Business Review

Businesses that create

During 2005, Titan expanded and transformed each of its four businesses, building a solid platform of increasingly integrated oil services.

TRANSPORTATION

Our sizable transportation business consists of both very large Crude Carriers (VLCCs) that transport crude oil to Asia from oil producers, and smaller tankers that transport oil products on shorter routes, mainly within Asia.

STORAGE

Our storage business is focused on major onshore facilities at strategic locations in China: Yangshan near Shanghai, Quanzhou in Fujian and Nansha in Guangdong. These developments, coming on stream in phases, store oil products and chemicals. We also operate two floating storage units in Malaysian waters adjacent to Singapore.

Synergies

SUPPLY

Our supply business, headquartered in Singapore, with offices in China, focuses on the procurement of oil products for customers in Asia.

DISTRIBUTION

Our distribution business operates bunkering or ship refueling services in Hong Kong and Singapore, and has the potential to develop an onshore network in China.

Business Review

Transportation

Our transportation business is led by a fleet of Very Large Crude Carriers (VLCCs), whose main scope of operations is the transportation of crude oil between oil producing centres such as the Middle East to refineries in Asia. In addition, we operate smaller product tankers that transport oil products intra-Asia.

The business expanded rapidly to reach 3.75 million dwt by the final quarter of the year, thus achieving the critical economies of scale required to compete effectively. Strong customer relationships ensured overall utilisation to remain high at 94%. Business volumes therefore rose substantially, boosting revenues by 96% to HK$1,779 million. Segment results increased 27% to HK$549 million, despite bunker fuel prices rising by an average of about 20% over 2004.

VLCC fleet

The VLCC fleet continued to contribute the bulk of transportation revenues in 2005, accounting for 83% of the total, as the fleet expansion and upgrading that began in 2003 continued its momentum into 2005.

Two VLCCs that were purchased in 2004 were delivered in January 2005 and February 2005 respectively, the 265,551 dwt Titan Libra and 261,068 dwt Titan Gemini. In March, we purchased the 265,322 dwt Titan Neptune at a cost of US$49 million (HK$382 million) and the 265,243 dwt Titan Aries at a cost of US$55 million (HK$429 million). The vessels were delivered in March and June respectively.

In April, we purchased the 261,343 dwt Titan Pisces at a cost of US$60 million (HK$468 million), and 275,341 dwt Titan Mercury at a cost of US$59.8 million (HK$466 million). The vessels were both delivered in June. In July, we purchased the Group's first double-hulled VLCC, the 299,993 dwt Titan Virgo at a cost of US$89 million (HK$694 million). The vessel was delivered in September.

Following delivery of the vessels, Titan's VLCC fleet increased from eight to reach a total of 13 vessels with a combined total capacity of 3,453,370 dwt. Of these vessels, ten were owned and three leased.

Titan's fleet continued to operate largely in the spot market, although further inroads were made in the less volatile fixed rate segment. Market


Titan

“The transportation business began to put in place strategies that leverage its increased size to achieve an improved cost structure, through consolidation of functions and improved reporting procedures.”

conditions were challenging as in the first half, with an unexpectedly weak second half in the year. Earnings for the fleet are tied to the international World Scale (WS) rate. The average rate for 2005 was WS 104, against WS 150 in 2004 for the Middle East to Japan route.

One of the main factors in the decline was an acute contraction of demand from refineries in China, as the government held down retail prices for refined products. This led to much lower rates for the normal peak season of August to December, when rates average WS 125.04 as against WS 199.75 for the previous year. Rates subsequently recovered sharply in January and February 2006, as Chinese refiners increased imports to meet strong end user demand.

The weak demand affected single-hulled vessels disproportionately, although the Group’s relatively modern single-hulled vessels held their rates better than other older vessels in the market.

Titan’s strong customer relationships continued to underpin utilisation and during the year, several new contracts were secured with our major customers.

Product tankers

During 2005, we continued to rationalise our fleet of smaller coastal product tankers to optimise its efficiency. Seven lube barges were divested in the fourth quarter of 2005 for a total consideration of US$4.13 million (HK$32 million) while two Aframax tankers, the 94,225 dwt Mare Dorico and 94,225 dwt

Four Springs, were brought in on a time-charter basis in June 2005 and October 2005 respectively.

