof glass used in showcases for precious metals and in highway toll stations is expected to have more value-added properties, such as heat insulation and UV-resistance.

Bulletproof Glass for Financial Service Facilities





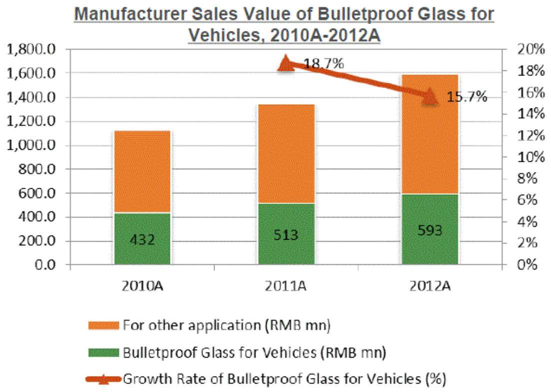
The proportion of bulletproof glass for financial services facilities in the overall bulletproof glass market has been expanding consistently over the years from 2010 to 2012. Its sales reached RMB 860 million in 2012, up 19.8% year-on-year, due to the steady growth of banking outlets. According to the China Banking Association's report, by the end of 2011, the number of banking services outlets in China increased by 4,900 to total 200,900; by the end of 2012, the number increased by 4,822 to total 205,722.

Bulletproof glass for financial services facilities accounted for 54% of the whole bulletproof glass market in 2012. In the next 3 years, with the number of banking outlets predicted to grow by no less than 2% annually (each year adding at least 4000 new outlets), this segment will continue to grow at a steady rate.

Currently, each banking outlet uses 30 to 40 square meters of bulletproof glass on average. To offer a complete range of services, banks have expanded the store size, hence greater demand for bulletproof glass. Additionally, many existing outlets would consider replacing their roll-up doors or brick walls with bulletproof glass when renovating and remodeling for safety and aesthetic reasons. All these factors would further push up demand for bulletproof glass.

Supposing that 10%-15% of domestic banks' outlets will replace their bulletproof glass every year, the replacement demand from financial service facilities (including rural credit cooperatives, postal savings bank outlets and etc.) in 2012 is estimated to be 1.6 million square meters (i.e. around RMB 1.2 billion); in addition, the number of domestic banks' outlets increased by over 4,800, most of which are required to build with bulletproof glass and thus created a demand of 0.2 million square meters (i.e. around RMB 150 million). The total demand from banking outlets is 1.8 million square meters (i.e. around RMB 1.35 billion). Each of the next few years will witness an increase of around 4000 outlets, generating new demand of at least 0.2 million square meters every year.

Bulletproof Glass for Vehicles



Currently, three types of vehicles are using bulletproof glass: armored cash trucks, high-speed rail trains and premium civilian vehicles; armored cash trucks accounts for 80% of the sales of bulletproof glass for vehicles. In 2012, sales of bulletproof glass for vehicles totaled RMB 593 million, up 16% year-on-year, which was lower than the average growth for the bulletproof glass industry.

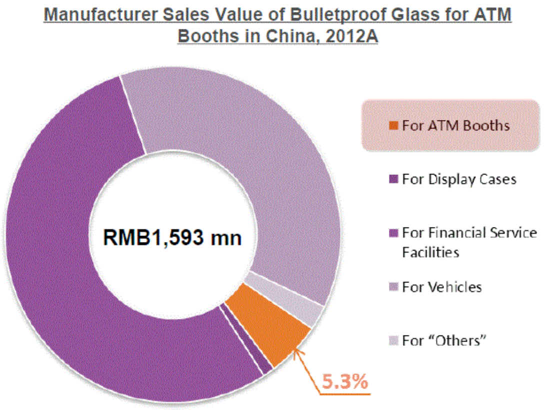
As banks expand their networks, demand for bulletproof glass for vehicles is on a steady rise, but we also find that most of the demand for bulletproof glass from armored cash trucks is replacement demand instead of new demand. China has an estimated 70,000 armored cash trucks (including those used by postal savings bank outlets). In 2011, China added around 3,000 new cash trucks.

Public security authorities are in charge of banks' cash transport business in China. This is why the growth of armored cash trucks is not in pace with that of bank branches. Usually, for dozens of new bank outlets, there will be only a few new cash trucks. In many cities, the entire cash transport business is undertaken by only a few government-designated companies, and these companies prolong the life-cycle of cash trucks from 3 or 4 years to 6 years to cut costs.

It is worth noting that the proportion of bulletproof glass for vehicles in the entire bulletproof glass market has decreased from 38.3% in 2010 to 37.1% in 2012, and is likely to further drop in the future.

Demand for bulletproof glass for armored cash trucks is quite stable, and as the increase of new cash trucks has been small in recent years, the replacement demand alone is not enough to bolster rapid growth. Comparatively, other segments, such as safety glass for ATM booths, report much faster growth.

Bulletproof Glass for ATM Booths

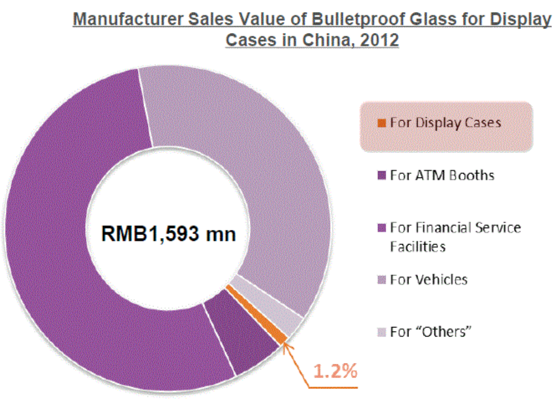


Sales of special glass for ATM booths totaled RMB 83.9 million in 2012, up 20% year-on-year, slightly faster growth than the average (18%) for the entire bulletproof glass market.

From 2010 to 2012, as domestic banks steadily increased the number of outlets, the application of bulletproof glass for ATM booths continued to expand. Meanwhile, foreign banks are also growing rapidly in China after China's WTO entry and are now penetrating into tier-2 and -3 cities in central and western China.

ATM and self-service banking is widely recognized as an effective way of expanding business; therefore, the number of ATM will continue to grow at a rapid pace. From banks' perspective, one ATM costs RMB 500,000 to 600,000 (including installation of bulletproof glass shield), which is much cheaper than the labor cost of 3 to 4 employees at a counter. Additionally, self-service machines now can offer a much wider range of commonly-used services, including depositing, withdrawal, transfer, payment and inquiry, and clients are more receptive to self-service banking.

Bulletproof Glass for Display Cases



Bulletproof glass for display cases is mainly used for storing and displaying expensive items or collections at a jewelry store, museum, art gallery or textiles store.

Sales of bulletproof glass for display cases totaled RMB 19 million in 2012, up 12% over the previous year. In terms of both market size and growth, it is a smaller segment. In most places, bulletproof or shatterproof displays cases are not required for building jewelry stores, and jewelers' security awareness has not been fully raised.

Although precious metals exchange and trading facilities like gold and jewelry stores have multiplied in number over the years, most of them are franchised stores. For example, Chou Tai Fook plans to open 200 new stores each year to bring its total number of outlets to 2000 by 2014. Generally, stores directly owned by jewelry brands would be more likely to install bulletproof or shatterproof display cases, but most franchised stores are reluctant to invest in such security precautions due to cost issues.

Given the increasing number of jewelry store robberies, the Ministry of Public Security has urged jewelers to upgrade their measures of security to prevent robbery. This move is likely to inject new momentum. Some local authorities, such as the Hunan Provincial Department of Public Security, have clearly stipulated that display cases for gold, silver and jewelry must be made of shatterproof glass that complies with national standards (GA844-2009) plus corner reinforcement. Jewelry stores failing to meet these standards are not approved to set up display cases.

Bulletproof Glass for other purposes (Construction Use)

China's urbanization will still be one of the greatest driving forces in the domestic economy (by the end of 2011, the urbanization rate in China was 51.3%), and in the next decade China will need 1.6 billion m2 of new housing (including low-income housing). Standard Chartered, in its property market report issued in August, 2012, stated that the real estate market in China had bottomed out but was on its way to recovery as sales in certain cities had picked up and prices rallied. According to National Bureau of Statistics official figures, China sold 1,113.0 million m2 of commercial housing in 2012, up 1.8% year-on-year, and total investment by property developers amounted to RMB 9653.8 billion, up 12.7% year-on-year.

The use of bulletproof glass in residential buildings is still minimal at present, but in the next few years demand for bulletproof glass in the field of residential construction is likely to expand. So far, some high-end residential buildings have installed bullet-resistant glass in the ground and second floors, and developers are promoting the installation as a selling point. As the rich-poor gap widens, rich people in China are increasingly security-conscious. Premium residences like villas are using bulletproof glass for protection. As its use in residential buildings increases, demand for bulletproof glass will grow. Under the government's property market control policies, many developers in the first-tier cities are moving the battleground to second- and third-tier cities.

From 2010 to 2012, investment in office buildings and commercial properties has grown by a CAGR of 20%, indicating a shift in investment from residential buildings to commercial properties. As the property market in first-tier cities is saturated, developers are moving to second- and third-tier cities as their new battleground. The commercial property market will enter a fast-growth stage. Besides low-emission glass, fireproof glass and laminated glass, bulletproof glass is becoming more widely used in high-end office buildings. As such, the bulletproof glass market is predicted to make some progress in the coming years.

Specialty glass, like smart switchable glass, fireproof glass, laminated glass and heat-resistant glass, has more functional features that can meet end users' diverse demands than flat glass. The use of specialty glasses in construction is still relatively low (estimated 40%) in China compared to developed countries. The average deep-processing rate of glass worldwide is 60% and in developed countries up to 80%. In Europe and the U.S., low-emission glass, laminated glass and insulating glass has nearly replaced flat glass in construction.

DEVELOPMENT OF CSG GROUP

During 2012, a number of key developments occurred for CSG Group:

- Additional bank financing
- Production capacity expansion
- New product development
- Market expansion
- Formation of a new wholly-owned subsidiary

Additional bank financing

On 26 April 2012, the Group has entered into two secured loan agreements with the Shanghai Branch and the Singapore Branch of Credit Suisse AG ("Credit Suisse") with a face amount of EUR 24.0 million and EUR 9.6 million.

The first loan consists of a RMB 200 million (approximately EUR 24.0 million) secured term loan to Guangzhou Hing Wah Glass Industry Co. Ltd., which shall be used for the partial financing of the new production facilities in Guangzhou. These new facilities are expected to accelerate the CSG business development. The loan bears interest on 151% of the People's Bank of China (PBoC) basic loan rate, in total currently approximately 10 percent per annum and has a repayment term of three years.

The second loan facility to Hing Wah Holding (Hong Kong) Ltd., is serving mainly for purposes of capital injection to the Guangzhou incorporated subsidiary to support further business growth. The loan bears interest on a 6 months LIBOR plus margin basis, in total currently approximately 10.73 percent per annum, and has a repayment term of three years. The loan is convertible, at the sole option of the lender into 6.0 per cent to 10.13 per cent (on a pre-listing basis) of the shares of a newly formed offshore subsidiary of China Specialty Glass AG should the Company decide to float such subsidiary provided a certain valuation is reached. Following a transfer of the operating business of the group into this entity, the relisting in Hong Kong is planned. Should no such listing occur or should Credit Suisse not exercise the conversion option, the loan will be repaid at maturity plus a performance fee.

Production capacity expansion

In May 2012 we secured financing for the expansion of our second production site in Chengdu, Sichuan Province in Western China. This new facility will significantly increase our capacity for lamination glass and thermal tempering glass. Initial test operations of the first phase have started but due to the delay in the financing as well as government approvals the production will not go into full operation until 2013. We expect that the maximum additional production capacity of temperation and lamination can reach 2 million sq. m. and 0.9 million sq. m., respectively, at the Chengdu production site by 2014.

Moreover, new bank financing also was used to acquire additional production lines at the Guangzhou production site in order to increase the production capacity of lamination glass. We expect the maximum additional production capacity of temperation and lamination can reach 1.3 million sq. m. and 1 million sq. m., respectively, at the Guangzhou production site by 2014.

New product development

The company is increasingly focusing on research & development in order to launch new and high profit margin products. The company will set up a separate R&D centre in Guangzhou and will hire new research staff to develop and finally launch innovative products.

