

CORPORATE GOVERNANCE

The Group is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders. The Code on Corporate Governance Practices (the “Code”) as promulgated by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) came into effect for the reporting year commencing on 1 January 2005 (save for the provisions on internal controls which came into effect for accounting periods commencing from 1 July 2005 onwards). The Group has considered the code provisions of the Code and has put in place corporate governance practices to meet all the code provisions and recommended best practices that are considered to be relevant to the Group.

Throughout the year the Company has complied with all code provisions of the Code as contained in Appendix 14 of the Listing Rules.

The Board of Directors

The Board’s primary responsibilities are to formulate 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 and is responsible for preparing the accounts.

The Board is also required to approve (i) the acquisition or disposal of vessel tonnage that requires shareholder notification or approval under the Listing Rules of the Stock Exchange, (ii) developments in the strategic direction of the Group, and (iii) matters involving a conflict of interest for a substantial shareholder or Director.

The Board comprises nine Directors, whose biographical details are set out in the “Directors, Senior Management and Key Staff” section on pages 24 to 29 of this Annual Report. Four of the Directors are executive, two are non-executive and three are independent non-executive. The five non-executive Directors bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contributes to the effective strategic management of the Group. The executive Directors are not permitted to 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 all of their active business time to the business and affairs of the Group.

In accordance with the Company’s Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to not less than one-third) shall retire from office by rotation.



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Please refer to the Report of Directors on page 61 for the composition of the Board and Board Committees and the terms of appointment of each Director.

The posts of Chairman and Group Chief Executive are held separately by Mr. Christopher R. Buttery and Mr. Mark M. Harris respectively and their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for formulating and setting Group strategies and policies in conjunction with the Board. The Chairman's responsibilities under the Code are executed by Mr. Richard M. Hext, the Executive Deputy Chairman, who is charged with the running of the Group and is responsible for ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development.

The Group Chief Executive is responsible for managing Group strategic initiatives, investor relations, corporate and investor communications, mergers/acquisitions and fleet refinancing.

Pursuant to the requirement of the Listing Rules, the Company has received written confirmation from all three independent non-executive Directors of their independence from the Company and considers them to be independent.

The Board met on six occasions during 2005. The attendance of individual Directors at the Board meetings and two other Board Committees (the Audit Committee and the Remuneration Committee) is set out in the table below. No meetings of the Nomination Committee were held.

	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Christopher R. Buttery	4/6		
Richard M. Hext (appointed on 5 April 2005)	5/6		
Mark M. Harris	6/6		
Paul C. Over	2/6		
Non-executive Directors			
Lee Kwok Yin, Simon	4/6		3/3
Brian P. Friedman	4/6		3/3
James J. Dowling (resigned on 5 April 2005)	1/6		
Independent non-executive Directors			
Robert C. Nicholson	6/6	6/6	3/3
Patrick B. Paul	5/6	6/6	3/3
The Earl of Cromer	5/6	5/6	3/3

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The Board confines itself to making broad policy decisions, such as the Group's overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all or a majority of the members of the Committees are independent non-executive Directors. In July 2005, the Company also established an Executive Committee, comprising three executive Directors, which has the authority to commit to and execute contracts that fall within the parameters set by the Board in order to streamline the decision making process in circumstances where announcements to the Stock Exchange are not required. Decisions made by both the Board and the Executive Committee are based on detailed analysis prepared by management. The terms of reference of these Board Committees are posted on the Company's website at www.pacbasin.com.

The Audit Committee

The Audit Committee consists of the three independent non-executive Directors: Mr. Patrick B. Paul (Committee Chairman), Mr. Robert C. Nicholson and The Earl of Cromer. The main responsibilities of the Audit Committee are to review the financial accounts and the auditors' reports and monitor integrity of the financial statements. Other responsibilities include the appointment of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also charged with overseeing the financial reporting system and internal controls procedures and their effectiveness.

The Audit Committee held six meetings during the year. The work of the Audit Committee in 2005 included the following matters:

- review of 2004 annual results, review and discussion of the audit committee report with the auditors and review of the draft annual results announcement;
- review of the approach to internal controls and risk assessment;
- adoption of the revised terms of reference following introduction of the Code;
- confirmation of eligibility of audit committee members;
- review and consideration of various accounting issues and new standards and their financial impact;
- consideration of the audit fee for the year 2005;
- review of 2005 interim results, review and discussion of the audit committee report with the auditors, review of the draft management discussion and analysis section of the interim report;
- review of the 2005 audit strategy memorandum;

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- review and consideration of the auditors' letter to the management on internal controls for the year 2004;
- review of connected party transactions completed for the six months ended 30 June 2005; and
- review and approval of the accounting treatment for the sale and charter back transaction of five vessels.

