



## CORPORATE GOVERNANCE

### Corporate Governance Practices

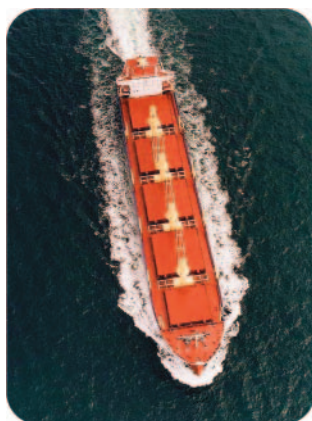
The Group is committed to maintaining and observing the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders. Corporate policies and practices are designed to ensure a high degree of transparency, responsibility and accountability. To safeguard the interests of shareholders, customers and staff, the Group has established a balanced corporate governance system through the Board of Directors and its committees. The objectives are to satisfy regulatory and technical compliance and to ensure that the system of corporate governance and the corporate culture established by the Board is communicated throughout the Group so that staff conduct themselves in a manner consistent with that corporate culture.

Throughout the year, the Group was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### The Board of Directors

The Board’s primary responsibilities are to formulate the Pacific Basin’s long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board. The Board is directly accountable to the shareholders.

On 1 March 2005, the Board consisted of nine Directors, whose details are provided in the “Directors and Senior Management” section of this Annual Report. Three of the Directors are executive, three are non-executive and three are independent non-executive. The six non-executive Directors bring a broad range of financial, regulatory and commercial experience to the Board, which contributes to the effective strategic management of the Group. The executive directors shall not engage in any other business which is in competition with that of the Group, and are required, with the exception of the Chairman, to devote their active business time to the business and affairs of the Group.



The Board is required to approve the acquisition or disposal of vessel tonnage, developments in the strategic direction of the Group, treasury and risk management, matters involving a conflict of interest for a substantial shareholder or Director and key human resource issues.

At the time the three independent non-executive Directors were appointed in March 2004, they submitted to the Hong Kong Stock Exchange written confirmations of their independence.

The Board has received confirmations from all three independent non-executive Directors of their independence as at 1 March 2005 and still considers them to be independent.

The Board meets four times a year and on other occasions when a major issue requires a Board decision. The Company held two full Board meetings for the financial year 2004 after its Listing in July 2004 and all Board members participated either by telephone or physical attendance.

### The Remuneration Committee

The Remuneration Committee was established on 10 June 2004 and consists of five Directors, comprising the three independent non-executive Directors (appointed on 10 June 2004) and two non-executive Directors (appointed on 15 September 2004).

The main responsibility of the Remuneration Committee is to determine the remuneration structure of the executive Directors and senior management, taking into account the salaries paid by comparable companies, time commitment and responsibilities of the Director or senior manager. It makes recommendations to the Board for the remuneration of non-executive Directors. It also reviews and approves performance-based remuneration as well as administers and oversees the Group's long-term equity incentive programme. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference setting out authorities and duties of the Remuneration

Committee were approved by the Board on 15 September 2004. These were updated on 1 March 2005 to reflect changes in the new Code on Corporate Governance Practices (the "Code") which came into effect on 1 January 2005.

The Remuneration Committee, by written resolution on 25 June 2004, approved the grant of 55,500,000 share options offered to and accepted by executive Directors and other employees. A meeting attended by all members of the Remuneration Committee was held on 30 November 2004 to review the policy for staff bonuses for 2004 and the staff salary increases for 2005.

### The Audit Committee

The Audit Committee was established on 18 May 2004 and consists of all three independent non-executive Directors.

The main responsibility of the Audit Committee is to review the financial accounts and the auditors' reports. Other responsibilities include the appointment of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters resulting from the above. The Audit Committee is also charged with the monitoring of internal controls and their effectiveness. The terms of reference for the Audit Committee were approved by the Board on 10 June 2004. These were updated on 1 March 2005 to reflect changes in the new Code which came into effect on 1 January 2005.

The Audit Committee held two meetings during 2004. The first meeting on 2 September 2004 reviewed the interim results. The auditors were present at the meeting and presented their audit committee report. The Audit Committee concluded that the half-year accounts were suitable for adoption by the Board. The second meeting on 15 November 2004 reviewed the existing internal controls framework and considered the Company's plans to conduct during 2005 a review of the internal controls covering its key risks. The meeting also reviewed the existing methodology to recharge overheads from group cost centres to



group income centres. All members of the Audit Committee attended these meetings in person or by telephone.

### **The Nomination Committee**

The Nomination Committee was established on 30 November 2004 and consists of five Directors, comprising the three independent non-executive directors (appointed on 30 November 2004) and two non-executive directors (appointed on 1 March 2005).

The main responsibility of the Nomination Committee is to oversee the nomination of Directors to the Board to ensure that all such nominations are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern effectively. The Nomination Committee also reviews the structure, size and composition of the Board, paying regard to the Hong Kong Stock Exchange board composition rules.

The terms of reference of the Nomination Committee were approved by written resolution of the Board on 11 March 2005.

No meetings of the Nomination Committee were held in 2004.

### **Directors' Securities Transactions**

The Board of Directors adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") on 10 June 2004 prior to the Company becoming listed on the Hong Kong Stock Exchange.