Intruder resistance glass series is one of our innovative products which launched in 2010 and is gaining a lot of popularity by both old and new banking and automotive clients. Intruder resistance glass is similar to bulletproof glass in structure and in the production process except that glass used for the former undergoes a chemical tempering process before the lamination step. It is capable of withstanding the forceful impact of heavy objects such as an axe or hammer. The integrity of such glass as a whole remains intact despite the visible surface damage suffered upon repeated impact.

In addition, new business sectors, specifically, stores of luxury and high-end goods (e.g. jewellery, top fashion), have placed orders for this product application. The banks of Guangdong Province, Hunan Province and Fujian Province have also begun to replace traditional bulletproof glass by intruder resistant glass. The intruder resistant glass series has a higher unit selling price with a more attractive gross profit margin and is expected to become one of the major sales generating series in foreseeable years.

Market expansion

We have allocated resources to explore the market of automotive security glass in overseas countries in order to improve the profitability of the Group in the foreseeable future.

Also, if possible, we expect to acquire a supplier of PVC which will support the company in stabilization of price and availability of major preliminary products material supplied, with investment costs of approximately RMB 200 million.

Formation of a new wholly-owned subsidiary

On 19 December 2012, a new wholly-owned subsidiary, China Specialty Glass Holdings Limited was formed under CSG AG in order to meet the requirement of investment process in the foreseeable future.

We refer to our explanation to the convertible loan in the Financial Position section.

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 in 2012.

Amounts in kEUR	2012	2011 (Restated)	+/- %
Revenue	**113,707**	76,884	47.9
Cost of sales	**(61,818)**	(41,754)	48.1
Gross profit	**51,889**	35,130	47.7
Other income	**433**	2,053	-78.9
Selling and distribution expenses	**(5,418)**	(3,166)	71.1
Administrative expenses	**(5,260)**	(5,696)	-7.7
Finance income	**271**	270	0.4
Finance costs	**(3,600)**	(431)	735.3
Compensation for terminating exclusive distributor-ship right agreement	**-**	(1,957)	-100.0
Research and development costs	**(2,518)**	(1,908)	32.0
Loss on initial recognition of convertible loan's loan and convertible component	**(12,486)**	-	NA
Change in fair value of convertible loan convertible component	**77**	-	NA
Profit before taxation	**23,388**	24,295	-3.7
Taxation	**(7,073)**	(3,486)	102.9
Net profit	**16,315**	20,809	-21.6
Other Comprehensive Income: Foreign currency translation reserve movement	**(496)**	6,068	-108.2
Total Comprehensive Income	**15,819**	26,877	-41.1
Profit attributable to: owners of the parent	**16,315**	20,809	-21.6
Total Comprehensive income attributable to: owners of the parent	**15,819**	26,877	-41.1
Earnings per share (undiluted = diluted)	**€0.92**	€1.28	-28.1
Weighted average number of shares	**17,700,000**	16,236,676	9.0

Sales

Revenue of EUR 113.7 million was generated during 2012, representing an increase of EUR 36.8 million or 47.9% compared to 2011 (2011: EUR 76.9 million). All major products of CSG Group have contributed to the visible increase of revenue. Revenue of automotive security glass increased from EUR 35.0 million in 2011 by EUR 10.5 million or 30.0% to EUR 45.5 million. Revenue of bank security glass increased from EUR 32.0 million in 2011 by EUR 14.7 million or 45.9% to EUR 46.7 million. Revenue of construction glass in 2012 increased from EUR 10.0 million in 2011 by EUR 11.5 million or 115.0% to EUR 21.5 million. The following shows the breakdown of the group's revenue in 2012:

	2012		2011		+/- (in %)
SECURITY GLASS					
Automotive security glass					
Quantity (m^2)	**219,155**		197,827		10.8
Sales (EUR' mil)	**45.5**	**40.0%**	35.0	45.5%	30.0
Cost of sales (EUR' mil)	**(20.9)**		(15.9)		31.4
Gross profit (EUR' mil)	**24.6**	**47.3%**	19.1	54.3%	28.8
Gross margin (in %)	**54.1%**		54.3%		
Bank security glass					
Quantity (m^2)	**458,255**		349,839		31.0
Sales (EUR' mil)	**46.7**	**41.1%**	32.0	41.6%	45.9
Cost of sales (EUR' mil)	**(27.7)**		(19.0)		45.8
Gross profit (EUR' mil)	**19.0**	**36.7%**	13.0	37.1%	46.2
Gross margin (in %)	**40.7%**		40.6%		
CONSTRUCTION GLASS					
Quantity (m^2)	**657,081**		399,118		64.6
Sales (EUR' mil)	**21.5**	**18.9%**	9.9	13.0%	115.0
Cost of sales (EUR' mil)	**(13.2)**		(6.9)		88.6
Gross profit (EUR' mil)	**8.3**	**16.0%**	3.0	8.6%	176.7
Gross margin (in %)	**38.6%**		30.3%		
TOTAL					
Quantity (m^2)	**1,334,491**		946,784		40.9
Sales (EUR' mil)	**113.7**	**100.0%**	76.9	100.0%	47.9
Cost of sales (EUR' mil)	**(61.8)**		(41.8)		48.1
Gross profit (EUR' mil)	**51.9**	**100.0%**	35.1	100.0%	47.7
Gross margin (in %)	**45.6%**		45.7%		

Automotive security glass

Sales growth in automotive security glass was continued in the year ended 31 December 2012. In comparison to the same period in 2011, sales growth of automotive security glass was 30.0% while its gross profit growth was 28.9%. It was due to the increases in sales quantity by 10.8% from 197,827 sq. m. in 2011 to 219,155 sq. m. in 2012. The gross profit margin of automotive security glass was decreased slightly from 54.3% in 2011 to 54.1% in 2012. In 2012, automotive security glass accounted for 40.0% of the total sales while it was 45.5% in 2011.

Bank security glass

Sales revenue and gross profit of bank security glass in 2012 was improved significantly when compared to that of 2011 and amounted to EUR 46.7 million and EUR 19.0 million respectively. Its gross profit margin was kept at 40.7% and its quantity was increased by 31.0% to 458,255 sq. m. in 2012 from 349,839 sq. m. in 2011 due to the commencement of operation in Sichuan production site during the last quarter of 2012. In 2012, bank security glass accounted for 41.1% of the total sales while it was 41.6% in 2011.

Construction glass

In 2012, sales revenue of construction glass improved significantly from EUR 9.9 million in 2011 to EUR 21.5 million in 2012 while its gross profit was increased from EUR 3.0 million in 2011 to EUR 8.3 million in 2012. Its overall gross profit margin was increased from 30.3% in 2011 to 38.6% in 2012 due to the increase in quantity of high profit margin construction glass products in 2012. In 2012, construction glass accounted for 18.9% of the total sales while it was 13.0% in 2011.

Cost of sales

Cost of sales increased to approximately EUR 61.8 million in the year by approximately EUR 20.0 million or 48.1% from 41.8 million in the year ended 31 December 2011. It was due to the increases in production overheads and sales quantity.

Production overhead’s average unit cost increased to EUR 5.2 per square meter by approximately EUR 1.1 or 26.8% from EUR 4.1 per square meter.

Preliminary products accounted for approximately 85.6% of cost of sales in 2012 while it accounted for approximately 87.4% in 2011, and direct labor cost and electricity cost each accounted for approximately 7.1% and 7.6% of cost of sales in 2012 and 2011 respectively. These three elements together accounted for 92.7% of cost of sales in 2012 while they accounted for 95% in FY 2011. The Group may not be able to shift the increased cost of these three elements to consumer.

Gross profit

Gross profit in 2012 was increased by EUR 16.8 million or 47.7% from EUR 35.1 million in 2011 to approximately EUR 51.9 million. This was mainly due to the increase in the sales of automotive security glass, bank security glass as well as construction glass. Gross profit of automotive security glass increased from EUR 19.1 million in 2011 by EUR 5.5 million or 28.8% to EUR 24.6 million. Gross profit of bank security glass increased from EUR 13.0 million in 2011 by EUR 6.0 million or 46.2% to EUR 19.0 million. Gross profit of construction glass increased from EUR 3.0 million in 2011 by EUR 5.3 million or 176.7% to EUR 8.3 million.

The overall gross profit margin decreased slightly from 45.7% in 2011 to 45.6% in 2012. This decrease was mainly due to decreased unit selling price of products made by Sichuan factory in 2012.

Selling and distribution expenses

In 2012, selling and distribution expenses increased to EUR 5.4 million from EUR 3.2 million in 2011 by EUR 2.2 million or 71.1% was mainly owing to the increases in staff salary, travelling, advertisement and transportation expenses.

The percentage of selling and distribution expenses in relation to total sales was 4.8% in 2012 and 4.1% in 2011.

Administrative expenses

Administrative expenses decreased from EUR 5.7 million in 2011 by EUR 0.4 million or 7.7% to EUR 5.3 million in 2012. This decrease was primarily due to the IPO fees in the previous year.

Compensation paid on termination of exclusive distributorship rights

In December 2011, CSG and Saint Gobain concluded to terminate the established distributorship agreement and signed a settlement agreement. The overall impact of such termination upon profit of 2011 was EUR 2 million, whereas EUR 1.5 million was already paid in 2011 and a remaining of EUR 0.5 million had been cashed out in 2012.

Research and development expenses

Research and development expenses in 2012 of the Group amounted to EUR 2.5 million representing 2.2% of revenues (2011: EUR 1.9 million).

Finance costs

Finance costs increased significantly by kEUR 3,169 or 7 times from kEUR 431 in 2011 to kEUR 3,600 in 2012 due to effective interest expenses as well as cost components of new bank loan and convertible loan.

Loss on initial recognition of convertible loan and convertible component

These are the losses arising from initial recognition of convertible loan’s loan and convertible components due to higher interest rate than market rate as well as the consideration of cost components. However, the above-mentioned losses did not have any major impact upon the Group’s cash position as at the year ended 31 December 2012. Please refer to note 22.

Change in fair value of convertible loan convertible component

This is the fair value change in fair value of convertible loan convertible component. Please refer to note 22.

Operating profit for the year / EBIT

Profit before taxation decreased from EUR 24.3 million in 2011 by EUR 0.9 million or 3.7% to EUR 23.4 million in 2012. EBIT increased by kEUR 2,261 to kEUR 26,717. Contravise, EBIT margin decreases from 31.8% in 2011 to 23.5% in the current year. Without considering the one-off effect arising from the initial recognition of the convertible loan, the EBIT would sum to kEUR 39,126.

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 14.3% in 2011 and 30.2% in 2012 as the increased income tax expense arising from the release of deferred tax asset of kEUR 1,078 and losses arising from initial recognition of convertible loan's loan and convertible components as well as the fair value change in fair value of convertible loan convertible component which are non-tax deductible.

Net profit

Net profit decreased from EUR 20.8 million in 2011 by EUR 4.5 million or 21.6% to EUR 16.3 million in 2012.

Net profit margin

The net profit margin decreased from 27.1% in 2011 to 14.3% in 2012 due to recognization of significant loss from the difference between fair value and face value of the convertible loan as well as selling and distribution expenses increased during the reporting period.

Summary income situation

Management is fully satisfied with the revenue movement as well as the gross profit margin in 2012. The decrease of the net profit has been accepted by the management in favor of a financing package in order to develop the group's current and future expansion strategies.

FINANCIAL POSITION

The Group's asset and capital structure developed as follows: the balance sheet total increased from kEUR 123,720 by kEUR 44,228 to kEUR 167,948. This rise is mainly attributable to an increase in property, plant and equipment, other assets, lease payments for land use rights as well as cash and bank balances.

