

IMSK - increased activities in China - another Joint Venture established

I.M. Skaugen ASA (IMSK) has entered into a new Equity Joint Venture (EJV) in China with Zhangjiagang Shenghui Chemical Machinery Co., Ltd (ZSHCM), a maker of steel vessels and structures for refinery and petrochemical production facilities. The Company is located in Zhangjiagang city, in the Jiangsu Province, about two hours northeast of Shanghai. ZSHCM is one of the few manufacturers in China that can produce the marine related equipment/components needed for the cargo plants on our new vessels. The Company will be renamed; Shenghui Gas & Chemical Systems (Zhangjiagang) Co.,Ltd. The agreement has customary regulatory conditions precedent in China that will be satisfied within short.

The Joint venture calls for an investment by IMS of about \$12.2 mill, to obtain 50% of the shares in the successful and profitable gas & chemical tank and machinery manufacturing business, and to fund the purchase of new facilities (equipment and land). Two third of our investment is needed for ZSHCM to expand its business and one third to pay for the existing business. The new part will commence by the Company securing a new piece of land with at least 150 m of waterfront and invest in new facilities such as a large manufacturing hall and lifting facilities of the tanks and outfitting berths for ships. IMS will make the investment in the form of subscribing to new registered capital (injection of capital into the company) and provide a shareholder loan. The balance of the shares are owned by the Company management team headed by its General Manager; Mr Zhou Jian Liang. ZSCHM currently employs about 250 people and had revenues of RMB 48 mill in 2003 and these will exceed RMB 100 mill in 2006. The EBIT margins have been an average of 10% over the last years. It presently has two new manufacturing facilities in China and the largest one opened in 1Q06 and the first one in 2001.

Background issues.

There are not many Companies in China capable of building either the size of cargo tanks and/or with the low temperature steel needed for our 10,000 cbm newbuildings. There are also very few manufacturers with experience in low temperature steel production to make the components for the cryogenic cargo cooling plant or for any marine application. IMS currently has 9 gas carriers under construction in China and have an agreement to enable us to construct 6 more. All but two of these 15 ships are advanced gas carriers capable of carrying a range of gas and chemicals. 10 of the vessels will be capable of carrying LNG.

The most important part of the IMS newbuilding projects for gas carriers in China is the manufacturing of the cargo plants (the loading / discharge systems, the cooling plant, the reliquefaction plant for LNG, as well as the cargo tanks themselves) and the assembly, outfitting and commissioning of the ships. IMS has thus been searching for a reliable manufacturer(s) of the gas cargo plants for our newbuildings, as well as a qualified fabricator of the cargo tanks, and a place to outfit the ships with the cargo tanks and the cargo plants.

Zhangjiagang Shenghui Chemical Machinery Co., Ltd is currently a sub contractor of cryogenic parts for several international companies supplying Korean and Japanese yards with cargo plants for various types of gas carriers. It is also the only one in China that can produce the marine related equipment/components needed for the cargo plants on our new ships. They also make steel vessels and structures for refinery and petrochemical production

facilities (such as storage tanks). Finally they have a very promising development program to build LNG trucks for Chinese markets and are producing smaller LNG storage tanks.

ZSCHM has the competence to make the cargo tanks (6,000 cbm sized) capable of handling LNG and other petrochemical gasses as well as LPG and to make our own designed cargo plants. It is however, as of now, lacking the space and facilities for such large scale production. The Company will now be allocated about 133,000 sq. m. of land with waterfront access by the Government for such purposes and at the immediate vicinity of the Yangtze river. The Government policy has been expressed as its desire to support technological development and export related businesses if they can establish a sizable and attractive Joint Venture with a foreign enterprises. Such a JV will also give ZSCHM a period of tax exemption (tax holiday). The Company has thus invited IMS to invest in and acquire 50% of the complete ZSCHM company to make it capable of buying the rights to use the land and make the necessary third manufacturing facility in addition to its present two locations in China.