Investment in H Shares involves high risks and speculation. Before making any investment decisions in relation to the Company, prospective investors should carefully consider all information contained in this prospectus, in particular the following risk factors and special considerations associated with investing in the Company. It is possible that damage to the Company's business, financial position and operating results may arise from other risk factors and uncertainties that the Company is unaware of, or investment factors that the Company considers insignificant at present.

RISK FACTORS RELATING TO THE COMPANY'S BUSINESS

Fluctuations in market demand for and/or prices of oil well and petrochemical pipes may adversely affect the Company's sales, operating results and profitability

The Company classifies its products into two main categories. The first category is specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes. The second category comprises other specialized seamless pipes which include boiler pipes and vessel pipes. A majority of the Company's sales for the financial year ended 31 December 2005 and six months ended 30 June 2006 was derived from the specialized seamless pipes for the oil and natural gas industry. For the year ended 31 December 2005 and the six months ended 30 June 2006, sales of the oil well and petrochemical pipes accounted for approximately 60.3% and 63.7% of the Company's sales, and, for the same period, sales of oil well pipes accounted for approximately 51.8% and 56.8% of the Company's total sales, respectively. Accordingly, if the market demand for and/or the prices of the Company's principal products, namely specialized seamless pipes for the oil and natural gas industry, fluctuate significantly, the Company's sales, operating results and profitability may be adversely affected.

Disruption in relationships with major suppliers or increases in prices of raw materials may adversely affect the Company's operating results and profitability

The success of the Company's business and growth strategy depends, to a significant extent, on the Company's relationship with its suppliers and its ability to obtain reasonable support from these suppliers. The Company generally enters into standardised supply agreements with its suppliers which typically have a term of one year and are renewed annually. Prices are fixed on a monthly basis based on market conditions at the time. If the Company is unable to maintain good relationships with its existing suppliers, or develop and maintain new supplier relationships, the Company may not be able to secure competitive terms and its cost of sales will increase. Furthermore, the Company cannot ensure that its suppliers will not consolidate their businesses such that the suppliers will come to have a stronger bargaining position when negotiating with the Company. If the Company is unable to secure raw materials on commercially reasonable terms, its costs of sales will increase and its operating results and profitability may be adversely affected.

For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, the Company sourced approximately 52.6%, 50.3% and 62.0% respectively of its total purchases from the Company's top five suppliers. Over the same period, the Company's largest supplier accounted for approximately 14.8%, 26.4% and 30.4% of the Company's total purchases respectively for the same period. If the Company's major suppliers cease to supply to the Company or increase the price of the raw materials sold to the Company and the Company is unable to secure an alternative source for such raw materials, the operating results and profitability of the Company may be adversely affected.

Inability to secure new contracts and/or purchase orders or any of the existing major customers encountering operational or financial difficulties may adversely affect the Company's business and operating results

The success of the Company's business depends on its ability to maintain good relationships with existing customers or develop and maintain new customer relationships for its products. During the Track Record Period, a significant portion of the Company's casing pipes revenues had been, and may continue to be, derived from a limited number of customers. For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, the Company's sales to its five largest customers accounted for approximately 8.9%, 25.6% and 29.2% respectively of the Company's turnover. In the event that the Company fails to secure new contracts or purchase orders from these existing customers, or develop new customer relationships and/or any of the existing major customers encounter operational and/or financial difficulties, the Company's business and operating results may be adversely affected.

Inability to launch or delay in the launch of new products for oil well pipes market may adversely affect the Company's profitability and future growth prospects

The success of the Company is attributable to the Company's ability to anticipate and respond in a timely manner to customer demand for and preferences in specialized seamless pipes. The products offered by the Company are characterized by its specialty applications and product specifications as to quality, durability and, in respect of oil well pipes, their ability to be used at prescribed depths. Customer acceptance of these products is also affected by a number of factors including product reliability, safety, functionality and price.