Amounts in kEUR	31 December 2012	31 December 2011	% of change
Assets	**(Audited)**	**（Restated）**	
Non-current assets			
Property, plant and equipment	**29,850**	27,591	8.2
Prepayments for acquisition of property plant and equipment	**13,006**	6,452	101.6
Land use right	**11,472**	-	NA
Prepayment on land use right	**-**	11,550	100
Intangible assets	**8**	10	-20.0
Prepayment on operating lease	**1,736**	1,924	-7.4
Deferred tax assets	**160**	1,078	-85.2
	56,231	48,605	15.8
Current assets			
Inventories	**2,398**	2,434	-1.5
Trade and other receivables	**23,819**	15,518	53.5
Prepayment on operating lease	**112**	114	-1.8
Tax receivable	**970**	472	105.5
Loan to a related party	**5**	5	-
Cash and bank balances	**84,412**	56,572	49.2
	111,716	75,115	48.7
Total assets	**167,948**	123,720	35.7
Equity and Liabilities			
Capital and Reserves			
Share capital	**17,700**	17,700	-
Capital reserve	**19,739**	19,739	-
Statutory reserve	**4,161**	724	474.7
Foreign currency translation reserves	**9,093**	9,589	-5.2
Retained earnings	**64,152**	51,274	25.1
	114,845	99,026	16.0
Non-current Liabilities			
Convertible loan – loan component	**17,261**	-	NA
Secured bank loans	**24,024**	-	NA
	41,285	-	NA
Current Liabilities			
Corporate income tax payable	**1,471**	846	73.9
Trade and other payables	**9,108**	8,043	13.2
Interest-bearing bank borrowings	**-**	15,805	-100.0
Related party payables	**333**	-	NA
Convertible loan – convertible component	**906**	-	NA
	11,818	24,694	-52.1
Total equity and liabilities	**167,948**	123,720	35.7

NON-CURRENT ASSETS

Property, plant and equipment (PPE)

The company benefits from a very positive asset turnover ratio (revenue/non-current assets) of 2.01 (in 2011 1.57) as well as a positive capital turnover ratio (revenue/balance sheet sum) of 0.67 (in 2011 0.62). This is mainly due to the fact that most machinery used in the current production was acquired at low costs in prior years. The company benefits from a visible increase in price level in China which leads to replacement costs of the machinery being significantly higher than the historic asset costs. Furthermore the production does not require high tech machines and the business model of the company relies on experience and know how rather than high tech assets.

The increase in the asset turnover as well as the capital turnover ratio in 2012 is mainly due to the fact, that the company implemented a two working shift strategy to increase the output during 2012. Furthermore, the new production site in Sichuan plant has started in late 2012 to contribute a portion of the total revenue.

Plants and office buildings

Plants and office buildings represented the plants and office buildings owned by both GHW and SHW in the cost amount of kEUR 14,934 as of 31 December 2012. Plants and office buildings increased by kEUR 3,327 in 2012, this increase related to a transfer-in from construction-in -progress in relation to GHW only due to the completeness of plant expansion and renovation.

Machinery

Machinery relates to GHW in the cost amount of kEUR 7,880 and to SHW in the cost amount of kEUR 7,752 as of 31 December 2012.

Machinery increased by kEUR 13,357 in 2012, this increase related to additions of kEUR 1,624 and a transfer-in of kEUR 11,733 from construction in progress. Additions of kEUR 1,292 represented the newly acquired machineries and are related to the GHW while additions of kEUR 332 represented the newly acquired machineries and are related to the SHW. Transfer-in of kEUR 11,733 relates to transfers of machinery from construction-in -progress including kEUR 4,404 in relation to GHW and kEUR 7,329 in relation to SHW. Transfer-in of kEUR 4,404 in GHW represented the costs of production lines of temperation and lamination while transfer of kEUR 7,329 represented the costs of 1600 kVA power supply, production lines of temperation and lamination and hollow glass production equipment.

Machinery decreased by kEUR 43 in 2012 due to disposal of old machinery in GHW.

Construction in progress

Construction in progress relates to SHW in the cost amount of kEUR 865 as of 31 December 2012. It represented construction-in-progress for construction of second phase plants in SHW.

Additions of construction in progress amounts to kEUR 2,175. Additions of kEUR 917 represented improvement of plants as well as costs of 4 edge smoothing machineries for GHW; additions of kEUR 1,258 represented the construction of second phase plants and other machineries for SHW.

Transfers of construction in progress amounts to kEUR 15,060 in 2012. This relates to transfer-out from construction in progress to plants and office buildings and machineries. Transfers-out to plants and office buildings of kEUR 3,327 represent new plant and office location at GHW. Transfer-out to machinery of kEUR 11,733 relates to transfers of machinery from construction-in-progress for both GHW and SHW.

Prepayments for acquisition of property plant and equipment

Prepayments for acquisition of property plant and equipment represented the prepayments made for the acquisition of machineries in both GHW and SHW production sites.

As at 31 December 2012 these machineries were machines that have been paid partially and not being delivered. Machinery will be delivered during 2013 and the complete delivery of all machineries is planned to be made by end of 2013.

Land use rights and Prepayment for land use right

Prepayment for land use right comprises advance payments for land-use rights in respect of the Group's facility in Sichuan. In 2011, the Group made the advance payment in the context of a bidding process which has been formally completed in 2012.

As the registration process was completed and the certificate of PRC Government was obtained on 18 December 2012, SHW transferred the amount from prepayment for land use right together with relevant taxes to land use rights. It is in respect of a 133,334 sq. m. land in Sichuan and includes land leveling costs of kEUR 6,079.

	Land use right kEUR	Prepayment for land use right kEUR
Balance as at 1 January 2012	-	11,550
Transfers	11,550	(11,550)
Special tax on property**	162	-
Amortization	(78)	-
Exchange difference*	(162)	-
Balance as at 31 December 2012	11,472	-

* It represents the exchange difference arising from the translation of the exchange rate between EUR and RMB at closing rates of the period ends.

** China special tax on property is usually 3% on cost of property.

Intangible assets

Intangible assets represented the software licence.

Cost of intangible assets brought forward and carried forward is kEUR 13.

Amortization of intangible assets during the year is kEUR 2 and thus the accumulated amortization of intangible assets as at 31 December 2012 is kEUR 5.

Net carrying amount of intangible assets as at 31 December 2012 is kEUR 8.

Prepayments on operating lease

Prepayments on operating lease relates to the land use rights and premises in Guangzhou for which an advance payment was made to a related party, Mr. Shi Chunli. Following the conclusion of the lease agreement described in note 13 of the consolidated financial statement, 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 lease prepayment for leasehold land. It is being amortized to income over the 20 years term of the lease (20 years lease term and a free of charge extension of 10 years).

Deferred tax assets

The deferred tax asset arose from temporary difference as a result of aligning the Sichuan's operating subsidiary's accounts to IFRS.

The Group parent company incurred tax losses carried forward of kEUR 3,594. This was mainly caused by the IPO costs in July 2011. No deferred tax has been set up in 2012.This is due to an amended business plan in 2012. As of this plan there will be no future taxable income for the next five years on CSG AG level to offset existing tax loss carried forward. The deferred tax assets in the amount of kEUR 1,078 have been set up in 2011 assuming a rate of 30%. Due to the change in the business plan a valuation allowance in the full amount of kEUR 1,078 has to be considered.

CURRENT ASSETS

Inventories

Inventories comprise preliminary products and finished goods. Inventories maintained at approximately EUR 2.4 million as of 31 December 2011 and 31 December 2012.

Trade and other receivables

Trade and other receivables increased from EUR 15.5 million as of 31 December 2011 by EUR 8.3 million or 53.5% to EUR 23.8 million as of 31 December 2012, which was mainly attributable to the increase in trade receivables as at 31 December 2012.

The amount of trade receivables increased from EUR 13.9 million as of 31 December 2011 to EUR 21.8 million as of 31 December 2012 in line with the increase of sales revenue. There is no trade receivable with overdue date of more than 30 days as of 31 December 2012.

Other receivables increased from EUR 1.6 million as of 31 December 2011 to EUR 2.0 million as of 31 December 2012.

Tax Receivable

It represents the receivable of corporate income tax paid by Guangzhou factory in the first quarter of 2010 and import tax paid by Sichuan factory during the last quarter of 2012.

Loan to a related party

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

Cash and bank balances

Cash and bank balances of the Group increased by EUR 27.8 million from EUR 56.6 million as at 31 December 2011 to EUR 84.4 million as at 31 December 2012 mainly due to receipt of the net new bank loans of EUR 24.0 million 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 114,845 while the total capital of the Group is kEUR 167,948. Accordingly, the equity ratio is about 68.4%.

CURRENT LIABILITIES

Trade and other payables

Trade and other payables increased from EUR 8.0 million as of 31 December 2011 by EUR 1.1 million to EUR 9.1 million as of 31 December 2012.

Trade payables increased from EUR 5.0 million as of 31 December 2011 by EUR 1.4 million to EUR 6.4 million as of 31 December 2012 in line with increases in sales, production capacity and purchases of preliminary products during the year.

Other payables decreased from EUR 3.0 million as of 31 December 2011 by EUR 0.3 million to EUR 2.7 million as of 31 December 2012.

NON-CURRENT LIABILITIES

Convertible loan and Secured bank loans

The secured bank loan consists of a RMB 200 million (approximately EUR 24.0 million) secured term loan, which shall be used for the partial financing of the new production facilities in Guangzhou. These new facilities are expected to accelerate the CSG business development. The loan bears interest on 151% of the People’s Bank of China (PBoC) basic loan rate, in total currently approximately 10 percent p.a. and has a term of three years. The security of the RMB loan facility includes the shares of Sichuan Hing Wah Glass Limited, the current and future fixed assets of Guangzhou Hing Wah Industry Co., Ltd., and interest pledge.

The convertible loan serves mainly for purposes of capital injection to the Guangzhou incorporated subsidiary to support further business growth. The loan bears interest on a 6-month LIBOR plus margin basis, in total currently approximately 10.73 percent per annum, and has a term of three years. The loan is convertible, at the option of the lender into 6.0 per cent to 10.13 per cent (on a pre-listing basis) of the shares of a newly formed offshore subsidiary of China Specialty Glass AG, China Specialty Glass Holdings Limited incorporated in Cayman Islands, should the Company decide to float such subsidiary provided a certain valuation is reached. The convertible loan has to be seen in context of a planned relisting in Hong Kong. Following a transfer of the operating business of the Group into this entity the relisting in Hong Kong is planned. Should no such listing occur or should Credit Suisse not exercise the conversion option, the loan will be repaid at maturity plus a performance fee. The security of the convertible loan includes the shares of Hing Wah Holdings (Hong Kong) Limited, China Specialty Glass Holdings Limited and their existing and future offshore subsidiaries; 100% equity interest of Guangzhou Hing Wah Glass Industry Co., Limited; all assets of the corporate guarantor, Luckyway Global Group Limited incorporated in British Virgin Islands; and the debt service reserve account.

If qualified relisting occurs within 24 months from the date of the issue of the convertible loan, Credit Suisse shall have the right to convert the convertible loan into 8% of the China Specialty Glass Holdings Limited’s common shares on a pre-relisting, fully diluted basis or 6% of the China Specialty Glass Holdings Limited’s common shares on a post-relisting, fully diluted basis or an amount of common shares of the listed company which will give an equivalent return.

If qualified relisting occurs after 24 months from the date of the issue of the convertible loan, Credit Suisse shall have the right to convert the convertible loan into 10.13% of the China Specialty Glass Holdings Limited’s common shares on a pre-relisting, fully diluted basis or 7.6% of the China Specialty Glass Holdings Limited’s common shares on a post-relisting, fully diluted basis or an amount of common shares of the listed company which will give an equivalent return.

If no qualified relisting occurs prior to 36 months from the issue date of the convertible loan or an event described in the term sheet of the convertible loan occurs, the convertible loan shall be repaid and Credit Suisse shall be entitled to a performance fee of a gross yield of 20% per annum based on the original convertible loan principal amount and RMB loan facility amount with interest.

Loan component

The market value of the loan component of the Convertible Loan was estimated by computing the sum of the present values of all expected future cash flows, each discounted by their prevailing market rates of interest for a similar instrument with a similar credit rating respectively. The credit rating of the Company was estimated by considering its key financial ratios and comparing these ratios to the average ratios of global non-financial corporations as published by Moody's (Source: Moody's Financial MetricsTM Key Ratios by Rating and Industry for Global Non-Financial Corporations: December 2010). The discount rates have been arrived at by combining the corresponding spot rates implied by China Sovereign Zero Coupon Notes with the USD US Industry A curve yield spread, the sovereign credit default swap of the PRC, and a yield spread of 0.38% as suggested by the paper "Corporate Bond Liquidity and Its Effect on Bond Yield Spreads" by Long Chen, David Lesmond and Jason Wei. The loan component is then derived as the sum of present values of all expected future cash flows, each discounted by the corresponding discount rates.

