

Corporate Governance





Pacific Basin is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and of all of its stakeholders, and consistent with the Code on Corporate Governance Practices (the “Code”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Group has considered the Code and has put in place corporate governance practices to meet all of the mandatory code provisions.

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

The Group continues to adopt the recommended best practices under the Code, however there are areas where full implementation is not considered appropriate, including:

- (i) the Group provides a quarterly trading update to enable its shareholders to assess the performance, financial position and prospects of the Group, instead of announcing and publishing its quarterly results, as the Group believes this gives the shareholders the key quarterly information to assess the development of the Group’s business in a cost effective manner; and

- (ii) a separate internal audit function has not been established as the current size of operations and the degree of overview by executive Directors and senior management means that it remains more effective to use staff from different sections of the Group to carry out internal control review in sections other than their own.

The Board of Directors

The Board’s primary responsibilities are to formulate Pacific Basin’s long-term corporate strategies, 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 financial statements.

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 eleven Directors, whose biographical details are set out in the "Directors, Senior Management and Key Staff" section of this Annual Report. Five of the Directors are executive (one of whom has tendered his resignation with effect from 31 March 2007), two are non-executive and four are independent non-executive. The six 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 (rounded up if their number is not a multiple of three) shall retire from office by rotation.

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

The posts of Chairman and Chief Executive Officer are held separately by Mr. Christopher R. Buttery and Mr. Richard M. Hext 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 and for ensuring that he and his delegates shall, in the capacity of Chairman, comply with the responsibilities under the Code. The Chief Executive Officer and the Deputy Chief Executive Officer are charged with the running of the Group and are responsible for ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development. The Chief Executive Officer and the Deputy Chief Executive Officer are also responsible for managing Group strategic initiatives and major business activities such as mergers/acquisitions and the sale and purchase of vessels.

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

The Board met on six occasions during 2006. The attendance of individual Directors at the Board meetings and three other Board Committees (the Audit Committee, the Remuneration Committee and the Nomination Committee) is set out in the table below.

	Meetings Attended/Held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Christopher R. Buttery	6/6			
Richard M. Hext	6/6			
Paul C. Over (tendered resignation with effect from 31 March 2007)	6/6			
Wang Chunlin (appointed on 1 September 2006)	2/3			
Klaus Nyborg (appointed on 4 September 2006)	3/3			
Mark M. Harris (resigned on 7 April 2006)	1/1			
Non-executive Directors				
Dr. Lee Kwok Yin, Simon	5/6		2/4	1/2
Daniel R. Bradshaw (appointed on 7 April 2006)	5/5	3/3	3/3	1/2
Brian P. Friedman (resigned on 17 May 2006)	1/2		1/2	0/1
Independent non-executive Directors				
Robert C. Nicholson	6/6	3/4	4/4	2/2
Patrick B. Paul	6/6	4/4	4/4	2/2
The Earl of Cromer	5/6	4/4	4/4	2/2
David M. Turnbull (appointed on 17 May 2006)	2/4	2/2	0/1	0/0

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 the executive Directors. The executive Directors are 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. The Board has also established an Executive Committee to streamline the decision making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees 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 all four independent non-executive Directors, namely Mr. Patrick B. Paul (Committee Chairman), Mr. Robert C. Nicholson, The Earl of Cromer, and Mr. David M. Turnbull, and one non-executive Director, Mr. Daniel R. Bradshaw. The main responsibilities of the Audit Committee are to review the financial statements and the auditors' reports and monitor the integrity of the financial statements. The Audit Committee is also charged with reviewing the effectiveness of the financial reporting system and internal control procedures. Other responsibilities include the policy for the engagement of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters arising from the above.

The Audit Committee held four meetings during the year. The work of the Audit Committee in 2006 included reviews of:

- (i) the 2005 annual report and annual results announcement with a recommendation to the Board for approval;
- (ii) the external auditors' audit committee report in respect of the 2005 audit;
- (iii) the 2006 interim report and interim results announcement;
- (iv) the progress and results of management's self assessment of risks and internal controls and recommendation on approaches;
- (v) connected party transactions;

- (vi) the summary of insurance policies of the Group;
- (vii) the external auditors' internal controls memorandum in respect of the 2005 audit;
- (viii) the external auditors' 2006 audit strategy memorandum and approval of the 2006 audit plan;
- (ix) approval of the remuneration of external auditors for both audit and non-audit related work;
- (x) the eligibility of Audit Committee members; and
- (xi) external auditors' independence.

During the reporting year, the Audit Committee met with the external auditors twice without the presence of any executive Directors.

The Remuneration Committee

The Remuneration Committee consists of two non-executive Directors Dr. Lee Kwok Yin, Simon and Mr. Daniel R. Bradshaw and all four independent non-executive Directors Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul, The Earl of Cromer and Mr. David M. Turnbull. Mr. Brian P. Friedman was also a member of the Remuneration Committee until 7 April 2006 before his resignation as a non-executive Director on 17 May 2006.