As part of the Company's overall expansion strategy, the Company intends to offer value added services such as threading, and further heat processing of its oil well pipes. This will require different manufacturing technologies and machinery. As such, the Company may face difficulties or time delays in launching such new products. Failure to launch new products as planned may have an adverse impact on the Company's profitability and future growth prospects.

Departure of the Company's core management or technical teams without immediate and adequate replacement may have an adverse impact on the Company's business

The Company's success is attributable to, among other things, the contribution and long service of the Company's core management and technical teams as stated in the section headed "Directors, supervisors, senior management and staff". The core management and technical teams have been involved in the Company's operations for more than 10 years. Such core management and technical teams refer to Zhang Hu Ming (the Company's Deputy Chairman and general manager), Zhang Chun Xiang (chief engineer), Wang Yi (vice general manager in charge of the hot-rolled steel pipe plant), Geng Wei Long (vice general manager in charge of cold-drawn steel pipe plant), Lv Si Yu (vice general manager in charge of market sales) and Huang Yao Qi (chief financial officer). Each executive Director has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date. However, there is no assurance that the Company is able to retain member(s) in its core management and technical teams or recruit further competent personnel for its future development. The departure of any member of the Company's core management or technical teams without immediate and adequate replacement or the inability to recruit competent successor(s) or further competent personnel for its future development could have an adverse impact on the Company's business.

Product liability claims may adversely affect the Company's business, reputation and operating results

The products sold by the Company are mainly used in oil exploration activities. Consequently, any product defects could result in product liability claims against the Company for customers' loss (which may include economic loss) as a result of such product defects. The agreements between the Company and customers include product warranties of six or twelve months after product delivery. The Company has obtained product liability insurance. Should there be a product liability claim which exceeds the terms of its insurance coverage or is not covered by insurance, such claim would, regardless of merit, distract management resources and incur costs which may adversely affect the Company's business, reputation and operating results.

Increasing environmental compliance may adversely affect the Company's profitability and future growth prospects

The Company's operations are subject to environmental protection laws and regulations promulgated by both national and local environmental protection authorities of the PRC. The amendment of existing laws or regulations may impose additional or more stringent requirements. In addition, the Company's compliance with such laws or regulations may require the Company to incur additional capital expenditures or other obligations or liabilities. To the extent that the Company has to bear increased costs in complying with environmental protection laws and regulations, this may adversely affect the Company's profitability and future growth prospects.

Historical tax benefits may not continue to apply and hence the Company's profitability and financial position may be adversely affected

The corporate income tax rate applicable to the Company is 33%. However, the Company has benefited from a tax credits of RMB57,796,000 and RMB8,900,000 for the two financial years ended 31 December 2005. Details of such tax credits are set out in Note 8 to the Accountants Report in Appendix I. Until such time as there are corporate income tax rate changes in the PRC or such time if and when the Company applies for and is approved as a Sino-foreign joint venture, the corporate income tax rate applicable to the Company will continue to be 33%.

There is no assurance that these preferential tax treatments will continue to apply to the Company in the future. In the event of any unfavourable changes in relation to such preferential tax treatments, the Company's profitability and financial position may be adversely affected.

If contingent liabilities relating to bank drafts issued by banks in China crystallise as a liability of the Company due to non-payment by the bank upon presentation of such bank drafts, its business, cash flow and profitability may be adversely affected

The Company utilises, as part of its normal trade financing, bank drafts issued by banks in China which entitle holders thereof to unconditional payment by the bank upon presentation. Such bank drafts usually mature six months after their issue. Under the terms of issue or endorsement of such bank drafts to suppliers, such suppliers have recourse to the Company if the bank defaults on payment of such bank drafts. As at 30 June 2006 and 30 September 2006, the aggregate bank drafts with recourse to the Company amounted to approximately RMB282 million and RMB206 million respectively. If such banks default on payments due under the bank drafts and, as a result, the contingent liability of the Company crystallises, the Company's business, cash flow and profitability may be adversely affected.

