You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, as of and for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013 included in the Accountants' Report set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

The following discussion and analysis and other parts of this prospectus contain forward looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the sections headed "Forward-Looking Statements" and "Risk Factors" in this prospectus.

OVERVIEW

We are a fast growing manufacturer of recycled copper products, also known as copper semis, in Southwest China. We process recycled scrap copper and, to a lesser extent, electrolytic copper, to manufacture a range of copper products, including copper wirerods, copper wires, copper plates and copper granules. Beginning in 2013, we also sell a range of communication cables and power transmission and distribution cables, using copper wirerods that we produce as the principal raw material. We are increasing our production capacity and plan to broaden our product range and pursue opportunities for further vertical integration.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations are affected by a number of factors. Set forth below is a discussion of the most significant factors we believe may affect our results of operations in the future as well as those factors that have affected our results of operations and may continue to have such impact. Factors other than those set forth below could also have a significant impact on our results of operations and financial condition in the future.

VAT refunds and other government incentives

During the Track Record Period, we benefited from significant VAT refunds due to government policies in promoting reducing, reusing and recycling activities conducted in the process of production, circulation and consumption and due to our employment of disabled people at one of our subsidiaries. VAT refunds accounted for a significant portion of our profit during the Track Record Period. Our subsidiaries, Xiangbei and Tongxin, became entitled to VAT refunds in September 2012 (with retroactive effect from August 2011) and December 2012 (with retroactive effect from October 2012), respectively. For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, our VAT refunds amounted to RMB0.8 million, RMB7.9 million, RMB48.6 million and RMB100.2 million, respectively. This represented 6.3%, 11.8%, 39.6% and 61.6% of our consolidated profit before taxation, respectively, for those periods.

Entities engaging in sales of products, provision of processing, repairs and replacement services or importation of goods within the territory of the PRC are subject to VAT. The VAT rate applicable to our business operation is 17%. Three of our subsidiaries, Jinxin, Xiangbei and Tongxin, are entitled to VAT refunds under two governmental policies issued by the PRC Ministry of Finance and the PRC State Administration of Taxation, the Notice on Adjusting and Improving the Comprehensive Utilization of Resources Policy and the Social Welfare Enterprise Policy. Jinxin is entitled to VAT refunds under the Social Welfare Enterprise Policy and the amount of VAT refunds equals to the multiple of the number of disabled persons that Jinxin employs in the relevant period and six times of the Sichuan Province's authorized minimum wages per year, with a maximum annual limit of RMB35,000. During the Track Record Period, the number of disabled employees employed by Jinxin for the period ended December 31, 2010, the two years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, was 131, 349, 357 and 258, respectively. Xiangbei, Tongxin and Jinxin are entitled to VAT refunds under the Comprehensive Utilization of Resources Policy and the VAT refund level for these three subsidiaries currently stands at 50%.

We have been sourcing scrap copper from the suppliers that provide VAT invoices and the suppliers that do not provide such invoices. All of our suppliers that do not provide VAT invoices are individuals. According to our PRC legal advisors, Chen & Co., our purchases of scrap copper from suppliers that do not provide VAT invoices complies with the applicable PRC laws and regulations and is acceptable to the relevant PRC tax authorities.

We are required to make monthly VAT filings for our purchases of scrap copper, among other things, and sales of our products to the PRC State Tax Bureau at local level. Our filings are based on the VAT invoices we receive from our suppliers and those we issue to our customers. Since some of our suppliers do not provide us with VAT invoices, our filings do not include purchases from these suppliers. Our VAT payables are based on the calculations set out in our monthly VAT filings, which is equal to the difference between output VAT (VAT we collected from customers as shown by the VAT invoices we issued) and input VAT (VAT we paid to suppliers as shown by the VAT invoices we received), and our purchases from suppliers that do not provide VAT invoices do not count towards our input VAT.

The VAT payments to the PRC State Tax Bureau at the local level are remitted to the local office of the PRC Treasury (國家金庫地方支庫) in accordance with the Budget Law of the PRC (《中華人民共和國預算法》).

The table below sets forth the average time required for us to receive VAT refunds under the Welfare Enterprise Policy and the Comprehensive Utilization of Resources Policy during the Track Record Period:

Subsidiaries	**Policy**	**Average time of submitting applications for VAT refunds after each month end**	**Average time required to receive VAT refunds after submitting applications[(1)]**	**Total average time required to receive VAT refunds after each month end**
Jinxin	Welfare Enterprise Policy	Within 1 month	Within 1.5 months	Within 2.5 months
Jinxin and Tongxin	Comprehensive Utilization of Resources Policy	Within 1 month	Within 1 month	Within 2 months
Xiangbei	Comprehensive Utilization of Resources Policy	Within 1.5 months	Within 3 months	Within 4.5 months

Note:

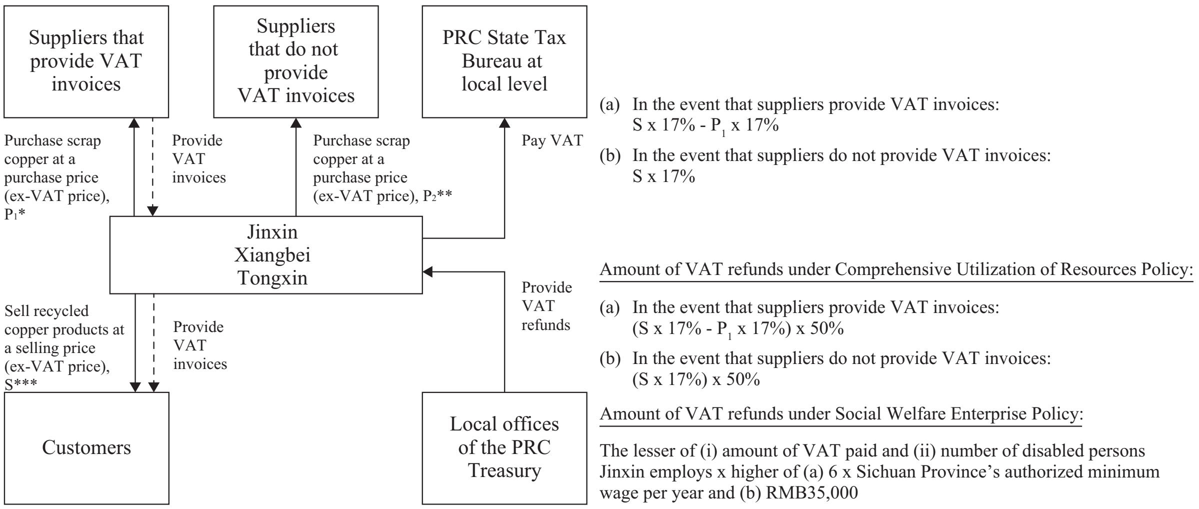
(1) The review period for VAT refunds varies between different tax authorities.

If our application for VAT refunds is approved by the relevant tax authority, VAT refunds will be provided by the local office of the PRC Treasury upon a notification from such tax authority. All VAT refunds were received in cash during the Track Record Period.

Unlike VAT refunds under the Social Welfare Enterprise Policy, VAT refunds under the Comprehensive Utilization of Resources Policy are subject to corporate income tax.

During the Track Record Period, we recognized VAT refunds under the Comprehensive Utilization of Resources Policy on an accrual basis upon submission of application for such refunds. For VAT refunds under the Welfare Enterprise Policy, we recognized the income on a receipt basis. For other government grants and subsidies, we recognized the income on a receipt basis and when the grants and subsidies became unconditional.

The following chart illustrates the mechanism of our VAT refunds under the Comprehensive Utilization of Resources Policy and the Social Welfare Enterprise Policy:



Notes:

* The ex-VAT price at which we purchase scrap copper from suppliers that do not provide VAT invoices (P_2) is often higher than the ex-VAT price at which we purchase scrap copper from suppliers that provide VAT invoices (P_1).

** The price at which we purchase scarp copper from suppliers that do not provide VAT invoices does not have a VAT component and equals to the ex-VAT price in this situation.

*** The total amount collected from customers when we sell our recycled copper products is S x 117%. VAT in the amount of S x 17% is paid by our customers regardless whether scrap copper is sourced from suppliers that do not provide VAT invoices or suppliers that provide VAT invoices.

VAT is a kind of turnover tax which is collected by the vendors from buyers and does not impact our income statement. Since the ex-VAT price at which we purchase scrap copper from suppliers that do not provide VAT invoices is often higher than the ex-VAT price at which we purchase scrap copper from suppliers that provide VAT invoices, our gross profit is lower if we purchase more scrap copper from suppliers that do not provide VAT invoices. In order to assess whether the higher costs incurred in purchasing scrap copper from suppliers that do not provide VAT invoices will be sufficiently offset by the VAT refund, we only purchase scrap copper from suppliers that do not provide VAT invoices if the prices quoted by them do not exceed the prices quoted by suppliers that provide VAT invoices by more than 8.5%, which is half of the VAT rate applicable to our business operation, and the current VAT refund level under the Comprehensive Utilization of Resources Policy. In addition, the procurement departments of our PRC subsidiaries compare the price quotes from at least three suppliers on a daily basis in order to determine the best overall purchase price and in September 2013, we established a procedure to record price quotations from different suppliers in a purchase price comparison form.

Payment of VAT does not affect our cost of sales because our cost of raw materials is recognized on a net-of-VAT basis. However, unlike payment of VAT, VAT refund is a kind of government incentive and is recognized as other revenue in the income statement. The amount of VAT refund under the Comprehensive Utilization of Resources Policy is calculated based on the net VAT paid, which is equal to the difference between output VAT (VAT collected from customers) and input VAT (VAT paid to suppliers). If we purchase scrap copper from suppliers that do not provide VAT invoices, our input VAT will be reduced. Accordingly, the amount of net VAT paid by us and the amount of VAT refunds to which we are entitled (equal to 50% of net VAT paid) increase with the amount of scrap copper we purchase from suppliers that do not provide VAT invoices. As a result, when our VAT refund income is higher than the increase in material cost, our net profit will become higher. Accordingly, we expect to continue to source from suppliers that do not provide VAT invoices as long as the higher costs in purchasing scrap copper from them can be offset by the VAT refund income. Our PRC legal advisors, Chen & Co., are of the opinion that our VAT refund arrangement complies with the applicable PRC laws and regulations. For additional information, see the sections headed "Regulatory Overview – Regulation of Recycling", "Regulatory Overview – Value-Added Tax" and note 4(a) in the Accountants' Report set out in Appendix I in this prospectus.

The following table sets forth a breakdown of the VAT refunds recognized by us for the periods indicated:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
VAT refunds under the Social Welfare Enterprise Policy for employing disabled people					
– Jinxin	770	7,927	8,598	7,487	10,276
VAT refunds under the Comprehensive Utilization of Resources Policy					
– Xiangbei	–	–	26,319	–	32,333
– Tongxin	–	–	13,682	–	57,634
	770	7,927	48,599	7,487	100,243

Two of our subsidiaries, Jinxin and Tongxin, were approved in May 2013 to enjoy a preferential corporate income tax rate of 15% under the preferential policy for promoting the development of Western China, applicable retrospectively to the period beginning on January 1, 2012.

We also seek and obtain other government grants and subsidies. Pursuant to the Project Investment Agreements, Baohe Fushan has agreed to assist three of our subsidiaries, namely Tongxin, Baohe Taiyue and Baohe Xinshiji, to obtain certain land in the Youxian Industrial Park and subsidies from the government, and the three subsidiaries have agreed in exchange to pay to Baohe Fushan an amount equal to 50% of all government grants and subsidies that Baohe Fushan assists them in obtaining. These agreements expire in 2015. For additional information on these agreements, please see the section headed "Business – Our Products and Business Activities – Project Investment Agreements and Management Consultancy Agreements" in this prospectus.

In addition, during the nine months ended September 30, 2013, we received advances from the local government, and as of September 30, 2013, the total balance of such advances amounted to RMB33.0 million. For additional information, see the section headed "– Trade and other payables" in this prospectus.

Any changes in the levels of preferential tax treatment or government incentives available to us could have a material impact on our financial condition and results of operations. For additional information, see the section headed "Risk Factors – Risks Relating to Our Business – Any change in the preferential tax policies or government grants and subsidies we enjoy in China may significantly impact our financial condition and results of operations" in this prospectus.

Acquisitions and integration of newly acquired businesses

During the Track Record Period, acquisitions have been an important driver of the growth of our revenue and profits. We acquired Jinxin in November 2010 and Xiangbei in August 2011. We also acquired the subsidiaries which operate our cable business, Baohe Taiyue and Baohe Xinshiji, in December 2012. Although we plan to rely less on acquisitions as part of our overall growth strategy and more on organic growth going forward, how we manage our recent acquisitions will have a significant impact on our results of operations over the next few years.

We expect to face a range of challenges in integrating our cable business acquisitions. Some of the specific challenges we expect to face include:

- possible differences in corporate culture and management styles as well as disparate company policies and practices;
- the need to coordinate raw material procurement and sales and marketing activities and to manage additional customer and supplier relationships;
- additional government regulation; and
- retention of key personnel.

Furthermore, we are in the process of transferring the machinery and equipment we have agreed to acquire from Guangzhou Taiyue to our new facility in the Youxian Industrial Park, and have transferred temporarily some of the machinery and equipment to our Tongxin facility pending completion of the construction of our Baohe Taiyue facility. We also plan to transfer the machinery and equipment we have agreed to acquire from Sichuan Xinshiji to our new facility in the Youxian Industrial Park. Other than the machinery and equipment transferred temporarily to our Tongxin facility, other machinery and equipment are partly used by Guangzhou Taiyue and Sichuan Xinshiji to manufacture cables for us pursuant to our processing arrangements with them. As a consequence, we expect to experience a degree of interruption in our cable businesses while the remaining equipment is being transferred, which is likely to impact our results of operations. While we anticipate and have planned for this, longer than anticipated delays in commencing production at our new facilities due to factors such as a longer than expected moving process, delays in obtaining all production permits and delays in obtaining the required environmental permits would harm our sales during the period of the delay and could also harm our customer relationships. For additional information, see the sections headed "Risk Factors – Risks Relating to Our Business – We may not successfully integrate our newly acquired businesses or achieve expected profitability from our acquisitions", "Risk Factors – Risks Relating to Our Business – Production of our cable products may be affected by the equipment transfer and equipment may be damaged or lost during the equipment transfer" and "Business – Our Products and Business Activities – Acquisitions of Cable Business and Interim Processing Arrangements" in this prospectus.

Supply and prices of scrap copper and recycled copper products

We are exposed to movements in the market prices of scrap copper and the recycled copper products we sell, as well as changes in the spread between those prices. Scrap copper is the primary raw material for our recycled copper products, which we principally sell to downstream manufacturers or use in our cable business. Copper prices affect both our raw material costs and the market prices for our recycled copper products. Copper prices are also one of the factors which affect prices of the cable products we sell. We do not enter into long-term purchase contracts with our suppliers and instead purchase scrap copper on an order-by-order basis at prevailing market prices. Our sales of recycled copper products are also generally made at prevailing market prices.

We generally hedge a portion of our exposure to changes in the prices of scrap copper by entering into copper futures contracts from time to time. The amounts of copper futures contracts we buy or sell are mainly determined by our scrap copper inventory levels. We typically hold inventory sufficient for approximately 10 to 18 days of our manufacturing needs. If our inventory exceeds the desired level, we typically enter into cash-settled futures contracts to sell an amount equivalent to some or all of the excess. If our scrap copper inventory falls below the desired level, we typically enter into cash-settled futures contracts to purchase an amount equal to some or all of the shortfall. Our purchases and sales of future contracts help to shield us from sudden movements in the cost of scrap copper while we are adjusting our inventory levels, although we remain exposed to the effects of long-term changes in the spread between the prices at which we purchase scrap copper and the prices at which we are able to sell our copper products. We may from time to time accumulate inventory in excess of our usual carrying amounts, without hedging, when scrap is available at attractive prices.

Increases in the prices of scrap copper generally increase our needs for working capital and financing, which increases the costs of operating our business. In addition, increases in prices of scrap copper may not immediately result in higher prices for our products, as a result of competitive conditions or otherwise. In a rising market we may also benefit from the relatively lower costs of our inventories compared to the prices at which we can sell our recycled copper products.

When copper prices decrease, the market values of our inventories also decrease, and we may be required to mark our inventory to market value at the end of period, which we would record as an expense. During the Track Record Period, we did not recognize any impairment loss on our inventory because of our relatively short inventory turnover days and the relatively gradual decline in copper prices during the Track Record Period. Furthermore, in a falling market, we may suffer if the costs of our inputs are relatively higher than the prices at which we are able to sell our recycled copper products.

The supply of scrap copper is also a factor in our results of operations. A sharp decrease in scrap copper prices, termination of governmental stimulus programs or a significant slowdown in industrial activities in the areas where we source scrap copper could reduce the supply of scrap copper. A fluctuation of raw materials supply could adversely affect our production and, consequently, sales volumes, and associated higher prices could increase our raw material costs. For example, during the fourth quarter of 2011, we experienced difficulties in obtaining sufficient quantities of raw materials at then-prevailing market prices following a decrease of the market price of scrap copper as compared to the third quarter of 2011. In 2012, our profitability benefited from an increase in the average spread between the prices at which we were able to purchase raw materials and the prices at which we were able to sell our recycled copper products when compared to that in 2011. By contrast, in 2011, we experienced the opposite trend in comparison to the period ended December 31, 2010, which adversely affected our profitability.

During the nine months ended September 30, 2013, the average spread between the prices at which we were able to purchase raw materials and the prices at which we were able to sell our products decreased because we have been sourcing more of our scrap copper from vendors who do not provide VAT invoices, which results in higher VAT paid by us and, consequently, greater VAT refunds to us, and on an ex-VAT basis, these vendors generally sell scrap copper at a higher price. For additional information on risks related to our raw materials and our commodities risk, see the sections headed "Risk Factors – Risks Relating to Our Business – Our operations are materially affected by the cost and availability of raw materials" and "– Qualitative And Quantitative Disclosure About Market Risk – Commodity Risk" in this prospectus.

An increase in the prices of scrap copper, our principal raw material, would negatively impact our profit margins if we were not able to transfer the increased cost resulting from such higher prices through increases in the selling prices of our products. For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, our cost of raw materials was RMB189.1 million, RMB1,294.2 million, RMB1,366.0 million and RMB1,523.6 million, respectively. The following table shows the increase/decrease in our net profit assuming changes in our average purchase prices of scrap copper with all other factors, including the sales prices of our products, remaining the same, for the periods indicated. Since it is highly unlikely that all other factors would have remained the same, the following should not be taken as an indication of what our actual profits would be at any particular scrap copper price:

	Increase/ (decrease) in net profit for the period ended December 31, 2010	**Increase/ (decrease) in net profit for the year ended December 31, 2011**	**Increase/ (decrease) in net profit for the year ended December 31, 2012**	**Increase/ (decrease) in net profit for the nine months ended September 30, 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in average purchase price of scrap copper[(1)]				
5%	7,091	48,533	51,225	58,273
10%	14,182	97,066	102,451	116,546
15%	21,273	145,600	153,676	174,819
20%	28,363	194,133	204,901	232,950
25%	35,454	242,666	256,127	291,365

Note:

(1) Absolute value of the minimum, the average, and the maximum changes (in percentages) in our monthly purchase cost of scrap copper during the Track Record Period were 0.3%, 5.9%, 24.5%, respectively.

	Increase/ (decrease) in net profit for the period ended December 31, 2010	Increase/ (decrease) in net profit for the year ended December 31, 2011	Increase/ (decrease) in net profit for the year ended December 31, 2012	Increase/ (decrease) in net profit for the nine months ended September 30, 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase in average purchase price of scrap copper(1)				
5%	(7,091)	(48,771)	(51,225)	(58,273)
10%	(15,837)	(111,196)	(109,093)	(121,648)
15%	(25,292)	(174,385)	(173,033)	(194,935)
20%	(34,746)	(239,096)	(241,172)	(270,872)
25%	(44,201)	(303,807)	(309,472)	(346,874)

Note:

(1) The absolute values of the minimum, the average, and the maximum changes (in percentages) in our monthly purchase costs of scrap copper during the Track Record Period were 0.3%, 5.9%, 24.5%, respectively.

For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and nine months ended September 30, 2013, our gross profit was RMB13.4 million, RMB74.9 million, RMB111.7 million and RMB98.6 million, respectively. For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, if our average purchase price of scrap copper had increased by 7.1%, 5.8%, 8.2% and 6.5%, respectively, and assuming all other factors, including the sales prices of our products, had remained the same, our gross profit would have been nil. For information in relation to our average selling prices, sales volumes, average purchase prices and purchase volumes, see the section headed "Business – Our Products and Business Activities – Pricing Policy, Terms of Sale and Credit Policy" in this prospectus.

