Chief Executive's Report

The year 2004 was one of extraordinary growth and transformation for Titan. We expanded our operations to meet the rapidly rising demand for our oil services, invested in assets designed to ensure continued strong growth and diversification in the future, and put in place a management infrastructure to guide us effectively in the next phase of our development.

As we enter 2005, we are strategically positioned across Asia's downstream oil services supply chain and confidently expecting another year of rapid and profitable growth. There could hardly be a more satisfying way to have begun a term as Chief Executive.

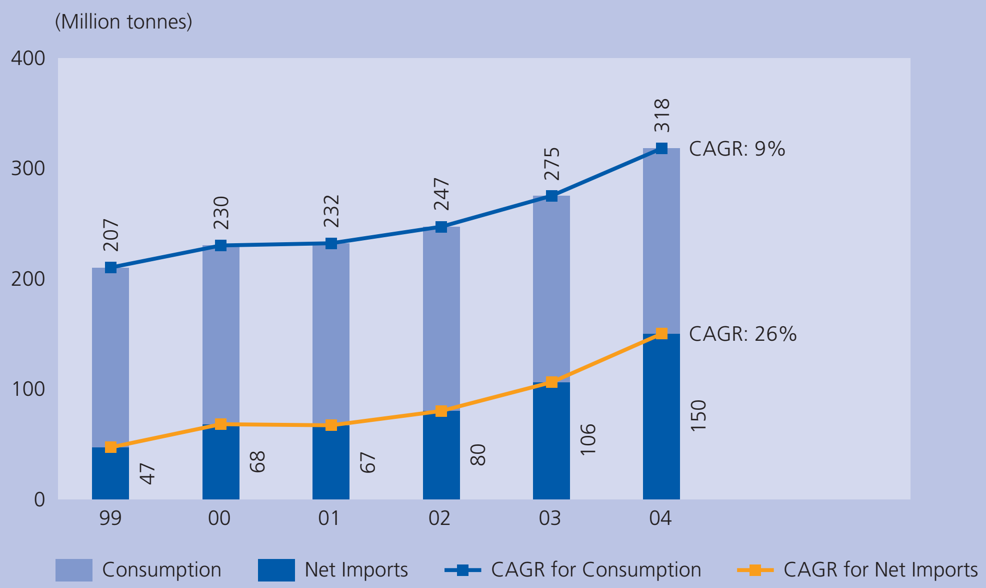
The success of the Group was clearly reflected in our financial performance. Turnover for the period was HK$3,494 million, a 216% increase as compared with 2003. Net profit attributable to shareholders increased by 298% to HK$400 million. Return on equity rose to 36.8%. A dividend of HK1.0 cent per share, representing 12% of our net profit, was recommended — our first dividend and symbolic of the desire we have to achieve both growth and income for our shareholders.

Operations

Without doubt, some credit for this remarkable increase in earnings can be attributed to market conditions, which were very favourable to our businesses in 2004. Titan occupies a unique position in Asia's energy markets and benefits strongly from rising demand for imported oil in the region, especially China. Demand for oil in Asia rose by 5.2% to 23.6 million barrels per day (bpd) in 2004. The majority of this increase was met from crude oil imports, which in China's case rose by 41% over 2003 to 2.3 million bpd. This follows a pattern of increased oil imports, recently averaging over 26% growth a year, that has been firmly established since the country became a net importer in 1993 and reflects China's robust economic growth.

Titan is well on the way to becoming a major presence in the storage of oil and chemical products in Asia

China is increasingly dependent on oil imports



Oil imports have risen at a compound annual growth rate of 26% between 1999 and 2004, nearly three times the increase in consumption

Source: BP Statistical Review of World Energy; 2004 IEA Oil Market Report

But these positive market conditions were magnified in our case by the very strong demand we experienced from our customers. Titan has signed sizable long term oil transportation contracts with a number of major importers. As a result of these relationships our ability to grow was constrained only by our capacity to meet that demand — an enviable position to be in, even in the best of markets.

Accordingly, 2004 saw a many fold expansion of our transport fleet. In March, we acquired Neptune Associated Shipping Pte. Ltd. (NAS), an arm of Neptune Orient Lines Limited (NOL), for US$57.4 million (HK$447 million). This brought to our fleet 20 short to medium range oil tankers with a combined capacity of 110,812 dead weight tonnes, and strengthened our fleet management. During the year we acquired or leased seven very large crude carriers (VLCCs), with a combined capacity of 1.83 million dwt. As a result, net of scrappings, over the 12 months our fleet size rose by 26 vessels and the total tonnage nearly tripled to 2.64 million dwt. By year end we had established ourselves as one of the largest oil transportation operators in Asia, with a low cost and flexible fleet enjoying a solid reputation in the industry for experienced management. Revenues and contribution from transportation in 2004 rose by 190% to HK$908 million and by 400% to HK$432 million respectively. In particular, NAS contributed respectively HK$257 million and HK$36 million to the Group's turnover and segment result during the year.