Historical dividends are not indicative of future dividends

Dividends declared by the Company amounted to approximately RMB17.0 million and RMB56.7 million for the years ended 31 December 2004 and 2005, respectively.

Investors should be aware that there is no assurance that dividend distributions will continue to be made by the Company in the future. The amount of dividends, if any, to be declared by the Company is subject to the recommendation of the Directors after taking into account, inter alia, the Company's earnings, financial conditions, cash requirements and availability, prospects and other relevant factors. The past dividend distribution record referred to above should not be used as a reference or basis to determine or estimate the amount of dividend payable in the future.

The Company's inability to successfully implement its Business Plans may materially and adversely affect the Company's profitability and future growth prospects

The Directors believe that the success of the Company in the future will substantially depend on, among other things, the successful implementation of its Business Plans, including but not limited to the Company's product mix and planned production capacity increases. Plans for production capacity increases include its plans under the 861 Action Plan. The Company's inability to successfully implement its Business Plans may materially and adversely affect the Company's profitability and future growth prospects.

The Company derives substantially all of its turnover from sales in the PRC and any downturn in the PRC economy could adversely affect the Company's business and financial condition

Substantially all of the Company's revenues are generated from sales in the PRC. The Company anticipates that revenues from sales of its products in the PRC will continue to represent a substantial proportion of the Company's total turnover in the near future. Any significant decline in the condition of the PRC economy could adversely affect and discourage consumption of the Company's products, among other things, which, in turn, may have an adverse effect on the Company's business and financial condition.

The Company may not be able to successfully diversify the geographical coverage of its distribution networks which may adversely affect the Company's business

The Company's intentions to develop its distribution networks for its oil well pipe products to include other parts of the PRC may not prove successful. If the Company fails to generate sufficient sales through new distribution networks, the Company may not be able to recover production, distribution, promotional and marketing expenses as well as administrative costs the Company incurred in such development.

An inability to increase production capacity or to have sales increase at the same rate as production capacity increases may have an adverse impact on the Company's working capital

The production capacity of the Company expanded from 25,000 tonnes in 2004 to 300,000 tonnes in 2006, and it is expected that the Company's production capacity will further expand to 650,000 tonnes in 2009 should the 861 Action Plan be approved. The Company's production capacity may not be able to expand at the same rate as it has in the last three years and any inability to expand production capacity would prove a constraint on sales. In addition, sales may not increase at the same rate as increases in production capacity. In either case, the Company's business, financial conditions and prospects may be adversely affected.

If the Company should find itself in a net current liability situation, its operations and financial results may be adversely affected

For the year ended 31 December 2004, the Company had net current liabilities of approximately RMB84.0 million. The principal reason for the net current liabilities in 2004 was due to the current liabilities incurred in establishing a new oil well pipe production line in Chuzhou and the corresponding assets were not being classified as current assets. They were classified as non-current assets under property, plant and equipment during the same period. As the operations of the Company expand and/or if the Company does obtain approval for phase II of the Company's project within the 861 Action Plan and proceeds with it, more working capital is expected to be required. If the Company takes on short term debt to fund such expansion without a corresponding increase in current assets, the Company could again find itself in a net current liabilities situation. Additionally, if the Company is unable to service or repay such short-term bank debts, the relevant creditor may choose to demand repayment and take related actions, the result of which could adversely affect the operations and operating results of the Company.