Rates achieved for the coastal fleet were TCE (Time Charter Equivalent) of US$6,230 per day and utilisation was 96%. For 2005, the coastal tanker fleet contributed 9% of transportation revenues, and the Aframax fleet 8%.

Fleet Management

A distinguishing feature of Titan's transportation business is our highly experienced management, which was strengthened by the NAS acquisition.

During 2005, the transportation business began to put in place strategies that leverage its increased size to achieve an improved cost structure, through consolidation of functions and improved reporting procedures based on the Group's Key Performance Indicators.

All Titan's ships are managed by Group subsidiary Titan Ocean Pte. Ltd. (Titan Ocean). Established in Singapore since 1997, Titan Ocean is one of the most professional and progressive technical, commercial and crewing, ship management, safety, and oil transportation companies in Asia. It provides a comprehensive range of services not just to Titan but to ship-owners generally.

The operation has ISO14001 certification, from Lloyd's Register Quality Assurance. In addition, all vessels are certified under ISM certification as part of fleet management.

Fleet List

No	Ship Name	DWT (mt)	Class	Year Built	Flag
	Very Large Crude Carrier (VLCC)				
1	Titan Virgo	299,993	LR	1993	Singapore
2	Front Lady	284,497	DNV	1991	Singapore
3	Front Highness	284,317	DNV	1991	Singapore
4	Titan Mercury	275,341	LR	1989	Singapore
5	Titan Libra	265,551	LR	1986	Singapore
6	Titan Neptune	265,322	LR	1988	Singapore
7	Titan Aries	265,243	LR	1988	Singapore
8	Titan Pisces	261,343	LR	1990	Singapore
9	Titan Gemini	261,068	NK	1987	Singapore
10	Titan Uranus	254,991	LR	1992	Hong Kong
11	Titan Venus	250,267	LR	1986	Singapore
12	Titan Leo	245,653	LR	1988	Singapore
13	Titan Chios	239,783	NK	1986	Singapore
	Aframax Tanker				
1	Mare Dorico	94,225	RINA & ABS	1993	Italy
2	Four Springs	94,225	RINA	1992	Italy
	Medium Range Tanker				
1	Eagle Aries	29,998	LR	1985	Singapore
	Coastal Tanker				
1	Alpha Prosperity	7,589	DNV	1995	Singapore
2	Alpha Prestige	7,589	DNV	1995	Singapore
3	Alpha Power	7,503	DNV	1996	Singapore
4	Jurong Herring	6,902	ABS	1995	Singapore
5	Orchid	6,901	ABS	1993	Singapore
6	Jurong Krapu	6,908	ABS	1996	Singapore
7	Lantana	6,881	ABS	1995	Singapore
8	Mimosa	6,888	ABS	1995	Singapore
9	Neptra Premier	6,537	DNV	1994	Singapore
	Harbour Tanker				
1	Neptank VIII	5,471	DNV	1990	Singapore
2	Capricorn	4,280	ABS	1989	Singapore
3	Neptank VII	3,863	BV	1988	Singapore
	TOTAL DWT (mt)	**3,749,129**			

Business Review
Storage

Titan Petrochemicals Group Limited provides storage of oil products and chemicals for customers in Asia through floating storage units (FSUs) serving Singapore that later in 2006 will be joined by onshore storage facilities in China.

For the year, revenues increased by 29% over 2004 to HK$48 million and segment results attributable to operations rose 42% to HK$14 million, owing to robust demand for the FSU services. The Group added a second FSU in July 2005, making the total capacity to approximately 320,000 dwt.

China Onshore Facilities

Our onshore facilities at strategic locations on China's southern and eastern coast will come into operation in phases starting from 2006. When all phases are complete, they will have a combined total capacity of approximately 5 million m^3.

