Operations Review

By year end, Titan's fleet had expanded to 30 vessels, including nine VLCCs and one Suezmax, with a combined capacity of 2.64 million dwt

Titan achieved tremendous progress during the year. We significantly expanded the scope of our operations as demonstrated by our 216% increase in turnover. At the same time, we expanded into new areas of operation: mid-range oil and oil product transport and bunkering or ship refueling. Further progress was made on our three large onshore storage terminal projects in China. Finally, the end of the year saw the acquisition of the supply operation of our controlling shareholder, as well as a sizeable fuel oil transportation contract that will diversify our revenues further.

Transportation

The Group's transportation operations benefited from high rates for VLCCs as demand for oil rose, especially in countries such as China and India. Freight rates remained strong throughout 2004 averaging WS152 for spot voyages between the Arabian Gulf and the Far East for the year, equivalent to US$100,000 per day, and hitting as high as WS340 in the fourth quarter.

Demand from Titan's key customers in Asia was even more robust and hence our main task during the year was to expand the capacity of our tanker fleet in order to meet their requirements. At the start of 2004, Titan's fleet totaled four vessels with a combined capacity of 975,000 dwt, which were largely engaged in the transport of crude oil between producing countries in the Middle East and importing countries in Asia.

In March, Titan acquired NAS, an arm of Singapore shipping giant NOL. The US$57.4 million purchase brought to the Group 20 short and medium haul tankers with a combined tonnage of 110,812 dwt, including three bunker barges for providing refueling services. The fleet consisted mainly of clean petroleum product tankers, which is a niche segment of the tanker market. The acquisition thus allowed us to develop more of a

Titan Venus is one of the nine VLCCs in Titan's flexible and low cost oil transportation fleet

"hub and spoke" structure for our business, enabling us to develop a network of shorter haul routes along feeder ports in Southeast Asia, southern China, India and the Arabian Gulf. As part of this fleet upgrading, we disposed two older vessels, Asian Tiger and Titan Mercury, realising a gain of US$8 million (HK$63 million).

We then embarked on a rapid expansion of our VLCC fleet. In May, we signed a bareboat charter, amounting to a finance lease, for the 254,991 dwt Titan Uranus and acquired the 250,267 dwt Titan Venus for US$24.65 million (HK$192.3 million). In August, we added the 239,783 dwt VL Chios for US$23 million (HK$179.4 million), and in September Titan Leo and Titan Libra, with capacities of 245,653 dwt and 265,551 dwt respectively for a combined US$78 million (HK$608.4 million). In December we purchased the 261,068 dwt Titan Gemini for US$49.75 million (HK$388.1 million).

In addition, in November we entered into an innovative arrangement with Frontline Ltd., one of the world's largest tanker operators, to charter the 284,497 dwt Front Lady and 284,317 dwt Front Highness. Under two charter arrangements, Titan pays Frontline a relatively modest daily fee for the use of each vessel, while giving Frontline a share in the profits. These charters run for five years, with an option to renew for a further five years. The arrangement has thus enabled Titan to build its fleet rapidly while maintaining a sound financial position.

By year end, Titan's fleet had expanded to 2.64 million dwt and 30 vessels, including one Suezmax and nine VLCCs, of which three were delivered in January and one in February 2005, with 26 wholly owned by Titan. This was a remarkable achievement in such a short time scale, making the Group one of the largest oil transportation companies in the Asian region.

Not only is Titan now one of the largest fleets of its kind in Asia, it is also one of the highest quality. The fleet is managed by our in-house ship management companies, Titan Ocean Pte. Ltd. and NAS Management Pte. Ltd., which acquired ISO 14001:1996 certification in January and December 2004 respectively. The fleet is managed to high standards of efficiency, safety, security and environmental standards, backed by substantial insurance against risk. The depth of experience in the 45 shore based personnel and 600 officers and crew has enabled the Group to meet the exacting demands for quality service from the international oil majors. We also have developed a strong capability in operating ships of different types and sizes in a way that maximises utilisation.

The strong demand for our transportation services is supported by a number of long term transportation contracts with major Asian oil importers, including those in China. In December 2003, we entered into a joint venture contract with Zhuhai Zhenrong, one of four authorised crude oil importers in China to transport up to 12 million tonnes of crude oil a year until 2012. Subsequently in late 2004, we signed a renewable one-year contract with Zhuhai Zhenrong to transport 3 million tonnes of fuel oil.

In addition, Titan and Zhuhai Zhenrong signed a letter of intent (LoI) regarding the transport of 110 million tonnes of liquefied natural gas (LNG) over a 25-year period. The eventual contract would see Titan transporting the LNG beginning in 2008, with an initial volume of 2.5 million tonnes a year, rising to 5 million tonnes a year in 2013.

This move into fuel oil, and possibly LNG, brings not only the prospect of increased revenues, but a diversification away from crude, in line with our long term strategy to expand into the transportation of the entire range of oil and oil products. The appropriate vessels to service these contracts are currently being sourced.

Storage

In May 2003, Titan was granted two licenses by the Malaysian Government to operate bonded floating storage units (FSUs) in Malaysian waters near Singapore, supported by unique tax advantages.