The loan component consists of a USD 10.0 million face amount (approximately EUR 7.6 million) and a USD 22.7 million carrying amount (approximately EUR 17.3 million) as of 31 December 2012. The fair value is calculated using cash flows discounted at a rate based on the effective rate of 15.22%. An external valuation report from Ascent Partners, Hong Kong, has been obtained.

Convertible component – current

The conversion option of the convertible loan is a derivative with the equity of the Company as underlying. The fair value of the conversion right has been calculated by an external appraiser (Ascent Partners, Hong Kong).

The convertible component consists of a USD 1.2 million carrying amount (approximately EUR 0.9 million) as of 31 December 2012.

Summary financial situation

The financial situation reflects from the management point of view the widening investments into the non-current assets, especially in the new factory in Sichuan in the current year. The equity basis and equity ratio are very solid. Additional loans will secure the financing of future expansion and restructuring of the group.

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 2012:

Amounts in kEUR	2012	2011 (Restated)
Net cash generated from operating activities	**29,220**	19,658
Net cash used in investing activities	**(10,644)**	(37,409)
Net cash generated from financing activities	**12,176**	32,348
Net increase in cash and bank balances	**30,752**	14,597
Cash and bank balances at beginning of the period	**56,572**	37,913
Effects of currency translation	**(2,912)**	4,062
Cash and bank balances at end of the period	**84,412**	56,572

The net cash position as of 31 December 2012 has increased. The Group generated a net cash inflow amounting to EUR 29.2 million from its operations, and EUR 12.2 million from financing activities due mainly to the portion of cash inflows from net secured bank loans and convertible loan of EUR 33.2 million but partially offset by cash outflows from the re-payment of old bank loans of EUR18.6 million. Cash outflows of EUR 10.6 million came from the investing activities during the year ended 31 December 2012. 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 year.

Cash at end of year

Cash and bank balances at the end of the year amounted to EUR 84.4 million as of 31 December 2012. Most of cash and bank balances were in China and comprised of mainly RMB, USD, HKD and EUR.

Cash management

CSG's basic target cash management is to ensure that enough funds are available at each given point of time to fulfill its financial obligations. Therefore CSG has cash planning and monitors the actual inflows and outflows. The limitations on transfers to and from PRC are also an important framework condition for the cash planning.

Summary of cash flow and liquidity

The management stated that liquidity situation meets the expectation and is solid. Furthermore management does not expect any liquidity shortage in 2013 and beyond.

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 120,882. In the financial year 2012 CSG AG realized a loss of kEUR 497.

The investment in affiliated companies amounts to kEUR 100,122 and mainly refers to the investment in HWG HK-Holding. Receivables due from affiliated companies of kEUR 21,320 mainly relate to intercompany loans. Cash and cash equivalents of kEUR 55 relate to liquid funds on current bank accounts.

Other operating income of kEUR 1,341 relates mainly to interest income received on intercompany loans. Other operating expenses of kEUR 1,838 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 the remuneration of both management and supervisory board. Deferred tax asset of kEUR 1,078 has been released. Due to an amended business plan, it is no longer probable that taxable profit will be available which the deductible temporary difference can be utilized.

General Statement on Business Development of the Group

In the financial year 2012, 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 not launched any innovative product.

The Group incurred research and development costs of EUR 2.5 million in the reporting year (2011: EUR1.9 million).

HUMAN RESOURCES

In the year ended 31 December 2012, the Group had an average of 588 employees (2011: 496 employees). The breakdown of the average number of employees of the Group in years ended 31 December of 2012 and 2011 are as follows:

Function	Average number of employees	
	2012	**2011**
Management and Administration	**83**	59
Sales and marketing	**54**	57
Production leaders	**108**	0
Production	**343**	380
	588	496

For the year ended 31 December of 2012, total costs of payroll for the Group amounted to EUR 3.3 million compared to EUR 3.0 million in the financial year 2011. This represents 2.9% and 3.9% to the total revenue in 2012 and 2011 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 remuneration does not include performance related parts or other long term positions, and has only short term employee benefits.

The tables below provide an overview over the gross remuneration and the social benefits paid to the members of the Management Board for the financial year 2011 and 2012:

Compensation in 2011:

Management Board member	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

Compensation in 2012:

Management Board member	Annual Salary	Social Securities	Others	Total
Sze, Nang Heung	€ 64,180.87	€ 0	€ 1,478.72	€ 65,659.59
Shi, Chun Li	€ 46,180.87	€ 768.29	€ 1,478.72	€ 48,427.88
Lee, Chi Hsiang Michael	€ 28,788.97	€ 0	€ 0	€ 28,788.97

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.

The remuneration of the Supervisory Board of the Company in 2011 and 2012 was shown as follows:

2011

Supervisory Board 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	20 April 2012	EUR 30,000.00

2012

Supervisory Board Member	Appointed on	Term ended	Compensation
Helmut Meyer	27 May 2010	31 March 2012	EUR 10,412.50
Xin Young Shi	27 May 2010	-	EUR 13,000.00
Volker Schlegel	29 October 2010	20 April 2012	EUR 10,412.50
Hao Chun Chang (Rick)	23 April 2012	-	EUR 23,400.00
Andreas Grosjean	23 April 2012	-	EUR 26,989.81

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.

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 2012 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, had informed us on 1 July 2011 that their shareholdings amounted to 63.2% of shares and voting rights of CSG AG. No change was notified to us since then.

Mr. Nang Heung SZE, PRC, had informed us on 1 July 2011 that through his directly 100%-owned entity, Luckway Global Group Ltd, he indirectly owned 63.2% of shares and voting rights of CSG AG. No change was notified to us since then.

Sea Dragon Investments Ltd., Road Town, Tortola, British Virgin Islands, informed us on 10 April 2013 that it sold 145,140 shares and it now owned 1,699,200 shares of CSG AG. Its ownership dropped from 10.42% to 9.6% of shares and voting rights of CSG AG.

Mr. Yan Kong Wong, PRC, informed us on 10 April 2013 that through his 100% directly owned entity, Sea Dragon Investments Ltd., he sold 145,140 shares of CSG AG thus decreasing his holdings from 10.42% to now 9.6% (1,699,200 shares and voting rights of CSG AG).

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.

Newly integrated risk management system

Before CSG AG has already established a system of internal controls, primarily related to certain business and accounting processes. In 2012, with the aid of compliance-net, CSG AG has set up a structure and organization to manage risks in a more structured and documented way. CSG AG has training and tools to perform all required tasks for its risk management. Now CSG performs monthly and quarterly risk tracking activities. Every quarter, CSG reviews risks captured in the excel-tool for completeness and accuracy; perform risk analysis and assessment; determine measures and populate the tool; send to risk controller to review. Risk controller modifies the tool and finalizes risk management strategy, documentations document and delivers to CSG. Risk controller then prepares risk report based on excel tool and hand over to CSG and the supervisory board for review and further use. The risk controller is accountable for the review and update of the implementation status of the determined measures. He shall also ensure that the updated risk strategy is adhered to.

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

Responsible corporate governance is dependent on a properly functioning risk management system. The risk management system implemented by China Specialty Glass Group is geared toward meeting the practical requirements of our operations. It is designed to highlight opportunities and risks at an early stage and to help avoid or limit them where they occur.

The Management Board keeps the Supervisory Board regularly informed about existing risks and their development. The Supervisory Board is provided by the Management 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.

Preliminary products and wage price inflation risk

Fluctuations in the costs of preliminary products 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 preliminary products by signing long-term supply agreements.

Increased cost due to new plant in Sichuan

The new plant in Sichuan causes running costs (new staff, procurement of new machines), which cannot be amortized in the beginning due to lack of sufficient order volume. Therefore, the existing capacity cannot yet be fully exploited. This risk has been recognized very early and there are some measures taking place. The market which the new plant will cover was sufficiently analyzed in advance. Talks with potential customers have been conducted. The current successful business model from Guangzhou is adopted in Sichuan. This includes a training concept for new staff and new management to ensure smooth production and administration processes. The training concept is also very important for the above reason. However, due to uncontrollable cause, Sichuan factory's construction got delayed. Because of Sichuan's rainy season elongated this year, the Sichuan plant construction shutdown for a few months. Sichuan went into production and sale normally in Oct. 2012 and got profit in 2012.

Dependence upon individuals

Certain key management of the company maintain strong trusting customer relationships. In addition key employees may base their loyalty on these individuals. Currently, we assume that the key individuals will not leave the company in the foreseeable future.

Inadequately insured (Sichuan / Guangzhou)

The new plant in Sichuan is not sufficiently insured because necessary certifications, which are needed for the acquisition of an insurance package, have not yet been obtained. Possible damages could lead to a financial loss. Furthermore, insufficient coverage might also exist in Guangzhou. To reduce this risk we consulted an insurance agent. However, there is always a remaining risk of insufficient coverage.

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 management pursuant to sec. 289a of the German Commercial Code (HGB) comprises the declaration of conformity pursuant to sec. 161 of the German Stock Corporation Act (AktG), relevant information on corporate management practices, and description of how the Management Board and Supervisory Board work, and of the composition and method of working of their committees.

The declaration on Corporate Governance is openly available for inspection on the Company’s website at www.csg-ag.de.

DEVELOPMENTS AFTER THE END OF THE REPORTING PERIOD

On 1 April 2013, Hing Wah Holdings (Hong Kong) Limited entered into a Capitalisation Agreement and issued new fully-paid shares for CSG AG to terminate the loan between CSG AG and Hing Wah Holdings (Hong Kong) Limited, the conversion part includes the loan principal and accrued interest income for 2013 Q1. And the already accrued but not paid 2012 interest of EUR 1,129,717.56 will be paid in full to CSG AG by 31 December 2013. CSG AG will have no further interest income. CSG AG is estimated to have around EUR 500,000 expense per year; the above interest income is enough to cover CSG AG’s 2013 and 2014 expense. If there is any unexpected event happen or CSG AG needs cash in the years beyond 2014, the subsidiaries will consider to declare dividend to CSG AG.

On 23 April 2013, CSG AG expands its Management Board from three to four members. The Supervisory Board appointed Mr. Chao Zhou as new Member of the Management Board effective as of May 1, 2013. Mr. Zhou has extensive experience in the field of special glass industry. In his last position he worked as Vice General Manager and corporate representative at CSG’s subsidiary Guangzhou Hing Wah Glass Industry Co. Ltd. for more than fifteen years.

Mr. Zhou has become Chief Operating Officer (COO) as of May 1, 2013. In the context of the succession plan of CSG Mr. Stanley Shi has assumed the role as Co-Chief Executive Officer (Co-CEO) of the company together with his father, the current CEO, Nang Heung Sze.

Except for the above, 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 is covering the years of 2013 and 2014, 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.

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. Given the growth opportunities for the Group in 2012 and beyond, we expect to increase sales around 40% and 21% in 2013 and 2014 respectively. We expect the growth of net profit will grow at the same pace.

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 products 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 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 last quarter of 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.

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 net loss including a negative operating cash flow in 2013 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.

