

# Chairman's Statement



We are devoted to become the leading integrated service provider in offshore oil and gas industry in the PRC and even in the world

Dear Shareholders,

On behalf of the Board of Directors (the "Board of Directors"), I am pleased to present the first annual report of Jutal Offshore Oil Services Limited (hereinafter the "Company") and its subsidiaries (hereinafter as the "Group") for the year ended 31 December 2006 (hereinafter as the "Year") for the perusal by shareholders.

## 1. FOREWORD

2006 was a year of milestone for Jutal Offshore Oil Services. During the year, the Group was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited and we brought off our operation plans to achieve satisfactory results. Through this platform of the capital market, not only has the Group raised the capital it needs, but it has also achieved exceptional progress in respect of corporate governance and development mechanism, thus taking the Group to a new horizon.

## 2. BUSINESS REVIEW

The Group takes pride in its role of participation in the fast growing offshore oil and natural gas industry and shipbuilding industry of China. In the two core businesses of the Group, namely, the provision of technical support to the oil and natural gas industry and fabrication of oil & gas processing skid equipment, and provision of technical support services to the shipbuilding industry, we have made enviable progress. Also, our business in civil engineering continued to grow steadily, and the operation has expanded to the Middle East.



### Offshore oil and gas technical support services and processing skid equipment fabrication

While providing excellent regular maintenance services to customers in 2006, the Group operated several major modification and construction projects, such as the Panyu 4-2/5-1 platform topside modification, which included the onshore construction of platform structure, piping and instrument fabrication, offshore installation, dismantling of the old system and fabrication of processing skid equipment of the project. The total value of the contract amounted to approximately RMB61 million. We also undertook a PEMEX project in Gulf of Mexico for China Oilfield Services Co., Ltd. for the construction of drilling module, including its installation and testing, and the contract value is expected to be approximately RMB55 million. These major projects have been satisfactorily executed in terms of project schedule and economic benefit generation. The Group is therefore well appraised by its customers.

Over the last year, the Group endeavored to improve its services and enhance core competitiveness on the basis of existing market and operations. In comparison with other services providers, we believe we have the following competitive strengths:

- Strong capability in offshore platform modification projects;
- Superior fabrication yards and equipments;
- Capability to meet market need and respond quickly;
- Highly qualified , service oriented team;
- Well developed QA/QC management system, and HSE management system;
- Qualified to Repair and fabricate Pressure Vessels , manufacture capability of the first class special material equipment/devices.



In respect of our offshore oil and natural gas services, our major customers are well-known oil and gas producers in the South China Sea and Bohai regions of China. Our services are mainly for the oil fields operated by Sino-foreign joint ventures. In the year under review, while sustaining our existing customers on existing services, and maintaining a good working relationship, the Group have successfully entered into certain new markets and areas of business, such as services relating to the area of drilling and manufacturing of pressure vessels, and procurement services. We have undertaken a pipe laying contract for Fujian LNG from CNOOC Engineering at the end of 2006 with contract value of approximately RMB13 million, which further expanded our business scope in offshore oil technical support services.

Five years ago, the Group began to engage in the design, fabrication and sales of skidded oil & gas processing equipment, it has now evolved into a sizable operation. Our main products include oil/natural gas/water skidded processing equipment, modules, and pressure vessels. All the products are tailor-made to the specifications of



customers in accordance with international standards such as ASME and AWS. We position ourselves towards the international market. In 2006, we were contracted 37 new fabrication projects and more than 50% of which were for overseas market. While maintaining our relationship with our existing overseas partners, over the past year, we had also taken the initiative to pursue new cooperation opportunities with overseas professional companies. The result was remarkable. This has become one of our principal means to explore new business opportunity for process equipment fabrication.

### Technical support services for shipbuilding

After years of operation, the technical support services provided by our Dalian Branch have been widely recognized by our customers and other players in the industry in terms of standard of management, staff quality and effectiveness, admirable reputation has been established in shipbuilding industry.