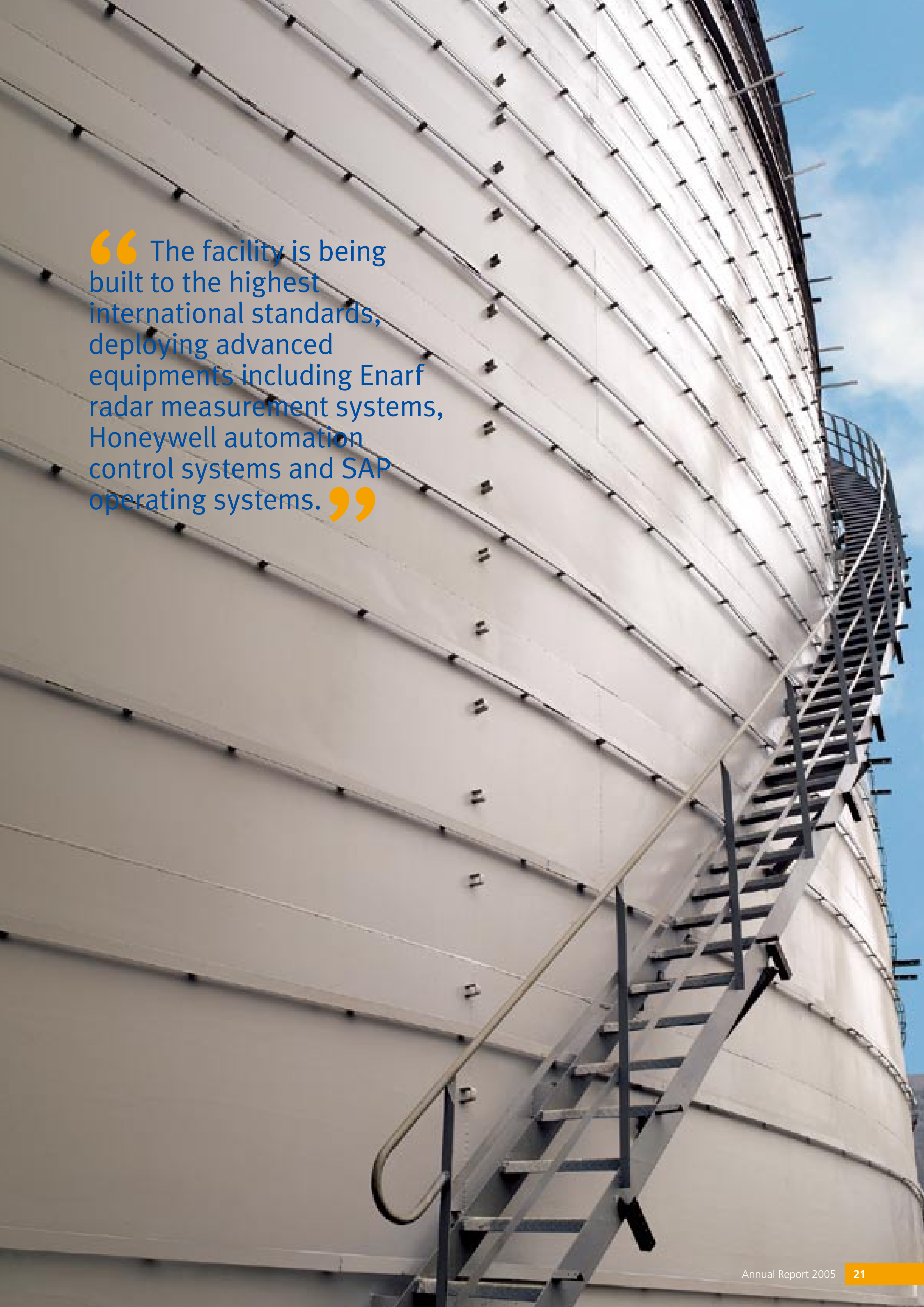
Nansha (Guangdong)

The first of our onshore storage facilities to become operational will be that in Nansha, some 40 kilometres from Guangzhou in the heart of the heavily industrialized Pearl River Delta. Titan owns 70% of the project company Guangzhou Nansha Titan Petrochemical Development Co. Ltd., and Guangzhou Xiaohu Island Construction the remaining 30%.

Considerable progress was made during the year on construction and Phase I is on schedule to open after mid 2006. Given the substantial market opportunities for the facility, driven by imports of oil products and petrochemicals, we decided in July both to increase the storage capacity and to accelerate implementation of later phases, by bringing Phase III forward to mid 2007, concurrent with Phase II, and to increase the capacity of the entire project to 1.24 million m^3. Phase I now consists of 410,000 m^3 of storage, while Phase II and III will add a total of 830,000 m^3.

