

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the principal activities of the Group during the year.

Change of Company Name

Pursuant to a special resolution passed at an annual general meeting on 7 May 2004 and approved by the Registrars of Companies of Bermuda on 12 May 2004, the Company's name was changed from Titan (Holdings) Limited to Titan Petrochemicals Group Limited with effect on 12 May 2004.

The Chinese translation of the Company's name for identification purpose was changed from 泰山(集團)控股有限公司 to 泰山石化集團有限公司.

Results and Dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 91.

The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year, to shareholders whose names appear on the register of members of the Company from 29 April 2005 to 6 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet. No interim dividend was paid during the year.

Fixed Assets

Details of movement in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

Share Capital and Share Options

There was no movement in the Company's authorised share capital during the year. Details of movements in the Company's issued capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements, respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

Distributable Reserves

At 31 December 2004, the Company had distributable reserves of approximately HK\$116,292,000, of which approximately HK\$48,462,000 has been proposed as a final dividend for the year. Under the laws of Bermuda, the share premium of the Company of approximately HK\$996,391,000 as at 31 December 2004 may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 49% of the total sales for the year and the sales to the largest customer included therein amounted to 15%.

Purchases from the Group's five largest suppliers accounted for 57% of the total purchases for the year and the purchases from the largest supplier included therein amounted to 15%.

None of the directors of the Company, any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or the five largest suppliers.

Directors

The directors during the year were as follows:

Executive Directors

| | |
|----------------------------|--|
| Mr. Tsoi Tin Chun | |
| Mr. Cheung Chun Yuen Barry | (Appointed on 9 July 2004) |
| Mr. Lee Yeow Long Dave | (Appointed on 9 July 2004) |
| Mr. Wong Siu Hung Patrick | (Appointed on 24 August 2004) |
| Mr. Sun Zhong | (Appointed on 7 May 2004 and resigned on 24 August 2004) |
| Mr. Tsoi Kwing Ming | (Resigned on 24 August 2004) |
| Mr. Lu Ping Lang | (Retired on 7 May 2004) |
| Mr. Zheng Dun Xun | (Resigned on 19 April 2004) |

Non-executive Director

Mr. Cheong Soo Kiong

Independent Non-executive Directors

Mr. Liu Hongru

Mr. Wong Kong Hon

Ms. Tam Wai Chu Maria (Appointed on 24 August 2004)

In accordance with the Company's bye-laws, Messrs Cheung Chun Yuen Barry, Lee Yeow Long Dave, Wong Siu Hung Patrick, Tam Wai Chu Maria and Mr. Cheong Soo Kiong will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the forthcoming annual general meeting, in accordance with the Company's bye-laws.

Biographical Details of the Directors and Senior Management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 36 to 40 of the annual report.

Directors' Service Contracts

Mr. Cheung Chun Yuen Barry, an executive director, entered into a service contract with the Company on 9 July 2004 for a period of three years until terminated with cause or, during the third year of his appointment, by either party giving to the other not less than three calendar months' prior notice in writing. Pursuant to the service contract, Mr. Cheung will receive a fixed salary of HK\$3,000,000 per annum and a year-end bonus of an amount to be determined by the board of directors.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as those disclosed in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or in existence during the year.

Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures

At 31 December 2004, the interests and short positions of the directors and chief executives in the shares capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions in Ordinary Shares of the Company:

| Name of director | Capacity | Number of ordinary shares held | Percentage of the issued share capital |
|-------------------|--------------------------------------|--------------------------------|--|
| Mr. Tsoi Tin Chun | Interest of a controlled corporation | 2,736,600,202 | 56.47 |

Note: Mr. Tsoi Tin Chun ("Mr. Tsoi") is deemed to be interested in the shares of the Company held by Great Logistics Holdings Limited ("Great Logistics") as a result of his shareholding in Titan Oil Pte. Ltd. ("Titan Oil"), the ultimate holding company of Great Logistics. Great Logistics' issued share capital is beneficially and wholly owned by Titan Oil, which is in turn owned as to 95% by Mr. Tsoi Tin Chun and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi Tin Chun. Mr. Tsoi Tin Chun is also a director of Titan Oil and Great Logistics.