Market dynamics for cable products

During the Track Record Period, a significant portion of our revenues were derived from the sale of recycled copper products. Beginning in 2013, we also earn revenue from the sale of power transmission and distribution cables and communication cables. Although demand and the selling prices for our cable products are influenced by copper prices, a range of other factors, including general levels of economic growth in China, investment in power and communications infrastructure, and competition in the cable business, also affect demand and pricing for these products. Going forward, our results of operations will be affected both by the market dynamics of our cable business and by our product mix, both between recycled copper products and cable products and among the various cable products we produce.

Operating efficiency and production capacity

Historically, we have not fully utilized our production capacity, mainly due to working capital constraints on purchases of scrap copper. In addition, on occasion we have experienced interruptions in our electricity and natural gas supply at our Jinxin facility. Furthermore, we have expanded, and are continuing to expand, the scale of our operations through the acquisition of new businesses and the addition of new production facilities and equipment. We intend to continue to expand our production capacity and invest in additional equipment as well as modifying our existing production lines to improve our production efficiency. For additional information, see the section headed "Business – Our Products and Business Activities – Our Manufacturing Facilities".

Capacity utilization and scale of production affect our results of operations, as higher utilization levels allow us to spread our fixed operating expenses over a larger volume of products, lowering unit costs and improving our performance. Furthermore, greater production capacity enhances our ability to meet customer demands and our competitiveness in the market. To the extent that we do not increase our capacity utilization, the costs associated with our additional capital investments will not result in the additional revenue we expect, which would likely have an adverse effect on our results of operations, and our return on investment will be lower than expected.

Availability of financing for our business

As a result of a combination of increases in our sales and the relatively high market prices for copper and scrap copper, we require a relatively high level of working capital to sustain our operations. Historically, we have financed our working capital through cash from operations derived from customer payments, short-term bank loans, capital contributions and loans and advances from shareholders, related parties and the local governments. During the Track Record Period, our results of operations were affected by the impact of our working capital constraints on our purchases of scrap copper, in part resulting in relatively low utilization rates for our facilities. We expect our working capital requirements to continue to grow as we expand our operations. As a result, our business will continue to be dependent on our ability to satisfy our working capital requirements and the terms on which we are able to do so.

For the period ended December 31, 2010, the two years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, the monthly average balance of interest-free advances from related parties amounted to RMB31.7 million, RMB30.2 million, RMB28.6 million and RMB103.2 million, respectively. During the same period, the amount of interest expenses we would have incurred if these advances were charged at then prevailing bank interest rates of 5.7%, 7.4%, 7.3% and 10.0%, would be RMB0.3 million, RMB2.2 million, RMB2.1 million and RMB7.7 million, respectively. The following table sets forth the amount of interest-free advances received from our related parties as of the dates indicated:

	As of December 31,			As of September 30,	As of the Latest Practicable Date
	2010	**2011**	**2012**	**2013**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yu	–	–	27,268	75,730	18,075
Mr. Liu Hanjiu	10,749	2,100	19,555	–	–
Mr. Chen Lian	19,960	–	–	–	–
Mr. Huang Weiping	–	21,920	19,135	–	–
Mr. Zhang Huayi	–	11,980	980	–	–
Gushan	47,851	88,525	8,656	10,216	11,830
Carling	13	45	68	155	154
Gold Hero	–	493	–	–	–
Silver Harvest	–	411	–	106	141
Baohe Fushan	–	8,000	22,000	11,330	–
Sichuan Xinshiji	–	–	24,000	–	–
Guangzhou Taiyue	–	–	24,000	–	–
Total	78,573	133,474	145,662	97,537	30,200

Some of these interest-free advances are between our PRC subsidiaries and a company in the PRC and do not comply with the General Lending Provision (貸款通則). These advances amounted to nil, RMB8.0 million, RMB10.0 million and RMB10.0 million as of December 31, 2010, 2011 and 2012 and September 30, 2013, respectively. The PBOC may impose on the lender a fine equivalent to one to five times of the income derived by the lender. However, our PRC legal advisors, Chen & Co., are of the opinion that, based on judicial precedents in the PRC, advances received from a non-financial institution lender are still valid, provided that (a) the lender is not primarily engaged in lending business; and (b) the lender does not depend on the interest derived from lending as its major source of income. Therefore, our Directors believe that the risk of it having any adverse impact on us as a result is low.

Economic, political and social conditions in China

We conduct all of our production in China and we derive a majority of our revenue from sales to customers in China. As such, economic conditions in China and the geographic markets where we operate will affect virtually all aspects of our operations, including the demand for our products, the availability and prices of our raw materials and our other expenses. Demand for our products is dependent on the financial strength, business operations and capital expenditures of our customers as well as the government driven policies and directives for the industries in which our customers operate, such as infrastructure construction and transportation. The copper recycling and cable industries tend to be cyclical in nature, reflecting general economic conditions. During the past three decades, the PRC government has implemented a series of economic reform measures to expand the influence of market forces in the development of the domestic economy. As a result of these reforms, China experienced significant economic growth, achieving a compound annual growth rate, or CAGR, of 14.0% in GDP from 1999 through 2008. Due in part to the global financial crisis, however, the PRC economy slowed down significantly in the second half of 2008.

In November 2008, the PRC Government announced ten economic stimulus measures featuring spending of RMB4 trillion in 2009 and 2010, focusing on accelerating infrastructure construction, rural area development and accelerating the reconstruction of regions affected by the Sichuan earthquake in 2008. In December 2007, the Ministry of Finance and the Ministry of Commerce of the PRC introduced a pilot project called 'home appliances to the countryside' which was a policy on subsidizing the purchase of electronic home appliances in rural areas. Phase 1 was to be held in three provinces (Shandong, Henan and Sichuan) and one city (Qingdao) by offering rural residents a 13% subsidy on consuming the selected three categories (televisions, refrigerators and mobile phones) of home appliances items. In February 2009, the government announced the 'home appliances to the countryside' program would be extended on a nationwide scale with the subsequent phases.

According to CRU, demand for copper in China has been relatively weak in 2011 and 2012, principally due to a slowdown in copper consuming end-uses caused by the government's macroeconomic policies. However, an increase in construction of government housing for low income families is expected to support copper demand from 2013, offsetting the slowdown in real estate. Refined copper consumption in China is forecast to grow at a CAGR of 5.8% between 2012 and 2016. It is also expected that copper wire and cable consumption in China will grow at a slower rate, at a CAGR of approximately 4.8%, between 2013 and 2016. We believe that economic conditions in China and the geographic markets where we operate will continue to affect our business and results of operations.

BASIS OF PRESENTATION

Engen was incorporated in August 2010 and was a subsidiary of Gushan. Gushan completed an initial public offering in the United States and listed its American depositary shares on the New York Stock Exchange in December 2007, with Mr. Yu Jianqiu being the major shareholder of Gushan. In October 2012, the shareholders of Gushan approved a merger of Gushan with Trillion Energy Holdings Limited, a company indirectly wholly-owned by Mr. Yu Jianqiu and subsequent to the merger, which was completed in October 2012, Gushan ceased to be a publicly traded company and became a company indirectly wholly owned by Mr. Yu Jianqiu.

Engen was established with the view of becoming the holding company of the copper business of Gushan. The copper business started when Engen acquired Jinxin in November 2010.

Prior to the Corporate Reorganization, Mr. Yu Jianqiu controlled Engen and its subsidiaries which are principally engaged in the manufacture and sales of recycled copper and related products through Gushan. For additional information on the Corporate Reorganization, please see the section headed "History, Reorganization and Corporate Structure" in this prospectus. To rationalize the corporate structure in preparation for the Listing, our Company was incorporated in the Cayman Islands on February 22, 2013 and our Group underwent the Corporate Reorganization. Upon completion of the Corporate Reorganization on March 19, 2013, our Company became the ultimate parent company of Engen and the holding company of the companies now comprising our Group.

The companies that took part in the Corporate Reorganization were controlled by the same ultimate equity shareholder, Mr. Yu Jianqiu, before and after the Corporate Reorganization and therefore there were no changes in the economic substance of the ownership and the business and operations of Engen and its subsidiaries. The Corporate Reorganization only involved incorporating the newly formed company with no prior substantive operations as the holding company of Engen and the holding company of our Group. Accordingly, the Corporate Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out in IFRS 3 "Business combinations" with Engen treated as the acquirer for accounting purposes. The consolidated financial information has been prepared and presented as a continuation of the consolidated financial statements of Engen and its subsidiaries recognized and measured at their historical carrying amounts prior to the Corporate Reorganization.

The acquisition method has been applied to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by our Group. Goodwill represents the excess of the consideration transferred over the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

Each of Jinxin, Xiangbei, Baohe Taiyue and Baohe Xinshiji was consolidated into our Group from the respective dates of acquisition, being November 3, 2010, August 1, 2011, December 31, 2012 and December 31, 2012. Tongxin was consolidated into our Group from the date of its establishment on June 1, 2011. Intra-group balances and transactions have been eliminated in full on consolidation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. Our consolidated financial statements have been prepared in accordance with IFRS, which requires that we adopt accounting policies and make estimates that we believe are the most appropriate in the circumstances for the purposes of giving a true and fair view of our results of operations and financial condition. Estimates and judgments are based on historical experience, prevailing market conditions and rules and regulations, and are reviewed on a continual basis taking into account the changing environment and circumstances. We did not recognize any impairment loss during the Track Record Period.

For more details, see notes 1 and 34 to the Accountants' Report set forth in Appendix I to this prospectus.

Turnover recognition

Turnover is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to us and the turnover and costs, if applicable, can be measured reliably, turnover is recognized. Turnover from sale of goods is recognized when the customer has accepted the goods and the related risks and rewards of ownership. Turnover excludes value-added tax or other sales taxes and is recognized after deduction of any trade discounts.

Contract manufacturing income is recognized when the processing services are rendered.

Recognition of VAT refunds and government grants and subsidies

Unconditional VAT refunds and government grants and subsidies are recognized in profit or loss as other revenue when the grant becomes receivable, other government grants and subsidies are recognized in the consolidated balance sheets initially when there is reasonable assurance that they will be received and that we will comply with the conditions attached to them. Grants and subsidies that compensate us for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants and subsidies that compensate us for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

Income tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognized for deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets, if any, are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable 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. These estimates are based on the current market condition and historical experience of selling products of similar nature.

It could change significantly as a result of competitor actions in response to severe industry cycles or changes in market conditions. Management reassesses these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realizable value.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

Buildings	The shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
Plant and machinery	5 to 10 years
Furniture, fittings and equipment	3 to 10 years
Motor vehicles	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Contingent consideration for acquisitions

Certain of our business acquisitions involved post-acquisition performance-based contingent consideration. The fair values of the contingent consideration paid for acquisitions, as of their respective acquisition dates form part of the consideration transferred in exchange for the acquired business. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired business and significant judgment on time value of money. Contingent consideration shall be re-measured at fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated income statements.

Impairment of assets

Impairment of trade and other receivables

Investments in current and non-current trade and other receivables that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (which is the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss must not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When we are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- non-current prepayments for property, plant and equipment;
- intangible asset; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

SEGMENT REPORTING

For the period ended December 31, 2010 and for the years ended December 31, 2011 and 2012, we have only identified one reportable segment, recycled copper products segment. During the nine months ended September 30, 2013, following the acquisitions of Baohe Xinshiji and Baohe Taiyue on December 31, 2012, we have identified the following three reportable segments:

(i) Recycled copper products segment: use of scrap copper and electrolytic copper for the manufacturing of copper products;

(ii) Power transmission and distribution cables segment: sales of power transmission and distribution cables; and

(iii) Communication cables segment: manufacturing and sales of communication cables.

SELECTED FINANCIAL DATA

The following consolidated income statements for the period ended December 31, 2010, the years ended December 31, 2011, 2012 and the nine months ended September 30, 2012 and 2013 and the consolidated balance sheets as of December 31, 2010, 2011 and 2012 and September 30, 2013 are derived from, and should be read in conjunction with, our consolidated financial statements, including the notes thereto, included in the Accountants' Report set forth in Appendix I to this prospectus.

Consolidated Income Statements

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover	205,059	1,396,375	1,513,133	839,527	1,708,013
Cost of sales	(191,697)	(1,321,586)	(1,401,445)	(761,290)	(1,609,455)
Gross profit	13,362	74,789	111,688	78,237	98,558
Other revenue	2,276	28,575	55,886	10,081	136,175
Other net income/(loss)	26	2,412	(1,509)	381	1,081
Selling and distribution expenses	(1,311)	(4,227)	(5,927)	(4,797)	(6,558)
Administrative expenses	(1,360)	(22,553)	(20,413)	(13,996)	(45,876)
Profit from operations	12,993	78,996	139,725	69,906	183,380
Finance costs	(720)	(11,920)	(16,850)	(12,025)	(20,617)
Profit before taxation	12,273	67,076	122,875	57,881	162,763
Income tax	(2,899)	(18,396)	(30,583)	(13,284)	(30,312)
Profit for the period/year	9,374	48,680	92,292	44,597	132,451
Earnings per share *(Note)*					
Basic (RMB)	0.94	4.87	9.11	4.41	12.95
Diluted (RMB)	0.94	4.87	9.11	4.41	12.95

Note: The earnings per share for all periods presented have not been adjusted to reflect the proposed Capitalization Issue as described in the section headed "History, Reorganization and Corporate Structure – Corporate Reorganization – Capitalization Issue and Global Offering" in this prospectus.

Consolidated Balance Sheets

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	59,282	92,354	272,849	365,178
Lease prepayments	5,226	9,538	9,332	87,815
Prepayments for property, plant and equipment and land use rights	1,225	781	42,634	47,058
Intangible assets	–	–	10,968	8,226
Goodwill	16,081	38,847	39,308	39,308
Pledged deposits	–	–	–	1,500
Deferred tax assets	1,286	575	351	166
	83,100	142,095	375,442	549,251
Current assets				
Inventories	140,929	114,912	113,724	353,544
Trade and other receivables	73,215	292,322	465,072	381,332
Amounts due from related parties	–	4,466	4,569	297
Pledged deposits	2,000	2,000	14,619	46,032
Cash and cash equivalents	13,366	42,781	19,609	81,091
	229,510	456,481	617,593	862,296
Current liabilities				
Trade and other payables	91,335	112,986	253,810	410,049
Bank loans and other borrowings	60,000	110,000	175,000	287,550
Amounts due to related parties	78,573	133,474	145,662	97,537
Loans from related parties	29,675	105,435	94,315	85,672
Current taxation	10,075	12,740	23,863	24,260
	269,658	474,635	692,650	905,068
Net current liabilities	(40,148)	(18,154)	(75,057)	(42,772)
Total assets less current liabilities	42,952	123,941	300,385	506,479
Non-current liabilities				
Bank loans and other borrowings	–	–	–	70,000
Deferred tax liabilities	–	2,277	2,063	1,896
	–	2,277	2,063	71,896
NET ASSETS	42,952	121,664	298,322	434,583
CAPITAL AND RESERVES				
Share capital	67	67	68	827
Reserves	42,885	121,597	298,254	433,756
TOTAL EQUITY	42,952	121,664	298,322	434,583

DISCUSSION OF CERTAIN KEY INCOME STATEMENT ITEMS

Turnover

Our turnover represents the fair value of consideration received or receivable for sales of goods and services in the ordinary course of business. Turnover is shown net-of-VAT and other taxes, returns and discounts after eliminating sales within our Group.

The following table sets forth a breakdown of our turnover by business line for the periods indicated:

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Sales of recycled copper products	203,373	1,322,384	1,486,238	815,050	1,164,750
Sales of power transmission and distribution cables	–	–	–	–	338,947
Sales of communication cables	–	–	–	–	189,514
Sales of scrap materials	1,107	69,550	24,290	22,429	11,891
Contract manufacturing income	579	4,441	2,605	2,048	2,911
	205,059	1,396,375	1,513,133	839,527	1,708,013

Turnover from sales of goods included sales of copper wirerods, copper wires and copper granules by Jinxin from November 2010, sales of copper wirerods and copper plates by Xiangbei from August 2011 and sales of copper wirerods, copper wires and copper granules by Tongxin from June 2012. From 2013, turnover from sales of goods also include sales of communication cables and power transmission and distribution cables by Baohe Taiyue and Baohe Xinshiji, respectively. Some of our customers in our communication cable business are located overseas.

Our acquisition of Xiangbei in August 2011 and increases in our sales of our recycled copper products contributed to the growth in our sales of recycled copper product during the Track Record Period. However, our sales of recycled copper products have also been affected by fluctuations in copper prices. For a period-to-period comparison of the turnover attributable to Jinxin, Tongxin and Xiangbei, see the sections headed "– Nine months ended September 30, 2013 compared to nine months ended September 30, 2012 – Turnover" and "– Year ended December 31, 2012 compared to year ended December 31, 2011 – Turnover" in this prospectus.

The importance of copper granule production to our business has been decreasing. Although we will continue to produce copper granules opportunistically based on the availability of suitable scrap, we do not view copper granule production as a core part of our business and expect that its importance to our business will continue to decrease. In contrast, the importance of communication cables and power transmission and distribution cables to our business will continue to increase.

During the nine months ended September 30, 2013, we sold recycled copper products in the amount of RMB125.8 million to Sichuan Xinshiji and purchased from Sichuan Xinshiji power transmission and distribution cable products in the amount of RMB146.2 million. As the recycled copper products sold by us to Sichuan Xinshiji were or were expected to be used by Sichuan Xinshiji as raw materials for its production of power transmission and distribution cables products, for financial reporting purposes, the sales of recycled copper products in the amount of RMB125.8 million by us were not recognized as turnover in our consolidated income statement for the nine months ended September 30, 2013 but as a reduction of the cost of our purchases of power transmission and distribution cables from Sichuan Xinshiji. For further details in relation to the recognition of such amount in our consolidated income statement for the nine months ended September 30, 2013, please refer to note 29(a)(ii) of the Accountants' Report in Appendix I to this prospectus.

Cost of sales

Our cost of sales primarily consists of direct material costs, depreciation expense and, to a lesser extent, other overhead costs. Starting from 2013, we also purchase finished goods from Sichuan Xinshiji, and for financial reporting purposes, our cost of sales also includes the difference between the amount of sales of copper wirerods to Sichuan Xinshiji and our cost of purchasing the power transmission and distribution cables from it. Direct material costs are the costs of raw materials, mainly scrap copper, that we use in the manufacturing of our products. We buy scrap copper at prevailing market prices. As such, our cost of raw materials is affected by fluctuations in the market price of copper. Direct material cost is the largest component of our cost of sales, accounting for approximately 98.6%, 97.9%, 97.5% and 94.7% of our total cost of sales for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, respectively. The table below sets forth our cost of sales during the Track Record Period:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Direct materials	189,089	1,294,218	1,366,009	741,314	1,523,589
Manufacturing overheads	2,384	15,625	19,860	13,111	14,732
Depreciation of property, plant and equipment and amortization of land use rights	224	5,087	6,450	4,652	12,273
Processing fee	–	–	–	–	35,711
VAT surtax	–	6,656	9,126	2,213	23,150
	191,697	1,321,586	1,401,445	761,290	1,609,455

Gross profit and gross profit margin

Our gross profit from sales of recycled copper products is determined primarily by the cost of raw materials and recycled copper products prices. The table below sets forth our gross profit during the Track Record Period:

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Gross profit	13,362	74,789	111,688	78,237	98,558

Currently, there is a close correlation between cost of raw materials and prices of recycled copper products. Depreciation and overhead costs are relatively stable so our gross profit margin is largely determined by the direct materials costs, which are directly affected by copper prices.

Other revenue

Our other revenue mainly comprises VAT refunds and government grants and subsidies from local tax bureaus and local finance bureaus in Mianyang, Sichuan Province and Miluo, Hunan Province, interest income and sundry income. The table below sets forth the breakdown of our other revenue during the Track Record Period:

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
VAT refunds					
– Employment of disabled staff	770	7,927	8,598	7,487	10,276
– Comprehensive Utilization of Resources	–	–	40,001	–	89,967
Government grants	1,500	20,522	6,844	2,183	18,211
Government subsidies	–	–	–	–	17,067
Interest income	6	116	443	411	654
Sundry income	–	10	–	–	–
	2,276	28,575	55,886	10,081	136,175

In 2012, Tongxin and Xiangbei recognized VAT refunds under the Policies for Products Generated from Comprehensive Utilization of Resources (Cai Shui [2011] No.115) jointly issued by the PRC State Administration of Taxation and Ministry of Finance. For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013, Jinxin recognized VAT refunds in connection with the employment of disabled people. In addition, Jinxin was approved in November 2013 by the local State Administration of Taxation for a refund of 50% of the VAT paid by it since September 2013.