Piling and foundation for Phase I were completed during the year and actual construction of 28 fuel oil tanks began at the end of the third quarter of 2005. The facility is being built to the highest international standards, deploying advanced equipments including Enarf radar measurement systems, Honeywell automation control systems and SAP operating systems. When completed, the Nansha storage will thus be one of the safest and most efficient in China.

Non-recourse project financing was signed with the Industrial and Commercial Bank of China for RMB 360 million in the fourth quarter of 2005.



"The facility is being built to the highest international standards, deploying advanced equipments including Enarf radar measurement systems, Honeywell automation control systems and SAP operating systems."

Quanzhou (Fujian)

Our second onshore facility is at Quanzhou, a deep water port in Fujian province across the strait from Taiwan. Titan owns 38% of the project company, Fujian Titan Petrochemical Storage Base, with six other partners holding the remainder.

Construction progress during 2005 was solid and the Phase I units, a 60,000 m^3 chemical storage facility and 30,000 m^3 diesel storage facility, are planned to open by the fourth quarter of 2006, ahead of the original schedule, with the remaining 410,000 m^3 early in the following year. The 1 million m^3 Phase II expansion is planned for 2009.

The Fujian project is being built to the same high standards and system specifications as for Nansha. Construction work began in May and in August, a 3,000 dwt chemical jetty was completed, followed in December by the main part of a 5,000 dwt chemical jetty. Crushed stone piling for the chemical storage tanks was completed in September. In January 2006, construction began on the remaining Phase I storage tanks.

Costs of the initial phase of the project is being met through a RMB 150 million loan signed in early this year with China Construction Bank. The Loan is also non-recourse to shareholders.

Yangshan (Zhejiang)

Our third onshore facility is at Yangshan in Zhejiang province, close to Shanghai. Titan holds 28% of the project company Yangshan Shen Gang Oil Logistics Co. Ltd. whilst three other parties, including PetroChina holds the rest.

The joint venture agreement was concluded in March and commencement of construction is expected in the second quarter of 2006. The 400,000 m^3 Phase I is planned for operation in 2007, with a further 2 million m^3 to be added between 2008 and 2011, depending on market conditions.

Business Review
Distribution

Titan's oil distribution business currently focuses on the bunkering or ship refueling market, with operations in Singapore and Hong Kong, serving major international shipowners. In 2005, revenues from the business rose 140% over 2004 to HK$3,037 million, while segment results increased 137% to HK$18 million.

The results were achieved in a year that was marked by a steep rise in bunker prices. As a result of new management resources that were introduced to both locations, the Group's bunkering business grew bigger even though delivery capacity remained the same during the year.

Singapore

The bunkering business in Singapore is being developed on the back of a fleet of bunker barges that joined our fleet of vessels through the acquisition in March 2004 of Neptune Associated Shipping Pte. Ltd. (NAS).