If inventory control is not carried out appropriately, this may have an adverse effect on the Company's business and financial performance

The Company's inventory policy includes budgeting for production requirements as well as strategic purchases in the market if it considers that market prices of raw materials are relatively low or may increase significantly in the near term. As at 30 June 2006, the Company had inventories of approximately RMB198.8 million. Inventories as at 31 December 2004 and 2005 amounted to approximately RMB27.9 million and RMB131.4 million respectively. The average inventory[1] turnover days during the Track Record Period were 34 days, 38 days and 61 days, respectively. The Company's inventories represented approximately 7.7%, 22.4% and 34.8% of its total assets as at 31 December 2004, 2005 and 30 June 2006 respectively. The Company's decision to increase inventory of raw materials in the first half of 2006 as a result of the establishment of a new production line in Tongcheng was the cause of the substantial increase in inventory as at 30 June 2006. As part of the Company's policy to source inventories in accordance with their production or trading needs, it also needs to constantly review and monitor its inventory control methods and procedures in order to minimise overstocking. It is also essential for the Company to maintain sufficient inventory of both self-production needs and sourcing and distribution needs to meet the demands of its customers within a stipulated delivery time.

In the event that management is proven wrong in its anticipation of market trends when it strategically purchases inventory or it overstocks inventory or it fails to stock sufficient inventory to meet production and other sales requirements, the Company's business, reputation and financial performance may be adversely affected.

RISK FACTORS RELATING TO THE INDUSTRY

The Company's inability to respond to technological advances may adversely affect its competitiveness and hence its profitability and future growth prospects

The Company's ability to maintain its competitiveness in the market is largely dependent on its ability to enhance and upgrade its existing products and to develop new and technologically more advanced products to meet customers' requirements. The Company may encounter difficulties in identifying, developing, manufacturing and marketing its products in the future. The Company's profitability and future growth prospects may be adversely affected in the event that the Company is unable to respond to new and technologically more advanced products developed by its competitors.

1 Average inventory equals inventory at the beginning of the year plus inventory at the end of the year (or as at 30 June 2006 as the case may be) and divided by 2. Turnover of inventory equals average inventory divided by cost of sales and multiplied by 365 (or 181 for the six months ended 30 June 2005 and 2006).

Relaxation of restrictions on foreign companies conducting business in the same industry may adversely affect the Company's business, profitability and future growth prospects

It is provided in the policies for the development of iron and steel industry in the PRC prevailing that foreign investors investing in the iron and steel industry in the PRC are not allowed, in principle, to hold a controlling interest. The business that the Company is engaged in is classified under the iron and steel industry. It is possible that the PRC government will, in the future, relax the policies which currently restrict foreign investors investing in the iron and steel industry. The relaxation of such restrictions may increase competition by foreign companies in the PRC iron and steel advanced processing industry. Accordingly, the Company's profitability and future growth prospects may be adversely affected in the event that more foreign competitors enter the PRC market and compete in the Company's industry segment.

Material changes in policy towards petroleum companies may adversely affect the Company's ability to implement its Business Plan, its sales, operating results and profitability

PRC oil and gas companies are extensively regulated by the PRC government. Central government authorities and reform committees, such as the National Development and Reform Commission, the State-owned Assets Supervision and Administration Commission, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Commerce, the PRC Ministry of Foreign Trade and Economic Cooperation and the State Bureau of Taxation and the local price bureaus, have extensive control over various aspects of PRC's oil and gas industry. As a result, any future unfavourable changes in policy towards petroleum companies may significantly and adversely affect the Company's ability to implement its Business Plan, its sales, operating results and profitability.

Any decreases in world oil prices may adversely affect the Company's business, operating results and future growth prospects

As set out in the Industry Overview section of this prospectus under the heading "Relationship with Oil Exploration and Petrochemical Refining & Transmission Industries", there is a positive correlation between world oil prices and investments in commercial oil exploration and exploitation projects. Global oil prices, for 2006, are reaching historic highs and leading investments on commercial oil exploration and exploitation projects. However, should global oil prices decrease, this may result in a decrease in investments on commercial oil exploration and exploitation projects which could, in turn, adversely affect the Company's business, operating results and future growth prospects.

RISK FACTORS RELATING TO THE PRC

Political, economic and social changes in the PRC arising from the implementation of government policies may adversely affect the Company's business, operating results and future growth prospects

Prior to the Chinese government's adoption of reform and the "Open Door" policies in 1981, China was a planned economy. Since then, the Chinese government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 20 years. China has since transitioned into a more market-oriented economy. While the Chinese government continues to own a significant portion of the productive assets in China, economic reform policies since the late 1970's have encouraged the development of autonomous and privately-owned businesses, the utilisation of market forces, and the establishment of good corporate governance measures in China.