The amounts also include government grants and subsidies received by our operating subsidiaries as financial support to the subsidiaries for general operating use with no future related cost. No specific conditions are attached to the grants and subsidies.

Other net income/(loss)

Other net income/(loss) mainly include gains or losses from futures contracts on copper, change in fair value of contingent consideration liabilities, net foreign exchange gains or losses and loss on disposal of property, plant and equipment. The table below sets forth the breakdown of our other net income or loss during the Track Record Period:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net (loss)/gain on copper futures contracts	–	(1,511)	935	433	2,157
Change in fair value of contingent consideration liabilities	–	3,937	(2,211)	–	–
Net foreign exchange gain/(loss)	26	281	(9)	1	(458)
Loss on disposal of property, plant and equipment	–	–	(111)	–	(448)
Others	–	(295)	(113)	(53)	(170)
	26	2,412	(1,509)	381	1,081

Change in fair value of contingent consideration liabilities

In 2010 and 2011, we acquired Jinxin and Xiangbei. For additional information on the acquisitions and related earn-out arrangements, see the section headed "Statutory and General Information – B. Further Information About Our Business" in Appendix VI to this prospectus.

Under IFRS, the contingent consideration shares in connection with Gushan's ordinary shares are classified as an additional contribution of equity from Gushan and stated at fair value at the acquisition date. The contingent consideration shares in connection with Engen's ordinary shares are classified as a liability and stated at fair value at the acquisition date and each reporting date. The subsequent change in the fair value of the contingent consideration shares in connection with Engen's ordinary shares at each reporting date is recognized in our consolidated income statements. We recognized a gain resulting from a decrease in fair value of RMB3.9 million in 2011, mainly due to a decrease in the expected number of Engen's ordinary shares to be issued, a decrease in the fair value of Engen's ordinary shares and an increase in discount rates used to calculate such fair value of contingent consideration. We recognized a loss resulting from an increase in fair value of RMB2.2 million in 2012 when we settled the earn-out for the year ended December 31, 2011 and terminated the subsequent earn-out arrangements. Such increase in fair value of contingent consideration was due to termination of the earn-out arrangements.

Selling and distribution expenses

Our selling and distribution expenses include salaries and other benefits for our sales personnel, transportation costs and other miscellaneous expenses related to our sales activities. We usually deliver our recycled copper products to our customers by truck, using third-party service providers. As most of customers in our recycled copper business are located near our production facilities, our selling expenses with respect to our recycled copper business have been small relative to our turnover. We expect that our selling and distribution expenses will increase in anticipation of the continued expansion of our business. The table below sets forth our selling and distribution expenses during the Track Record Period:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Transportation	1,075	3,465	5,086	4,161	5,308
Staff cost	184	492	488	360	889
Travelling	32	129	289	218	126
Others	20	141	64	58	235
	1,311	4,227	5,927	4,797	6,558

General and administrative expenses

Our general and administrative expenses include salaries and other benefits for our administrative staff, depreciation of office equipment, professional service fees and other miscellaneous expenses related to our administrative corporate activities.

Our general and administrative expenses also include share-based compensation expenses attributable to options that Gushan had granted to our directors and executives in connection with Gushan's ordinary shares and options Engen granted to Mr. Yu Jianqiu, one of our Directors. No further options were granted by Gushan or Engen. We expect that our general and administrative expenses will also increase in anticipation of our continued expansion of our business.

Our general and administrative expenses incurred for the nine months ended September 30, 2013 included listing expenses of RMB19.8 million, administrative and consultancy fees to Baohe Fushan of RMB2.3 million under the Management Consultancy Agreements and amortization of intangible assets of RMB2.7 million in relation to our acquisitions of Baohe Taiyue and Baohe Xinshiji. No such expenses were incurred for the period ended December 31, 2010 and the years ended December 31, 2011 and 2012. The table below sets forth our general and administrative expenses during the Track Record Period:

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Listing expenses	–	–	–	–	19,843
Staff costs	795	6,148	10,462	7,069	9,251
Amortization of intangible assets	–	–	–	–	2,742
Depreciation of property, plant and equipment and amortization of land use rights	153	1,461	2,229	1,642	2,433
Other taxes	171	1,244	1,256	666	1,517
Professional fee	10	154	27	8	459
Share-based compensation in connection to Gushan's ordinary shares	–	3,433	2,527	1,336	–
Share-based compensation in connection to Engen's ordinary shares	–	7,659	–	–	–
Others	231	2,454	3,912	3,275	9,631
	1,360	22,553	20,413	13,996	45,876

In connection with share options that Gushan granted to Mr. Liu Hanjiu, one of our Directors, and certain other executives and employees, we recognized share-based compensation expenses in the amount of approximately RMB3.6 million in 2011 and RMB2.6 million in 2012.

On October 31, 2011, the board of directors of Engen granted share options to Mr. Yu Jianqiu, which were fully vested on the grant date, to purchase up to 1,013 ordinary shares of Engen at an exercise price of RMB63,179 per ordinary share. We recognized share-based compensation expense for these options of approximately RMB7.7 million in 2011. These share options were replaced by share options to subscribe for an aggregate of 1,013,000 Shares under the Yu Share Option Agreement. In addition to replacing the Engen Option Agreement, the Yu Share Option Agreement aims to reward Mr. Yu Jianqiu for his contributions to our Company, our subsidiaries and business. For additional information, see the section headed "Statutory and General Information – E. Other Information – 1. Yu Share Option Agreement" in Appendix VI to this prospectus.

Finance costs

Such finance costs mainly included interest expenses on bank loans borrowed by Jinxin for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, and also on bank loans borrowed by Tongxin and Xiangbei in 2012. Furthermore, Engen and True Excel also incurred interest expenses on loans from shareholders. For more information, see note 5(a) in the Accountants' Report set out in Appendix I to this prospectus. The table below sets forth the breakdown of our finance costs during the Track Record Period:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expense on bank loans and other borrowings wholly repayable within five years	687	5,595	9,511	7,138	15,235
Interest expense on loans from related parties	–	5,329	5,942	4,503	4,212
Guarantee fees and other charges	33	996	1,397	384	1,170
	720	11,920	16,850	12,025	20,617

Income tax expense

Under the current laws of the Cayman Islands and British Virgin Islands, we are not subject to any income or capital gains tax and dividend payments we make are not subject to any withholding tax in the Cayman Islands or British Virgin Islands.

Under the current laws of Hong Kong, we are not subject to any income or capital gains tax and dividend payments and we are not subject to any withholding tax in Hong Kong.

Under the CIT Law, foreign invested enterprises, such as our subsidiaries, and domestic companies are subject to corporate income tax at a uniform rate of 25%. Two of our subsidiaries, Jinxin and Tongxin, were approved in May 2013 to enjoy a preferential corporate income tax rate of 15% under the preferential policy for promoting the development of Western China, applicable retrospectively to the period beginning on January 1, 2012. The difference between our income tax expenses recognized in 2012 and the income tax expenses that we are required to pay under the preferential policy was credited against our income tax expenses for the nine months ended September 30, 2013.

According to the CIT Law and its relevant regulations, PRC-resident enterprises are levied withholding tax at 10% on dividends distributed to their non-PRC-resident corporate investors for earnings accumulated beginning on January 1, 2008. Since we can control the quantum and timing of distribution of profits of our subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

During the Track Record Period and through the Latest Practicable Date, we paid all taxes applicable to us and did not have any material disputes with any tax authority. The table below sets forth the breakdown of our income tax expense during the Track Record Period:

	Period ended December 31,	**Years ended December 31,**		**Nine months ended September 30,**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Current tax – PRC Corporate Income Tax					
Provision for the period/year	3,683	17,876	30,573	13,106	38,324
Effect of reduction in tax rate for prior year	–	–	–	–	(8,030)
	3,683	17,876	30,573	13,106	30,294
Deferred tax					
Origination and (reversal) of temporary differences	(784)	520	10	178	18
	2,899	18,396	30,583	13,284	30,312

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Turnover

Turnover for the nine months ended September 30, 2013 amounted to RMB1,708.0 million, representing an increase of 103.4% from RMB839.5 million for the nine months ended September 30, 2012. This increase was mainly due to the consolidation of Baohe Taiyue's and Baohe Xinshiji's results from January 1, 2013 and an increase in the sales volume of recycled copper products, partially offset by a decrease in the average selling price for recycled copper products.

Turnover from sales of communication cables amounted to RMB189.5 million, representing a sales volume of 2,170 metric tons and an average selling price of RMB87,322 per metric ton for the nine months ended September 30, 2013. Turnover from sales of power transmission and distribution cables amounted to RMB338.9 million, representing a sales volume of approximately 8,446 metric tons and an average selling price of RMB39,947 per metric ton for the nine months ended September 30, 2013. We did not recognize any turnover from sales of communication cables and power transmission and distribution cables for the nine months ended September 30, 2012.

Turnover from recycled copper products amounted to RMB1,164.8 million for the nine months ended September 30, 2013, representing an increase of 42.9% from RMB815.1 million for the nine months ended September 30, 2012, reflecting mainly an increase of 52.1% in the sales volume of recycled copper products from 16,341 metric tons for the nine months ended September 30, 2012 to 24,854 metric tons for the nine months ended September 30, 2013. The increase in sales volume was mainly because we were able to increase our production due to our higher working capital level. The overall average selling price of our recycled copper products decreased by 6.0% from RMB49,878 per metric ton for the nine months ended September 30, 2012 to RMB46,863 per metric ton for the nine months ended September 30, 2013.

Turnover from Xiangbei (after intra-group elimination) amounted to RMB409.2 million for the nine months ended September 30, 2013, representing an increase of 99.6% from RMB205.0 million for the nine months ended September 30, 2012. This primarily reflected an increase in the sales volume of Xiangbei's recycled copper products by 113.9% from 4,073 metric tons for the nine months ended September 30, 2012 to 8,712 metric tons for the nine months ended September 30, 2013. The increase in sales volume was mainly because we were able to increase our production due to our higher working capital level from bank borrowings and cash generated from operations. The increase was offset partly by a decrease of 6.4% in the average selling price of Xiangbei's recycled copper products from RMB50,154 per metric ton for the nine months ended September 30, 2012 to RMB46,935 per metric ton for the nine months ended September 30, 2013. The decrease in the average selling price followed the general price trend of the PRC copper market.

The total turnover of Jinxin and Tongxin (after intra-group elimination) amounted to RMB770.4 million for the nine months ended September 30, 2013, representing an increase of 21.4% from RMB634.5 million for the nine months ended September 30, 2012. This primarily reflected an increase in the total sales volume of Jinxin's and Tongxin's recycled copper products by 31.6% from 12,267 metric tons for the nine months ended September 30, 2012 to 16,142 metric tons for the nine months ended September 30, 2013, the increase in volume was mainly because we were able to increase our production due to our higher working capital level from bank borrowings and cash generated from operations. The increase was offset partly by a decrease of 6.0% in the average selling price of Jinxin's and Tongxin's recycled copper products from RMB49,787 per metric ton for the nine months ended September 30, 2012 to RMB46,824 per metric ton for the nine months ended September 30, 2013. The decrease in the average selling price followed the general price trend of the PRC copper market.

Cost of sales

Cost of sales for the nine months ended September 30, 2013 totaled RMB1,609.5 million, representing an increase of 111.4% from RMB761.3 million for the nine months ended September 30, 2012. The increase was mainly due to the additional cost of sales arising from the consolidation of Baohe Taiyue's and Baohe Xinshiji's results from January 1, 2013 and an increase in the sales volume of our recycled copper products. The average unit cost of raw materials in our recycled copper business decreased by 1.5% from RMB45,366 per metric ton for the nine months ended September 30, 2012 to RMB44,679 per metric ton for the nine months ended September 30, 2013. The average unit costs of raw materials in our communication cables business and power transmission and distribution cables business were RMB70,064 per metric ton and RMB33,409 per metric ton, respectively, for the nine months ended September 30, 2013.

Cost of sales, other than raw materials and cost of finished goods from Sichuan Xinshiji, was RMB85.9 million for the nine months ended September 30, 2013, representing an increase of 329.5% from RMB20.0 million for the nine months ended September 30, 2012. The increase was mainly attributable to the processing fees of RMB9.4 million paid by Baohe Taiyue to Guangzhou Taiyue and RMB26.4 million paid by Baohe Xinshiji to Sichuan Xinshiji. The increase was also attributable to an increase in other taxes from RMB2.2 million to RMB23.1 million. Such other taxes are calculated with reference to the amounts of net VAT paid to the tax authorities. For the nine months ended September 30, 2013, we increased our purchases of raw materials from individual suppliers who did not provide VAT invoices, as a result, our net VAT paid after deducting input VAT increased as compared to the amount paid for the same period last year.

Gross Profit

Our gross profit was RMB98.6 million for the nine months ended September 30, 2013, representing an increase of 26.1% from RMB78.2 million for the nine months ended September 30, 2012. Our gross profit margin in the nine months ended September 30, 2013 decreased to 5.8% from 9.3% in the nine months ended September 30, 2012. The deterioration in gross profit margin was mainly due to the decrease in average selling price of recycled copper products by 6.0% without a comparable decrease in the average raw materials costs. The lower gross profit margin was mainly because we had been sourcing more of our scrap copper from vendors who did not provide VAT invoices, which resulted in greater VAT refunds to us, and on an ex-VAT basis, these vendors generally sold scrap copper at a higher price.

Other revenue

Other revenue increased significantly to RMB136.2 million for the nine months ended September 30, 2013 from RMB10.1 million for the nine months ended September 30, 2012. The following table shows VAT refunds and government grants and subsidies recognized by Jinxin, Tongxin, Xiangbei and Baohe Xinshiji for the nine months ended September 30, 2012 and 2013.

	Jinxin		**Tongxin**		**Xiangbei**		**Baohe Xinshiji**	
	Nine months ended September 30,		**Nine months ended September 30,**		**Nine months ended September 30,**		**Nine months ended September 30,**	
	2012	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
	(unaudited)		*(unaudited)*		*(unaudited)*		*(unaudited)*	
VAT refunds	7,487	10,276	–	57,634	–	32,333	–	–
Government grants and subsidies	450	1,100	–	21,650	1,733	12,461	–	67

Tongxin and Xiangbei began to receive VAT refunds under the Comprehensive Utilization of Resources Policy from the third quarter of 2012 when they obtained the relevant approvals from the tax authorities. The increase in Jinxin's VAT refunds was primarily due to difference in timing of receiving such VAT refunds under the Social Welfare Enterprise Policy. Starting from 2013, Tongxin and Baohe Xinshiji receive government grants and subsidies under the Project Investment Agreements. For additional information, see the section headed "Business – Our Products and Business Activities – Project Investment Agreements and Management Consultancy Agreements" in this prospectus.

Other net income/(loss)

Our other net income for the nine months ended September 30, 2013 was RMB1.1 million as compared to our other net income of RMB0.4 million for the nine months ended September 30, 2012. Our other net income for the nine months ended September 30, 2012 mainly comprised a net gain of RMB0.4 million on copper futures contracts trading on the Shanghai Futures Exchange. Our other net income for the nine months ended September 30, 2013 mainly comprised a net gain of RMB2.2 million on copper futures contracts trading on the Shanghai Futures Exchange.

Selling and distribution expenses

Our selling and distribution expenses for the nine months ended September 30, 2013, were RMB6.6 million, representing an increase of 37.5% from RMB4.8 million for the nine months ended September 30, 2012. The increase was primarily due to the consolidation of Baohe Taiyue's and Baohe Xinshiji's results for the nine months ended September 30, 2013.

Administrative expenses

Our administrative expenses for the nine months ended September 30, 2013 were RMB45.9 million, representing an increase of 227.9% from RMB14.0 million for the nine months ended September 30, 2012. The increase was primarily due to the recognition of listing expenses of

RMB19.8 million in preparation for the Global Offering, administrative and consultancy fees of RMB2.3 million to Baohe Fushan under the Management Consultancy Agreements, amortization of intangible assets of RMB2.7 million in relation to Baohe Taiyue and Baohe Xinshiji and consolidation of Baohe Taiyue's and Baohe Xinshiji's results from January 1, 2013.

Income Tax

Income tax expense for the nine months ended September 30, 2013 was RMB30.3 million, representing an increase of 127.8% from RMB13.3 million for the nine months ended September 30, 2012. The increase was mainly due to an increase in the taxable profit generated by our recycled copper products business and the consolidation of our communicable cable business and power transmission and distribution cable business from January 1, 2013. Furthermore, income tax for the nine months ended September 30, 2013 also included a withholding tax of RMB2.5 million on Xiangbei's retained earnings of RMB25.0 million which was re-invested to increase registered capital.

Under the Notice on Corporate Income Tax Issues concerning the In-depth Implementation of the Western Development Strategy, Jinxin and Tongxin received approvals from local tax authorities in May 2013 to enjoy a preferential corporate income tax rate of 15%, applicable retrospectively to the period beginning on January 1, 2012. The difference between our income tax expenses recognized in 2012 and the income tax expenses that we are required to pay under the preferential policy was credited against our income tax expenses for the nine months ended September 30, 2013.

Profit for the period

As a result of the foregoing, our profit for the nine months ended September 30, 2013 was approximately RMB132.5 million, representing an increase of 197.1%, from approximately RMB44.6 million for the nine months ended September 30, 2012. Our net profit margin increased from 5.3% for the nine months ended September 30, 2012 to 7.8% for the nine months ended September 30, 2013.

Year ended December 31, 2012 compared to year ended December 31, 2011

Turnover

Turnover for the year ended December 31, 2012 amounted to RMB1,513.1 million, representing an increase of 8.4% from RMB1,396.4 million for the year ended December 31, 2011.

This increase was mainly due to the consolidation of Xiangbei's full-year results for 2012. We started to consolidate Xiangbei's results from August 2011. Xiangbei's full-year turnover contribution (after intra-group elimination) was RMB407.6 million for the year ended December 31, 2012, as compared to a five-month turnover contribution of RMB184.5 million for the year ended December 31, 2011. The volume of recycled copper products sold by Xiangbei increased by 184.2% from 2,866 metric tons for the five-month period for 2011 to 8,145 metric tons for 2012. The average selling price of Xiangbei's products decreased by 6.5% from RMB53,249 per metric ton for the five-month period in 2011 to RMB49,787 per metric ton for 2012.

The total turnover of Jinxin and Tongxin (after intra-group elimination) amounted to RMB1,105.6 million for 2012, representing a decrease of 8.8% from RMB1,211.9 million for 2011, reflecting mainly a decrease of 14.3% in the average selling price of recycled copper products from RMB57,667 per metric ton for 2011 to RMB49,417 per metric ton for 2012, a decrease in sales of scrap materials and a decrease in contract manufacturing fee income as a number of our customers switched from using our processing services to purchasing our recycled copper products in 2012. The decrease was offset partly by an increase in the sales volume of Jinxin's and Tongxin's recycled copper products by 7.8% from 20,288 metric tons for 2011 to 21,869 metric tons for 2012.

The overall average selling price of our recycled copper products decreased by 13.3% from RMB57,120 per metric ton in 2011 to RMB49,518 per metric ton in 2012, mainly due to a decrease in the market price of copper.

Cost of sales

Cost of sales for the year ended December 31, 2012 totaled RMB1,401.4 million, representing an increase of 6.0% from RMB1,321.6 million for the year ended December 31, 2011. The increase was mainly due to an increase in the sales volume of our recycled copper products by 29.6% from 23,154 metric tons for 2011 to 30,014 metric tons for 2012 because Xiangbei contributed only five-month results to our operating results in 2011 but full-year results in 2012. The average unit cost of raw materials decreased by 18.6% from RMB55,903 per metric ton for 2011 to RMB45,512 per metric ton for 2012.

Manufacturing staff costs for 2012 was RMB5.9 million, representing an increase of 40.5% from RMB4.2 million for 2011. Depreciation on production facilities and amortization of land use rights for 2012 was RMB6.4 million, representing an increase of 25.5% from RMB5.1 million for 2011. Other taxes on sales for 2012 amounted to RMB9.1 million, representing an increase of 51.7% from RMB6.0 million for 2011. Manufacturing overheads for 2012 amounted to RMB14.0 million, representing an increase of 15.7% from RMB12.1 million for 2011. All of these increases were mainly due to the combination of Xiangbei's full-year results in 2012 as compared to Xiangbei's five-month results in 2011.