Munich, 12 July 2013
China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO)

Chun Li Shi (Co-CEO)

Jing He (CFO)

Chao Zhou (COO)

Consolidated Financial Statements

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

	Notes	2012	2011
		EUR'000	EUR'000 **(Restated)**
Revenue	3	113,707	76,884
Cost of sales	4	(61,818)	(41,754)
Gross profit		51,889	35,130
Other income		433	2,053
Selling and distribution expenses		(5,418)	(3,166)
Administrative expenses		(5,260)	(5,696)
Finance income	5	271	270
Finance costs	6	(3,600)	(431)
Loss on initial recognition of convertible loan loan and convertible component		(12,486)	-
Change in fair value of convertible loan convertible component		77	-
Compensation for terminating exclusive distributorship right agreement		-	(1,957)
Research and development costs		(2,518)	(1,908)
Profit before taxation	7	23,388	24,295
Taxation	8	(7,073)	(3,486)
Net profit		16,315	20,809
Other Comprehensive Income:			
Foreign currency translation reserve movement		(496)	6,068
Total Comprehensive Income		15,819	26,877
Net profit attributable to: owners of the parent		16,315	20,809
Total Comprehensive income attributable to: owners of the parent		15,819	26,877
Earnings per share (undiluted = diluted)		€0.92	€ 1.28
Weighted average number of shares		17,700,000	16,236,676

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

Consolidated Statement of Financial Position

	Notes	31 Dec 2012	31 Dec 2011	01 Jan 2011
		EUR'000	EUR'000	EUR'000
Assets			(Restated)	(Restated)
Non-current assets				
Property, plant and equipment	9	**29,850**	27,591	5,677
Prepayments for acquisition of property plant and equipment	10	**13,006**	6,452	-
Land use rights	11	**11,472**	-	-
Prepayment on land use rights	11	**-**	11,550	-
Intangible assets	12	**8**	10	13
Other assets		**-**	-	53
Prepayment on operating lease	13	**1,736**	1,924	1,952
Deferred tax asset	16	**160**	1,078	-
		56,232	48,605	7,695
Current assets				
Inventories	14	**2,398**	2,434	1,591
Trade and other receivables	15	**23,819**	15,518	12,627
Tax receivables	8	**970**	472	438
Loan to related party	17	**5**	5	5
Prepayments on operating lease	13	**112**	114	106
Cash and bank balances	18	**84,412**	56,572	37,912
		111,716	75,115	52,679
Total assets		**167,948**	123,720	60,374
Equity and Liabilities				
Capital and Reserves				
Share capital	19	**17,700**	17,700	15,050
Capital reserve	19	**19,739**	19,739	-
Statutory reserves	19	**4,161**	724	724
Foreign currency translation reserves	19	**9,093**	9,589	3,521
Retained earnings	19	**64,152**	51,274	30,516
		114,845	99,026	49,811
Non-current Liabilities				
Convertible loan - loan component	22	**17,261**	-	-
Secured bank loans	22	**24,024**	-	-
		41,285	-	-
Current Liabilities				
Corporate income tax payable	8	**1,471**	846	1,311
Trade and other payables	20	**9,108**	8,043	4,996
Interest-bearing bank borrowings	21	**-**	15,805	1,813
Related party payables	17	**333**	-	2,443
Convertible loan - convertible component	22	**906**	-	-
		11,818	24,694	10,563
Total equity and liabilities		**167,948**	123,720	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 condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group					
	Share capital	Capital reserve	Statutory reserves	Foreign Currency Translation Reserve*	Retained earnings	Total Equity
Restated	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Balance at 1 January 2011	15,050	-	724	3,521	30,516	49,811
Shares issued	2,650	19,739	-	-	-	22,389
Total comprehensive in-come	-	-	-	6,068	20,844	26,872
Balance at 31 December 2011 before restatement	17,700	19,739	724	9,549	51,360	99,072
Changes in accounting policy	-	-	-	40	(86)	(46)
Restated balance at 31 December 2011	17,700	19,739	724	9,589	51,274	99,026
Total comprehensive in-come	-	-	-	(496)	16,315	15,819
Transfer from/ (to) statutory reserves	-	-	3,437	-	(3,437)	-
Balance at 31 December 2012	**17,700**	**19,739**	**4,161**	**9,093**	**64,152**	**114,845**

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).
*Foreign currency translation reserve is part of the OCI.

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

Consolidated Statement of Cash Flows

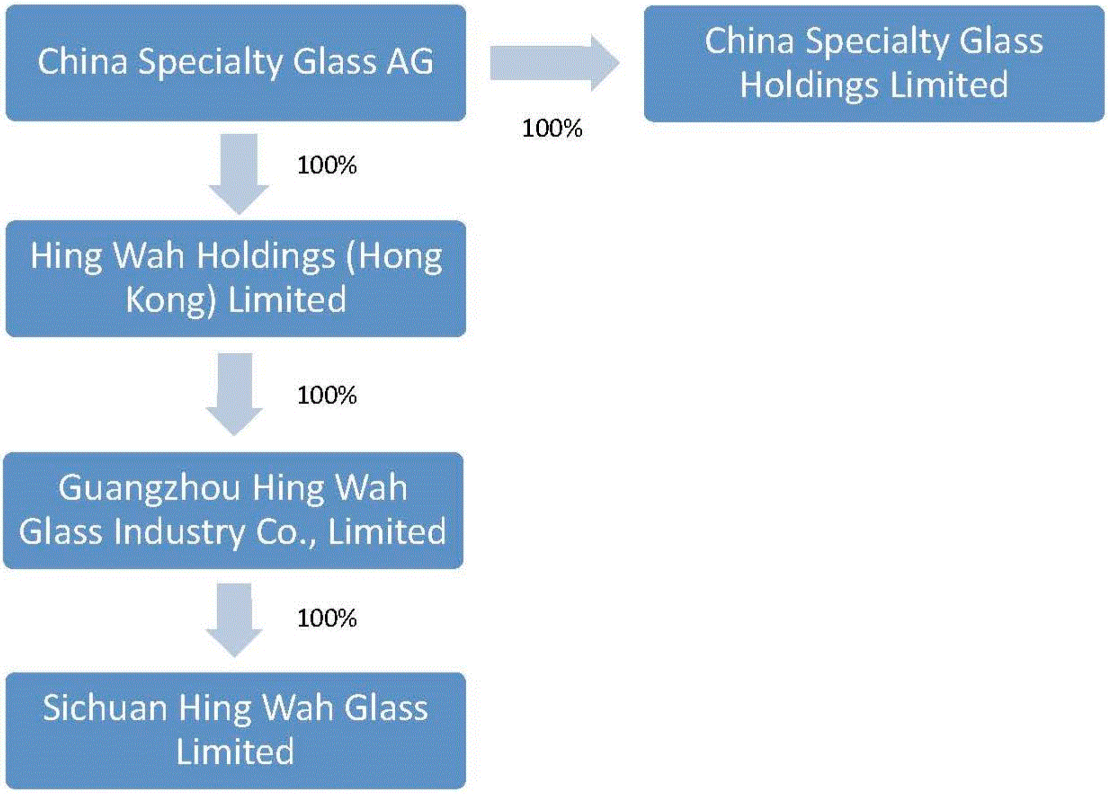
	Notes	2012	2011
		EUR'000	EUR'000
Cash flows from operating activities			(Restated)
Profit before taxation		23,388	24,295
Adjustments for:			
Finance income	5	(271)	(270)
Finance costs	6	3,538	431
Loss on disposal of property, plant and equipment		21	2
Depreciation of property, plant and equipment	9	1,365	173
(Increase)/ Decrease in prepayment for leasehold land		-	(50)
Amortization of land use right		78	-
Amortization of intangible assets		3	3
Deferred tax asset released		1,078	-
Loss on initial recognition of CB loan and convertible component		12,486	-
Chang in fair value of CB convertible component		(77)	-
Operating profit before working capital changes		41,671	24,634
Change in inventories		36	(843)
Change in trade and other receivables		(8,799)	(2,438)
Change in trade and other payables		1,398	2,405
Change in prepayments on operating lease		140	-
Cash generated from operations		34,446	23,758
Finance income		271	270
Income tax paid		(5,497)	(4,370)
Net cash generated from operating activities		29,220	19,658
Cash flows from investing activities			
Increase in prepayments for acquisition of machineries		(6,554)	(1,852)
Prepayments on operating lease		-	(1,081)
Acquisition of land use right		-	(10,570)
Investment in a subsidiary		(2)	-
Acquisition of property, plant and equipment	9	(4,088)	(23,906)
Net cash used in investing activities		(10,644)	(37,409)
Cash flows from financing activities			
Bank loans obtained, net of transaction cost		33,215	14,464
Repayment of bank loans		(18,636)	(1,780)
Finance costs		(2,619)	(431)
Advance from/ (Payments to) related parties		216	(2,366)
Net IPO proceeds		-	22,461
Net cash generated from financing activities		12,176	32,348
Net increase in cash and bank balances		30,752	14,597
Cash and bank balances at beginning of the year		56,572	37,913
Effects of currency translation		(2,912)	4,062
Cash and bank balances at end of the year		84,412	56,572

The annexed notes form an integral part of and should be read in conjunction with these condensed consolidated 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 Maximiliansplatz 15, 80333 Munich, 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 China Specialty Glass Holdings Limited ("CSGH"), Guangzhou Hing Wah Glass Industry Co., Limited ("GHW.") and Sichuan Hing Wah Glass Ltd. ("SHW") (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 GHW. The Group's new production facility in Sichuan Province, which is to be operated by SHW will go into full production soon.

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.

On 19 December 2012, a new wholly-owned subsidiary, China Specialty Glass Holdings Limited ("CSGH") was incorporated in Cayman Islands, of which its sole director is Sze Nang Heung.

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 2012 with comparatives. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including related interpretations, in so far as these have been endorsed by the EU, and have been consistently applied throughout the financial year ended 31 December 2012.

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.

2.2 Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the financial year 2012

The Group has applied the following standard for the first time in the financial year 2012:

- Amendments to IFRS 7 – Disclosures – Transfer of Financial Assets

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 standard.

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 were 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 2014.

- 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 on or after 1 January 2014

- IFRS 13 – Fair Value Measurement[2]

  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 IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Management Board assumes that there will be an impact of the above mentioned standards on the presentation and/or the valuation of the financial statements of the Group.

On the contrary, the Management Board assumes that below mentioned standards and interpretations will likely not have a material effect on the consolidated financial statements when they are applied by the Group:

- IFRS 11 – Joint Arrangements(3)
- IAS 27 – Separate Financial Statements(3)
- IAS 28 – Investments in Associates and Joint Ventures(3)
- IAS 12 (Amendments) – Deferred Tax: Recovery of Underlying Assets(2)
- IFRS 1 (Amendments) - Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters (2)
- IAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income(1)
- IAS 19 (Amendments) – Employee benefits(2)
- IFRS 7 (Amendments) – Disclosures – Offsetting Financial Assets and Financial Liabilities(2)
- IAS 32-Presentation-offsetting Financial Assets and Liabilities(3)
- IFRS 1 (Amendments) –Government Loans(2)
- IFRS 10-Consolidated Financial Statements(3)
- IFRS 12- Disclosure of Interests in Other Entities(2)
- IFRIC-Inter pretation 20 Stripping Costs of the Production Phase of a surface Mine (2)
- Annual Improvement Project（cycle 2009-2011）(2)

Amendments to IFRS 10”Consolidated Financial Statements”，IFRS 11” Joint Arrangements” and IFRS 12”Disclosure of Interests in Other Entities”:Transitional Regulations(3)

(1) Effective for annual periods beginning on or after 1 July 2012
(2) Effective for annual periods beginning on or after 1 January 2013
(3) Effective for annual periods beginning on or after 1 January 2014

The following standards and interpretations are not yet promulgated by the EU and therefore are not adopted by the Group

IFRS 9 “Financial Instruments” and Amendments to IFRS9 “Financial Instruments” and IFRS 7” Financial Instruments- Disclosures”:Initial Application and Transitional Regulations

Amendments to IFRS 10 ”Consolidated Financial Statements” and IFRS 12 ”Disclosure of Interests in Other Entities” and IAS27”Separete Financial Statements”: Investment

Companies

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on 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 20 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.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select variety methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

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 preliminary product price changes and changes in customer behaviour which may cause selling prices to change rapidly.

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.

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.

2.9 Detailed accounting policies

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 capitalized 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:

Plants and office buildings	20 years
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.

Prepayments for acquisition of property plant and equipment

It represented the prepayments made for acquiring the machineries for production sites. Prepayments for acquisition of property plant and equipment are recognized with the repayment amount.

Land use right

Land use rights are stated at cost less accumulated amortization and if applicable less impaired losses. Amortization is using the straight line method over the period of their legally binding lease term of 20 years. It represented the land use right of Sichuan production site owned by SHW which has been transferred from prepayments for land use right account.

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.

Prepayment on operating lease

Prepayment on operating lease relates exclusively to land use rights and premises in

Guangzhou, 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 legally binding lease term of max. 20 years. Prepayment on operating lease is recognized with the repayment amount.

Impairment of non-financial assets

Property, plant and equipment, leasehold buildings, intangible assets, land use rights, prepayment on leasehold land, and prepayments for acquisition of machineries 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.

In both 2011 and 2012, there was no impairment charges made for the non-financial assets.

Financial assets

The financial assets of the Group are categorized as advance and receivables. The Group does not have any other financial assets. The Group's advance 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 advance 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 sale 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 are recognized when the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For trade receivables, which are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognized within administration expense in profit or loss.

