TSOI Tin Chun
Chairman

"2005 was a **year of transition and transformation** for Titan as we moved quickly to build the economies of scale required **to become a significant player** in oil services in Asia."

Barry C. CHEUNG
Chief Executive

Operationally, 2005 was a year of transition and transformation for Titan Petrochemicals Group Limited (Titan) as we moved quickly to build the economies of scale required to become a significant presence in the oil services market in Asia, providing transportation, storage, distribution and supply in the downstream sector.

Financially, unexpectedly soft market conditions, primarily due to lower than expected level of crude oil imports to China, resulted in a lower net profit for the year. Revenues, however, grew by 200% over 2004 to HK$10,464 million. Importantly, earnings before interest, tax, depreciation and amortisation (EBITDA) rose 60% to HK$867 million. Net profit declined by 24% to HK$303 million as interest and depreciation costs rose by 310% to HK$558 million. In accordance with our policy, the Board has recommended a dividend of HK0.6 cent per share, representing approximately 10% of the Group's net profit.

Barring any major external shocks, we expect our operations to deliver improved earnings during 2006. There has been a strong start to the current year and the factors that held back revenue growth in 2005 appear to be reversing. Significantly, 2006 will also see the completion of first phases of two of our three major oil storage terminal projects in China, marking the beginning of a substantial new source of revenues and profits for the Group.

The Year in Review

Last year we stated our intention to make Titan a significant player in oil services in Asia, building a high quality operation increasingly able to offer an integrated service. We did this and we believe we did it well.

In March we raised US$400 million in long term fixed rate funds, giving us the capital we needed for our planned expansion. We increased the size of our oil transport fleet from 2.64 million dwt at the start of the year to 3.75 million dwt at the end. We also started to upgrade our tankers and diversified more into product transportation with two leased double-hulled Aframax tankers. All this has given us the critical economies of scale we need to be a significant presence in Asia and to compete effectively.

We also said that we would push on with our land based oil storage projects in China, which will be important and steady contributors to earnings in the future. Again, we are pleased to report major achievements in this. Construction work at both Nansha in Guangdong and Quanzhou in Fujian has progressed on schedule, and we are targeting to open as planned later this year. These facilities are being built to high international standards, with state of the art control systems. For the Yangshan project near Shanghai, we concluded the joint venture agreement in March and now expect to begin construction in the second quarter of this year.

Finally, we said we would transform Titan organisationally to manage our growth effectively. And this we have done amidst very rapid expansion, which has seen us more than triple in size over just two years. We have brought in new people to the corporate and business units, such as Mr. Lim Heng Seng, our Chief Human Resource Officer, formerly with General Electric and Seagram, and Mr. Ib Fruergaard, formerly with AP Moller Maersk, who is now president of our transportation division. We have also overhauled our systems and procedures Group-wide for operations, finance and human resources, integrating or upgrading as necessary. These developments are helping to raise efficiency while at the same time reducing operational risks.

Meanwhile, all of our businesses showed overall growth and increased both revenues and operating profit in 2005. Oil transportation revenues increased by 96% over 2004 to HK$1,779 million, riding on the increased fleet capacity. The oil storage business, currently earning revenues from our two floating storage units (FSUs) off Singapore, saw turnover rise 29% to HK$48 million as demand was strong. The oil distribution business, comprising the bunkering operations in Singapore and Hong Kong, grew revenues by 140% to HK$3,037 million. Our oil supply business benefited from the acquisition we made in late 2004 to quadruple turnover to HK$5,599 million.

Looking Ahead

In a short space of time we've built a sizeable integrated oil services business capable of capturing the many opportunities that Asia will present over the coming years as it continues its economic development.

In 2006, we expect the financial results to begin to reflect this. The main factor that held back earnings in 2005, despite our expansion, was the soft VLCC market, which saw World Scale rates on the Middle-East to Japan route, our key benchmark, drop by one-third on average in 2005.

At the same time, ship fuel prices rose strongly, increasing our operating costs. We also had to service increased debt from last March onwards, following the bond issue, whereas we only benefited partially during this period from the delivery of the tankers acquired with the proceeds.

There is now every indication that imports of crude oil to China are returning to a more normal rate of growth this year. In the first three months so far, China's crude oil imports rose around 25% year-on-year and in late March the Government took another step in liberalising prices, a policy shift that over time will allow the country's refineries to import the quantity of crude needed to meet demand. Furthermore, world oil demand is still growing, with the International Energy Agency forecast for 2006 growth in oil demand at around 1.47 million bpd, significantly up from the 1.05 million bpd achieved in 2005.

More significantly, Titan will benefit from a full year of expanded transportation capacity, allowing us to generate even higher revenues. Compared to 2005 when the Group was actively focused on expanding capacity, our operations are now being managed more effectively and efficiently, resulting in substantially lower operating costs.

The year 2006 will also see lower capital expenditure, as well as completion of the first phases of our oil storage terminals in Guangzhou and Fujian in China, which will begin to contribute, albeit modestly initially, to earnings. Our FSUs, meanwhile, are expected to continue to experience robust demand. Finally, continued growth in our supply and distribution businesses will add to revenues and generate synergies across the Group.

Our Vision

Our vision as a corporation is to be a trusted international company focused on China, with a highly engaged leadership and workforce. Titan is built on a firm entrepreneurial spirit, underpinned by safety performance and environmental protection and we strive to provide customers with integrated energy services of the highest quality and value.

We are building towards our vision through a culture based on integrity and openness, with excellent people working as a team to bring the highest standards to every area of operation. Integral to our culture is a desire to contribute to the communities in which we operate, and the Group will undertake certain initiatives this coming year to fulfill that.

Our corporate culture implies high standards of corporate governance, and in February 2006 we moved to strengthen this area with the appointment of two experienced independent non-executive directors, Mr. Abraham Shek Lai-him, JP and Mr. John William Crawford, JP.

Conclusion

Rapid growth requires hard work, skill and dedication. We would like to thank our fellow directors and all staff for their considerable efforts during the year in driving the Group forward.

For the year ahead, with the tremendous operational progress Titan achieved in 2005, more favorable market conditions, and a leaner cost structure, we are confident that we can look forward to improved results in 2006.

TSOI Tin Chun
Chairman

Barry C. CHEUNG
Chief Executive