Dalian Shipbuilding Industry Co., Ltd. ("DSIC") continues to be our major customer in the shipbuilding technical services industry. In particular, in the end of 2005, the Group entered into a strategic cooperation agreement with DSIC for a term of 10 years to provide services such as special coating for ships, installation and commissioning of electrical and instrument equipment. Both parties mutually recognize the long-term strategic partnership status in the relevant areas, and undertake to work more closely in more areas.

Pursuant to an agreement entered into in June 2006 by the Group and DSIC, it was agreed that all the special coating for that company's ships would be undertaken by the Group. In 2006, the Group's Dalian Branch completed a total of 380,000 sq. m. in respect of special coating.

In 2006, the Group's Dalian Branch finished the electrical installation, inspection and testing for eight ships and took part in the construction of the first drilling rig JU2000-1#. Its structural fabrication presented the most difficult part of the project, which involved the highest sophisticated gear plate connections techniques. We successfully completed the task and was highly recommended by our customer.

## Civil engineering business

The Group's business in civil engineering is mainly represented by its formwork operation in Hong Kong and Macau and the manufacture of onshore steel structure. The business has already expanded into the Middle East market. In 2006, the Group had achieved a satisfactory results.

Under the cyclical effect of the industry, our formwork operations in Hong Kong saw a decline, whereas that of the United Arab Emirates and Macau filled the gap so that overall growth remained satisfactory.



## 3. PROSPECTS

Whether in the world or the PRC, exploitation and production of offshore oil and natural gas are becoming more and more important, speeding up the development of offshore oil resources is of high priority in China's energy strategy. According to certain research reports, discovery rate of China's offshore crude is merely 18.5%, and for natural gas, it is only 9.2%. Since 2004, development of the offshore oil of China had taken a huge leap into a much larger scale, which brings along tremendous business opportunities for offshore oil and natural gas engineering and services.

In view of the strategic development requirements, in 2007, the Group will make certain adjustments to its organizational structure by introducing talents into our senior management, technical staff and marketing staff and will be well-prepared in development strategy study and upgrade our design capability and project management capability in order to build up our core competitiveness in the industry. We will put more efforts in sales and marketing to follow up potential customers and potential new projects, and will continue to foster a stronger working relationship with partners both in China and overseas. We hope that by doing so, we shall be able to effect a breakthrough in securing more major projects and in the markets of our scope of business. At the same time, the Group will look into the possibility of acquisitions and mergers so that by making acquisitions and mergers at the right time, we can enlarge our scale and expand our services and product lines.



The manufacture and supply of oil and gas processing equipment represents an important development direction of the Group for the years to come, and where business opportunities abound ahead. Both our work and performance have widely won the recognition of customers and partners, domestic and overseas alike. In 2007, we will construct our fabrication yard in Zhuhai so as to upgrade our production capacity to a great extent. While we will be enhancing and consolidating our production capability, we will also put more efforts in upgrading our design capability and developing the market; in doing so, we are moving on a professional track to develop into a manufacturer and supplier of professional process equipment and professional pressure vessels.



The robust business of the shipbuilding industry in China heralds a tune of fortune for our technical support services for shipbuilding. While we strive for a stable market of ships and offshore engineering, we will be fanning out to expand our presence and enrich our service technology, and in this way we will move faster to capture the market share in certain service sectors and strengthen our working relationship with more customers.

With these opportunities, we will continue to improve corporate governance and put more emphasis on the development and training of human resources and management of a safe working environment as well as environmental protection, with all these efforts we will make, having in our mind to dynamic spirit of advancement, we will bring attractive returns for our shareholders.

Last but not least, I express my heart-felt gratitude on behalf of the Board for the support of our shareholders, all the dedicated efforts and contributions of our management and all of our staff, and for the unlimited support of our customers!

By Order of the Board

**Wang Lishan**

*Chairman*

Hong Kong

18 April 2007