Advance and receivables are presented as current assets, as all mature within 12 months after the end of the reporting period. Advance 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 costs for preliminary products, 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 of monetary financial assets and liabilities into functional currencies by using the exchange rates at year-end exchange rate and at dates of transactions respectively 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 recognized when the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognized 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 amortized cost using the effective interest method, except for derivatives, which are measured at fair value. All interest related charges are recognized as an expense in profit or loss.

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

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

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loan that can be converted to share capital at the option of the holder.

The loan component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. Any directly attributable transaction costs are allocated to the loan component. Subsequent to initial recognition, the loan component of a compound instrument is measured at amortized cost using the effective interest method.

At initial recognition of convertible loan, the convertible component is measured at fair value and presented as current unless the Group has an unconditional right to defer settlement of the equity for at least 12 months after the end of the reporting period. The convertible component is subsequently re-measured at fair value. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

If the loan is converted, the carrying amount of the equity and loan components are transferred to share capital and share premium as consideration for the shares issued. If the loan is repaid, any difference between the amount paid and the carrying amount of both components is recognized in profit or loss.

Trade and other payables

Trade and other payables, interest bearing bank borrowings and related party payables are initially recognized 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.

No provisions are made for housing fund liability. Liability arising from the housing fund is not a statutory and mandatory obligation of the employer and thus no provision for housing fund liabilities is made during the year.

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 recognized 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 recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Finance income

Finance income is recognized 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 recognized 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 2011	EUR 1.00 = RMB 8.2253	EUR 1.00 = RMB 8.9877
31 December 2012	EUR 1.00 = RMB 8.3378	EUR 1.00 = RMB 8.1160
31 December 2011	EUR 1.00 = HKD 10.0579	EUR 1.00 = HKD 10.8309
31 December 2012	EUR 1.00 = HKD 10.2525	EUR 1.00 = HKD 9.9753

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 recognized 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 recognized 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, directors and supervisors 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 the directors and the supervisors of the Group 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 recognized 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.

When a lease includes land and buildings elements, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Segments

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 allocation resources and assessing performance of the operating segments, has been identified as the Management Board of CSG AG which makes strategic decisions.

In the quarterly report CSG AG displayed three operative segments, auto security glass, bank security glass and construction glass.

The management board reassessed this situation and came to the conclusion that the Company is actually a one segment entity. Other than in the prior year, the company has changed the management reporting as well as the resource allocation. The business segments will no longer form the basis of the management reporting. This is a result of the following reasons:

1. Product lines:

The main economic activity of the Company is the production of security glass. All types of glass are produced on the identical machinery line. Due to this fact, the management decided that the management report is not segmented according to product lines.

2. Customers:

There is no single customer that represents more than 10% of the Group's revenue in 2011 and 2012. As this portion is well below of 10% of the total sales, segmentation along the customer base is not appropriate.

3. Geographic:

CSG AG is selling all goods in the PRC also due to the size of the company there are some differences in market and climate conditions, we feel that these differences are not significant enough to constitute segmentation of the business.

A separate presentation of the individual business divisions is therefore not provided in these Notes.

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.

Disclosure of prior period errors

In applying IAS 8 paragraph 42 et seq, CSG AG discloses corrections of errors in respect of the financial statements 2011. The table shows the reconciliation between figures published and the adjusted figures of 2011:

	Notes	31. Dec. 2011 Before correction	Correction	31. Dec. 2011 After correction	P+I effect
		TEUR	TEUR	TEUR	TEUR
Correction 1					
Trade and other receivables	15	**28,050**	-12,531	15,519	
Prepayments on property plant and equipment	10	**-**	+6,452	6,452	
Prepayments on land use rights	11	**-**	+6,079	6,079	0
Correction 2					
Property plant and equipment	9	**28,873**	-1,282	27,591	
thereof buildings		**13,096**	-1,282	11,814	
Prepayments on operating lease	13	**-**	1,282	1,282	
thereof short term prepayments			72	72	
Effect on the retained earnings and profit					0
Correction 3					
Prepayments on land use rights	11	**801**	-801	-	
Prepayment on operating lease	13	**-**	756	756	
thereof short term prepayments			42	42	
Effect on the retained earnings and profit					45
Correction 4					
Other assets	-	**5,471**	-5,471	0	
Prepayments on land use rights	11	**0**	+5,471	5,471	0

Correction 1 refers to a reclassification of prepayments for additions on technical equipment, which were shown misleadingly under other receivables. The 2011 financials has shown kEUR 14,162 other receivables at year end, kEUR 6,452 out of this amount should be reclassified to prepayments on technical equipment and kEUR 6,079 are prepayments on land leveling costs which should be shown as prepayments on land use rights. This leads to a correct amount of trade and other receivables of kEUR 15,519. The adjustments have no consequence neither on the profit nor on the capital situation of CSG in all reported periods.

Corrections 2 and 3 refer to a lease agreement for an office building and the corresponding land use rights at the companies Guangzhou plant. The contractual partner is a related party. Due to Chinese law such type of lease contract must not have a lease period of more than 20 years. As the company wanted to secure the office building and the corresponding land use rights for a longer period, a contract with the related party for a 20 years lease term plus a 10 year prolongation note by the lessor was concluded in 2010. CSG considered this agreement in the former financial statements as a financial lease with a 30 year lease term. As there is according to Chinese law no binding legal obligation towards the lessor to fulfill the total 30 years lease term, CSG decided to restate the 2011 financial statements in such a way as if the contract ends after the legally binding period of 20 years. In more detail the effect can be descried as follows:

Correction 2 is in respect of a leased building at the Guangzhou plant of CSG. The building has been considered with a book value of kEUR 1,282 the financial statement of 2011. Instead of the book value of the building, CSG now shows the prepayment of the lease payment. The depreciation on the building has been eliminated and the rental payment has been shown instead. Out of this correction there will be no effect on the retained earnings and profit in 2011.

Correction 3 refers to the rental prepayment on leasehold land in Guangzhou. The prepayment on land use rights has been considered with a book value of TEUR 801 in the financial statement of 2011. Prepayments on the lease contract are now considered as lease costs over a period of 20 years instead of 30 years. The additional effect driving in retained earnings and P+L from this item is kEUR 45 in 2011.

Correction 4 adjusts an incorrect classification of prepayments on land use rights which was shown misleadingly under other assets. The 2011 financials show kEUR 5,471 other assets at year end. This amount has been reclassified to prepayments on land use rights. This adjustment has no consequence neither on the profit nor on the capital situation of CSG in all reported periods.

In addition CSG corrected the wording within the asset movement table. The wording of the former "leasehold buildings" is now "Plants and office buildings" as the mentioned assets are owned by the company.

The notes disclosure for invoiced auditors fees was also amended. In respect of audit fees kEUR 89 instead of kEUR 112 has been shown and for other services kEUR 30 instead of kEUR 25 has been shown.

3. REVENUE

The breakdown of revenue by the Group’s product categories is as follows:

	2012 kEUR	2011 kEUR
Auto security glass	**45,479**	34,679
Bank security glass	**46,721**	32,331
Construction glass	**21,507**	9,874
Total revenue	**113,707**	76,884

The Group’s revenues in 2012 and 2011 are derived wholly from the PRC.

The Group’s non-current assets, save for financial instruments and deferred income tax asset, are located in the PRC.

There is no single customer that represents more than 10% of the Group’s revenue in 2012 and 2011.

4. 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:

	2012 kEUR	2011 kEUR
Materials	**53,029**	36,560
Labour	**2,453**	1,662
Depreciation of property, plant and equipment	**1,304**	161
Operating lease expense	**137**	65
Electricity and water	**2,619**	1,973
Others	**2,276**	1,333
	61,818	41,754

5. FINANCE INCOME

	2012	2011
	kEUR	kEUR
Finance income		
Finance income on bank balance	**271**	270

6. FINANCE COSTS

	2012	2011
	kEUR	kEUR
Finance expenses of:		
- short term bank borrowings	**494**	431
- non-current secured bank loan	**1,550**	-
- convertible loan	**1,556**	-
	3,600	431

7. PROFIT BEFORE TAXATION

The selected components of the Group's profit before taxation is arrived at after charging:

	2012 kEUR	2011 kEUR
Depreciation of property, plant and equipment and leasehold building		
- included in cost of sales	**1,304**	161
- included in administrative expenses	**60**	11
Cost of inventories sold recognised as expenses	**53,029**	36,560
Operating lease expense	**137**	65
Research costs expensed	**2,518**	1,908
Loss on initial recognition of convertible loan's loan and convertible components	**12,486**	-
(Gain)/loss in fair value of convertible loan convertible component	**(77)**	-

Costs relating to employees are disclosed in detail in note 27.

8. TAXATION

	2012 kEUR	2011 kEUR
Current income tax expenses on profit arising from:		
PRC operations	**5,995**	3,969
Deferred tax expenses/ (income):		
Current year	**-**	(483)
Release of deferred tax asset	**1,078**	-
Income tax expense	**7,073**	3,486

PRC corporate income tax has been provided at the rate of 15% (2011: 15%) on the estimated assessable profit for the year. No profits tax has been made for Hong Kong and German companies as there was no assessable profit for the year.

Deferred tax asset is disclosed in detail in note 16.

The bridge from the calculated taxable expense to the taxable expense as of the financial statements at statutory tax rates is as follows:

	2012 kEUR	2011 kEUR
Profit before tax	**23,388**	24,295
Tax at statutory rate of 15%	**3,508**	3,644
Tax effects of:		
Tax effect of non-deductible expenses	**2,487**	325
Tax effect of previous unrecognized tax loss	**-**	(483)
Release of deferred tax assets	**1,078**	-
	7,073	3,486

Tax effect of non-deductible expenses relates mainly to the income affecting consideration of the convertible loan (kEUR 1,873).

8. TAXATION (CONTINUED)

Movements in corporate income tax payable are as follows:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
As at beginning of period	**846**	1,311
Current year tax expenses on profit	**5,995**	3,969
Income tax paid	**(5,497)**	(4,370)
Exchange difference on translation	**127**	(64)
End of period	**1,471**	846

A tax receivable of kEUR 463 at 31 December 2012 (kEUR 472 at 31 December 2011 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.

9. PROPERTY, PLANT AND EQUIPMENT

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

	Motor vehicles	Plants & office buildings**	Machinery	Furniture fixtures and office equipment	Construction In Progress	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Cost						
At 01 January 2011	36	441	1,661	44	4,129	6,311
Additions	-	10,416	871	180	12,438	23,905
Disposals	-	-	(23)	(7)	-	(30)
Transfers	-	-	-	-	(4,053)	(4,053)
Translation adjustment	2	998	200	19	1,077	2,296
At 01 January 2012	38	11,855	2,709	236	13,591	28,429
Additions	169	-	1,624	120	2,175	4,088
Disposals	-	-	(43)	(1)	-	(44)
Transfers	-	3,327	11,733	-	(15,060)	-
Translation adjustment	(5)	(248)	(391)	(6)	159	(491)
At 31 December 2012	**202**	**14,934**	**15,632**	**349**	**865**	**31,982**
Accumulated depreciation						
At 01 January 2011	-*	12	583	39	-	634
Depreciation	3	27	134	8	-	172
Disposals	-*	-	(21)	(7)	-	(28)
Translation adjustment	1	3	53	3	-	60
At 01 January 2012	4	42	749	43	-	838
Depreciation	11	686	618	49	-	1,364
Disposals	-*	-	(23)	(1)	-	(24)
Translation adjustment	-*	(18)	(26)	(2)	-	(46)
At 31 December 2012	**15**	**710**	**1,318**	**89**	**-**	**2,132**
Net book value						
At 31 December 2012	**187**	**14,224**	**14,314**	**260**	**865**	**29,850**
At 31 December 2011	34	11,813	1,960	193	13,591	27,591

* Amount is less than EUR 1,000

**This is a renamed position.

9.PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plants and office buildings

Plants and office buildings represented the plants and office buildings owned by both GHW and SHW. Transfer of kEUR 3,327 relates to the completeness of plant expansion and renovation. It is a transfer from construction-in -progress in relation to GHW only.

Machinery

It relates to GHW in the cost amount of kEUR7,880 and to SHW in the cost amount of kEUR 7,752.