Gross Profit

Our gross profit was RMB111.7 million for 2012, representing an increase of 49.3% from RMB74.8 million for 2011. Our gross profit margin in 2012 increased to 7.4% from 5.4% in 2011.

The improvement of the gross profit margin was mainly because the average spread between the average selling price of recycled copper products and the average unit cost of raw materials, which primarily consist of scrap copper, in 2012 was larger than that in 2011. The average unit cost of raw materials used in the production of our recycled copper products decreased by 18.6%, while the average selling price of our recycled copper products decreased by 13.3% during the same period, resulting in an improvement of our profit margin which was partly offset by a decrease in the profit derived from the sales of scrap materials, the proportion of which decreased but which have higher profit margins than sales of recycled copper products.

Other revenue

Other revenue was RMB55.9 million for the year ended December 31, 2012, representing an increase of 95.5% from RMB28.6 million for the year ended December 31, 2011 which was mainly due to an increase in VAT refunds. Jinxin contributed RMB8.6 million of VAT refunds and RMB0.8 million of government grants in 2012 as compared to RMB7.9 million of VAT refunds and RMB10.2 million of government grants in 2011. Tongxin contributed RMB13.7 million of VAT refunds in 2012 as compared to nil in 2011. Xiangbei contributed RMB26.3 million of VAT refunds and RMB6.0 million of government grants in 2012 as compared to RMB10.3 million of government grants in 2011. Xiangbei obtained the approval under the Policies for Products Generated from Comprehensive Utilization of Resources in September 2012 which entitles it to enjoy VAT refunds with retrospective effect from August 2011 and Tongxin was approved in December 2012 under the same policy with retrospective effect from October 2012.

Other net income/(loss)

Our other net loss for 2012 was RMB1.5 million as compared to our other net income of RMB2.4 million for 2011. Other net loss for 2012 mainly included a loss of RMB2.2 million from change in fair value of contingent consideration liabilities in connection with the issuable ordinary shares of Engen, partially offset by a net gain of RMB0.9 million on copper futures contracts trading on the Shanghai Futures Exchange.

We recognized a loss resulting from an increase in fair value of contingent consideration liabilities of RMB2.2 million in 2012 when we settled the earn-out arrangement in respect of Xiangbei for the year ended December 31, 2011 and terminated the subsequent earn-out arrangements for 2012 and 2013.

Selling and distribution expenses

Our selling and distribution expenses for the year ended December 31, 2012 were RMB5.9 million, representing an increase of 40.5% from RMB4.2 million for the year ended December 31, 2011. The increase was primarily due to the consolidation of Xiangbei's full-year results for 2012.

Administrative expenses

Our administrative expenses for the year ended December 31, 2012 were RMB20.4 million, representing a decrease of 9.7% from RMB22.6 million for the year ended December 31, 2011. The decrease was primarily due to a decrease in share-based compensation expense by 77.0% to RMB2.6 million for 2012 from RMB11.3 million for 2011, because the share options granted to Mr. Yu Jianqiu to purchase 1,013 ordinary shares of Engen were fully vested on the grant date in 2011. The share-based compensation in connection with Gushan's share option will not be further amortized after 2012 as the share options were canceled in October 2012 and all previously measured but unrecognized amount were fully recognized in 2012. The decrease in share-based compensation expense was partly offset by an increase in overall administrative expenses resulting from the combination of Xiangbei's full-year results in 2012.

Income Tax

Income tax expense for 2012 was RMB30.6 million, representing an increase of 66.3% from RMB18.4 million for 2011. The increase in CIT was mainly due to an increase in the taxable profit. The effective tax rate decreased to 24.9% for 2012 from 27.4% for 2011. The decrease in effective tax rate was mainly due to a decrease in share-based compensation expense by RMB8.6 million incurred by Engen during 2012, which was not tax deductible.

Profit for the year

As a result of the foregoing, our profit for the year was approximately RMB92.3 million for the year ended December 31, 2012, representing an increase of approximately RMB43.6 million, or 89.6%, from approximately RMB48.7 million for the year ended December 31, 2011. Our net profit margin increased from 3.5% for the year ended December 31, 2011 to 6.1% for the year ended December 31, 2012.

Year ended December 31, 2011 compared to period ended December 31, 2010

Turnover

Turnover for the year ended December 31, 2011 was RMB1,396.4 million, representing an increase of 581.0% from RMB205.1 million for the period ended December 31, 2010.

This increase was mainly due to the consolidation of Jinxin's full-year results in 2011. We started to consolidate Jinxin's results from November 3, 2010. The increase was also attributable to the consolidation of Xiangbei's results beginning in August 2011. Jinxin's full-year revenue contribution in 2011 was RMB1,211.9 million, as compared to a two-month revenue contribution of RMB205.1 million for the period ended December 31, 2010. The recycled copper products sold by Jinxin increased by 435.7% from two-month sales of 3,787 metric tons for the period ended December 31, 2010 to full-year sales of 20,288 metric tons in 2011. Jinxin also sold more scrap materials in 2011. The five-month revenue of Xiangbei in 2011 was RMB184.5 million, reflecting sales of 2,866 metric tons of recycled copper products since August 2011. The average selling price of recycled copper products increased by 6.4% to RMB57,120 per metric ton for 2011 from RMB53,697 per metric ton for the period ended December 31, 2010.

Cost of sales

Cost of sales for 2011 was RMB1,321.6 million, representing an increase of 589.4% from RMB191.7 million for the period ended December 31, 2010. The increase was mainly due to an increase in the sale volume of our recycled copper products by 511.4% from 3,787 metric tons for the period ended December 31, 2010 to 23,154 metric tons for 2011 as a result of the consolidation of Jinxin's full-year results in 2011, as compared to two-month results in 2010, and the consolidation of Xiangbei's five-month results in 2011. The average unit cost of raw materials increased by 12.0% from RMB49,926 per metric ton for the period ended December 31, 2010 to RMB55,903 per metric ton for 2011.

Manufacturing staff costs for 2011 was RMB4.2 million, representing an increase of 223.1% from RMB1.3 million for the period ended December 31, 2010. Depreciation on production facilities and amortization of land use rights for the period ended December 31, 2011 was RMB5.1 million, representing an increase of RMB4.9 million from RMB0.2 million for the period ended December 31, 2010. Other taxes on sales increased to RMB6.0 million for 2011 from less than RMB0.1 million for the period ended December 31, 2010. Manufacturing overheads increased to RMB12.1 million for 2011 from RMB1.1 million for the period ended December 31, 2010. These increases were due to the consolidation of Jinxin's full-year results and Xiangbei's five-month results in 2011.

Gross Profit

Our gross profit for 2011 was RMB74.8 million, representing an increase of 458.2% from RMB13.4 million for the period ended December 31, 2010. Gross profit margin for the period ended December 31, 2011 decreased to 5.4% from 6.5% for the period ended December 31, 2010.

The deterioration of the gross margin was mainly because the average spread between the average selling price of recycled copper products and the average unit cost of raw materials, which primarily consist of scrap copper, in 2011 is lower than that for the period ended December 31, 2010. The average unit cost of raw materials used in the production of our recycled copper products increased by 12.0%, while the average selling price of our recycled copper products increased by 6.4% during the same period, resulting in a deterioration of our profit margin which was partly offset by an increase in the profit derived from the sales of scrap materials, the proportion of which increased and which have higher profit margins than sales of recycled copper products.

Other revenue

Other revenue was RMB28.6 million for the year ended December 31, 2011, representing an increase of 1,143.5% from RMB2.3 million for the period ended December 31, 2010 which was mainly due to an increase in VAT refunds and government grants. In 2011, Jinxin contributed RMB7.9 million of VAT refunds and RMB10.2 million of government grants as compared to RMB0.8 million of VAT refunds and RMB1.5 million of government grants in 2010 due to the consolidation of Jinxin's full-year results in 2011. Xiangbei contributed RMB10.3 million of government grants in 2011.

Other net income

Other net income for 2011 increased significantly to RMB2.4 million from RMB26,000 for the period ended December 31, 2010. Other net income for 2011 mainly included a gain of RMB3.9 million from change in fair value of contingent consideration liabilities in connection with the issuable ordinary shares of Engen, partially offset by a loss of RMB1.5 million on copper futures contracts trading on the Shanghai Futures Exchange, while our net income for the period ended December 31, 2010 was resulted from our net foreign exchange gain.

We recognized a gain resulting from a decrease of RMB3.9 million in the fair value of contingent consideration liability for 2011, mainly due to a decrease in the expected number of ordinary shares of Engen to be issued subject to the Xiangbei earn-out arrangement, a decrease in the fair value of Engen's ordinary shares and an increase in discount rates used to calculate such fair value of contingent consideration.

Selling and distribution expenses

Our selling and distribution expenses were RMB4.2 million for the year ended December 31, 2011, representing an increase of 223.1% from RMB1.3 million for the period ended December 31, 2010. The increase was primarily due to the combination Jinxin's full-year results for 2011 and the combination Xiangbei's results beginning in August 2011.

Administrative expenses

Our administrative expenses were RMB22.6 million for the year ended December 31, 2011, representing an increase of 1,514.3% from RMB1.4 million for the period ended December 31, 2010. The increase was primarily due to (i) the consolidation of Jinxin's full-year results for 2011 and the consolidation of Xiangbei's results beginning from August 2011, and (ii) the inclusion of a share-based compensation expense of RMB11.3 million, comprising RMB7.7 million in connection with the share options granted to Mr. Yu Jianqiu to purchase 1,013 ordinary shares of Engen and RMB3.6 million in connection with the share options granted by Gushan to Jinxin's executives and staff to purchase three million shares of Gushan.

Income Tax

Income tax expense was RMB18.4 million, representing an increase of 534.5% from RMB2.9 million for the period ended December 31, 2010. The increase in CIT was mainly due to an increase in the taxable profit. The effective tax rate increased to 27.4% in 2011 from 23.6% for the period ended December 31, 2010. The increase in effective tax rate was mainly resulting from the recognition of the share-based compensation expense of approximately RMB11.3 million by Engen during 2011, which is not tax deductible.

Profit for the year/period

As a result of the foregoing, our profit was RMB48.7 million for the year ended December 31, 2011, representing an increase of RMB39.3 million or 418.1% from RMB9.4 million for the period ended December 31, 2010. Our net profit margin decreased to 3.5% for the year ended December 31, 2011 from 4.6% for the period ended December 31, 2010.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

Property, plant and equipment

Property, plant and equipment consist of buildings, plants and machineries, furniture, fittings and equipment, motor vehicles and construction in progress. The increase of the balance of our property, plant and equipment from December 31, 2010 to September 30, 2013 was primarily due to the construction of our new production facilities and our acquisitions of Xiangbei, Baohe Xinshiji and Baohe Taiyue.

Lease prepayments

The lease prepayments represent costs of the land use rights and other related costs and taxes in respect of the land located in the PRC, on which we build our production facilities. The increase of the balance of our lease prepayments from December 31, 2010 to September 30, 2013 was primarily due to acquisitions of an additional piece of land for our Jinxin facilities and the land for the construction of our Tongxin and Baohe Xinshiji facilities in 2013.

Goodwill

Our goodwill increased from RMB16.1 million as of December 31, 2010 to RMB38.8 million as of December 31, 2011 and further to RMB39.3 million as of December 31, 2012, mainly due to our acquisitions of Jinxin for the period ended December 31, 2010, Xiangbei in 2011, and Baohe Xinshiji and Baohe Taiyue in 2012. Our goodwill as of September 30, 2013 remained at RMB39.3 million.

Intangible assets (other than goodwill)

Our other intangible assets represent the estimated fair value of customer relationships as of December 31, 2012 acquired from Baohe Taiyue and Baohe Xinshiji. Customer relationships are to be amortized over their estimated useful lives, which we estimate to be three years.

Inventories

The following table sets out a summary of our inventory balances as of the end of the periods indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	108,821	79,889	76,858	225,805
Work in progress	–	5,450	10,374	35,352
Finished goods	32,108	29,573	26,492	92,387
	140,929	114,912	113,724	353,544

Our inventory balance of RMB140.9 million as of December 31, 2010 was relatively high as compared to RMB114.9 million as of December 31, 2011 and RMB113.7 million as of December 31, 2012. We purchased a considerable amount of raw materials at the end of 2010 mainly because the management anticipated an increase in raw materials price in the first few months in 2011.

The inventory balance as of December 31, 2011 and 2012 was fairly stable, mainly reflecting stable production plans for the first quarter of 2012 and for the first quarter of 2013. The inventory balance as of September 30, 2013 increased significantly to RMB353.5 million, mainly due to an increase in the procurement of raw material in anticipation of certain large purchase orders for our recycled copper products that were delivered in the last quarter of 2013 and potential temporary shortage of raw material supply during the Chinese national day holiday in October 2013. The increase was also due to an increase in the balance of finished goods (recycled copper products) resulted from the increased production volume in September 2013 in order to compensate for a temporary reduction in production activities during the Chinese national day holiday.

Our inventory turnover days were 27.2 days, 30.7 days, 29.7 days and 39.6 days for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013. Inventory turnover days equal average inventory (excluding inventory of Baohe Taiyue and Baohe Xinshiji) divided by cost of sales and multiplied by 59 for the period ended December 31, 2010, by 366 for the year ended December 31, 2012 and by 273 for the nine months ended September 30, 2013. For the year ended December 31, 2011, in calculating our inventory turnover days, Xiangbei's cost of sales is annualized by multiplying by 365/153. Our turnover days of inventory were relatively stable during the period ended December 31, 2010 and the years ended December 31, 2011 and 2012, and our inventory turnover day for the nine months ended September 30, 2013 increased to 39.6 days, mainly due to an increase in our raw materials and finished goods as of September 30, 2013 attributable to the reasons stated above. Sales of cable products, which are normally sold and delivered directly from Guangzhou Taiyue and Sichuan Xinshiji to our customers, also contributed to the decrease.

Trade and other receivables

Our trade and other receivables primarily consist of trade debtors and bills receivable, advance payments to suppliers, VAT refunds and government grants receivables, and other deposits and prepayments and receivables. Our trade receivables primarily consist of accounts receivable with customers, including related parties, in connection with the sale of our products. Our bills receivable primarily consist of bills issued by banks delivered by our customers in lieu of cash payment for purchases. Our advance payments to suppliers primarily consist of deposit payments made to suppliers for the procurement of raw materials, which we believe is consistent with general industry practice in China.

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade debtors and bills receivable	56,859	226,602	329,315	266,922
Advance payments to suppliers	15	38,506	72,125	76,227
VAT refunds and government grants receivable	–	5,499	39,742	27,311
Other deposits, prepayments and receivables	16,341	21,715	23,890	10,872
	73,215	292,322	465,072	381,332

Our trade debtors and bills receivable increased from RMB56.9 million as of December 31, 2010 to RMB226.6 million as of December 31, 2011 to RMB329.3 million as of December 31, 2012, primarily due to the increase in our sales. Our trade debtors and bills receivable decreased to RMB266.9 million as of September 30, 2013 mainly because we sell to a greater number of customers of smaller scale which have a tendency to pay earlier and we enhanced our credit risk control by shortening the grace period given to our customers. In addition, we have also increased our effort in bill collection.

Our trade debtors receivable increased from RMB47.3 million as of December 31, 2010 to RMB215.8 million as of December 31, 2011, to RMB329.3 million as of December 31, 2012 primarily due to the increase in our sales. However, our trade debtors receivable decreased to RMB266.9 million as of September 30, 2013 mainly because we sell to a greater number of customers of smaller scale which have a tendency to pay earlier and we enhanced our credit risk control by shortening the grace period given to our customers. Our bills receivable accounted for a small portion of our trade debtors and bills receivable during the Track Record Period since, in our experience, our major customers in our recycled copper product business, which are power transmission and distribution cable manufacturers, generally do not use promissory notes. Our bills receivable increased slightly from RMB9.6 million as of December 31, 2010 to RMB10.8 million as of December 31, 2011, and we did not have any bills receivable as of December 31, 2012 and September 30, 2013.

We generally grant our customers in our recycled copper business a credit period of five to 30 days, customers in our communication cable business a credit period up to 30 days and customers in our power transmission and distribution cable business a credit period up to 90 days, and further extend the credit period by three to six months if at any point during the credit period the customer chooses to pay by promissory notes issued by banks, although such terms may vary based on our historical relationships with, and assessment of creditworthiness of, each customer, and our financial position and working capital needs. Accordingly, it is possible for customers to be extended a credit period of up to 210 days. We believe that settlement by promissory notes issued by banks is a customary practice in our industry. The promissory notes we receive are issued by reputable PRC banks, so we generally consider the risk of default is relatively low. We receive cash payments from the issuing banks when the promissory notes mature, unless we endorse or discount them. When we discount such bills to banks in exchange for cash, we incur finance costs for discounting.

The following is an aging analysis of our trade debtors and bills receivable, presented based on the transaction date as of the dates indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	48,574	86,658	258,584	125,213
31 to 60 days	8,168	89,685	46,935	94,945
61 to 180 days	99	49,952	23,780	46,764
Over 180 days	18	307	16	–
	56,859	226,602	329,315	266,922

The increase in our trade debtors and bills receivable balance of over 30 days as of September 30, 2013 was mainly due to the consolidation of our power transmission and distribution cable and communication cable businesses. In line with the industry practice, we grant the customers of our power transmission and distribution cable and communication cable businesses a longer credit period than the customers of our recycled copper business.

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follow:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	34,861	50,574	66,779	104,906
Less than 30 days past due	18,698	50,863	213,782	112,100
31 to 60 days past due	3,230	77,364	41,851	19,284
61 to 180 days past due	52	47,561	6,887	30,632
Over 180 days past due	18	240	16	–
Amounts past due	21,998	176,028	262,536	162,016
	56,859	226,602	329,315	266,922

As of January 31, 2014, we had subsequently received RMB265.7 million from our customers to settle our trade debtors and bills receivable outstanding as of September 30, 2013, the total of which represented 99.6% of the outstanding trade debtors and bills receivable as of September 30, 2013. As a result, trade debtors and bills receivable of RMB1.2 million as of September 30, 2013 were past due and not yet settled but not impaired.

Although we face increased pressure on our cash flow and risks related to non-payment of these past due receivables, we believe, considering the high creditworthiness of these customers, their good track record with us and the subsequent partial settlement by cash, no impairment allowance is necessary in respect of the remaining unsettled balances and we believe our overall risks are controllable. We do not hold any collateral over these balances because we expect to be able to collect all these receivables in the future.

The following is an aging analysis of our trade receivables from related parties presented based on the transaction dates as of the dates indicated:

	As of December 31, 2012		As of September 30, 2013	
	Due from Guangzhou Taiyue	**Due from Sichuan Xinshiji**	**Due from Guangzhou Taiyue**	**Due from Sichuan Xinshiji**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	5,774	3,275	–	10,726
Less than 30 days past due	2,853	50,809	–	–
31 to 60 days past due	–	18,684	–	3,868
61 to 180 days past due	–	7	2,039	–
Over 180 days past due	–	–	–	–
Amounts past due	2,853	69,500	2,039	3,868
	8,627	72,775	2,039	14,594

The aging analysis of amount due from related parties that are neither individually nor collectively considered to be impaired is as follows:

	As of December 31, 2012		As of September 30, 2013	
	Due from Guangzhou Taiyue	**Due from Sichuan Xinshiji**	**Due from Guangzhou Taiyue**	**Due from Sichuan Xinshiji**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	8,627	53,078	–	10,726
31 to 60 days	–	2,796	–	3,868
61 to 180 days	–	16,901	2,039	–
Over 180 days	–	–	–	–
	8,627	72,775	2,039	14,594

In determining the recoverability of amounts due from related parties, no impairment would be recognized if we consider our related parties financially sound. We consider that the risks of non-payment by related customers are relatively low given their long business relationship with us and good repayment history.

As of the Latest Practicable Date, we had subsequently received RMB14.6 million from Sichuan Xinshiji and RMB2.0 million from Guangzhou Taiyue, in full settlement of trade receivables due from the related parties.