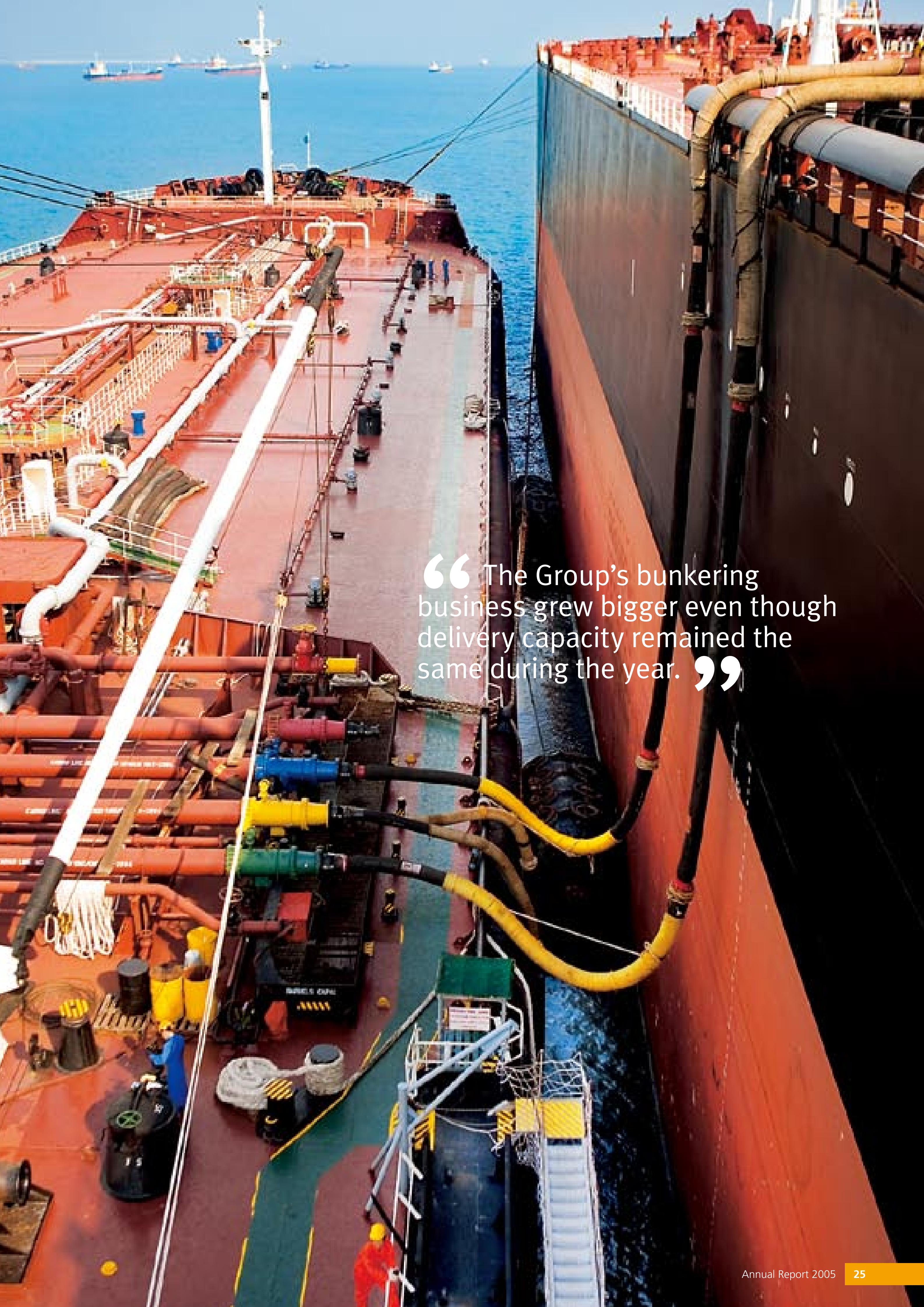
The operation was successful in strengthening and expanding the customer base through maintaining a high quality service and diversifying into competitive sources of supply. As a result, average delivery volumes rose to 130,000 tonnes per month, representing close to 1.6 million tonnes of bunker fuels for the year. This is an achievement considering the short time since Titan entered the business and the intensive competition in the market.

Titan's success is largely attributed to efficient barge utilisation and strategic alliances with several major ex-wharf sellers, traders and ship-owners. In 2005, we secured a 1-year contract with AP Moller-Maersk to supply 25,000 tonnes of bunker fuel per month, totaling 300,000 tonnes for the full year contract. Our endeavours with other traders and ship-owners have gained tremendous results with securing several term contracts with major customers.

Looking ahead, Titan intends to pursue higher delivery volumes through the further addition of term contracts and expanding our customer base.