The Board confirms that, having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

### **Senior Management and Staff Securities Transactions**

Senior managers and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code for Securities Transactions by Directors on 30 August 2004 (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

### **Directors and Senior Management Remuneration and Share Ownership**

The key components of remuneration for executive Directors and senior managers comprise fixed and variable elements including base salary, annual bonus and long-term equity incentives. The Board seeks to provide remuneration packages that are competitive, accord with market practice and allow the Company to attract and to retain executives with the skills, experience and qualifications needed to manage and grow the business successfully.

Base salary takes into consideration prevailing market conditions, local market practice as well as the individual's role, duties, experience and responsibilities.

For the executive Directors and the three most senior managers, the 2004 bonus covered the nine month period from 1 April 2004 to 31 December 2004 and comprised two parts:

- (i) Up to 50% of base pay determined by reference to the Group achieving specific financial targets set by the Remuneration Committee;
- (ii) Up to 50% of base pay awarded by the Remuneration Committee on a discretionary basis. Awards are determined based on the overall performance of the individual and the Group as assessed by the Remuneration Committee.

All other senior managers are eligible for a discretionary bonus which is also determined by reference to the financial performance of the Group or the business unit of the individual and the overall performance of that individual and the achievement of his or her personal objectives.

Equity rewards are provided through the Company's share option scheme which is designed to provide executive Directors and senior management with long-term incentives that are aligned to and consistent with increasing shareholder value. Following the introduction of new rules relating to the way in which share options are accounted for, which came into effect on 1 January 2005, the Remuneration Committee is assessing the merits of other long-term incentive arrangements, including restricted share and restricted share unit plans, to ensure that the Company continues to provide the most appropriate and cost effective long-term incentives.

Options over 55,500,000 shares were granted to 28 members of staff, including the three executive Directors, on 14 July 2004. These options priced at HK\$2.50 each and they vest in equal tranches on the first, second and third anniversary of the date of grant.

#### Non-executive Directors

The non-executive Directors of the Company are paid fees in line with market practice. The Company pays the following annual fees paid with pro-rata adjustment for service less than one year:

	<i>HK\$'000</i>
Non-executive Director	200
Chairman of Board Committee	100
Member of Board Committee	50

The total amount of non-executive Directors' fees paid during the year ended 31 December 2004 was HK\$970,000 (US\$124,000).

#### Total Directors' Remuneration in 2004

The aggregate amount of emoluments payable to Directors of the Company during the year was US\$2,019,000.

#### Total Senior Management Remuneration in 2004

The aggregate amount of emoluments paid to senior management (as listed on pages 13 to 15) of the Company during the year was US\$2,504,000.

#### Auditors' Remuneration

Remuneration paid to PricewaterhouseCoopers for services provided for the year are as follows:

	<i>US\$'000</i>
Audit-related	252
Non-audit related	74
<b>Total</b>	<b>326</b>

#### Shareholders' Rights

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may write directly to the Company Secretary at the Company's Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, or they may send an email to [companysecretary@pacbasin.com](mailto:companysecretary@pacbasin.com).

Should shareholders wish to call a special general meeting, it must be convened according to Company's Bye-laws. In summary:

1. Shareholders holding not less than one-tenth of the paid up capital of the Company can, in writing to the Board or the Secretary of the Company, request a special general meeting to be called by the Board so as to carry out any business specified in such request.
2. The signed written request, which should specify the purpose of the meeting, should be delivered to the Company's registered office in Hong Kong. The meeting will be held within two months after being received. If the Board fails to proceed to convene such meeting within twenty-one days of receiving the request, the shareholders themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.



## Other Shareholder Information

### **Financial Calendar 2005**

Last day of dealings in shares with entitlement to final dividend	22 April
Deadline for lodging transfers for entitlement to final dividend	26 April 4pm HK time
Book closure period (all days inclusive)	27–29 April
Record date for final dividend	29 April
Annual General Meeting	29 April
Final dividend payment date	6 May
Tentative:	
Announcement of 2005 interim results	6 September
Last day of dealings in shares with entitlement to interim dividend	16 September
Deadline for lodging transfers for entitlement to interim dividend	21 September 4pm HK time
Record date for interim dividend	23 September
Book closure period (both days inclusive)	22–23 September
Interim dividend payment date	4 October

### **Shareholders Meeting and Amendments to Bye-laws**

The Company did not hold any shareholders meetings during the year except a statutory meeting of members on 15 March 2004 in which approvals were given to adoption of Bye-laws of the Company, appointment of Directors and auditors and increase of authorised share capital. New Bye-laws of the Company were conditionally approved and adopted by written resolutions of all shareholders on 17 June 2004 conditional upon the lapse of the grounds for terminating the Underwriting Agreements as defined in the prospectus, with the relevant conditions becoming fulfilled on 14 July 2004.

### **Investor Relations**

Pacific Basin's policy is to ensure a high degree of transparency and the Company is committed to ensuring that the market is informed of relevant information about itself on a regular basis thus allowing existing and potential shareholders to evaluate the Company, its performance and its prospects.

The Company provides detailed information in annual and interim reports which are supplemented by regular trading updates, as well as via telephone conferences and video webcasts of annual and interim results, and through regular investor presentations delivered internationally.

For more information, investors may write directly to the Company at its Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, or by e-mail to [ir@pacbasin.com](mailto:ir@pacbasin.com).

### **Share Information**

The Company's ordinary shares are listed and traded on the Hong Kong Stock Exchange under stock code 2343.HK.

1,267,010,609 Ordinary shares were in issue as at 31 December 2004.



# Pacific Basin Shipping Limited

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