Its age and high scrap value led us in March 2004 to scrap one FSU which was moored within the port limits of Pasir Gudang in Malaysia at the eastern approach

to Singapore harbour. The remaining FSU currently operates within the port limits of Tanjung Pelepas in Malaysia, near the western entrance. Occupying strategic locations at the juncture of Singapore and Malaysia on the major shipping route between the Indian Ocean and the Pacific Ocean, the FSU focuses on serving vessels passing through Singapore. The services provided include oil storage, oil blending to customers' specifications, and transshipment services.

Titan is now in the process of radically transforming its storage business through the establishment of major onshore facilities in China.

In December 2003, Titan had acquired from Titan Oil Pte. Ltd. a 38% interest in the Fujian Titan Petrochemical Storage Development Co. Ltd., which is a joint venture to develop an oil and petrochemical storage base in Fujian province.

The Fujian facility is being constructed in phases on a site in Quanzhou in Fujian province. The first phase of construction will bring 500,000 m^3 of storage on line in a project with a total planned capacity of 1.5 million m^3, subject to market conditions. A key feature of this facility is its location at Meizhou Bay, a natural deepwater port that allows the berthing of VLCCs. In addition, good rail access will aid the development of a distribution network in neighbouring areas and in China's inland and far western regions. Construction is on track and the first phase is scheduled to come on line in the second half of 2006.

In March 2004, we entered into a joint venture agreement to develop and operate an oil storage facility in Nansha in Guangdong province at the heart of the Pearl River Delta. Titan holds a 45% interest in the joint venture. The Guangdong facility is being built on Xiaohu Island in Nansha, which has been designated by the provincial government as an oil products base. The first phase of development is expected to come on line in mid 2006 with about 370,000 m^3 of storage and 11 berths for vessels of between 1,000 dwt and 80,000 dwt. The planned total storage capacity will reach 1 million m^3, subject to market conditions. Construction has proceeded on schedule.

In January 2004, we signed a letter of intent with Zhejiang Shengsi Haixin Petroleum Co., Ltd. regarding the setting up of a joint venture company for the establishment and operation of storage and transshipment

The storage facilities under development in China will make Titan a major force in the market in Asia

Titan's transportation fleet is run by well trained and experienced management and crew

facilities for bunkering services and trading of product oil and fuel oil at Yangshan, in Zhejiang province, near Shanghai. In March 2005, negotiations for the Yangshan project were finalised, and we entered into a joint venture agreement with joint venture partners including Zhejiang Shengsi Haixin Petroleum Co., Ltd., Shanghai Shenggang Energy Sources Investment Co., Ltd., and PetroChina Company Limited. Titan has a 25% interest in the joint venture. Subject to construction in phases and dependent on prevailing market conditions, the facility will result in an estimated final storage volume of 2.4 million m^3.

Distribution

The NAS acquisition, which included three refueling vessels totaling 13,600 dwt, opened the way for Titan to take a first step in diversifying into oil distribution. Following the acquisition, the Group established a ship refueling or bunkering operation and in June 2004 signed a series of business contracts with Fuels and Marine Marketing (FAMM), a business unit of Caltex Singapore Pte. Ltd. Bunkering operations began in June 2004 in Singapore and Hong Kong.

In Singapore, one of the biggest bunkering markets in the world and Titan's most developed bunkering market, our bunker barges comply with stringent local requirements and we have been accredited under the Accreditation Scheme for Bunker Supplier and QMBA/TR-8 certification from the Marine and Port Authority of Singapore.
In addition to FAMM, Titan has a growing customer base of major regional and international shipping companies. The Singapore operation serves these customers not only in the Port of Singapore, but also in the Malaysian ports of Tanjung Pelepas and Pasir Gudang.

Oil Supply

Titan's oil supply business experienced a year of strong organic growth. This business is primarily focused on providing oil procurement services to our customers and is largely an adjunct to our logistics and distribution operations. The Group has an extensive supply network in the Middle East, Europe, South America and Russia, with a sales network covering much of the Asian region.

These relationships, together with the expansion of the Group's overall businesses, saw supply volumes rise by 127% in 2004 over the previous year to 1 million tonnes. China and Singapore were the principal markets served.

Titan's supply counterparties are of high quality and include international and regional oil majors, as well as refineries and power plants. The Group offers value added services, maintaining its own professional blending team to provide blending services and using its storage facilities and transportation fleet to provide oil transportation and storage services.

The supply operation was further expanded when Titan acquired the supply business of Titan Oil Pte. Ltd. at the end of the year. Customers of the acquired business include major Malaysian, Singaporean and Chinese industrial businesses and power plants. The purchase included all lists, data and information relating to customer accounts together with the rights, benefits and interests in existing oil trading contracts as well as key personnel.

The consideration of HK$195 million was payable all in shares. In connection with the purchase, Global Trader Programme (GTP) status in Singapore was granted to Titan's supply operation on 1 January 2005, giving it concessionary tax rates. The acquisition will greatly expand the size of our oil supply business, and eliminate any potential conflict between Titan and its controlling shareholder.

The acquisition will also strengthen risk management. None of the Group's supply related trading is speculative, although Titan does as necessary enter into over-the-counter fuel oil paper swaps to hedge its exposure in the physical fuel oil market. The combined operation will ensure effective monitoring of net exposure and mark-to-market daily or more than daily as market conditions dictate, while the computer trading system contains highly sophisticated risk management modules covering all aspects of trading, settlement and reporting.

Professional and experienced management