Our trade debtors and bills receivable turnover days were 17.2 days, 35.2 days, 60.4 days and 47.6 days for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013. Trade debtors and bills receivable turnover days equal average balance of trade debtors and bills receivable (excluding trade debtors and bills receivable of Baohe Taiyue and Baohe Xinshiji for 2012) divided by total turnover and multiplied by 59 for the period ended December 31, 2010, by 366 days for the year ended December 31, 2012 and by 273 days for the nine months ended September 30, 2013. For the year ended December 31, 2011, in calculating our trade debtors and bills receivable turnover days, Xiangbei's turnover is annualized by multiplying by 365/153.

The increase in our trade debtors and bills receivable turnover days in 2011 was primarily because the two-month results in 2010 were not representative. The increase in our trade debtors and bills receivable turnover days in 2012 was primarily because we made, and recognized, relatively more sales in the fourth quarter of 2012, as a combined result of strong market demand, an addition of new customers and the availability of more working capital from bank borrowings. As a result, the increase in our average trade debtors and bills receivable in 2012 is disproportionate to the increase in our turnover in 2012. The decrease in our trade debtors and bills receivable turnover days in the first nine months of 2013 was primarily because we sell to a greater number of customers of smaller scale which have a tendency to pay earlier and we enhanced our credit risk control by shortening the grace period given to our customers. In addition, we have also increased our effort in bill collection. During the Track Record Period, our trade debtors and bills receivable turnover days were generally longer than the credit periods we granted to our customers because some of our customers did not pay within the relevant credit period. However, during the Track Record Period, we did not recognize any bad debts and substantially all of our trade debtors and bills receivable were settled within 180 days after they became due. We strive to maintain effective internal management and reduce our trade debtors and bills receivable related risks by performing periodic evaluations of the overdue balances and customer visits to ensure that our exposure to bad debts is not significant and that adequate impairment losses are made for irrecoverable amounts. We have also included receivables collection rates as one of the standards to evaluate the performance of our sales personnel to encourage them to collect amounts due from our customers.

Our prepayments to our suppliers increased from less than RMB0.1 million as of December 31, 2010 to RMB38.5 million as of December 31, 2011, to RMB72.1 million as of December 31, 2012 and further to RMB76.2 million as of September 30, 2013, primarily due to our strategy to secure sources of raw materials and to obtain better prices by offering advance payments to the suppliers. The size of such advance payments is also related to our business growth.

Amounts due from related parties

The following table sets forth the analysis of the amounts due from related parties as of the dates indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from Gold Wide	–	2,680	–	–
Amount due from Silvery Boom	–	1,786	–	–
Amount due from Guangzhou Taiyue	–	–	1,379	–
Amount due from Mr. Fan Dunxian	–	–	3,190	–
Amount due from Mr. Liu Hanjiu	–	–	–	260
Amount due from Mr. Zhang Huayi	–	–	–	37
Amounts due from related parties	–	4,466	4,569	297

The amounts due from Gold Wide and Silvery Boom as of December 31, 2011 represented the subscription payable amount for Engen's ordinary shares, part of a series of transactions by which we acquired Xiangbei. Such amount was unsecured, interest-free and had no fixed repayment terms. In 2012, Gold Wide and Silvery Boom fully repaid such amount to Engen. For additional information on the series of transactions by which we acquired Xiangbei, see the section headed "History, Reorganization and Corporate Structure" in this prospectus.

The amounts due from Guangzhou Taiyue and Mr. Fan Dunxian as of December 31, 2012 represented advances of RMB1.4 million and RMB3.2 million, respectively, to Guangzhou Taiyue and Mr. Fan Dunxian when we acquired Baohe Taiyue in December 2012. Both amounts were unsecured, interest-free and repayable on demand. The amounts due from Mr. Fan Dunxian and Guangzhou Taiyue were fully repaid during the nine months ended September 30, 2013.

The amounts due from Mr. Liu Hanjiu and Mr. Zhang Huayi as of September 30, 2013 represented our petty cash advances to them principally to cover business travels and business development expenses. Both amounts are unsecured, interest-free and repayable on demand. After Listing, we expect to continue to have amounts due from our related parties resulting from similar advances for operating expenses.

Trade and other payables

Our trade and other payables primarily consist of trade and bills payable for purchases of raw materials from suppliers, receipts in advance from customers, and other payables and accruals including amounts payable for construction of our production facilities, payroll and welfare payables, VAT payables and contingent consideration liabilities in respect of acquisition of Xiangbei.

The following table sets forth a breakdown of our trade and other payable as of the dates indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	76,575	93,680	76,137	121,089
Bills payable	–	–	41,400	51,400
Receipts in advance	1,503	1,854	7,568	9,028
Other payables and accruals	13,257	17,452	128,702	228,211
Derivative financial instruments	–	–	3	321
	91,335	112,986	253,810	410,049

Our trade and bills payable increased from RMB76.6 million as of December 31, 2010 to RMB93.7 million as of December 31, 2011, primarily due to increases in the purchases of raw materials in line with the overall business growth and the acquisition of Xiangbei. Our trade and bills payable increased further to RMB117.5 million as of December 31, 2012 primarily due to (i) increases in the procurement of raw materials in line with our business growth and in anticipation of an increase in raw material price, (ii) the acquisition of Baohe Xinshiji and (iii) longer credit periods extended by our suppliers as we increased our purchase volumes. Our trade and bills payable as of September 30, 2013 increased to RMB172.5 million, mainly due to an increase in the procurement of raw materials in anticipation of certain large purchase orders for our recycled copper products that were delivered in the last quarter of 2013 and the possible temporary shortage of raw material supply during the Chinese national day holiday in which the raw material supply from our suppliers may be temporarily suspended.

The credit period of our trade payables and bills payable is normally within 15 days and three to six months, respectively. Substantially all of our trade and other payables at the end of the relevant periods were due within three months.

The following table sets forth the aging analysis of our trade and bills payable presented based on the delivery date, as of the dates indicated:

	As of December 31,			As of September 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	76,575	52,970	49,659	86,999
31 to 60 days	–	13,690	25,932	22,818
61 to 180 days	–	27,003	40,552	40,695
Over 180 days	–	17	1,394	21,977
	76,575	93,680	117,537	172,489

Our trade and bills payable turnover days were 12.7 days, 21.2 days, 25.4 days and 24.6 days for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013. Trade and bills payable turnover days equal average balance of trade and bills payable (excluding trade and bills payable of Baohe Taiyue and Baohe Xinshiji for 2012) divided by total cost of sales and multiplied by 59 for the period ended December 31, 2010, by 366 for the year ended December 31, 2012 and by 273 for the nine months ended September 30, 2013. For the year ended December 31, 2011, in calculating our trade and bills payable turnover days, Xiangbei's cost of sales is annualized by multiplying by 365/153.

Our trade and bills payable turnover days increased from December 31, 2010 to 2012 primarily due to (i) longer credit periods extended by our suppliers as we increased our purchase volumes in 2011 and 2012 and (ii) our increased use in 2012 of promissory notes issued by banks, which have a longer credit period, as a payment method to reduce pressure on our cash flow. The increase in trade and bills payable turnover days in 2012 was also attributable to our increased purchase of raw materials towards the end of 2012 in anticipation of an increase in the price of raw materials. Our trade and bills payable turnover days for the nine months ended September 30, 2013 decreased slightly to 24.6 days. Although our trade and bills payable as of September 30, 2013 increased, our trade and bills payable turnover days during the nine months ended September 30, 2013 were relatively stable. This was mainly due to an increase in our advance payments to suppliers which were used to offset the payment for goods upon suppliers' delivery of goods without the recognition of such amounts as payables on our balance sheet. We believe such advance payments help us to secure raw materials. We endeavor to keep our trade and bills payable turnover days relatively low mainly because our prompt payment pattern enhances our suppliers' willingness to supply raw materials to us and, therefore, helps us to secure raw materials.

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of September 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, wages, bonus and other accrued benefits	1,811	2,544	2,761	3,281
Payables for the purchase of property, plant and equipment and intangible assets	10,175	8,743	74,953	93,304
Payable for land use rights	–	–	–	42,643
VAT payable	–	1,822	33,689	23,620
Contingent consideration in respect of acquisition of a subsidiary	–	1,880	–	–
Unearned government grants	–	1,000	10,300	9,300
Advances from local governments	–	–	–	33,000
Others	1,271	1,463	6,999	23,063
	13,257	17,452	128,702	228,211

Our payables for the purchase of property, plant and equipment and intangible assets as of December 31, 2010 amounted to RMB10.2 million, mainly representing the unpaid amounts for the construction of Jinxin's second production line which uses electrolytic copper as raw materials. The payables for the purchase of property, plant and equipment and intangible assets as of December 31, 2011 amounted to RMB8.7 million, mainly representing the retention money for the construction of Xiangbei's production line. The payables for the purchase of property, plant and equipment and intangible assets amounted to RMB75.0 million as of December 31, 2012 and RMB93.3 million as of September 30, 2013, mainly representing the payable amounts for the construction of our Tongxin and Baohe Xinshiji facilities and the payable amounts for Baohe Taiyue's and Baohe Xinshiji's intangible assets.

On August 19, 2013, through the listing process, we obtained the land use rights to two pieces of land at the Youxian Industrial Park for RMB42.6 million, which was paid by Baohe Fushan on our behalf. We recorded such amount as payable for land use rights as of September 30, 2013. As of the Latest Practicable Date, we had settled RMB33.0 million and the remaining RMB9.6 million was payable within one year.

Our VAT payable increased from RMB1.9 million as of December 31, 2011 to RMB33.7 million as of December 31, 2012, mainly due to our increased purchases of scrap copper from vendors who did not provide VAT invoices after Xiangbei and Tongxin began to enjoy the 50% VAT refunds. Our VAT payable decreased to RMB23.6 million as of September 30, 2013, mainly due to the use of VAT invoices for the equipment purchased for our Tongxin and Baohe Xinshiji facilities to reduce our VAT payable.

As of September 30, 2013, we received RMB8.0 million from local government of Miluo, Hunan Province as an unconditional government grant to Xiangbei for future capacity expansion plan. Such government grant is recorded as other payables until the expansion plan commences.

In addition, we have received additional advances from local governments in the aggregate amount of RMB33.0 million as of September 30, 2013 including advances in the amount of RMB16.0 million received by Tongxin from Mianyang City Youxian District Financial Bureau (綿陽市游仙區財政局) and advances in the amount of RMB17.0 million received by Xiangbei from Miluo Industrial Park District Financial Bureau (汨羅市工業園區財政局). The advances received by Tongxin and Xiangbei were unsecured and interest-free and have been repaid or used to offset the financial subsidies granted by local governments. Interest has not been imputed to these interest-free advances from local governments on the basis that it is not material to us.

Other items in other payables and accruals include, among others, other taxes payable as urban maintenance and construction tax and education supplementary tax which are calculated with reference to our VAT payable. Such other taxes payable increased in line with the increase in VAT payable in 2012 and the nine months ended September 30, 2013, respectively.

Loans from and amounts due to related parties

The following table sets forth the analysis of the loans from and the amounts due to related parties as of the dates indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loan from Gushan	29,675	81,992	82,012	80,192
Loan from Gold Hero	–	12,776	6,698	–
Loan from Silver Harvest	–	10,667	5,605	5,480
Loans from related parties	29,675	105,435	94,315	85,672
Amount due to Gushan	47,851	88,525	8,656	10,216
Amount due to Carling	13	45	68	155
Amount due to Mr. Yu Jianqiu	–	–	27,268	75,730
Amount due to Gold Hero	–	493	–	–
Amount due to Silver Harvest	–	411	–	106
Amount due to Mr. Liu Hanjiu	10,749	2,100	19,555	–
Amount due to Mr. Chen Lian	19,960	–	–	–
Amount due to Mr. Huang Weiping	–	21,920	19,135	–
Amount due to Mr. Zhang Huayi	–	11,980	980	–
Amount due to Baohe Fushan	–	8,000	22,000	11,330
Amount due to Sichuan Xinshiji	–	–	24,000	–
Amount due to Guangzhou Taiyue	–	–	24,000	–
Amounts due to related parties	78,573	133,474	145,662	97,537

As of the Latest Practicable Date, the amount due to Baohe Fushan had been fully repaid. We intend to repay all other amounts due to and loans from our related parties with the proceeds of the Global Offering as soon as practicable following the Listing.

With respect to the related party transactions set out in note 18 to the Accountants' Report in Appendix I to the prospectus, our Directors confirm that these transactions were conducted on normal commercial terms, that such terms were no less favorable to us than terms available to independent third parties which are fair and reasonable and in the interest of the Shareholders as a whole and that these transactions would not make our historical results not reflective of our future performance.

Loan from and amount due to Gushan

During the period ended December 31, 2010, Gushan injected RMB77.5 million into True Excel for the purpose of acquiring a 100.0% equity interest in Jinxin for a purchase consideration of RMB17.7 million, enlarging Jinxin's registered capital by RMB30.0 million and injecting working capital in the form of a shareholder loan to Jinxin. Of the fundings from Gushan, RMB29.7 million was contracted in December 2010 as an interest-bearing loan at an annual interest rate of 5.56%. As such, the interest-free amount due to Gushan was RMB47.9 million for the period ended December 31, 2010.

During the year ended December 31, 2011, Gushan advanced an additional RMB88.6 million into True Excel for the purpose of acquiring a 100.0% equity interest in Xiangbei for a purchase consideration of RMB34.6 million and injecting working capital in the form of shareholder loans to Jinxin. Of the fundings from Gushan in 2012, RMB52.3 million was contracted as an interest-bearing loan at an annual interest rate of 6.06%. The loan of RMB29.7 million brought forward for the period ended December 31, 2010 was renewed during 2011 with an annual interest rate of 6.56%. During the year ended December 31, 2011, the accrued interest on the loans from Gushan amounted to RMB4.4 million. As of December 31, 2011, the interest-bearing principal due to Gushan totaled RMB82.0 million and the interest-free amount due to Gushan totaled RMB88.5 million.

During the year ended December 31, 2012, the loans from Gushan were renewed with an annual interest rate ranging from 6.06% to 6.56%, and the accrued interest on the loans from Gushan amounted to RMB5.4 million. We repaid RMB7.5 million to settle part of the loan from and amount due to Gushan during 2012, and Gushan waived RMB77.7 million out of the interest-free amount on December 31, 2012. As a result, the interest-free amount due to Gushan totaled RMB8.7 million as of December 31, 2012. The interest-bearing principal due to Gushan remained at RMB82.0 million as of December 31, 2012.

During the nine months ended September 30, 2013, the accrued interest on the loans from Gushan amounted to RMB4.0 million. During the same period, we repaid RMB2.2 million to Gushan and recognized an exchange difference in the amount of RMB0.2 million. As a result, the interest-free amount due to Gushan totaled RMB10.2 million as of September 30, 2013. The interest-bearing principal due to Gushan remained at RMB80.2 million as of September 30, 2013.

Loan from and amount due to Gold Hero and Silver Harvest

On January 1, 2011, Gold Hero and Silver Harvest granted loans of RMB12.8 million and RMB10.7 million, respectively, to Engen. The loans were interest bearing with an annual interest rate of 6.06%. During the year ended December 31, 2011, the accrued interest on the loans from Gold Hero and Silver Harvest amounted to RMB493,000 and RMB411,000, respectively, and these were recorded as amounts due to related parties. During the year ended December 31, 2012, the accrued interest on the loans from Gold Hero and Silver Harvest amounted to RMB318,000 and RMB265,000, respectively. As of December 31, 2012, the loans from Gold Hero and Silver Harvest amounted to RMB6.7 million and RMB5.6 million, respectively.

During the nine months ended September 30, 2013, the accrued interest on loan from Silver Harvest amounted to RMB106,000. As of September 30, 2013, the interest-bearing loan from Silver Harvest amounted to RMB5.5 million and the interest-free amount due to Silver Harvest amounted to RMB106,000.

As of September 30, 2013, Gold Hero ceased to be our related party. Consequently, the accrued interest on the loan from Gold Hero of RMB127,000 was included in trade and other payables. As of September 30, 2013, the interest-bearing loan from Gold Hero amounted to RMB6.6 million and the interest-free amount due to Gold Hero included in trade and other payables amounted to RMB127,000.

Amount due to Carling

During the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the six months ended September 30, 2013, Carling paid operating expenses of RMB13,000, RMB32,000, RMB23,000 and RMB87,000 respectively, on behalf of Engen, True Excel, Alpha Business, Alpha Legend and Alpha Universe. As of December 31, 2012 and September 30, 2013, we had an amount due to Carling of RMB68,000 and RMB155,000, respectively, which is interest-free.

Amounts due to Mr. Liu Hanjiu and Mr. Chen Lian

Jinxin owed RMB4.5 million to Mr. Liu Hanjiu and RMB29.5 million to Mr. Chen Lian when we acquired it in November 2010. In November and December 2010, Jinxin borrowed RMB6.2 million from Mr. Liu Hanjiu and repaid RMB9.5 million to Mr. Chen Lian. In 2011, Jinxin borrowed RMB19.1 million from Mr. Liu Hanjiu and repaid RMB27.7 million to him as well as fully repaid RMB20.0 million to Mr. Chen Lian. In 2012, Jinxin borrowed RMB20.0 million from Mr. Liu Hanjiu and repaid RMB2.5 million to him and in the nine months ended September 30, 2013, Jinxin fully repaid RMB19.6 million to Mr. Liu Hanjiu.

Amounts due to Huang Weiping and Zhang Huayi

Xiangbei owed RMB18.0 million to Mr. Huang Weiping and RMB12.0 million to Mr. Zhang Huayi when we acquired it in August 2011. During the five months ended December 31, 2011, Mr. Huang Weiping and Mr. Zhang Huayi advanced RMB20.0 million and RMB12,000, respectively, to Xiangbei, which repaid RMB16.1 million to Mr. Huang Weiping and RMB22,000 to Mr. Zhang Huayi. During the year ended December 31, 2012, Mr. Huang Weiping and Mr. Zhang Huayi advanced RMB132.1 million and RMB13.6 million, respectively, to Xiangbei, which repaid RMB134.9 million to Mr. Huang Weiping and RMB24.6 million to Mr. Zhang Huayi. During the nine months ended September 30, 2013, Xiangbei fully repaid RMB19.1 million to Mr. Huang Weiping and RMB1.0 million to Mr. Zhang Huayi.

Amounts due to Baohe Fushan, Guangzhou Taiyue and Sichuan Xinshiji

In 2011, Baohe Fushan granted a loan of RMB8.0 million to Jinxin, which was fully repaid in 2012. On December 31, 2012, we acquired Baohe Taiyue and Baohe Xinshiji for a cash consideration of RMB30.0 million each. Immediately before our acquisitions, Baohe Taiyue was 80% owned by Guangzhou Taiyue and 20% by Baohe Fushan while Baohe Xinshiji was 80% owned by Sichuan Xinshiji and 20% by Baohe Fushan. The purchase consideration was payable on December 31, 2012 and was fully paid in 2013. In addition, in 2012, Baohe Fushan granted a loan of RMB10.0 million to Tongxin. During the nine months ended September 30, 2013, Tongxin obtained government subsidies of RMB4.7 million. According to the Management Consultancy Agreement, Tongxin is obligated to pay administrative and consultancy fees equivalent to 50% of such government subsidies, or RMB2.3 million, to Baohe Fushan, of which Tongxin had repaid RMB1.0 million. As of September 30, 2013, our balance sheet reflected a payable of RMB1.3 million in respect of such obligation.

Amount due to Mr. Yu Jianqiu

During the year ended December 31, 2012, we borrowed RMB47.3 million from Mr. Yu Jianqiu to fund the working capital of Jinxin and operating expenses of our Hong Kong office and repaid RMB20.0 million to him. As of December 31, 2012, the amount due to Mr. Yu Jianqiu was RMB27.3 million, which is interest-free.

During the nine months ended September 30, 2013, we borrowed RMB71.5 million from Mr. Yu Jianqiu principally to settle the consideration for the acquisitions of Baohe Taiyue and Baohe Xinshiji and partly to fund the listing expenses in preparation for the Global Offering and operating expenses of our Hong Kong office. We have repaid RMB23.0 million. As of September 30, 2013, the amount due to Mr. Yu Jianqiu was RMB75.7 million, which is interest-free.