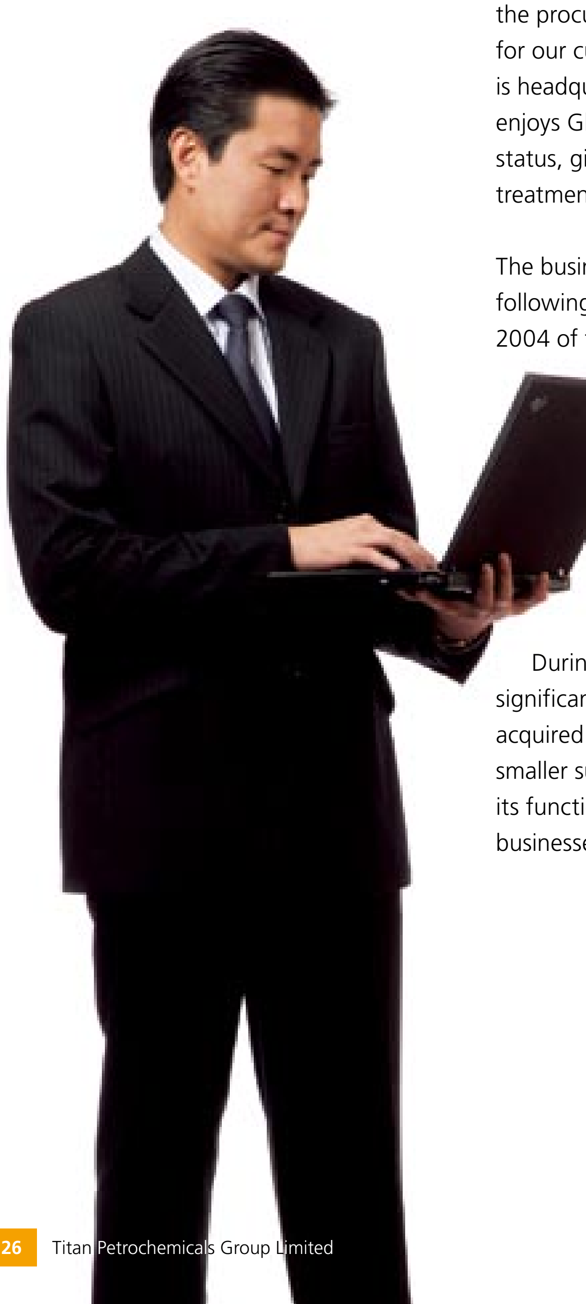
Hong Kong

Our Hong Kong operation did well in an increasingly competitive market, to more than double volumes, from 147,000 tonnes in 2004 to 330,000 tonnes, increasing Titan's share of Hong Kong's bunkering market to 9.1% in the second half of the year. Delivery capacity was increased 2,600 dwt in July through the time charter of two barges from Callany Limited.



"The Group's bunkering business grew bigger even though delivery capacity remained the same during the year."

Business Review
Supply



Our supply business focuses on the procurement of oil products for our customers. The operation is headquartered in Singapore and enjoys Global Trader Programme status, giving it preferential tax treatment.

The business grew rapidly in 2005, following the acquisition in December 2004 of the oil supply operations of Titan's controlling shareholder, Titan Oil Pte. Ltd. Turnover for the year grew 337% to HK$5,599 million, and segment results rose 721% to HK$54 million.

During the year, we made significant efforts to integrate the acquired operation into the existing, smaller supply operation, and to align its functions with the Group's other businesses.

The core customer base remains major Malaysian, Singaporean and Chinese refineries, industrial businesses and power plants. As a result of the acquisition and management enhancement, Titan's sources of supply expanded significantly in Europe, North and South America, while markets to which oil is delivered saw additions in the Asia Pacific region including Vietnam, and the Indian subcontinent.

The supply operation continued to operate to high standards of risk management and to focus on the physical market. Work has also begun on building a new trading platform to increase efficiency and competitiveness, for implementation in 2006.

“Titan’s sources of supply expanded significantly in Europe, North and South America, while markets to which oil is delivered saw additions in the Asia Pacific region including Vietnam, and the Indian subcontinent.”

Financial Review

Financial Results

The Group's turnover for the year was up 200% to HK$10,464 million. Cost of sales rose by 227% to HK$9,837 million in line with the expansion of operations. An exceptional net gain of HK$131 million was recorded from the disposal of vessels during the year. Earnings before interest expenses, tax, depreciation and amortization (EBITDA) rose by 60% over 2004 to HK$867 million. Finance costs rose from HK$40 million to HK$313 million as the Group increased its debt to finance expansion, and profit before tax decreased by 24% to HK$307 million. The net profit for the year attributable to ordinary equity holders of the parent decreased to HK$303 million from HK$400 million for the previous year, resulting in a return on equity of 17%.

Logistics

The logistics segment comprises oil transportation and floating oil storage businesses.

The oil transportation business remained an important profit contributor to the Group. This business recorded turnover of HK$1,779 million for the year, up 96% over the HK$908 million recorded for the year 2004. The segment result from oil transportation business increased by 27% from HK$432 million to HK$549 million. The transportation business accounted for 17% of Group revenues.