The Group's revenues currently derive mainly from the transport of crude oil from the Middle East into Asia, including China

Although transportation clearly remained our main source of cash flow during the year, the storage business, where much of our future growth will occur, saw significant progress. Our existing operation comprises floating storage units (FSUs) off Singapore in Malaysian waters. The unique position of this business as one of the only such facilities to be authorised by the Malaysian Government makes it a competitive alternative to the often congested Port of Singapore. Our overall capacity was almost halved in the first half of the year when we scrapped one FSU because of age. Revenues, however, held steady owing to strong demand. As a result, although revenues for the year declined to HK$37 million from HK$56 million in 2003, contribution to segment results held steady at HK$16 million, down slightly from HK$18 million in 2003.

From 2006, growth will be driven by the three large oil storage terminals now under development in Fujian, the Pearl River Delta and Shanghai

The scale of the FSU operation will soon be eclipsed, however, by the onshore facilities we are now developing in China, where we will have an early mover advantage in the storage market. Two projects were signed in December 2003 and March 2004 and began construction during the year at Meizhou Bay near Quanzhou in Fujian Province and at Nansha near Guangzhou, in Guangdong Province. Phase 1 of the Nansha project, comprising 370,000 m^3 of storage, is expected to be completed and operational in mid-2006. Phase 1 of the Fujian project, comprising 500,000 m^3 of storage will be completed and operational in the second half of 2006. In March 2005, we entered a third, even more ambitious project, when Titan and joint venture partners including PetroChina signed a joint venture agreement to construct and operate a storage and transshipment facility at Yangshan deep water port near Shanghai. Construction will start later in 2005.

The scale of these projects should not be underestimated. The Shanghai facility alone may eventually have a total storage capacity of 2.4 million m^3 and berthing for ships up to 100,000 dwt, making it the largest oil products terminal in China. The combined final capacity of the three projects could eventually reach 5 million m^3, a scale that would attract customers from throughout the North Asian region. Titan, in other words, is well on the way to becoming a major presence in the storage of oil and chemical products in Asia.

As exciting as the storage developments are in themselves, however, they gain additional significance in the wider context of the Group. Storage will enable us to enter into the potentially much greater and more lucrative field of distribution. In 2004, we made our first small steps towards building an oil distribution business, through establishing a ship-refueling or bunkering business. In June, we entered the large Singapore market through a series of business contracts with Fuels and Marine Marketing (FAMM), a business unit of Caltex, and by making use of three bunker barges that joined our fleet of vessels through the NAS acquisition. Later in the same month we also started a bunkering business in Hong Kong. We have since made good progress in both markets. During the year the business generated revenues of HK$1,267 million and contribution of HK$8 million. As our onshore businesses come on stream, we expect them to provide opportunities for us to enter a variety of distribution businesses which will likewise dwarf in scale those offshore.

Completing the picture of the integrated services that we offer our customers, and which provide such synergies and economies of scale to Titan, is our oil supply business, which provides procurement of oil and oil products. This performed well in 2004, supported by a buoyant market generally and the expansion of the Group's operations. Revenues rose by 104% to HK$1,281 million and contribution jumped by 89% to HK$7 million. The business itself expanded significantly in December when we acquired the oil supply operations of our controlling shareholder following unanimous approval by independent shareholders at a Special General Meeting. The consideration of HK$195 million was payable all in shares. Through the sale, we acquired rights in existing contracts, customer data and experienced staff, creating a much expanded business that is now a substantial presence in the Singapore market. The acquisition immediately gave our supply business the scale needed to take advantage of the rapid growth in the consumption of oil products in Asia and to meet our customers' needs more effectively.

2004 saw the beginning of an important process to transform Titan organisationally to manage future growth effectively

Corporate Developments

Capital is the fuel that drives the ship of commerce, and our rapid growth was aided by a combination of strong cash flows and ready access to both debt and equity financing — a reflection, I believe, in the confidence of investors in our ability to grow revenues and of lenders in management's ability to maintain prudent levels of interest cover and effectively manage risk. As someone who has been on "three sides" of the financial fence I am keenly aware of the need to achieve such a balance.

In January, we successfully placed 450 million shares, raising a total of HK$392 million from a diverse group of institutions. A further 184.6 million shares were issued to controlling shareholder Great Logistics in consideration of our participation in the Fujian storage development, while 278.1 million shares were also issued in December to Great Logistics in consideration of the purchase of its supply operations. We also successfully issued a US$400 million 7 year senior guaranteed note in March 2005, diversifying our funding base, lengthening our debt maturity profile and providing funds for expansion. Morgan Stanley acted as lead manager and sole bookrunner, and Credit Suisse First Boston as co-manager, and the issue was five times oversubscribed by international investors, a sound endorsement of our strategic direction.