During the reporting year, the Audit Committee has met with the external auditors with no executive Directors present.

The Remuneration Committee

The Remuneration Committee consists of two non-executive Directors (Mr. Lee Kwok Yin, Simon and Mr. Brian P. Friedman) and three independent non-executive Directors (Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and The Earl of Cromer).

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, as well as the time commitment and responsibilities of the executive Directors and senior management. It makes recommendations to the Board for the remuneration of non-executive Directors. It also reviews and approves performance-based remuneration and administers and oversees the Group's Long Term Incentive Scheme. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

The Remuneration Committee held three meetings during the year. The work of the Remuneration Committee included the following matters:

- approval of 2004 bonuses and 2005 salary increases for executive Directors and senior management;
- adoption of the revised terms of reference reflecting changes after introduction of the Code;
- approval of the proposal to incorporate the restricted share plan into the share option scheme and its renaming to the Long Term Incentive Scheme for subsequent approval and adoption by the shareholders at the special general meeting of the Company on 8 June 2005;
- award of a total of 4,799,999 restricted shares to the Deputy Chairman and six key staff and employees subject to adoption of the Long Term Incentive Scheme in June 2005 by way of written consents by all members of the Remuneration Committee;
- approval and ratification of the terms of termination of one senior manager and terms of employment of one key staff;
- review of the definition of "senior management" within the Group; and
- approval of employment agreement of a senior manager and an award of a total of 1,075,000 restricted shares to one senior manager and two key staff.

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The Nomination Committee

The Nomination Committee consists of two non-executive Directors (Mr. Lee Kwok Yin, Simon and Mr. Brian P. Friedman) and three independent non-executive Directors (Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and The Earl of Cromer).

The Nomination Committee meets as and when required to oversee the nomination of Directors to the Board ensuring 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 Stock Exchange board composition rules.

During the year, no meeting of the Nomination Committee was held. The proposal to the Board for re-nomination of the two non-executive Directors for a further 12 months until 5 June 2006 was agreed by the Nomination Committee by way of written resolution of all members of the Nomination Committee except the two non-executive Directors whose re-nominations were being considered.

The Executive Committee

Although not required by the Code, the Executive Committee established in July 2005 consists of three executive Directors: the Chairman, the Deputy Chairman, and the Group Chief Executive of the Company.

The main responsibilities of the Executive Committee are (i) to identify and execute transactions for vessel purchases and sales that do not require shareholder notification or approval under the Listing Rules of the Stock Exchange, (ii) to identify and execute the sale and charter back of vessels, (iii) to identify and execute transactions for long term charters (inward), and (iv) set cargo cover levels which are within the normal course of the business of the Group. In addition, it has the authority to (v) make decisions over commencement or cessation of employment and ongoing remuneration for "key staff" as listed in the biography section of this Annual Report and (vi) exercise the Company's general mandate to repurchase shares in accordance with the parameters set by the Board and the limits set by the shareholders.

Risk Management and Internal Controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Group's system of internal controls is designed for the identification and management of risks that are significant to the fulfillment of its business objectives. The Group has established a Risk Management Committee which comprises Deputy Chairman, Group Chief Executive, Chief Financial Officer, Group Financial Controller and an Operations Manager and is chaired by the Deputy Chairman. The aim of the Risk Management Committee is to strengthen the risk management culture throughout the Group. It has developed and will continue to review the existing internal control system to allow the Board to monitor and ensure that all key risks are properly managed and controlled. In addition to relevant provisions in the Code, the management have referred to the "Guide on Internal Control and Risk Management" published by the Hong Kong Institute of Certified Public Accountants in developing its approach to risk management.

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All departments within the Group have documented their key tasks and the risks associated with those tasks. The risks have been reviewed, graded and tabulated in a risk register by the Risk Management Committee, which has been guided and advised by the Audit Committee. Risks have been graded according to their likelihood, financial consequence and reputational impact on the Group. Special attention has been paid to the most significant risks identified in the process. The process has been supported by the development of operational manuals for all departments and consultations with external bodies which are recognised as experts in the field of internal control and auditing. The most significant risks for the Group are:

- Exposure to market fluctuations causing unstable or inadequate revenue streams and diminution of asset values;
- Software or system failures or breakdowns preventing use of critical software for prolonged periods;
- Violation and/or non-compliance with the Group's or statutory regulations by seastaff or shorebased personnel related to ship operations; and
- Oil pollution or cargo environmental incident which exceeds the maximum insurable amount provided by P&I Club.

Activities, procedures and controls now in place and new controls to be implemented have been identified and documented in the risk register. Specific details on the control process including (but not limited to) levels of authority granted to individuals, responsibility and documentary audit trails, are also contained in this list.