Substantially all of the Company's sales are derived from China and all of the Company's assets and operations are located in China. Therefore, the Company's business, operating results and future growth prospects are subject, to a significant degree, to the economic, political, social and legal development of China. Any change in the political, economic and social policies of the Chinese government may adversely affect the Company's business, operating results and future growth prospects.

The Company is subject to foreign exchange controls imposed by the PRC government and this may affect the Company's ability to make dividend payments in HK$

The value of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable.

On 21 July 2005, the People's Bank of China announced a change in its foreign exchange policy and adjusted the value of RMB from RMB8.27 to US$1.00 to RMB8.11 to US$1.00, resulting in the increase of 2.0% of the value of RMB against US$. According to the announcement made by the People's Bank of China, from 21 July 2005 China adopted a managed floating exchange rate that is adjusted based on market demand and by reference to a basket of currencies. RMB will no longer be fixed against US$ alone, allowing for more flexibility in the RMB exchange system. In addition, the RMB exchange rate will also be affected by the development of the PRC governmental policies and international economical and political development.

As the Company is required to exchange RMB for HK$ when declaring dividends to holders of H Shares, should there be any changes in the exchange rate of RMB against the abovementioned basket of currencies, there may be an adverse effect on the amount of dividend paid in Hong Kong to holders of Shares at time of conversion from RMB to HK$.

Further to the extent there is insufficient foreign exchange from the designated banks to satisfy the Company's corporate needs, the Company's ability to settle dividends in HK$ may be adversely affected.

The interpretation and enforcement of laws and regulations under the PRC legal system involve some uncertainty

The PRC legal system is based on statutory law. While prior court decisions may be cited as persuasive authority, they do not constitute binding precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and a considerable number of laws and regulations dealing with economic matters such as corporate organisation and governance, securities, foreign investment, taxation and trade. Since these laws and regulations are relatively new and there is only a limited number, of published case law and judicial interpretations on these laws and regulations, their interpretation and enforcement involve some uncertainty.

The Company Law and Special Regulations are not as developed as other developed countries or regions

As the operation of the Company is solely carried out in the PRC, the Company is subject to legal regulations of the PRC. Being a PRC-incorporated company issuing shares and listed outside the PRC, the Company is also subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions required to be included in the articles of association of PRC companies to be listed outside the PRC, including those to be listed in Hong Kong. Such provisions are intended to regulate the internal affairs of such companies. Generally, the Company Law and Special Regulations, in particular those relating to the protection of shareholders' rights and access to information, are not as developed as those applicable to companies listed in Hong Kong, the United Kingdom, the US and other developed countries or regions.

There are material differences between the Company Law and the company laws of Hong Kong, the US and other common law countries or regions, particularly in respect of investor's protection, including such areas as minority derivative action, minority protection, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividend.

The limited protection for investors offered by the Company Law may be compensated by a certain extent by the introduction of the Mandatory Provisions and certain additional provisions required by the GEM Listing Rules. The Mandatory Provisions and the additional provisions required by the GEM Listing Rules are required to be included into the articles of association of PRC companies listed in Hong Kong. However, the inclusion of the Mandatory Provisions and the additional provisions required by the GEM Listing Rules does not guarantee that holders of the H Shares can enjoy similar protections offered to them in other jurisdictions.