NET CURRENT ASSETS/LIABILITIES

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of September 30,	As of December 31,
	2010	2011	2012	2013	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Current assets					
Inventories	140,929	114,912	113,724	353,544	140,160
Trade and other receivables	73,215	292,322	465,072	381,332	848,666
Amounts due from related parties	–	4,466	4,569	297	964
Pledged deposits	2,000	2,000	14,619	46,032	27,711
Cash and cash equivalents	13,366	42,781	19,609	81,091	78,615
	229,510	456,481	617,593	862,296	1,096,116
Current liabilities					
Trade and other payables	91,335	112,986	253,810	410,049	420,671
Bank loans and other borrowings	60,000	110,000	175,000	287,550	304,374
Obligations under finance lease	–	–	–	–	12,000
Amounts due to related parties	78,573	133,474	145,662	97,537	30,200
Loans from related parties	29,675	105,435	94,315	85,672	84,948
Current taxation	10,075	12,740	23,863	24,260	28,317
	269,658	474,635	692,650	905,068	880,510
Net current (liabilities)/assets	(40,148)	(18,154)	(75,057)	(42,772)	215,606

Our net current liabilities decreased to RMB42.8 million as of September 30, 2013 from RMB75.1 million as of December 31, 2012. The change was a result of an increase of RMB244.7 million in current assets partially offset by an increase of RMB212.4 million in current liabilities. The increase in current assets was primarily attributable to an increase of RMB239.8 million in inventory and an increase of RMB61.5 million in cash and cash equivalents, partially offset by a decrease of RMB83.7 million in trade and other receivables. The increase in current liabilities was primarily attributable to an increase of RMB112.6 million in short-term bank and other borrowings to satisfy our increasing working capital needs as we expand our business and an increase of RMB156.2 million in trade and other payables partly as a result of the advances from local governments, partially offset by a decrease of RMB48.1 million in amounts due to related parties as a result of our repayment of the amounts due to Mr. Liu Hanjiu, Mr. Huang Weiping, Mr. Zhang Huayi, and Sichuan Xinshiji. For additional information, see the section headed "Risk Factors – Risks Relating to Our Business – We had net current liabilities as of September 30, 2013, and we require a high level of working capital to sustain our operations, expansion and overall growth" in this prospectus.

Between October 1, 2013 and December 31, 2013, we obtained new bank loans and other borrowings in an aggregate principal amount of RMB192.9 million which included a new long term loan with a principal amount of RMB50.0 million. As of December 31, 2013, the outstanding amount of our bank loans and other borrowings was RMB424.4 million, of which RMB304.4 million was short term bank loans and other borrowings and RMB120.0 million was long term bank loans and other borrowings.

On December 27, 2013, we entered into a sale and finance lease-back arrangement with a term of five years. We received sales proceeds of RMB60.0 million, of which RMB12.0 million was recognized as current liability and RMB48.0 million was recognized as long term liability in our consolidated balance sheet as of December 31, 2013. On October 16, 2013, Mr. Yu exercised in full the Yu Options. The subscription price payable was approximately RMB64.0 million, which was offset against the amount due by us to Mr. Yu. Primarily due to the new long term loan, the finance lease and the exercise of share options by Mr. Yu, we recorded net current assets of RMB215.6 million as of December 31, 2013, as compared to net current liabilities of RMB42.8 million as of September 30, 2013.

Our trade and bills receivable balance increased significantly from RMB266.9 million as of September 30, 2013 to RMB677.1 million as of December 31, 2013, primarily due to the increase in our production and sales volume, in particular, of our recycled copper products. By utilizing the additional working capital from new loans and other borrowings we obtained during the fourth quarter of 2013, we purchased larger amount of raw materials and increased our production volume to meet the demand of our existing and new customers. In addition to our existing customers, we started selling recycled copper products to two new customers in Sichuan in the fourth quarter of 2013 which accounted for a significant portion of the increase in our sales during the period. We granted these two customers a credit period of 10 days, which is within the credit period range we generally offer to customers of our recycled copper products. The inventory balance decreased from RMB353.5 million as of September 30, 2013 to RMB140.2 million as of December 31, 2013, mainly due to increase in consumption of raw materials as a result of our increased production in the fourth quarter of 2013.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our working capital, capital expenditure and other capital requirements primarily through customer payments, short-term bank loans, capital contributions and loans and advances from shareholders, related parties and the local governments.

Our future cash requirements will depend on many factors, including our operating income, terms of trade, costs to build additional production capacities and other changing business conditions and future developments.

Generally, we extend a credit period of five to 30 days to our customers with a further three to six months extension for payment by promissory notes issued by banks and our suppliers grant us a credit period of five to 15 days with a further three to six months extension if we pay by bills issued by banks. As such, we strive to match the credit terms extended by our suppliers to us with those extended by us to our customers to maintain balanced cash flows. However, during the Track Record Period, we occasionally extended longer credit period to our customers which were behind on their payments. We gave extended credit period only to customers which we deem to have good track record with us, high creditworthiness and low operational risks. Occasionally, we also extended longer credit periods in favor of new customers which we expect to have growth potential. We expect to improve our credit management by allowing less extended credit period to our customers in future. During the Track Record Period, we experienced negative cash flows from our operating activities for the period ended December 31, 2010 and the year ended December 31, 2011 primarily due to the increased inventory storage for the period ended December 31, 2010 and the increased trade receivables in 2011 caused by the increase in sales.

For risks related to the tightened credit control by the PRC government, see the section headed "Risk Factors – Risks Relating to Our Business – Rising interest rates would increase our and our customers' borrowing costs" in this prospectus.

In the future, if industry practice shifts away from our current practice and our trade terms with customers and suppliers change accordingly, we may need to fund our working capital needs with increasing bank or other borrowings, which will increase our finance costs. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. We may seek to sell additional equity or debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our existing shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer. For risks related to our working capital needs, see the section headed "Risk Factors – Risks Relating to Our Business – We had net current liabilities as of September 30, 2013, and we require a high level of working capital to sustain our operations, expansions and overall growth" in this prospectus.

We expect to fund our future capital expenditure, working capital and other cash requirements from cash generated from our operations, the net proceeds from the Global Offering and, when necessary, bank and other borrowings.

Cash Flows

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	Period ended December 31,	Years ended December 31,		Nine months ended September 30,	
	2010	2011	2012	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash (used in)/generated from operating activities	(32,023)	(72,258)	71,246	42,334	66,718
Net cash used in investing activities	(38,206)	(41,572)	(166,085)	(66,072)	(165,360)
Net cash generated from financing activities	83,595	143,756	71,664	11,241	160,198
Net increase/(decrease) in cash and cash equivalents	13,366	29,926	(23,175)	(12,497)	61,556
Cash and cash equivalents at the beginning of the period/year	–	13,366	42,781	42,781	19,609
Effect of foreign exchange rate changes	–	(511)	3	105	(74)
Cash and cash equivalents at the end of the period/year	13,366	42,781	19,609	30,389	81,091

Operating Activities

Our net cash generated from operating activities for the nine months ended September 30, 2013 was RMB66.7 million compared to net cash generated from operating activities of RMB42.3 million for the nine months ended September 30, 2012. The increase in cash inflow generated from operating activities was primarily due to an increase in cash generated from operations before changes in working capital from RMB77.1 million for the nine months ended September 30, 2012 to RMB201.4 million for the nine months ended September 30, 2013. The overall increase in working capital requirements was RMB104.8 million for the nine months ended September 30, 2013 as compared to a RMB21.5 million for the nine months ended September 30, 2012. The increase in working capital requirements for the nine months ended September 30, 2013 was mainly caused by an increase of RMB239.8 million in inventory. The increase in inventory is attributable to an increase in the procurement of raw materials in anticipation of certain large purchase orders for our recycled copper products that were delivered in the last quarter of 2013 and the potential temporary shortage of raw materials during the Chinese national day holiday. Such increase in working capital requirement was partly offset by a decrease in trade and other receivables by RMB87.4 million and an increase of RMB47.6 million in trade and other payables resulted from an increased advance payments to our suppliers.

Our net cash generated from operating activities for the year ended December 31, 2012 was RMB71.2 million compared to net cash used in operating activities of RMB72.3 million for the year ended December 31, 2011. The increase in cash inflow generated from operating activities was primarily due to an increase in cash generated from operating activities before changes in working capital from RMB95.6 million in 2011 to RMB152.9 million in 2012. The overall increase in working capital requirements was RMB61.3 million in 2012 as compared to RMB151.8 million in 2011. The increase in working capital requirements in 2012 was mainly caused by an increase of RMB129.2 million in trade and other receivables resulting from the expansion of our business, which was partially offset by an increase of RMB65.7 million in trade and other payables, mainly attributable to an increase in VAT payable by RMB31.9 million and an increase in trade and bills payable by RMB26.5 million due to growth of business.

Our net cash used in operating activities for the year ended December 31, 2011 was RMB72.3 million compared to RMB32.0 million for the period ended December 31, 2010. The increase in cash used in operating activities was primarily due to an increase of RMB192.3 million in trade and other receivables resulting from the expansion of our business in 2011, which was partially offset by a decrease of RMB40.5 million in inventories because we purchased a considerable amount of raw materials at the end of 2010 in anticipation of an increase in raw materials prices in 2011.

Our net cash used in operating activities for the period ended December 31, 2010 was RMB32.0 million. The cash used in operating activities was primarily due to an increase of RMB105.4 million in inventories and an increase of RMB8.3 million in trade and other receivables resulting from the expansion of our business for the period ended December 31, 2010, which was partially offset by an increase of RMB68.0 million in trade and other payables attributable to a considerable amount of raw materials we purchased at the end of 2010 in anticipation of an increase in raw materials prices in 2011.

Investing Activities

For the nine months ended September 30, 2013, we had a net cash outflow of RMB165.4 million from investing activities, primarily due to the construction, purchase and prepayments of property, plant and equipment of RMB123.8 million for our Tongxin, Baohe Xinshiji and Baohe Taiyue facilities, miscellaneous costs and taxes of RMB9.4 million for the purchase of the land where our Jinxin, Tongxin and Baohe Xinshiji facilities are located and an increase in pledged deposits of RMB32.9 million used as security for certain bank loans.

For the year ended December 31, 2012, we had a net cash outflow of RMB166.1 million from investing activities, primarily due to the purchase of property, plant and equipment for RMB140.7 million, lease prepayments of RMB13.4 million for the land for our Tongxin facility in Sichuan and an increase in pledged deposits of RMB12.6 million used as security for certain bank loans.

For the year ended December 31, 2011, we had a net cash outflow of RMB41.6 million from investing activities, primarily due to RMB14.1 million paid in connection with the construction and expansion of our production facilities and the acquisition of entire ownership interest in Xiangbei for RMB27.5 million, after netting out cash of RMB7.1 million acquired in connection with the acquisition of Xiangbei.

For the period ended December 31, 2010, we had a net cash outflow of RMB38.2 million from investing activities, primarily due to amounts paid in connection with the construction and expansion of our production facilities, totaling RMB23.5 million and the acquisition of entire ownership interest in Jinxin for RMB14.7 million, after netting out cash of RMB3.0 million acquired in connection with the acquisition of Jinxin.

Financing Activities

For the nine months ended September 30, 2013, we had a net cash inflow of RMB160.2 million from financing activities, primarily due to the proceeds from new bank loans and other borrowings of RMB286.0 million and advances of RMB50.0 million from local governments. Such advances from local governments are interest-free, unsecured and will be used to offset the financial subsidies to be granted by the local governments and are repayable within one year. The cash received from these sources was partly offset by our repayment of bank loans of RMB110.0 million, our repayment of RMB49.3 million to certain related parties, including RMB60.0 million used to fund our acquisitions of Baohe Taiyue and Baohe Xinshiji.

For the year ended December 31, 2012, we had a net cash inflow of RMB71.7 million from financing activities, primarily due to the proceeds from new bank loans and other borrowings of RMB175.0 million and from our receipt of RMB29.0 million from our related parties to finance our working capital. The cash received from these sources were partly offset by our repayment of bank loans of RMB110.0 million, our repayment of RMB11.2 million to certain related parties for their advances to us and payment of bank loan interest of RMB11.2 million.

For the year ended December 31, 2011, we had a net cash inflow of RMB143.8 million from financing activities, primarily due to the proceeds from new bank loans and other borrowings of RMB120.0 million, our receipt of RMB8.0 million from related parties as well as our receipt of RMB92.4 million from Mr. Yu Jianqiu, Carling and Gushan, of which RMB30.0 million was used to finance the acquisition of Xiangbei and RMB62.4 million was used to finance our working capital. The cash received from these sources were partly offset by our repayment of bank loans of RMB70.0 million and payment of bank loan interest of RMB6.6 million.

For the period ended December 31, 2010, we had a net cash inflow of RMB83.6 million from financing activities, primarily due to the proceeds from new bank loans and other borrowings of RMB10.0 million as well as our receipt of RMB77.6 million from Mr. Yu Jianqiu, Carling and Gushan, of which RMB17.7 million was used to finance the acquisition of Jinxin, RMB30.0 million was used to increase Jinxin's registered capital and RMB29.9 million was used to finance our working capital. The cash received from these sources were partly offset by our repayment of RMB3.3 million to certain related parties for their advances to us and payment of bank loan interest of RMB0.7 million.

Working capital

We had unutilized banking facilities in the amount of RMB20.0 million as of the Latest Practical Date. We intend to continue to finance our working capital with cash generated from our operations, by renewing our existing banking facilities and by obtaining new banking facilities in the future. As set out in the section headed "Financial Information – Indebtedness", our bank loans and other borrowings have increased significantly since the beginning of the Track Record Period.

We have closely monitored the level of our working capital and will continue to do so, particularly in view of the integration of our downstream cable business in which customers are generally granted longer credit periods. We will make necessary adjustments to our production and sales plans on a timely basis. Our risk management officer prepares a cash budget report which details the expected major cash inflow and outflow, including major amounts to be paid or received under trade payables, trade receivables and bank loans, at all our subsidiaries for the following months on a bi-weekly basis. Based on such reports, our management team discusses our production and sales plans. If the cash budget report indicates an estimated lower level of cash balance, our management team will adjust the upcoming production and sales plans to avoid negative cashflow. We also adopted new policies and procedures to enhance our credit control in September 2013. The new policies and procedures include establishing guidelines for assessment and classification of our customers based on their creditworthiness, adopting and requiring the use of standard template when recording assessment results and proposed credit periods, reviewing customers' credit status on a semi-annual basis and setting up a master file to record customer credit information. We believe these new measures will enhance our management of customer credit risk.

Our working capital requirements are affected by a range of factors, including the size of our business, the cost of inputs, trade terms with debtors and creditors and other factors. In assessing our working capital needs and the sufficiency of available working capital, we also considered the following:

- as disclosed in the section headed "Financial Information – Indebtedness" of this prospectus, we breached covenants in several loan agreements during and after the Track Record Period. Our loan breaches were not the result of working capital requirements but rather inadvertent oversights by our employees, and the breaches have not adversely affected our access to loans. If we had been required by our lenders to comply with the breached covenants, taking into account our then-available financial resources and cash on hand, we believe we would have had sufficient working capital to carry on our business by obtaining alternative financing by factoring bills receivable and drawing down banking facilities that had not been fully utilized. As of the Latest Practicable Date, after giving effect to the unconditional waivers which we had received, we were in compliance with the covenants of all of our outstanding loans, and none of our lenders had accelerated our loans or required us to rectify the breaches prior to repayment of loans. Going forward, with our enhanced loan management systems in place, we are in a better position to monitor and manage compliance with the covenants under our loan agreements;

- our trade debtors and bills receivable increased from RMB56.9 million as of December 31, 2010 to RMB226.6 million as of December 31, 2011 and to RMB329.3 million as of

December 31, 2012, primarily due to an increase in our sales. Our trade debtors and bills receivable decreased to RMB266.9 million as of September 30, 2013 mainly because we sell to a greater number of customers of smaller scale which have a tendency to pay earlier and we enhanced our credit risk control by shortening the grace period given to our customers. In addition, we have also increased our effort in bill collection. Our trade debtors and bills receivable turnover days increased from 2010 to 2012 but decreased in the first nine months of 2013. As stated above, we have implemented measures to closely monitor the level of our working capital and to enhance our credit control. For additional information, see the section headed "Financial Information – Discussion of Certain Key Balance Sheet Items – Trade and other receivables" of this prospectus;

- we have benefited from loans and advances from related parties during the Track Record Period. These loans and advances are discussed in the section headed "Financial Information – Discussion of Certain Key Balance Sheet Items – Loans from and amounts due to related parties" of this prospectus and "Financial Information – Indebtedness" of this prospectus. These loans were mainly used to fund our working capital, operating expenses and the acquisitions of Baohe Taiyue and Baohe Xinshiji. Following the completion of the Global Offering, we do not expect to rely on loans and advances from related parties for our working capital needs. As set out below in the section headed "Financial Information – Indebtedness", we expect that the loans and advances from related parties will be fully replaced by bank loans and other borrowings to satisfy our working capital needs; and

- we benefit significantly from VAT refunds and government grants and subsidies, which accounted for 45.1% and 83.3% of our consolidated profit before taxation, respectively, in 2012 and the first nine months of 2013, as discussed in the section headed " – Factors Affecting our Results of Operations and Financial Condition – VAT refunds and other government incentives" of this prospectus. A significant portion of our government incentives is due to Tongxin's and Xiangbei's entitlement to VAT refunds, under the Comprehensive Utilization of Resources Policy and to Jinxin's entitlement to VAT refunds, under the Social Welfare Enterprise Policy. These entitlement either has no specific expiry date or can be renewed so long as the relevant companies meet the relevant criteria.

Taking into account that (a) we have obtained unconditional waivers for the breaches of covenants in our outstanding loans and we expect to better monitor and ensure the compliance with the covenants under loan agreements in the future, (b) we have implemented measures to closely monitor the level of our working capital to avoid negative cashflow and to enhance our credit control, (c) the loans and advances from related parties will be fully replaced by bank loans and other borrowings, (d) our subsidiaries' entitlement to VAT refunds either has no specific expiry date or can be renewed so long as the relevant companies meet the relevant criteria, and (e) the financial resources available to us including cash on hand, cash generated from our operations, proceeds from new bank loans and the estimated net proceeds from the Global Offering and the expected use of proceeds as set out in the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus, our Directors are of the opinion that we have sufficient working capital to meet our working capital requirements for at least the next 12 months from the date of the prospectus.

CAPITAL EXPENDITURES

Our capital expenditure represents additions to property, plant and equipment and payments for lease prepayments on lands of approximately RMB23.5 million, RMB14.1 million, RMB154.1 million and RMB133.1 million for the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, respectively. Our planned future capital expenditures mainly include the purchase of additional plant, machinery and land which we believe would facilitate the growth of our business. We estimate that capital expenditures for the year ended December 31, 2013 are approximately RMB220.0 million mainly for the construction of our Tongxin, Baohe Taiyue and Baohe Xinshiji facilities and expansion of our Xiangbei facility. No assurance can be given that any of our planned capital expenditures will proceed as planned. We may adjust our capital expenditure plan based on our future results of operations, cash flows, and overall financial condition.

INDEBTEDNESS

The following table sets forth our borrowings and other loans and advances as of the dates indicated:

	As of December 31,			As of September 30,	As of December 31,
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)
Bank loans and other borrowings					
Repayable within 1 year	60,000	110,000	175,000	287,550	304,374
Repayable beyond 1 year	–	–	–	70,000	120,000
	60,000	110,000	175,000	357,550	424,374
Obligations under finance lease					
Repayable within 1 year	–	–	–	–	12,000
Repayable beyond 1 year	–	–	–	–	48,000
	–	–	–	–	60,000

	As of December 31,			As of September 30,	As of December 31,
	2010	2011	2012	2013	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Other loans and advances					
Amounts due to related parties	78,573	133,474	145,662	97,537	30,200
Loans from related parties	29,675	105,435	94,315	85,672	84,948
Advances from local governments	–	–	–	33,000	–
	108,248	238,909	239,977	216,209	115,148
	168,248	348,909	414,977	573,759	599,522
Bank loans and other borrowings are analyzed as:					
Secured	50,000	80,000	125,000	226,000	207,380
Unsecured	10,000	30,000	50,000	131,550	216,994
	60,000	110,000	175,000	357,550	424,374

Our short-term bank borrowings increased during the Track Record Period, as the increased production and sales of our products required additional working capital.

As of December 31, 2010, 2011 and 2012 and September 30, 2013, we had amounts due to related parties in the amount of RMB78.6 million, RMB133.5 million, RMB145.7 million and RMB97.5 million, respectively, which included amounts used for financing the acquisitions, and funding the working capital, of Jinxin and Xiangbei, for financing the acquisitions of Baohe Taiyue and Baohe Xinshiji and for payments of professional fees in relation to the Listing. All such amounts were unsecured, interest-free and repayable on demand or within one year.