As important as capital, some would say, is a company's brand and management. For a company to move towards a common goal, that goal needs to be articulated and understood internally and externally. In May, we changed our name from Titan (Holdings) Limited to Titan Petrochemicals Group Limited. The change reflects the path of our future growth as we expand beyond our current focus on crude oil into oil products and move further downstream into distribution. In connection with this, we also underwent an extensive rebranding exercise to ensure that the Group's image better reflects the reality of the international nature of its operations.

The year 2004 also saw the beginning of an important process to transform Titan organisationally to manage future growth effectively. Investment in people will be as much a feature of our development as investment in physical assets. During 2004, we recruited a number of very experienced and talented senior managers — and we will continue to recruit, to ensure we have the people we need. We also designed, with McKinsey & Company's help, the organisational structure, and management systems and processes needed to manage and sustain that growth.

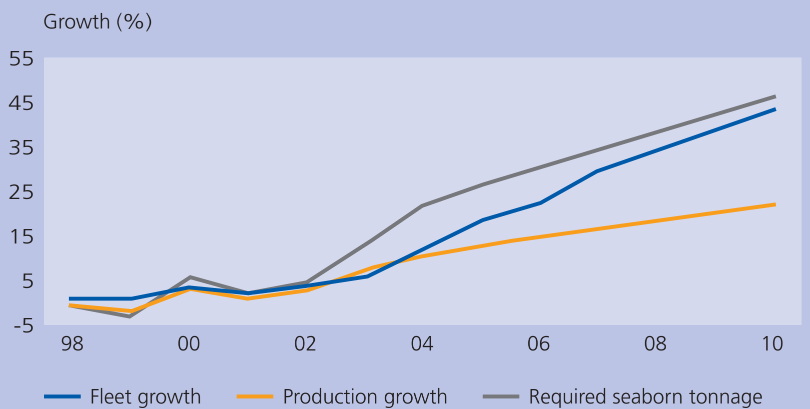
Outlook

So 2004 was a very good year. But it was good not only because it produced excellent financial results, but because it put in place the assets — physical, human and financial — able to generate further growth. As a result, I have every reason to believe that 2005 will be another year of rapid growth for Titan as our greatly expanded operations benefit from continued strong end-user demand.

In transportation, growth will be underpinned by a robust market. There is a growing dislocation between the regions of the world with high oil consumption and those with excess production capacity, while our market of Asia is expected to drive consumption and import growth. The International Energy Agency (IEA) is forecasting that China's oil demand will rise from 6.3 million bpd to 6.8 million bpd in 2005, meeting the bulk of this increase through imports. In 2005, overall VLCC supply is expected to grow modestly, in line with the expected growth in demand. As a result of this favourable supply and demand picture, VLCC rates are expected to remain strong, and recover considerably from their temporary lows of January 2005.

This being the case, we should continue to show strong growth in volumes, revenues and profitability in our transport business. Our fleet now has the equivalent of double the effective capacity that was available in 2004, given that most VLCCs were acquired in the second half of the year. So even without further expansion, much higher volumes are almost certain. Given the strength of demand, however, we intend to increase and upgrade capacity further, not only in

Supply/Demand for VLCCs



Rising demand for oil transport, coupled with modest increase in tanker supply is expected to support rates

Source: Frontline

VLCCs but also by diversifying into product tankers. We also aim to secure further longer term transportation contracts as we build on our strong and growing network of customers.

In storage, demand for our FSU services is expected to remain high. To meet this strong demand, we intend to replace the FSU that was scrapped in 2004 as soon as a suitable vessel can be located. Construction work will continue on the three China storage projects to ensure on schedule completion in 2006 and 2007.

The distribution business will benefit from increased demand and an expansion of the operation. The Marine and Port Authority (MPA) of Singapore forecasts that bunker demand in the Singapore market will increase from 1.8 million tonnes per month in 2004 to 2.2 million tonnes per month in 2005. Since the MPA has decided not to increase port dues for bunker barges, while the Ministry of Finance on 1 January 2005 relieved GST for licensed bunkering operations, operating conditions appear favourable. We will increase our marketing efforts as well as bunker barge capacity in Singapore and Hong Kong to attract more customers and improve margin. Once our storage terminals in China become operational, we intend as a first step to extend our bunkering operation to cover key Chinese coastal markets.

The oil supply business will benefit from the general expansion of the Group's business and customer base. The major task for the year will be to merge the existing and newly acquired operations into an effective single unit to maximise its profitability while maintaining prudent risk management. In particular we intend to build on our value added services and achieve a presence throughout the logistics chain to lower operational costs and improve overall margin.

In addition to strong growth, therefore, 2005 will see Titan continue to expand its overall earnings-generating capacity, as well as diversify its earnings base to include — in addition to crude oil transport — oil products transport, storage and distribution. We will work to build long-term, diversified relationships with new and existing customers in Asia Pacific. I am confident that our shareholders will continue to derive substantial rewards from these efforts.

Barry C. Cheung
Chief Executive


The Group is expanding
its oil products
storage and
distribution services