The floating oil storage business recorded turnover of HK$48 million in 2005, year as compared to HK$37 million for the year of 2004. The segment result was HK$14 million as compared to HK$16 million for the year of 2004, which included a disposal gain of a floating storage unit of approximately HK$6 million in 2004. The storage business accounted for 0.5% of Group revenues.

Distribution

The contribution to the Group's turnover and the segment results for the year was HK$3,037 million and HK$18 million respectively. The business accounted for 29% of Group revenues.

Supply

During the year, the Group's oil supply business saw a four-fold increase in volume. The contribution to the Group's turnover and the segment result rose by 337% to HK$5,599 million and by 721% to HK$54 million respectively as compared to HK$1,281 million and HK$7 million for 2004. The business accounted for 54% of Group revenues.

Liquidity, Financial Resources, Charges on Assets and Gearing

The Group finances its operations largely through internally generated cash flows, issuance of the fixed rate guaranteed senior notes (the "Notes"), term loans and trade finance facilities provided by banks in Hong Kong and Singapore.
At 31 December 2005, the Group had cash and cash equivalents of HK$644 million (31 December 2004: HK$400 million) and pledged deposits of HK$13 million (31 December 2004: HK$44 million), comprising an equivalent of HK$532 million denominated in US dollars, an equivalent of HK$18 million denominated in Singapore dollars, an equivalent of HK$101 million in Renminbi and HK$6 million in Hong Kong dollars. At 31 December 2005, the Group had interest-bearing bank and other loans of HK$1,553 million (31 December 2004: HK$906 million), of which 84% were floating-interest bearing and denominated in US dollars. HK$421 million of the Group's bank loans at 31 December 2005 had maturities within one year.

At 31 December 2005, the Group's banking facilities were secured or guaranteed by cash deposits amounting to HK$13 million, deposits of HK$78 million held in a collateral account, vessels with carrying values of HK$2,718 million, prepaid land lease payments of HK$61 million, construction in progress with carrying values of HK$163 million, issued shares of certain subsidiaries of the Group, a personal guarantee executed by a director of the Company, corporate guarantees executed by the Company and certain number of the Company's shares held by Great Logistics Holdings Limited (charges on such shares hare been released subsequently after year end).

At 31 December 2005, the Notes of HK$3,114 million were secured by shares of certain subsidiaries.

At 31 December 2005, the Group had current assets of HK$2,442 million (31 December 2004: HK$982 million). The Group's current ratio increased from 1.83 at 31 December 2004 to 1.85 as at 31 December 2005. At 31 December 2005, the Group had total assets of HK$7,602 million (31 December 2004: HK$3,010 million), total bank and other loans of HK$1,553 million (31 December 2004: HK$906 million), finance lease payables of HK$165 million (31 December 2004: HK$183 million) and the Notes of HK$3,114 million (31 December 2004: Nil). The gearing of the Group, calculated as total bank and other loans, finance lease payables and the Notes to total assets, was 0.64 at 31 December 2005 (31 December 2004: 0.36). The change in the gearing ratio was mainly attributable to the bank financing for acquisitions of VLCCs and the issuance of the Notes during the year.

The Group's business contracts are mostly settled in US dollars. The reporting currency of the Group is Hong Kong dollar. Since the exchange rate of US dollar against Hong Kong dollar was stable during the year, the directors consider that the Group has no significant exposure to foreign exchange rate fluctuations. During the year, the Group entered into oil price swap contracts, an interest rate swap agreement and a forward freight rate agreement to hedge exposures on fluctuations of oil price, interest rate and derivative freight rate. The Group did not use derivative financial instrument for speculative purposes.

Contingent Liabilities

At 31 December 2005, the banking facilities granted to certain subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$1,944 million (31 December 2004: HK$944 million).

At 31 December 2005, a guarantee of HK$164 million (31 December 2004: HK$183 million) was given by the Company in connection with a finance lease arrangement granted to a subsidiary.

At 31 December 2005, a guarantee of HK$9 million given by the Company to suppliers in connection with the bunkering refuelling business was utilised by a subsidiary of the Company (31 December 2004: HK$21 million).