Changes to the PRC regulatory framework may adversely affect the Company

The Securities Law of the PRC (中國證券法) became effective on 1 July 1999 and was amended twice by the Standing Committee of the National People's Congress on 28 August 2004 and 27 October 2005 (the latest amended version was effective on 1 January 2006). This is the fundamental legislation that regulates the PRC securities market. The Securities Law of the PRC (中國證券法) is applicable to, among other matters, the issue and sale and purchase of securities within the PRC. The Company Law, relevant laws and regulations promulgated recently and other legislations relating to PRC companies with public share offerings outside the PRC (including Hong Kong), to a certain extent, form the legal framework regulating the behaviour of companies (such as the Company) and their directors and shareholders. Investors are reminded that the regulatory framework for the PRC securities industry is still at an early stage of development, and any changes to this framework are beyond the control of the Company.

Enforcement of court judgments in the PRC may be difficult

Save for the agreement entitled "An Arrangement on Reciprocal Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region pursuant to Choice of Court Agreements between Parties Concerned" signed on 14 July 2006 (which, as at the Latest Practicable Date, has not yet been formalised for implementation), the PRC is not a party to any agreements or arrangements for the endorsement and enforcement of any judgement of the courts of Hong Kong or in most of the other, jurisdictions. As a result, it may be difficult for the Company to seek effect service upon the Company and/or the Directors or enforcement in the PRC of any judgement of the courts of Hong Kong or other jurisdictions. All of the executive Directors reside within China and the Company's operating units are established in China. Consequently, all of the assets and substantially all of the assets of the aforesaid persons are located within China. Therefore, investors may not be able to effect service of process upon those persons or companies in China or to enforce against them in China any judgments obtained from non-Chinese courts. It should be noted that, pursuant to the Articles of Association, any disputes between holders of H Shares and the Company, the Directors, Supervisors, managers or members of the management, or any claim, related to any matter of the Company, arising out of the rights or obligations under the Articles of Association, Company Law or Companies Ordinance, should be put before HKIAC or CIETAC for arbitration. Arbitral award from such organization should be final and binding on all parties involved. The mutual arrangement for the enforcement of arbitral awards of the PRC and Hong Kong in such regions, which has been approved by the Supreme People's Court of the PRC (中國最高人民法院) and the Legislative Council of Hong Kong, became effective on l February 2000.

Additional information relating to arbitrations, including the Arbitration Law of the People's Republic of China (中國最高人民法院) which became effective on 1 September 1995, are set out in the paragraph headed "The Arbitration Law" in Appendix V to this prospectus.

RISK FACTORS RELATING TO THE INTERNATIONAL PLACING

An active trading market for the Company's H Shares may fail to develop or be sustained, which could have a material adverse effect on the market price and liquidity of the Shares

Prior to the International Placing, no public market for the Company's H Shares existed. Following the completion of the International Placing, the GEM of the Stock Exchange will be the only market on which the H Shares are listed. However, an active trading market for the H Shares may not develop or be sustained after the International Placing. In addition, the H Shares may trade in the public market subsequent to the International Placing below the Placing Price. The Placing Price for the H Shares is expected to be fixed by agreement between Cazenove (for itself and on behalf of the Placing Underwriters) and the Company, and may not be indicative of the market price of the Shares following the completion of the International Placing. If an active trading market for the Shares does not develop or is not sustained after the International Placing, the market price and liquidity of the Shares could be materially and adversely affected. In addition, the trading price of the Shares could be subject to significant fluctuation.

Future sales or perceived sales of substantial amounts of the Company's securities in the public market, including any future A share offering in the PRC or re-registration of Domestic Shares into H Shares, could have a material adverse effect on the prevailing market price of the Company's H Shares and the Company's ability to raise capital in the future, and may result in dilution of H Share shareholdings

The market price of the Company's H Shares could decline as a result of future sales of substantial amounts of H Shares or other securities relating to the H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of the securities, including any future offerings, could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price which the Company deems appropriate. In addition, the Company's shareholders may experience dilution in their holdings to the extent the Company issues additional securities in future offerings.

Taxation of holders of H Shares

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are individuals not resident in the PRC or which are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There is no assurance, however, that withholding or capital gains taxes will not become applicable to such dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends or to a capital gains tax, each of which is currently imposed in the PRC upon individuals at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.