Additions of kEUR 1,292 represented the newly acquired machineries and are related to the GHW while additions of kEUR 332 represented the newly acquired machineries and are related to the SHW.

Disposals of kEUR 43 relate to disposal of old machinery in GHW.

Transfer of kEUR 11,733 relates to transfers of machinery from construction-in -progress including kEUR 4,404 in relation to GHW and kEUR 7,329 in relation to SHW. Transfer of kEUR 4,404 in GHW represented the costs of production lines of temperation and lamination while transfer of kEUR 7,329 represented the costs of 1600 kVA power supply, production lines of temperation and lamination and hollow glass production equipment.

Construction in progress

Additions of kEUR 2,175 represented construction-in-progress of kEUR 917 for improvement of plants as well as costs of 4 edge smoothing machineries for GHW; construction-in-progress of kEUR 1,258 for the construction of second phase plants and other machineries for SHW.

Transfers of kEUR 15,060 relate to mainly transfer to plants and office buildings and machineries. Transfers to plants and office buildings of kEUR 3,327 represent new plant and office location at GHW. Transfer to machinery of kEUR 11,733 relates to transfers of machinery from construction-in-progress for both GHW and SHW.

10. PREPAYMENTS FOR ACQUISITION OF PROPERTY PLANT AND EQUIPMENT

Prepayments for acquisition of property plant and equipment relate to acquisition of machineries made for the acquisition of machineries in both GHW and SHW production sites.

As at 31 December 2012 these machineries were machines that have been paid partially and not being delivered. Machinery will be delivered during 2013 and the complete delivery of all machineries is planned to be made by end of 2013.

11. PREPAYMENT ON LAND USE RIGHT AND LAND USE RIGHT

Prepayment for land use right comprises advance payments for land-use rights in respect of the Group's facility in Sichuan. In 2011, the Group made the advance payment in the context of a bidding process which has been formally completed in 2012.

As the registration process was completed and the certificate of PRC Government was obtained on 18 December 2012, SHW transferred the amount from prepayment for land use right together with relevant taxes to land use rights. It is in respect of a 133,334 sq. m. land in Sichuan and includes land leveling costs of kEUR 6,079.

	Land use right kEUR	Prepayment for land use right kEUR
Balance as at 1 January 2012	-	11,550
Transfers	11,550	(11,550)
Special tax on property**	162	-
Amortization	(78)	-
Exchange difference*	(162)	-
Balance as at 31 December 2012	11,472	-

* It represents the exchange difference arising from the translation of the exchange rate between EUR and RMB at closing rates of the period ends.

** China special tax on property is usually 3% on cost of property.

12. INTANGIBLE ASSETS

Intangible assets represented the software license.

Cost of intangible assets brought forward and carried forward is kEUR 13. Amortization of intangible assets during the year is kEUR 2 and thus the accumulated amortization of intangible assets as at 31 December 2012 is kEUR 5.

Net carrying amount of intangible assets as at 31 December 2012 is kEUR 8 (previous year kEUR 10).

13. PREPAYMENTS ON OPERATING LEASE

Prepayments on operating lease refer to a lease agreement in respect of an office building and the corresponding land use rights at the companies Guangzhou plant. The contractual partner is a related party. Due to Chinese law such type of lease contract must not have a lease period of more than 20 years. As the company wanted to secure the office building and the corresponding land use rights for a longer period, a contract with the related party for a 20 years lease term plus a 10 year prolongation note by the lessor was concluded in 2010. As there is according to Chinese law no binding legal obligation towards the lessor to fulfill the total 30 years lease term, CSG considered this contract as if the contract ends after the legally binding period of 20 years.

The prepayment has been proceeded in May 2010 in the amount of RMB 18.7 million. This will be considered with effect on profit over a 20 years period on a straight line basis. A portion of kEUR 114 has been considered as rent in 2012.

14. INVENTORIES

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Preliminary products	**1,266**	1,137
Finished goods	**1,132**	1,297
	2,398	2,434

The amount of inventories recognized as an expense during the year was kEUR 53,029 included in cost of sales.

15. TRADE AND OTHER RECEIVABLES

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Trade receivables	**21,848**	13,888
Other receivables	**1,971**	1,630
TOTAL	**23,819**	15,518

As at 31 December 2012, the ageing analysis of trade receivables and other receivables based on overdue date are as follows:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
1 to 30 days	**215**	540
	215	540

All trade receivables are denominated in Renminbi. Trade receivables are non-interest bearing and generally have credit terms of 60 days (2011: 60 days).

Although there was trade receivables of amount of kEUR 215 (2011: kEUR 540) overdue less than 30 days, such overdue amounts were not significant and have been received in first quarter of 2013 and 2012. Hence it was not necessary to impair the trade receivables as at 31 December 2012 and 2011.

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Financial Assets		
Advance and receivables		
Trade and other receivables	**23,819**	15,518
Cash and cash equivalents	**84,412**	56,572
Related party receivables	**5**	5
Total financial assets classified as advance and receivables	**108,236**	72,095

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

All financial assets classified as advance 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 271 was earned on cash and cash equivalents in the period from 01 January 2012 to 31 December 2012. Apart from this no net gains or losses on advance and receivables occurred in the period from 01 January 2012 to 31 December 2012. 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.

16. DEFERRED TAX ASSETS

	2012	2011
	kEUR	kEUR
Balance brought forward	**1,078**	-
Deferred tax income/ (expenses) of:		
Temporary difference	**160**	-
IPO costs set off against equity	**-**	595
(Gain)/ Loss brought forward	**-**	483
Release of deferred tax assets	**(1,078)**	-
As at 31 December	**160**	1,078

The deferred tax asset arose from temporary difference as a result of aligning the Chinese subsidiary's accounts to IFRS.

The Group parent company incurred tax losses carried forward of kEUR 3,594. This was mainly caused by the IPO costs in July 2011. No deferred tax has been set up in 2012.This is due to an amended business plan in 2012. As of this plan there will be no future taxable income for the next five years on CSG AG level to offset existing tax loss carried forward. The deferred tax assets in the amount of kEUR 1,078 have been set up in 2011 assuming a rate of 30%. Due to the change in the business plan a valuation allowance in the full amount of kEUR 1,078 has been considered.

17. LOAN TO RELATED PARTY AND RELATED PARTY PAYABLES

Loan to related party of kEUR 5 relates 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 26.

As at 31 December 2012, the amount of related party payable with Mr. Sze Nang Heung was kEUR 333. The amounts are unsecured, not interest bearing and without fixed terms of repayment.

18. CASH AND BANK BALANCES

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Cash at banks	**84,389**	56,560
Cash on hand	**23**	12
	84,412	56,572

The cash at banks are denominated in Renminbi and bear an effective interest rate of 3% per annum for the period from 01 January 2012 to 31 December 2012. Cash and bank balances are denominated in the following currencies:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Renminbi	**83,502**	45,072
Euro	**63**	11,500
US dollar	**845**	- *
Singapore dollar	**2**	-
Hong Kong $	**-***	-*
	84,412	56,572

*Amount is less than EUR 1,000.

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

19. 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 number of share capital of CSG AG increased to 17,7000,000. 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 GHW. 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 increase the capital of CSG AG by up to EUR 7,525,000. 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 22 November 2015. 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.

19. SHARE CAPITAL AND RESERVES (CONTINUED)

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 2012 (2011: EUR 19,739).

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 4,161 at 31 December 2012 (kEUR 724 at 31 December 2011).

Foreign currency translation reserve

Foreign currency translation differences arising on the translation of monetary financial assets and liabilities into functional currencies by using the exchange rates at year-end exchange rate and at dates of transactions respectively are included in the translation reserve.

Retained earnings

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

19. SHARE CAPITAL AND RESERVES (CONTINUED)

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 2012 amounted to 17,700,000. 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

19. SHARE CAPITAL AND RESERVES (CONTINUED)

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.

20. TRADE AND OTHER PAYABLES

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Trade payables	**6,366**	4,472
Compensation payable to Saint Gobain	**-**	503
Other payables and accrued operating expenses	**2,742**	3,068
	9,108	8,043

Trade payables generally have credit terms of 60 days (2011: 60 days). All trade and other payables are denominated in Renminbi.

Financial Liabilities at Amortized Cost

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Interest-bearing bank borrowings	**-**	15,805
Trade payables	**6,366**	4,472
Related party payables	**333**	0
	6,699	20,277

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.

21. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Short-term bank loans	-	15,805

Short-term bank loans had been settled by using the long term new secured bank loan during the second quarter of the year. The interest rate was 7,216% per annum.

22. CONVERTIBLE LOAN AND SECURED BANK LOAN

The carrying amounts and fair value of the non-current borrowings of the Group are as follows:

	Carrying amount at year end		**Fair Value at inception 30 May 2012**	
	2012 kEUR	2011 kEUR	2012 kEUR	2011 kEUR
Convertible loan	**17,261**	-	**9,158**	-
Secured bank loan	**24,024**	-	**24,024**	-
	41,285	-	**33,182**	-

The secured bank loan consists of a RMB 200 million (approximately EUR 24.0 million) secured term loan, which shall be used for the partial financing of the new production facilities in Guangzhou. These new facilities are expected to accelerate the CSG business development. The loan bears interest on 151% of the People's Bank of China (PBoC) basic loan rate, in total currently approximately 10 percent p.a. and has a term of three years. The security of the RMB loan facility includes the shares of Sichuan Hing Wah Glass Limited，the current and future fixed assets of Guangzhou Hing Wah Industry Co., Ltd., and interest pledge.

22. CONVERTIBLE LOAN AND SECURED BANK LOAN (CONTINUED)

The convertible term loan consists of a USD 10 million (approximately EUR 7.6 million) loan facility which serves for purposes of capital injection to the Guangzhou incorporated subsidiary to support further business growth. The loan bears interest on a 6-month LIBOR plus margin basis, in total currently approximately 10.73 percent per annum, and has a term of three years. The convertible loan has to be seen in context of a planned relisting in Hong Kong. The loan is convertible, at the sole option of the lender into 6.0 per cent to 10.13 per cent (on a pre-listing basis) of the shares of a newly formed offshore subsidiary of China Specialty Glass AG, China Specialty Glass Holdings Limited incorporated in Cayman Islands, should the Company decide to float such subsidiary provided a certain valuation is reached. Following a transfer of the operating business of the Group into this entity, the relisting in Hong Kong is planned. Should no such listing occur or should Credit Suisse not exercise the conversion option, the loan will be repaid at maturity plus a performance fee. The security of the convertible loan includes the shares of Hing Wah Holdings (Hong Kong) Limited, China Specialty Glass Holdings Limited and their existing and future offshore subsidiaries; 100% equity interest of Guangzhou Hing Wah Glass Industry Co., Limited; all assets of the corporate guarantor, Luckyway Global Group Limited incorporated in British Virgin Islands; and the debt service reserve account.

If qualified relisting occurs within 24 months from the date of the issue of the convertible loan, Credit Suisse shall have the right to convert the convertible loan into 8% of the China Specialty Glass Holdings Limited’s common shares on a pre-relisting, fully diluted basis or 6% of the China Specialty Glass Holdings Limited’s common shares on a post-relisting, fully diluted basis or an amount of common shares of the listed company which will give an equivalent return.

If qualified relisting occurs after 24 months from the date of the issue of the convertible loan, Credit Suisse shall have the right to convert the convertible loan into 10.13% of the China Specialty Glass Holdings Limited’s common shares on a pre-relisting, fully diluted basis or 7.6% of the China Specialty Glass Holdings Limited’s common shares on a post-relisting, fully diluted basis or an amount of common shares of the listed company which will give an equivalent return.

If no qualified relisting occurs prior to 36 months from the issue date of the convertible loan or an event described in the term sheet of the convertible loan occurs, the convertible loan shall be repaid and Credit Suisse shall be entitled to a performance fee of a gross yield of 20% per annum based on the original convertible loan principal amount and RMB loan facility amount with interest.