As of December 31, 2010, 2011 and 2012 and September 30, 2013, we also had interest-bearing loans from related parties in the amount of RMB29.7 million, RMB105.4 million and RMB94.3 million and RMB85.7 million, respectively, which were used mainly for working capital of Jinxin and Xiangbei. These loans were unsecured, bore interest at 5.56% as of December 31, 2010, and bore interest ranging from 6.06% to 6.56% as of each of December 31, 2011 and 2012 and September 30, 2013, per annum and were repayable within one year.

The terms of some of our outstanding loans require our relevant subsidiaries, among other things, to maintain a debt to asset ratio of not more than 70% and not to distribute dividends in any form before the loans have been repaid in full. We have also pledged certain of our assets (including land use rights, equipment, accounts receivable and inventories) to secure the loans. We are required to obtain prior consent of the pledgee before we, among other things, dispose, donate, transfer, pledge any inventories or accounts receivable, or withdraw any accounts receivable. If the assets that we have pledged or which we may in the future pledge to our lenders are subject to enforcement actions, we may lose control and ownership of these assets. The financial covenants also limit our ability to incur additional indebtedness.

As of September 30, 2013, our secured bank loans of RMB226.0 million were secured by inventories, accounts receivables, property, plant and equipment, land use rights, government grants receivable and pledged deposits. The bank loans carried weighted average interest rates of 5.7%, 7.4%, 7.3% and 8.5% as of December 31, 2010, 2011 and 2012 and September 30, 2013, respectively. We were able to repay all of our bank borrowings by their respective due dates throughout the Track Record Period.

During the Track Record Period, we breached certain covenants under seven of our loan agreements by failing to maintain the required inventory levels of the pledged inventories and eight of our loan agreements by using funds received by us in respect of the pledged accounts receivable other than for payment of the loans without first obtaining relevant bank's consent.

As of December 31, 2011 and 2012, we were required under the terms of certain of our bank loans to maintain inventories with an aggregate value of no less than RMB135.4 million and RMB154.5 million, respectively. However, we only had relevant inventories with an aggregate value of RMB76.2 million and RMB89.8 million, respectively. In addition, during the period ended December 31, 2010, the two years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, we had used the fund received under pledged accounts receivables of RMB11.6 million, RMB13.6 million, RMB63.9 million and RMB66.8 million without first obtaining relevant bank's consent.

We were in compliance with the covenants requiring us to maintain a certain level of inventories as of December 31, 2010 and September 30, 2013. The following table sets out certain information about our loan breaches by failing to maintain a certain level of inventories as of the dates specified below:

	As of December 31, 2010	**As of December 31, 2011**	**As of December 31, 2012**	**As of September 30, 2013**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount outstanding under the breached loans	–	70,000	76,000	–
Principal amount of the breached loans	–	70,000	76,000	–
Total amount of inventories required to be maintained under the breached loans	–	135,370	154,520	–
Total amount of relevant inventories maintained	–	76,246	89,802	–
Shortfall amount of inventories maintained(1)	–	59,124	64,718	–

Note:

(1) Shortfall amount refers to the difference between the total amount of inventories we were required to maintain under the breached loans and the amount of relevant inventories we had as of the relevant period end.

The table below sets forth further details of all of the breached loans in relation to which we failed to maintain a certain level of inventories during the Track Record Period.

Bank	Borrower	Borrowing date	Principal amount of the breached loans (RMB'000)	Inventory required (RMB'000)	Repayment date	Whether the inventory was pledged on an exclusive basis	Date of notice to relevant bank	Amount of new loans obtained after the date of notice up to the Latest Practicable Date[5] (RMB'000)
As of December 31, 2011								
Mianyang Commercial Bank, Fucheng Branch (綿陽市商業銀行涪城支行)	Jinxin	May 11, 2011	20,000	40,000	May 10, 2012	Yes[3]	March 2013	86,000
Mianyang Commercial Bank, Fucheng Branch (綿陽市商業銀行涪城支行)	Jinxin	July 11, 2011	30,000	60,000	July 10, 2012	Yes[3]	March 2013	86,000
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 20, 2011	20,000	35,370	October 17, 2012	Yes[4]	March 2013	92,000
Total			**70,000**	**135,370**[1]				
As of December 31, 2012								
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 30, 2012	20,000	30,920	October 16, 2013	Yes[4]	March 2013	92,000
Mianyang Commercial Bank, Fucheng Branch (綿陽市商業銀行涪城支行)	Jinxin	May 24, 2012	20,000	43,217	May 23, 2013	Yes[3]	March 2013	86,000
Mianyang Commercial Bank, Fucheng Branch (綿陽市商業銀行涪城支行)	Jinxin	July 26, 2012	30,000	60,383	January 24, 2014	Yes[3]	March 2013	86,000
Mianyang Commercial Bank, Youxian Branch (綿陽市商業銀行游仙支行)	Tongxin	December 21, 2012	6,000	20,000	December 20, 2013	Yes[3]	March 2013	86,000
Total			**76,000**	**154,520**[2]				

Notes:

(1) As of December 31, 2011, the total amount of inventory level pledged was approximately RMB76.2 million. In year 2011, the inventory level maintained by us ranged from RMB61.6 million to RMB123.9 million.

(2) As of December 31, 2012, the total amount of inventory level pledged was approximately RMB89.8 million. In year 2012, the inventory level maintained by us ranged from RMB136.6 million to RMB309.5 million.

(3) The pledged inventory cannot be disposed of, replaced, donated, transferred, mortgaged or pledged to a third party by the pledgor, as applicable, without the prior consent of the pledgee.

(4) The pledged inventory of which value is equal to or lower than the required minimum level cannot be pledged to a third party without lender's prior written consent; however, if the value of pledged inventory exceeds the required minimum level, the excessive portion can be pledged to a third party without lender's prior written consent.

(5) Refers to the amount of new loans that we borrowed from the same bank (including other branches of the same bank) after we gave the notice of the breach to the bank up to the Latest Practicable Date.

The following table sets out certain information about our loan breaches by using pledged accounts receivable other than for repayment without relevant bank's consent during the time period specified below:

	As of/ During the period ended December 31, 2010	As of/During the years ended December 31, 2011		As of/ During the nine months ended September 30, 2013
		2011	2012	
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount outstanding under the breached loans	10,000	10,000	30,000	–
Principal amount of the breached loans	10,000	10,000	30,000	50,000
Total amount of pledged accounts receivable under the breached loans	11,624	13,576	63,854	66,802
Total amount of pledged accounts receivable used without banks' consent	11,624	13,576	63,854	66,802

The table below sets forth further details of all of the breached loans in relation to which we used the pledged accounts receivable other than for repayment without relevant bank's consent during the Track Record Period.

Bank	Borrower	Borrowing date	Principal amount of the breached loans *(RMB'000)*	Amount of accounts receivable pledged *(RMB'000)*	Amount of pledged accounts receivable used without banks' consent *(RMB'000)*	Repayment date	Whether the accounts receivable were pledged on an exclusive basis	Date of notice to relevant bank	Amount of new loans obtained after the date of notice up to the Latest Practicable Date[1] *(RMB'000)*
During the period ended December 31, 2010									
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 28, 2010	4,000	4,822	4,822	April 27, 2011	Yes	March 2013	92,000
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 28, 2010	3,600	4,029	4,029	April 27, 2011	Yes	March 2013	92,000
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 28, 2010	2,400	2,773	2,773	April 27, 2011	Yes	March 2013	92,000
		Total	**10,000**	**11,624**	**11,624**				

Bank	Borrower	Borrowing date	Principal amount of the breached loans (RMB'000)	Amount of accounts receivable pledged (RMB'000)	Amount of pledged accounts receivable used without banks' consent (RMB'000)	Repayment date	Whether the accounts receivable were pledged on an exclusive basis	Date of notice to relevant bank	Amount of new loans obtained after the date of notice up to the Latest Practicable Date[(1)] (RMB'000)
During the year ended December 31, 2011									
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 17, 2011	10,000	13,576	13,576	April 10, 2012	Yes	March 2013	92,000
		Total	**10,000**	**13,576**	**13,576**				
During the year ended December 31, 2012									
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	October 16, 2012	20,000	41,186	41,186	April 9, 2013	Yes	March 2013	92,000
Mianyang Commercial Bank, Fucheng Branch (綿陽市商業銀行涪城支行)	Jinxin	November 29, 2012	10,000	22,668	22,668	November 28, 2013	Yes	March 2013	86,000
		Total	**30,000**	**63,854**	**63,854**				
During the nine months ended September 30, 2013									
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	Jinxin	March 29, 2013	20,000	29,061	29,061	September 26, 2013	Yes	March 2013	92,000
Construction Bank of China, Mianyang Branch (建設銀行綿陽分行)	Jinxin	February 28, 2013	30,000	37,741	37,741	August 27, 2013	Yes	March 2013	–
		Total	**50,000**	**66,802**	**66,802**				

Note:

(1) Refers to the amount of new loans that we borrowed from the same bank (including other branches of the same bank) after we gave the notice of the breach to the bank up to the Latest Practicable Date.

Our violation of these covenants constituted events of default under these loans, which, unless waived by our lenders, provided our lenders with the right to require us to post additional collateral, enhance our equity and liquidity, and accelerate our indebtedness and foreclose their liens on our inventories.

Some of our loan agreements also contain cross default provisions. Although we have informed the relevant banks of our covenant breaches, and have obtained unconditional waivers from these banks, the revocation of any waiver of our covenant breaches could result in our indebtedness under these loan agreements which contain cross-default provision being accelerated. For risks and additional information related to the covenant breaches, see the section headed "Risk Factors – Risks Relating to Our Business – We were in breach of certain covenants contained in our loan agreements. The lenders may revoke the waivers previously granted to us, declare an event of default and accelerate our outstanding indebtedness under the relevant agreements, all of which would impact our ability to continue to conduct our business" in this prospectus and note 23(b) to the Accountants' Report set forth in Appendix I to this prospectus.

During the period ended December 31, 2010 and the year ended December 31, 2011, we breached bank loans in the principal amount of RMB10 million and RMB80 million where we were required to maintain a certain inventory level or use accounts receivable only for repayment under the relevant loan, respectively. We were in breach of these loan agreements by failing to maintain the required inventory level or use accounts receivable collected other than for repayment under the relevant loan without first obtaining relevant bank's written consent. We repaid in full all such loans on time.

During 2012, we breached bank loans in the principal amount of RMB76.0 million and RMB30.0 million of bank loans where we were required to maintain a certain inventory level or use accounts receivable only for repayment under the relevant loan, respectively. We were in breach of these loan agreements by failing to maintain the required inventory level or use accounts receivable collected other than for repayment under the relevant loan without first obtaining relevant bank's written consent. We repaid RMB40.0 million and extended RMB30.0 million of such loans during the nine months ended September 30, 2013. We repaid RMB36.0 million subsequent to September 30, 2013 and obtained unconditional waivers from the relevant banks in respect of the breaches under the loans which were not repaid.

During the nine months ended September 30, 2013, we obtained RMB50.0 million of bank loans secured by certain accounts receivable and were in similar breach of the covenants by using funds received for purposes other than repayment of the relevant loans. We obtained unconditional waivers from relevant banks in respect of such breaches.

We identified the breaches during reviews of our management accounts by our Group level management in January and March 2013. The breaches resulted from inadvertent oversights by the local accounting teams of the relevant subsidiaries responsible for monitoring loan compliance. At the time the breaches were first identified in January 2013, we did not have in place a comprehensive loan management system, which was subsequently implemented. As a consequence, we did not in all cases take steps to promptly rectify the breaches or prevent subsequent breaches although, subsequently, unconditional waivers were sought and obtained from relevant banks or the relevant loans have since been repaid upon their respective maturity.

Subsequent to the Track Record Period, we have successfully borrowed new loans with a principal amount of RMB73.0 million with the lenders from whom waivers of the covenant breaches were previously obtained and there was no material change to the interest rates of these new loans as compared to loans in similar amount previously advanced by the same lender. As of the Latest Practicable Date, we were in compliance with the covenants of our new loans, and we had not breached the covenants of these new loans. Details of such new loans are set out in the table below:

Borrower	**Bank**	**The date of signing the loan agreement**	**Amount of bank loan** *(RMB'000)*	**Interest rate** *(%)*	**Material covenants of new loans**	**Interest rate of previous loans**(1) *(%)*
Jinxin	Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	October 21, 2013	20,000	7.00	withdrawal of the cash under the factoring account is subject to the lenders' prior consent	7.00
Jinxin	Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	November 5, 2013	20,000	7.00	withdrawal of the cash under the factoring account is subject to the lenders' prior consent	7.00
Baohe Taiyue	Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	December 12, 2013	12,000	8.40	Borrower's major change (merger, separation, reduction of capital, equity change, transfer of major assets, assignment of credit, major investment, the substantial increase of debt financing and any other actions that may have adverse effect on the bank's rights) are subject to the bank's prior written consent	7.5(2)

Borrower	Bank	The date of signing the loan agreement	Amount of bank loan	Interest rate	Material covenants of new loans	Interest rate of previous loans(1)
			(RMB'000)	*(%)*		*(%)*
Baohe Xinshiji	Mianyang Commercial Bank,Youxian Branch (綿陽市商業銀行遊仙支行)	December 2, 2013	10,000	9.00	Borrower cannot mortgage the assets purchased using the loan to another party without bank's prior consent before paying off the loan and the interest.	7.2(3)
Baohe Taiyue	Mianyang Commercial Bank,Youxian Branch (綿陽市商業銀行遊仙支行)	November 27, 2013	11,000	9.00	Borrower cannot mortgage the assets purchased using the loan to another party without bank's prior consent before paying off the loan and the interest.	7.2(4)

Notes:

(1) This refers to the interest rates of the latest breached loans we previously obtained from the same lenders.

(2) This interest rate refers to the interest rate of the breached loan of Jinxin, our another wholly-owned subsidiary. Baohe Taiyue has not breached any covenant under the loan agreements that it entered into with Industrial Commercial Bank of China, Mianyang Branch.

(3) This interest rate refers to the interest rate of the breached loan of Tongxin, our another wholly-owned subsidiary. Baohe Xinshiji has not breached any covenant under the loan agreements that it entered into with Mianyang Commercial Bank, Youxian Branch.

(4) This interest rate refers to the interest rate of the breached loan of Tongxin, our another wholly-owned subsidiary. Baohe Taiyue has not breached any covenant under the loan agreements that it entered into with Mianyang Commercial Bank, Youxian Branch.

During the interviews with the bank loan management officers at the relevant banks, the banks confirmed our good credit status and timely repayment of the relevant loans. They also confirmed that the banks would generally consider the overall creditworthiness of the borrower, and would only seek to strictly enforce loan covenants if they believe the borrower may fail to repay the outstanding loans and the likelihood of breaching other loan covenants is high. Based on the above fact, our PRC legal advisors, Chen & Co., are of the view that the risk of these waivers being revoked is low. We have not been required by any relevant lender to rectify the breaches prior to the repayment of the loans.

Given that the relevant banks have granted unconditional waivers without varying the terms of the relevant loans or requiring their early repayment, and that a number of such banks have continued to grant us new facilities, we believe our ability to raise debt financing has not been adversely affected by these prior breaches.

As of the Latest Practicable Date, after giving effect to the waivers which we had received, we were in compliance with the covenants of all of our outstanding loans.

In order to strengthen our internal controls with a view to ensuring that loan covenants will be complied with going forward, in September 2013, we established a loan management system as recommended by our internal control consultant, RSM. RSM found during its review that we did not have in place a system to supervise and manage our bank loans and ensure compliance with loan covenants. RSM recommended that we enhance supervision of our bank loans and monitor regularly compliance with our obligations under our bank loans.

The new system requires a bank loan compliance checklist to be approved and monitored by our finance officers and bank loan managers. According to the loan management policy, prior consent of the lending bank must be obtained before any use of charged or pledged assets including any trade receivables pledged under a loan agreement. Moreover, compliance with bank loan covenants will be monitored by staff in the finance department of each subsidiary, who must fill out a monthly compliance checklist. The compliance checklist will be reviewed monthly by the finance manager/controller of the subsidiary and further reviewed by a designated officer in the risk management department at the group level (the bank loan management officer), who must have prior work experience in a bank. The bank loan management officer will perform spot checks on any written consents required from lending banks.

We have appointed Ms. Lin Haiyan as our bank loan management officer. Ms. Lin has a bachelor's degree in management, majoring in accounting from Fuzhou University and more than five years of experience in commercial banking. Ms. Lin worked as a customer manager in the credit department of the Fuzhou Fuxin branch of Fujian Haixia Bank between 2007 and 2012. As our bank loan management officer, she is responsible for ensuring ongoing compliance with bank loan covenants and reports to our Controller and risk management officer, Ms. Luo Guidi.

In the follow-up review conducted in November 2013, RSM checked the latest loan summary sheet in which all loans were summarized. RSM also checked the loan compliance checklists and relevant written consents from lending banks for September and October of 2013. No new breach was noted in RSM's follow-up review, and we have not breached any loan covenant since the implementation of the loan management policy.

Based on RSM's review in November 2013, we have been following the procedures correctly. In RSM's view, the loan management system will serve as an effective measure to prevent further non-compliance with loan covenants if correctly followed.

Going forward, we will also ensure that when loan agreements are being negotiated, proposed terms and covenants will be carefully considered to ensure that we are, based on all surrounding circumstances and taking into account all relevant information available at such time, expected to be able to comply with the covenants under the loan agreements.

Save as disclosed above, we did not have material outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of the Latest Practicable Date. We continue to evaluate other potential sources of financing, including short- and long-term loans, capital leases and other financing structures.

On October 16, 2013, Mr. Yu exercised all of the share options he was entitled to under the Yu Share Option Agreement, pursuant to which we issued an additional 1,013,000 Shares to Epoch Keen, a company wholly-owned by Mr. Yu, and the RMB64.0 million required to be paid by Mr. Yu in exercising these share options was set off against our amount due to Mr. Yu.