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

- approval of 2005 year end bonuses and 2006 salary increases for executive Directors and senior management;
- approval of Mr. Daniel R. Bradshaw's remuneration for his appointment as the Deputy Chairman, a non-executive Director and a member of the Audit, Remuneration and Nomination Committees of the Company with effect from 7 April 2006;

- award of a total of 750,000 restricted shares under the Long Term Incentive Scheme to one key staff member and three employees;
- approval of management's proposal to offer Mr. Richard M. Hext the opportunity to convert his unvested share options into restricted shares;
- approval of the employment terms and compensation package of Mr. Klaus Nyborg as Deputy Chief Executive Officer;
- approval of the provision of a housing allowance to Mr. Richard M. Hext; and
- review and consideration of the Long Term Incentive Scheme and approval of the annual cash bonuses to certain staff members.

The Nomination Committee

The Nomination Committee consists of two non-executive Directors Dr. Lee Kwok Yin, Simon and Mr. Daniel R. Bradshaw and all four independent non-executive Directors Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul, The Earl of Cromer and Mr. David M. Turnbull. Mr. Brian P. Friedman was also a member of the Nomination Committee until 7 April 2006 before his resignation as a non-executive Director on 17 May 2006.

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.

The Nomination Committee held two meetings during the year. The work of the Nomination Committee included the approval to the Board of:

- the appointment of Mr. Daniel R. Bradshaw as the Deputy Chairman, a non-executive Director and member of the Audit, Remuneration and Nomination Committees;
- the appointment of Mr. David M. Turnbull as an independent non-executive Director of the

Company (whose remuneration was subsequently approved by written resolutions of the full Board);

- the recruitment and appointment of Mr. Klaus Nyborg as the Deputy Chief Executive Officer and an executive Director; and
- the appointment of Mr. Wang Chunlin as an executive Director of the Company.

The Executive Committee

The Executive Committee consists of four executive Directors: the Chairman Mr. Christopher R. Buttery, Chief Executive Officer Mr. Richard M. Hext, Deputy Chief Executive Officer Mr. Klaus Nyborg and executive Director Mr. Wang Chunlin.

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 Directors, Senior Management and Key Staff 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 approved by the shareholders.

Internal Controls

Framework

The Board has overall responsibility for the Group's system of internal control and the assessment and management of risks. The Group's Risk Management Committee ("RMC") which is headed by the Company's Deputy Chief Executive Officer, actively identifies and reviews significant risks of the Group with the objective of strengthening the risk management culture throughout the Group and minimising where possible the impact of unexpected outcomes from the major risks the Group is exposed to, so as to reduce sensitivity of the Company's earnings to those risks.

The system of internal controls is designed to provide reasonable, but not absolute, assurance against human error, material misstatement, losses, damages or fraud. Please also refer to the Risk Management section of this Annual Report.

The Group has in place a framework that is consistent with the COSO (the Committee of Sponsoring Organisation of the Treadway Commission) framework which has the following five components:

- **Control environment** – Defined organisational structures are established. Authority to operate various business functions is delegated to respective management within limits set by head office management or the executive Directors. The Board meets on a regular basis to discuss and agree business strategies, plans and budgets prepared by individual business units. The performance of the Group is reported to the Board on a monthly basis.
- **Risk assessment** – The Group identifies, assesses and ranks the risks that are most relevant to the Group's success according to their likelihood, financial consequence and reputational impact on the Group.
- **Control activities** – Policies and procedures are set for each business function which includes approvals, authorisation, verification, recommendations, performance reviews, asset security and segregation of duties.
- **Information and communication** – The Group documents operational procedures of all business units. The risks identified and their respective control procedures are documented in risk registers by the RMC and reviewed by the Audit Committee at least annually.
- **Monitoring** – The Group adopts a control and risk self-assessment methodology, continuously assessing and managing its business risks by way of internal audits, and communication of key control procedures to employees. The RMC is tasked with the responsibility to assess the performance and effectiveness of the controls on a systematic basis. Findings of the assessments are submitted to the Audit Committee.

Annual assessment

Activities, procedures, existing controls and new controls to be implemented are documented in the risk registers. The existence and effectiveness of the existing control procedures are tested with a frequency being determined by reference to the ranking of each individual risk area. All significant risks are tested annually and others once every two to three years.

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, and to identify whether there are any control weaknesses. During 2006, the RMC carried out an audit of control procedures in respect of all significant Group risks with findings reported to the Audit Committee. This work was carried out by staff from different sections of the Group to those where the controls were being tested as the Group does not have a separate internal audit function.

Effectiveness of internal control system

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 Audit Committee reviews the findings and opinion of the RMC on the effectiveness of the Group's system of internal control and reports to the Board annually.

In respect of the year ended 31 December 2006, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

Controls on price-sensitive information

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

- the Group is fully 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 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 Chief Executive Officer, Deputy Chief Executive Officer 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, as 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

The Company has adopted rules for 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 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 of this Annual Report.



Auditors' Remuneration

Remuneration paid to the Group's external auditors for services provided for the year ended 31 December 2006 is as follows:

	US\$'000
Audit	826
Non-audit related	219
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Total	1,045
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