Management, on behalf of the Board, will undertake the annual internal control review process in the second quarter of 2006. This will cover all material controls, including financial, operational and compliance controls and risk management functions. All significant risks will be tested in 2006 and at least once every 12 months thereafter. Other risks will be tested at intervals appropriate to their risk rating. The criteria for assessing the effectiveness of internal controls are based on an assessment of whether the documented control processes have operated throughout the period being reviewed. Internal and/or external audit support will be utilised as considered necessary by the Risk Management Committee. Based on the results of those tests, risk owners within the Group will be able to confirm to senior management that their risks controls are working as intended or that revised controls have been implemented in any areas where improvement is necessary. Revised controls will be re-tested to assess their effectiveness.

The Risk Management Committee will report the results of the testing and details of the revised controls required (if any) to the Board through the Audit Committee and any significant areas of concern will be highlighted in future annual reports. The Code provisions in relation to internal controls came into effect for accounting period commencing from 1 July 2005 onwards. In accordance with the Stock Exchange's transitional arrangement, the Board will complete a review of the Group's internal controls during 2006 and shall comment on such review in the next corporate governance report.

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With respect to the procedures and internal controls for the handling of and dissemination of price sensitive information:

- the Group is aware of its obligations under the Listing Rules;
- the Group conducts its affairs with close regard to the “Guide on Disclosure of Price-Sensitive Information” issued by the Stock Exchange in January 2002;
- through channels such as financial reporting, public announcements and websites, the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusionary distribution of information to the public;
- the Group has included in its code of conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group’s affairs, so that only the Group Chief Executive and investor relations team are authorised to communicate with parties outside the Group.

Directors’ Securities Transactions

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”).

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 (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

Details of the remuneration and share ownership of the Directors and senior management are contained in the Remuneration Report and Report of the Directors on pages 47 and 56 respectively of this Annual Report.

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Auditors' Remuneration

Remuneration payable to Messrs. PricewaterhouseCoopers for services provided for the year ended 31 December 2005 is as follows:

	US\$'000
Audit	660
Non-audit related	293
Total	<u>953</u>

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, Central, Hong Kong, or they may send an email to 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.

Investor Relations

The Group'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, Central, Hong Kong, or by email to ir@pacbasin.com.

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Shareholders Meetings

Two general meetings of the Company were held during the reporting period.

At the first annual general meeting held on 29 April 2005, resolutions were passed to approve (i) the audited accounts and the Reports of the Directors and Auditors for the year ended 31 December 2004; (ii) the declaration of 16 HK cents per share as a final dividend for the year ended 31 December 2004; (iii) re-election of Directors; (iv) the fixing of the remuneration of the Directors by the Board; (v) the re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2005 and to authorise the Board to fix their remuneration; (vi) the general mandate to repurchase shares; (vii) the general mandate to issue shares; and (viii) the amendments to the Company's Bye-laws.

At the special general meeting held on 8 June 2005, an ordinary resolution was passed to approve the amendments to the Company's Share Option Scheme (now known as the Long Term Incentive Scheme) to include the grant of restricted share and restricted unit awards and for Directors to exercise the power of the Company to allot, issue and deal with up to 88,690,742 new shares of US\$0.10 each of the Company to satisfy options and share awards granted and to be granted under the Long Term Incentive Scheme.

All resolutions tabled at the two general meetings were voted on by poll.



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Shareholders

As at 31 December 2005, the Company had 1,282,740,609 ordinary shares in issue, each with a par value of US\$0.10. As at that date, the Company had 154 registered shareholders (of whom 146 or 94.8%) holding in aggregate 1,279,817,050 ordinary shares, have their registered addresses in Hong Kong) which include nominees, investments funds and the Central Clearing and Settlement System of Hong Kong.

Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 88.2% of the Company's total issued share capital is held by the public.

Reporting via Internet

The Company website provides shareholders, financial professionals and the general public with the following information through the internet at www.pacbasin.com:

- Biographical data on Directors, Senior Management and Key Staff;
- Terms of Reference of Board Committees;
- Financial Reports;
- Share Information; and
- Presentations, Announcements and News.

For those who want hard copies of the Company's website information listed above, please contact our Company Secretary and we shall provide you with such information free of charge.

Financial Calendar for the First Half of 2006

Announcement of 2005 annual results	6 March (Monday)
Last day of dealings in shares with entitlement to 2005 final dividend	30 March (Thursday)
Ex-dividend date	31 March (Friday)
Deadline for lodging transfers for entitlement to final dividend	3 April (Monday), 4 pm HK time
Book closure (both days inclusive) for final dividend payment	4 to 7 April (Tuesday to Friday)
Annual General Meeting	7 April (Friday)
Final dividend payment date	13 April (Thursday)
Announcement of first quarter trading update	27 April (Thursday)