Between October 1, 2013 and the Latest Practicable Date, we obtained new bank loans and other borrowings in an aggregated principal amount of RMB290.9 million. As of the Latest Practicable Date, the outstanding amount and the unutilized amount of our bank loans and other borrowings were RMB432.4 million and RMB20.0 million, respectively. The table below sets forth the usage, the principal and outstanding amount of each of our bank loans and other borrowings as of the Latest Practicable Date:

Bank/Other lender	Loan principal amount *(RMB'000)*	Outstanding amount *(RMB'000)*	Interest rate *% p.a.*	Repayment due date	Usage of the loan+	Amount of assets pledged *(RMB'000)*
Bank Loans						
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	20,000	20,000	7.50	March 25, 2014*	(1)	N/A
Sichuan Jiangyou Huaxia Rural Bank (四川江油華夏村鎮銀行)	5,000	5,000	9.23	September 22, 2015**	(1)	750
Mianyang Commercial Bank, Youxian Branch (綿陽市商業銀行游仙支行)	25,000	25,000	7.20	June 5, 2014*	(2)	62,657
Youxian Rural Credit Union (游仙農村信用合作聯社)	40,000	40,000	10.80	June 17, 2014*	(2)	N/A
Mianyang Commercial Bank, Youxian Branch (綿陽市商業銀行游仙支行)	40,000	40,000	9.00	September 29, 2014*	(2)	127,540

Bank/Other lender	Loan principal amount (RMB'000)	Outstanding amount (RMB'000)	Interest rate % p.a.	Repayment due date	Usage of the loan+	Amount of assets pledged (RMB'000)
Sichuan Jiangyou Huaxia Rural Bank (四川江油華夏村鎮銀行)	5,000	5,000	9.23	September 29, 2015**	(3)	750
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	20,000	20,000	7.00	April 14, 2014*	(1)	N/A
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	20,000	20,000	7.00	May 5, 2014*	(1)	N/A
Huarong Xiangjiang Bank, Yueyang Branch (華融湘江銀行岳陽分行)	8,690	8,690	6.72	April 28, 2014*	(5)	N/A
Miluo CDB Village Bank (汨羅國開村鎮銀行)	7,900	7,900	7.80	November 13, 2014*	(6)	N/A
Huarong Xiangjiang Bank, Yueyang Branch (華融湘江銀行岳陽分行)	2,790	2,790	6.72	June 10, 2014*	(5)	N/A
China Minsheng Bank, Changsha Branch (中國民生銀行長沙分行)	10,000++	10,000	7.20	December 12, 2014*	(7)	10,000
Mianyang Commercial Bank, Youxian Branch (綿陽市商業銀行游仙支行)	10,000	10,000	9.00	December 3, 2014*	(8)	N/A
Mianyang Commercial Bank, Youxian Branch (綿陽市商業銀行游仙支行)	11,000	11,000	9.00	November 26, 2014*	(9)	N/A
Industrial and Commercial Bank of China, Mianyang Branch (工商銀行綿陽分行)	12,000	12,000	8.40	December 3, 2014*	(3)	1,820

Bank/Other lender	Loan principal amount *(RMB'000)*	Outstanding amount *(RMB'000)*	Interest rate *% p.a.*	Repayment due date	Usage of the loan+	Amount of assets pledged *(RMB'000)*
Huarong Xiangjiang Bank, Yueyang Branch (華融湘江銀行岳陽分行)	18,000	18,000	7.80	January 14, 2015	(5)	11,740
Sub-total	**255,380**	**255,380**				
Entrusted loans by Mianyang Fule Investment Company Limited						
Mianyang Commercial Bank, Yingbin Branch (Correspondent bank) (綿陽市商業銀行迎賓支行(代理行))	50,000	50,000	12.00	June 5, 2015**	(4)	N/A
Mianyang Commercial Bank, Yingbin Branch (Correspondent bank) (綿陽市商業銀行迎賓支行(代理行))	60,000	60,000	12.00	February 28, 2015**	(4)	N/A
Mianyang Commercial Bank Yingbin Branch (綿陽市商業銀行迎賓支行(代理行))	20,000	20,000	12.00	July 21, 2015**	(4)	N/A
Entrusted loans by Miluo City Financial Bureau (汨羅市財政局)						
Miluo CDB Village Bank (汨羅國開村鎮銀行)	15,000	15,000	7.20	July 29, 2014*	(6)	N/A
Miluo CDB Village Bank (汨羅國開村鎮銀行)	5,500	5,500	6.72	June 25, 2014*	(6)	N/A

Bank/Other lender	Loan principal amount *(RMB'000)*	Outstanding amount *(RMB'000)*	Interest rate *% p.a.*	Repayment due date	Usage of the loan+	Amount of assets pledged *(RMB'000)*
Entrusted loan by Mianyang Jingkai Development Company Limited (綿陽經開置業有限責任公司)						
Mianyang Commercial Bank, Economic and Technology Development District Branch (綿陽商業銀行經濟技術開發區支行)	20,000	20,000	5.60	June 30, 2014*	(1)	N/A
Sub-total	**170,500**	**170,500**				
Other borrowings						
Gold Hero	6,494	6,494	6.06	January 1, 2015*	(10)	N/A
Total	**432,374**	**432,374**				

Notes:

+ the relevant loans are required to be used only for specific purpose

++ the facility amount of this loan is RMB30.0 million, of which RMB10.0 million has been drawn down

* short-term borrowings

** long-term borrowings

(1) Purchase of raw materials for Jinxin

(2) Purchase of raw materials for Tongxin

(3) Purchase of raw materials for Baohe Taiyue

(4) Working capital of Tongxin

(5) Purchase of raw materials for Xiangbei

(6) Working capital of Xiangbei

(7) Repayment of bank loans by Xiangbei

(8) Working capital of Baohe Xinshiji

(9) Working capital of Baohe Taiyue

(10) Working capital of Jinxin

As of December 31, 2013, being the latest practicable date for determining our indebtedness, our bank loans and other borrowings were RMB424.4 million.

As of the Latest Practicable Date, we had not been subject to any notice of withdrawal of our existing or committed bank credit facilities, nor had we received any requests by banks or other creditors to repay outstanding loans or debt securities before their maturity dates or to increase the amount of collateral for any secured bank borrowings or debt securities.

LISTING EXPENSES

The total listing expenses, which are non-recurring in nature, are expected to amount to approximately RMB42.6 million (excluding underwriting commissions). Of this amount, we expect to bear approximately RMB40.1 million and the Selling Shareholders to bear approximately RMB2.5 million. In the nine months ended September 30, 2013, we recognized approximately RMB19.8 million of such expenses. We estimate that we will recognize approximately RMB2.5 million of such expenses in the fourth quarter of 2013 and expect to recognize a further RMB7.8 million of such expenses in the first half of 2014. The balance of approximately RMB10.0 million is expected to be deducted from our share premium account in the first half of 2014.

CAPITAL COMMITMENTS

The following table summarizes our capital commitments as of the dates indicated:

	As of December 31,			As of September 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for				
– Property, plant and equipment	–	20,230	95,363	95,365
– Land use rights	–	–	56,216	14,000
Authorized but not contracted for	–	–	4,490	122,806
	–	20,230	156,069	232,171

Our capital commitments increased significantly to RMB156.1 million as of December 31, 2012 from RMB20.2 million as of December 31, 2011, primarily due to the construction of our Tongxin facility and the equipment transfer under the Taiyue Asset Transfer Agreement and Xinshiji Asset Transfer Agreement. As of September 30, 2013, our capital commitments increased by 48.8% to RMB232.2 million, primarily due to entering into and authorization by our Board of Directors to enter into construction contracts and purchase contracts relating to equipment for our Baohe Taiyue, Baohe Xinshiji and Xiangbei facilities.

OPERATING LEASE ARRANGEMENT

Operating lease payments represent rental payable by us for offices and staff quarters in Sichuan. Leases are negotiated and the lease terms are between one and two years. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,			As of September 30,
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than one year	–	–	13	636
Late than one year but no later than five years	–	–	–	11
	–	–	13	647

CONTINGENT LIABILITIES

As of September 30, 2013, Jinxin had entered into a cross guarantee agreement with a bank in respect of bills payable facilities granted to Jinxin, Baohe Jiahao (which was our largest external supplier in 2012 and the first nine months of 2013 and which is 20.0% owned by Baohe Fushan) and two customers (the "Contracted Parties") totaling RMB40.0 million, of which Jinxin is entitled to an amount of RMB15.0 million. The cross guarantee will remain in force so long as there are outstanding amounts owed by the Contracted Parties under the banking facilities. According to the cross guarantee agreement, the Contracted Parties are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee. No cross guarantees were issued for the period ended December 31, 2010 and the year ended December 31, 2011.

As of September 30, 2013, the Directors did not consider it probable that a claim will be made against us under any of the above guarantees. Our maximum liabilities as of September 30, 2013 under the cross guarantee are the aggregate amount of the facilities available to the two customers and Baohe Jiahao in the amount of RMB25.0 million. On November 14, 2013, each of the Contracted Parties entered into a supplemental agreement with the bank. Pursuant to the supplemental agreements, the Contracted Parties agreed to place deposits in an aggregate amount of RMB40.0 million to secure the bills payable facilities in full. Jinxin is responsible for RMB15.0 million and other Contracted Parties are responsible for the remaining RMB25.0 million. On the same day, the Contracted Parties deposited the required amounts under the supplemental agreements. As such, we had no contingent liabilities under the cross guarantee arrangement as of the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group as of the dates and for the periods indicated:

Financial ratios	Formulae	As of/ For the period ended December 31, 2010	As of/For the years ended December 31, 2011	2012	For the nine months ended September 30, 2012	As of/For the nine months ended September 30, 2013
Profitability ratios						
1. Growth						
a. Turnover growth		–	581.0%[1]	8.4%	N/A	103.4%
b. Profit for the period growth		–	418.1%[1]	89.6%	N/A	197.0%
2. Profit margins						
a. Gross margin	a. Gross profit for the period/Turnover x 100%	6.5%	5.4%	7.4%	9.3%	5.8%
b. Net profit margin before interest and tax	b. (Profit before tax + Finance costs)/ Turnover x 100%	6.3%	5.6%	9.1%	8.3%	10.7%
c. Net profit margin	c. Profit for the period/Turnover x 100%	4.6%	3.5%	6.1%	5.3%	7.8%
3. Return on equity						
a. Return on equity	a. Profit for the period/((Total equity at the beginning of the period + total equity at the end of the period)/2) x 100% [1][3][9]	151.6%	59.1%	43.9%	N/A	48.3%
b. Return on total assets	b. Profit for the period/((Total assets at the beginning of the period + total assets at the end of the period)/2) x 100% [2][3][9]	25.2%	10.7%	11.6%	N/A	14.7%
Liquidity ratios						
1. Liquidity ratios						
a. Current ratio	a. Current assets/Current liabilities	0.9	1.0	0.9	N/A	1.0
b. Quick ratio	b. (Current assets – Inventories)/Current liabilities	0.3	0.7	0.7	N/A	0.6

Financial ratios	Formulae	As of/ For the period ended December 31, 2010	As of/For the years ended December 31, 2011	2012	For the nine months ended September 30, 2012	As of/For the nine months ended September 30, 2013
2. Turnover ratios						
a. Inventories turnover days	a. Average inventories/Cost of sales x (59 days, 365 days, 366 days or 273 days)(2)(3)(4)(9)	27.2 days	30.7 days	29.7 days	N/A	39.6 days
b. Receivables turnover days (average collection period)	b. Average trade debtors and bills receivable/ Turnover x (365 days, 366 days or 273 days)(3)(5)(6)(9)	17.2 days	35.2 days	60.4 days	N/A	47.6 days
c. Payables turnover days(average payment period)	c. Average trade and bills payable/Cost of sales x (59 days, 365 days, 366 days or 273 days)(3)(7)(8)(9)	12.7 days	21.2 days	25.4 days	N/A	24.6 days
Capital adequacy ratio						
1. Gearing ratio	(Bank loans + Amounts due to related parties + other loans)/Total equity x 100%	391.7%	286.8%	139.1%	N/A	132.0%
2. Debt to net worth ratio						
a. Net debt to equity ratio	a. (Bank borrowings + Amounts due to related parties + other loans – Cash and cash equivalents)/ Total equity x 100%	360.6%	251.6%	132.5%	N/A	113.4%
b. Interest coverage	b. (Profit before tax + Finance costs)/Finance costs	18.1	6.6	8.3	5.8	8.9

Notes:

(1) Turnover growth and profit for the period growth in 2011 were not representative because we only had two-month results in 2010.

(2) Excluding inventory of Baohe Taiyue and Baohe Xinshiji as of December 31, 2012.

(3) Annualized for the period ended December 31, 2010 by multiplying by 365/59 days.

(4) For the year ended December 31, 2011, in calculating our inventories turnover days, Xiangbei's cost of sales is annualized by multiplying by 365/153.

(5) Excluding trade debtors and/or bills receivable of Baohe Taiyue and Baohe Xinshiji as of December 31, 2012.

(6) For the year ended December 31, 2011, in calculating our receivables turnover days, Xiangbei's turnover is annualized by multiplying by 365/153.

(7) Excluding trade and bills payable of Baohe Taiyue and Baohe Xinshiji as of December 31, 2012.

(8) For the year ended December 31, 2011, in calculating our trade and bills payable turnover days, Xiangbei's cost of sales is annualized by multiplying by 365/153.

(9) Annualized for the nine months ended September 30, 2013 by multiplying by 365/273.

Return on equity

For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, our return on equity was 151.6%, 59.1%, 43.9% and 48.3%, respectively. Return on equity decreased substantially from 151.6% for the period ended December 31, 2010 to 59.1% for 2011, mainly due to (i) a decrease in gross profit margin, (ii) an increase in share-based compensation of RMB11.3 million and (iii) an increase in financial cost as a result of increased bank borrowing. Return on equity decreased from 59.1% for 2011 to 43.9% for 2012, mainly due to capitalization of RMB77.7 million of amounts due to Gushan. Return on equity increased from 43.9% for 2012 to 48.3% for the nine months ended September 30, 2013, mainly due to (i) commencement of Tongxin's trial production in March 2013 and (ii) turnover from the sales of our cable products by Baohe Taiyue and Baohe Xinshiji.

Return on assets

For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, our return on assets was 25.2%, 10.7%, 11.6% and 14.7%, respectively. Return on assets decreased from 25.2% for the period ended December 31, 2010 to 10.7% for 2011, mainly due to (i) a decrease in gross profit margin, (ii) an increase in share-based compensation of RMB11.2 million and (iii) an increase in financial cost as a result of increased bank borrowing. The ratio remained stable from 2011 to 2012. Return on assets increased from 11.6% for 2012 to 14.7% for the nine months ended September 30, 2013, mainly due to (i) commencement of Tongxin's trial production in March 2013 and (ii) turnover from the sales of our cable products by Baohe Taiyue and Baohe Xinshiji and the fact that the equipment under the Taiyue Asset Transfer Agreement and Xinshiji Asset Transfer Agreement is in the process of transfer and its value has not been fully reflected in our consolidated balance sheet.

Interest coverage

For the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013, our interest coverage was 18.1, 6.6, 8.3, 5.8, and 8.9, respectively. The interest coverage decreased from 18.1 for the period ended December 31, 2010 to 6.6 for 2011, mainly due to the significant increase in borrowings from RMB89.7 million (including bank loans of RMB60.0 million and loans from related parties of RMB29.7 million) as of December 31, 2010 to RMB215.4 million (including bank loans of RMB110.0 million and loans from related parties of RMB105.4 million), as of December 31, 2011. The interest coverage increased from 6.6 for 2011 to 8.3 for 2012, mainly due to the improvement in profitability in 2012. The interest coverage increased from 5.8 for the nine months ended September 30, 2012 to 8.9 for the nine months ended September 30, 2013, mainly due to the improvement in our profitability during the first three quarters of 2013.

Current ratio

As of December 31, 2010, 2011 and 2012 and September 30, 2013, our current ratio was 0.9, 1.0, 0.9 and 1.0, respectively. Our current ratio during the Track Record Period remained relatively stable.

Quick ratio

As of December 31, 2010, 2011 and 2012 and September 30, 2013, our quick ratio was 0.3, 0.7, 0.7 and 0.6, respectively. Our quick ratio increased from 0.3 as of December 31, 2010 to 0.7 as of December 31, 2011, mainly because inventories decreased from RMB140.9 million as of December 31, 2010 to RMB114.9 million as of December 31, 2011. We procured a considerable amount of inventories at the end of 2010 mainly because the management anticipated an increase in price in the first few months in 2011. The ratio remained stable from 2011 through September 30, 2013.

Gearing ratio

As of December 31, 2010, 2011 and 2012 and September 30, 2013, our gearing ratio was 391.7%, 286.8%, 139.1% and 132.0%, respectively. Our gearing ratio decreased during the Track Record Period because the increase in equity was faster than the increase in total borrowings including bank loans, loans and advances from related parties.

Net debt to equity ratio

As of December 31, 2010, 2011 and 2012 and September 30, 2013, our net debt to equity ratio was 360.6%, 251.6%, 132.5% and 113.4%, respectively. Our net debt to equity ratio decreased during the Track Record Period mainly because the increase in equity was faster than the increase in total borrowings including bank loans, loans and advances from related parties.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates, changes in the selling prices for our products and movements in commodities prices. We manage our exposure to these and other market risks through regular operating and financial activities.

Commodity risk

The major raw materials used in the production of our recycled copper products are scrap copper. We are exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance.

We use commodity futures contracts to hedge part of our exposure against price fluctuations of copper raw materials. The market value of futures contracts is based on quoted market price at the reporting date. The unrealized change in fair value on the futures contracts premeasured at fair value was a loss of RMB321,000 as of September 30, 2013 and loss of RMB3,000 as of December 31, 2012, and the net realized and unrealized gains, in aggregate, of nil, loss of RMB1.5 million, gain of RMB0.9 million, gain of RMB0.4 million and gain of RMB2.2 million were recognized in the period ended December 31, 2010, the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013, respectively.

Interest rate risk

Our interest rate risk arises primarily from interest bearing borrowings. Borrowings at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk, respectively. As of December 31, 2010, 2011 and 2012 and September 30, 2013, all our interest-bearing borrowings were fixed rate borrowings and, therefore, we were not exposed to cash flow interest rate risk.

Credit risk

Our credit risk is primarily attributable to our trade and other receivables. We have a credit policy in place to ensure that our exposure to credit risk is monitored on an ongoing basis.

For all customers requiring credit over a certain amount, we perform individual credit evaluations, which focus on the customer's payment records and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Our trade receivables are normally due within 35 days from the date of billing. Normally, we do not obtain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of our customers rather than the industry in which they operate. As such, significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of December 31, 2010, 2011 and 2012 and September 30, 2013, nil, 5.8%, 17.2% and 13.2%, respectively, of our total trade and other receivables were due from our largest customer and 43.7%, 39.7%, 55.0% and 30.0%, respectively, of our total trade and other receivables were due from our five largest customers.

Liquidity risk

Our policy is to regularly monitor our liquidity requirements to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

Foreign exchange rate risk

The functional currency of a majority of the entities within our Group is RMB and most of the transactions are settled in RMB. However, we are exposed to currency risk primarily related to amounts due to and from related parties, loans from related parties and cash balances that are denominated in US dollars. As of December 31, 2010, 2011 and 2012 and September 30, 2013, if RMB had weakened/strengthened by 3% against US dollars with all other variables held constant, our equity would have been approximately RMB0.6 million, RMB2.8 million, RMB3.0 million and RMB3.0 million lower/higher, respectively. As of December 31, 2010, 2011 and 2012 and September 30, 2013, if RMB had weakened/strengthened by 3% against HK dollars with all other variable held constant, our equity would have been approximately RMB1.4 million, RMB2.7 million, RMB70,000 and RMB2.0 million lower/higher, respectively. For additional information, see note 30 (d) in the Accountants' Report set out in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

Our Company was incorporated on February 22, 2013 and there were no distributable reserves as of December 31, 2010, 2011 and 2012. As of September 30, 2013, our Company's distributable reserves amounted to RMB277.5 million.

PROFIT ESTIMATE

Our Directors estimate on the bases set out in Appendix III to this prospectus, the consolidated profit attributable to equity holders of our Company for the year ended December 31, 2013 will not be less than RMB230.0 million. The profit estimate, for which our Directors are solely responsible, has been prepared by them based on consolidated results for the nine months ended September 30, 2013 as set out in the Accountants' Report in Appendix I to the prospectus and our unaudited consolidated results for the three months ended December 31, 2013. In addition, our Directors estimate that the aggregate amount of our pre-tax income from VAT refunds and government grants and subsidies for the year ended December 31, 2013 will not be less than RMB270.0 million.

DIVIDENDS AND DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive any dividends we declare. The payment and amount of any dividend will be at the discretion of the Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, interests of our shareholders, taxation conditions, statutory restrictions, and other factors that our Board deems relevant. The payment of any dividends will also be subject to the Companies Law and our constitutional documents, which indicate that payment of dividends out of our share premium account is possible on the condition that we are able to pay our debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

Our ability to declare future dividends will also depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Pursuant to the PRC laws, dividends may only be paid out of distributable profits, defined as retained earnings after tax payments as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our PRC operating subsidiaries. In addition, the terms of certain of our outstanding loans prohibit the relevant subsidiaries from distributing dividends in any form before full repayment of the loans. As of the Latest Practicable Date, the outstanding amount of these loans was RMB49.5 million, of which RMB20.0 million is due for repayment on March 25, 2014, RMB8.7 million is due for repayment on April 28, 2014, RMB2.8 million is due for repayment on June 10, 2014 and RMB18.0 million is due for repayment on January 14, 2015. We may in the future enter into new loans with similar provisions. In general, we do not expect to declare dividends in a year where we do not have any distributable earnings.

We currently intend to retain most, if not all, of our available funds and future earnings to operate and expand our business and do not intend to distribute dividend to our Shareholders in respect of the year ended December 31, 2013. Future cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets as of September 30, 2013 amounted to approximately RMB768.5 million (assuming an Offer Price of HK$1.00 per Offer Share, being the low end of the indicative Offer Price range) and approximately RMB848.8 million (assuming an Offer Price of HK$1.20 per Offer Share, being the high end of the indicative Offer Price range). The unaudited pro forma adjusted net tangible assets information prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is presented to illustrate the effect of the Global Offering on our consolidated net tangible assets as of September 30, 2013 as if the Global Offering had taken place on such date. It was prepared on the basis as described in Appendix II. See Appendix II to this prospectus for details.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued our certain property interests at RMB207.5 million as of November 30, 2013.

The table below sets forth the reconciliation of the aggregate amount of net book value of the corresponding property interests under assessment from our consolidated financial information as of September 30, 2013 and the valuation of such property interests as of November 30, 2013 set out in Appendix IV to this prospectus:

	RMB (million)	*RMB (million)*
Valuation of property interest held under development by the Group as of November 30, 2013 as set out in the property valuation report in Appendix IV to this prospectus		207.5
Net book value of the following properties as of September 30, 2013:		
– Buildings	174.2	
– Lease prepayments	57.5	
– Prepayment for property and land use rights	2.0	
Net book value as of September 30, 2013	233.7	233.7
Net valuation deficit		26.2

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.