22. CONVERTIBLE LOAN AND SECURED BANK LOAN (CONTINUED)

Loan component

The market value of the loan component of the Convertible Loan was estimated by computing the sum of the present values of all expected future cash flows, each discounted by their prevailing market rates of interest for a similar instrument with a similar credit rating respectively. The credit rating of the Company was estimated by considering its key financial ratios and comparing these ratios to the average ratios of global non-financial corporations as published by Moody's (Source: Moody's Financial MetricsTM Key Ratios by Rating and Industry for Global Non-Financial Corporations: December 2010). The discount rates have been arrived at by combining the corresponding spot rates implied by China Sovereign Zero Coupon Notes with the USD US Industry A curve yield spread, the sovereign credit default swap of the PRC, and a yield spread of 0.38% as suggested by the paper "Corporate Bond Liquidity and Its Effect on Bond Yield Spreads" by Long Chen, David Lesmond and Jason Wei. The loan component is then derived as the sum of present values of all expected future cash flows, each discounted by the corresponding discount rates.

The convertible loan component recognized in the balance sheet is calculated as follows:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Fair value of loan component issued at 30 May 2012	**16,180**	-
Interest expense	**1,556**	-
Interest paid	**(415)**	-
Translation reserve	**(60)**	
Carrying amount at 31 December 2012	**17,261**	-

The loan component consists of a USD 10.0 million face amount (approximately EUR 7.6 million) and a USD 22.7 million carrying amount (approximately EUR 17.3 million) as of 31 December 2012. The fair value is calculated using cash flows discounted at a rate based on the effective rate of 15.22%. An external valuation report from Ascent Partners, Hong Kong, has been obtained.

22. CONVERTIBLE LOAN AND SECURED BANK LOAN (CONTINUED)

Conversion right

The conversion option of the convertible loan is a derivative instrument with the equity of the Company as underlying. The fair value of the conversion right has been calculated by an external appraiser. (Ascent Partners, Hong Kong)

The convertible loan conversion right recognized in the balance sheet is calculated on basis of the assumption that the likelihood of a conversion event is at 2.5 %. The development of the fair value of the conversion right is as follows:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
Fair value of convertible component issued at 30 May 2012	**968**	-
Change in fair value	**(62)**	-
Fair value at 31 December 2012	**906**	-

The conversion right consists of a USD 1.2 million carrying amount (approximately EUR 0.9 million) as of 31 December 2012.

23. 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 2012 EUR'000	As at 31 December 2011 EUR'000
Not later than one year	40	40
Later than one year and not later than five years	129	161
Later than five years	-	10
	169	211

23. COMMITMENTS (CONTINUED)

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.

24. 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 2012, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables, related party balances, trade payables, accrued liabilities, other payables, convertible loan and secured bank loans.

(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 of 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 28% and 47% of the trade receivables balances as at 31 December 2012 and 31 December 2011 respectively.

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 overdue receivables' overdue date was within 30 days and were subsequently received.

(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 year ended 31 December 2012 have maturity period of more than 1 year from the statement of financial position date.

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

	Total carrying amount kEUR (all current)
At 31 December 2011	
Trade payables and other payables	8,043
Interest-bearing bank borrowings	15,805
Related party liabilities	-
	23,848
At 31 December 2012	
Trade payables and other payables	**9,108**
Interest-bearing bank borrowings	**-**
Related party liabilities	**333**
	9,441

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

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 1,205.

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 kEUR	**5% decrease kEUR**
Year ended 31 December 2012	**-5,742**	**5,742**
Year ended 31 December 2011	-4,962	4,962

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Group is exposed to minimal interest rate risk as it has financial instruments with acceptable range of flexible interest rates. The interest rates of the group's convertible loan and secured bank loan are disclosed in note 23. The group does not consider it has significant exposure to interest rate risk in respect of the group's convertible loan and secured bank loan as they are mainly at fixed rates plus a small portion of flexible rate and stated at amortized cost. The group has not used any derivative contracts to hedge its exposure to interest rate risk. The group decides to accept this risk. As of materiality reasons a sensitive analysis has not been performed.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 December 2012 kEUR	As at 31 December 2011 kEUR
6 months or less	**-**	-
6 - 12 months	**-**	-
1 - 5 years	**41,285**	-
Over 5 years	**-**	-
	41,285	-

25. 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 2012 kEUR	As at 31 December 2011 kEUR
Total borrowings	**41,285**	15,805
Cash and bank balances	**-84,412**	-56,572
Net debt/(cash)	**-43,127**	-40,767
Total equity	**114,845**	99,026
Net debt to equity ratio	**-37.6%**	-41.2%

26. 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 buildings and land use rights under an operating lease from Mr. SHI Chunli.

The lease contracts in respect of the factory buildings and according land use rights in Guangzhou have a lease term until June 30, 2039. As of Chinese law, Mr. Shi is binded to this contract until June 30, 2029, we refer to section 13. The lease amount has been in advance in a lump sum payment of RMB 18,679,500. Out of this amount, the portion of land use rights sums to RMB 7,120,604.

The Group leases several buildings under operating leases from Guangzhou City Liwan District Yaoxiang Property Management Center. 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. The lease amount is kEUR 42 (previous year kEUR 44).

As at 31 December 2012, the amount of related party liability with Mr. Sze Nang Heung was kEUR 333. The amounts are unsecured, not interest bearing and without fixed terms of repayment.

During the year ended 31 December 2012, the Group repaid short term bank loans of EUR 15.8 million.

26. 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 (term ended 1 March 2013)
Mr. Helmut Meyer	Chairman of the Supervisory Board of CSG AG (term ended March 2012)
Miss Jing HE	Member of the Management Board of CSG AG (term began on 1 March 2013)
Mr. Xin Young Shi	Member of the Supervisory Board of CSG AG
Mr. Volker Schlegel	Member of the Supervisory Board of CSG AG (term ended April 2012)
Hao Chun ”Rick” Chang	Chairman of the Supervisory Board of CSG AG (term commenced on March 2012)
Andreas Grosjean	Member of the Supervisory Board of CSG AG (term commenced on April 2012)
Guangzhou City Liwan District Yaoxiang Property Management Center (formerly known as Guangzhou City Liwan District Glass Plants), 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%.

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

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 under a finance lease agreement, and land use rights under operating leases from Guangzhou City Liwan District Yaoxiang Property Management Center. 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.

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

Transactions with Key Management Personnel

Key management personnel include members of Management Board with the Company and the Group as well as the members of the Supervisory Board.

The compensation is paid pursuant to the different employment agreements of the 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 remuneration does not include performance related parts or other long term portions, and includes short term employee benefits only.

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 year 2011 and 2012:

Compensation in 2011:

Management Board member	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

Compensation in 2012

Management Board member	Annual Salary	Social Securities	Others	Total
Sze, Nang Heung	€ 64,180.87	€ 0	€ 1,478.72	€ 65,659.59
Shi, Chun Li	€ 46,180.87	€ 768.29	€ 1,478.72	€ 48,427.88
Lee, Chi Hsiang Michael	€ 28,788.97	€ 0	€ 0	€ 28,788.97

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.

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

For 2012 the General Shareholders' Meeting on April 2012 has determined the compensation of each Supervisory Board member. The chairman of the Supervisory Board shall receive a total compensation of EUR 31,200.00 (gross amount, including withholding tax) for full year.

2011

Supervisory Board 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	20 April 2012	EUR 30,000.00

2012

Supervisory Board Member	Appointed on	Term ended	Compensation
Helmut Meyer[1]	27 May 2010	31 March 2012	EUR 10,412.50
Xin Young Shi	27 May 2010	-	EUR 13,000.00
Volker Schlegel	29 October 2010	20 April 2012	EUR 10,412.50
Hao Chun Chang (Rick)	23 April 2012	-	EUR 23,400.00
Andreas Grosjean	23 April 2012	-	EUR 26,989.81

27. EMPLOYEES BENEFITS

	2012	**2011**
Average number of employees of the Group	**588**	496
Management and administration	**83**	59
Sales	**54**	57
Production leaders	**108**	0
Production	**343**	380
	588	496

27. EMPLOYEES BENEFITS (continued)

The aggregate payroll costs of these employees were as follows:

	2012	2011
	kEUR	kEUR
Wages and salaries		
- under cost of sales	**2,453**	1,662
- under selling and administrative expenses	**511**	1,136
	2,964	2,798
Social security cost	**294**	199
	3,258	2,997

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 2012 to 31 December 2012 amount to approximately kEUR 294.

28. CONTINGENCIES

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.

28. CONTINGENCIES (continued)

Tax risks

Various uncertainties exist relating to the following matters which could result in additional tax liabilities for GHW or the Group:

i. Depreciation was over claimed by GHW 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 8.

ii. Entertainment expenses claimed by GHW 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 52.

29. SUBSEQUENT EVENTS

On 1 April 2013, Hing Wah Holdings (Hong Kong) Limited entered into a Capitalisation Agreement and issued new fully-paid shares for CSG AG to terminate the loan between CSG AG and Hing Wah Holdings (Hong Kong) Limited, the conversion part includes the loan principal and accrued interest income for 2013 Q1. And the already accrued but not paid 2012 interest of EUR 1,129,717.56 will be paid in full to CSG AG by 31 December 2013. CSG AG will have no further interest income. CSG AG is estimated to have around EUR 500,000 expense per year; the above interest income is enough to cover CSG AG's 2013 and 2014 expense. If there is any unexpected event happen or CSG AG needs cash in the years beyond 2014, the subsidiaries will consider to declare dividend to CSG AG.

On 23 April 2013, CSG AG expands its Management Board from three to four members. The Supervisory Board appointed Mr. Chao Zhou as new Member of the Management Board effective as of May 1, 2013. Mr. Zhou has extensive experience in the field of special glass industry. In his last position he worked as Vice General Manager and corporate representative at CSG's subsidiary Guangzhou Hing Wah Glass Industry Co. Ltd. for more than fifteen years.

Mr. Zhou will become Chief Operating Officer (COO). In the context of the succession plan of CSG Mr. Stanley Shi, currently COO, will assume the role as Co-Chief Executive Officer (Co-CEO) of the company together with his father, the current CEO, Nang Heung Sze.

Except for the above, 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.

30. INVOICED AUDITOR'S FEE FOR THE ACCOUNTING YEAR

In 2012, expenses for services provided by the auditor of the Consolidated Financial Statements were recorded as follows:

a) Audit fees kEUR 155 (PY kEUR 89)

b) other confirmation services kEUR 0 (PY kEUR 0)

c) tax advisor services kEUR 0 (PY kEUR 0)

d) others kEUR 38 (PY kEUR 30)

31. DECLARATION ON COMPLIANCE WITH THE GERMAN GOVERNANCE COFEX

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.

32. 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 2012:

Consolidated Related Parties	Equity Ratio %	Equity kEUR	Net Profit kEUR
China Specialty Glass AG, Munich, Germany (Holding Company)	100	120,882	-497
China Specialty Glass Holdings Limited, Cayman Islands	100	- *	-
Hing Wah Holdings (Hong Kong) Ltd., Hong Kong	100	-14,314	-17,006
Guangzhou Hing Wah Glass Industry Co., Ltd., Guangzhou, PRC	100	123,791	33,848
Sichuan Hing Wah Glass Ltd., Sichuan, PRC	100	11,787	66

* Less than EUR 1,000

33. Approval of the financial statements

The consolidated financial statements of the Group for the period from 01 January to 31 December 2012 were approved and authorized for issue by the Management Board of CSG AG at the end of July 2013. They were approved by the Supervisory Board in its meeting of at the end of July 2013.

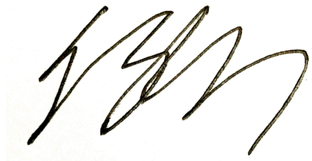
Munich, 12 July 2013

China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO)

Chun Li Shi (Co-CEO)



Jing He (CFO)

Chao Zhou (COO)

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by China Specialty Glass AG, München, – 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, München, for the financial year from 1 January to 31 December 2012. 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, München, for the financial year from 1 January to 31 December 2012 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, München, 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, 12. July 2013

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dirk Bauer Wirtschaftsprüfer [German certified auditor]	Robert Binder Wirtschaftsprüfer [German certified auditor]

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.

Munich, 12 July 2013
China Specialty Glass AG

The Board of Management

Nang Heung Sze (CEO) Chun Li Shi (Co-CEO) Jing He (CFO)

Chao Zhou (COO)

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FINANCIAL CALENDAR

Publication of Q1 2013 report
31 July 2013

Annual General Meeting
10 September 2013

Publication of Q2/H1 2013 report
30 August 2013

Publication of Q3/9M 2013 report
29 November 2013

CHINA SPECIALTY GLASS AG