Options Outstanding under the Share Option Scheme of the Company:

| Name of director | Capacity | Total number of underlying shares (options granted) held | Approximate percentage of the issued share capital |
|---------------------------|------------------|--|--|
| Mr. Lee Yeow Long Dave | Beneficial owner | 5,000,000 (Note) | 0.10 |
| Mr. Wong Siu Hung Patrick | Beneficial owner | 5,000,000 (Note) | 0.10 |

Note: Share options carrying rights to subscribe for 5,000,000 ordinary shares of the Company were granted to each of the directors on 25 June 2004 pursuant to the share option scheme adopted by the Company on 31 May 2002. Mr. Wong Siu Hung Patrick, is also the chief executive officer of Titan Oil.

Save as disclosed above, at 31 December 2004, none of the directors or chief executive had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) was required to be recorded pursuant to Divisions 7 and 8 of Part XV of the SFO, Section 352 of that SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Director's and chief executive's interests and short positions in shares and underlying shares and debentures" above and in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 30, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model. The directors consider that such disclosure does not give additional value in view of the above mentioned limitations surrounding these models.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2004, so far as is known to the directors and the chief executive of the Company, the following persons had interests or short positions in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long Positions:

| Name | Capacity | Number of ordinary shares held | Percentage of the issued share capital |
|--|--|----------------------------------|--|
| Great Logistics | Beneficial owner | 2,736,600,202 <i>(Note 1)</i> | 56.47 |
| Titan Oil | Interest of a controlled corporation | 2,736,600,202 <i>(Note 2)</i> | 56.47 |
| Ms. Tsoi Yuk Yi | Interest of spouse | 2,736,600,202 <i>(Note 3)</i> | 56.47 |
| HSBC Trustee (C.I.) Limited | Trustee | 529,042,509 | 10.92 |
| Nederlandse Financierings — Mastschappij Voor Ontwikkelingslanden N.V. | Holding the Company's shares as securities | 356,971,112 | 7.37 |
| The State of the Netherlands | Interest of a controlled corporation | 356,971,112 <i>(Note 4)</i> | 7.37 |
| Ms. Tse Lai Hing | Beneficial owner | 280,000,000 | 5.78 |
| Mr. Tse Yin Tuen | Interest of spouse | 280,000,000 <i>(Note 5)</i> | 5.78 |

Note 1: Mr. Tsoi is deemed to be interested in such shares held by Great Logistics as a result of his shareholding in Titan Oil, the ultimate holding company of Great Logistics. The issued share capital of Great Logistics is beneficially and wholly owned by Titan Oil, which in turn is owned as to 95% by Mr. Tsoi and as to 5% by Ms. Tsoi Yuk Yi, the spouse of Mr. Tsoi. Mr. Tsoi is also a director of Titan Oil and Great Logistics.

Note 2: Titan Oil is beneficially interested in the entire issued share capital of Great Logistics. Therefore, it is deemed to be interested in such interests held by Great Logistics.

Note 3: Ms. Tsoi Yuk Yi is beneficially interested in 5% of the issued share capital of Titan Oil, which in turn holds the entire issued share capital of Great Logistics. Mr. Tsoi is beneficially interested in 95% of the issued share capital of Titan Oil. As Ms. Tsoi Yuk Yi is the spouse of Mr. Tsoi, she is deemed to be interested in the interests held by Great Logistics.

Note 4: The State of the Netherlands is interested in such interests through its shareholding in Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.

Note 5: Mr. Tse Yin Tuen is the spouse of Ms. Tse Lai Hing. Therefore, Mr. Tse Yin Tuen is deemed to be interested in such interests held by Ms. Tse Lai Hing.

Save as disclosed above, at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept under Section 336 of the SFO, or which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of the SFO, or who, is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

Connected Transactions

During the year, the Company and the Group had connected transactions with connected parties and the details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules and are set out in note 37 to the financial statements.

Directors' Interests in Competing Business

During the year and up to date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules of the Stock Exchange, other than those businesses to which the directors were appointed as directors to represent the interest of the Company and/or the Group.

Disclosures Pursuant to Rule 13.17 of the Listing Rules

In accordance with the disclosure requirements of Rule 13.17 of the Listing Rules, the following disclosures are included in respect of one of the Group's loan agreements for, which the controlling shareholder of the Company pledged its interest in shares of the Company.

Pursuant to loan agreements dated 16 March 2004 between the Company's subsidiaries and DBS Bank Limited, relating to term loan facilities and a revolving credit facility of US\$38.5 million (equivalent to approximately HK\$300.3 million) for the acquisition of Neptune Associated Shipping Pte. Ltd. and its subsidiaries, Great Logistics has charged a total of 500,000,000 ordinary shares in the Company as security against a portion of loan in the amount of US\$26.5 million.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiries of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

Audit Committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Barry C. Cheung

Chief Executive

Hong Kong

15 February 2005