

The Board of Directors ("Board") is committed to ensure that the high standards of corporate governance are observed throughout the Group in order to achieve the highest standard of accountability, transparency and integrity with the objective of safeguarding shareholders' investment and ultimately enhancing shareholders' value.

The Board recognizes the importance of corporate governance and is committed to comply with the Code in discharging its responsibilities in achieving the above objectives by taking various measures to enhance its corporate governance practices. Any areas where the Group has not complied with the Code are explained in this report.

Principles Statement

The following statement sets out how the Company has applied the principles of good corporate governance and compliance with the best practices as set out in the Malaysian Code on Corporate Governance.

A. DIRECTORS

Board of Directors

The Perstima Board is made up of a mix of qualified and experienced businessmen and professionals. The Directors on the Board are fully aware of the pivotal role they play in charting the strategic planning, control and development of the Group, and ultimately the enhancement of long-term shareholder value.

The Board has a formal schedule of the matters reserved to itself for decision, which includes the overall company strategy and direction, investment policy, approval for major capital expenditure projects, consideration of significant financial matters, and it reviews the financial and operating performance of the Group.

Meetings

The Board ordinarily meets at least four (4) times a year at quarterly intervals with additional meetings convened when urgent and important decisions need to be taken between the scheduled meetings. During the financial year, the Board met on four (4) occasions, where it deliberated upon and considered a variety of matters including the Company's financial results, major investments and strategic decisions and business plan and direction of the Group.

Details of each Director's attendance of the meetings held during the financial year ended 31 March 2006 are as follows: -

Name	Designation	No. of Meetings attended
Tan Sri Ab. Rahman bin Omar	Chairman, Non-Executive Director	4/4
Himshi Kuma	Managing Director	4/4
Hiroshi Sumino	Deputy Managing Director	4/4
Ab Patah bin Mohd	Executive Director	4/4
Toshihiro Yamamoto	Executive Director	4/4
Harun bin Ismail	Independent Non-Executive Director	4/4
Ng Tuan Hoo	Independent Non-Executive Director	4/4
Ghazali @ Razali bin Ismail	Independent Non-Executive Director	4/4
Yusuf bin Jamil	Independent Non-Executive Director	4/4
Rin Nan Ycong	Independent Non-Executive Director	4/4
Todomu Kobayashi	Non-Executive Director	3/4
Shuichi Yoshida*	Non-Executive Director	3/4

* Attended all the Board meetings held since his appointment on 18 May 2005.

The Board receives Board papers on the matters requiring its consideration prior to and in advance of each meeting. The Board papers are comprehensive and encompass both quantitative and qualitative factors so that informed decisions are made. All proceedings from the Board meetings are minuted and signed by the Chairman of the meeting.

Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, as follows:-

Board Committee	Key Functions
Audit Committee	Explained on pages 15 to 17 of this annual report
Remuneration Committee	Explained on pages 11 to 12 of this annual report
Nomination Committee	Explained on pages 10 to 11 of this annual report

All committees have written terms of reference and the Chairman of the various committees will report to the Board on the outcome of the Committee meetings and such reports are incorporated in the minutes of the full Board meeting. These committees are formed in order to enhance business and operational efficiency as well as efficacy. Prior to the establishment of these committees, their functions were assumed by the Board as a whole.

Board Balance

The Board currently has twelve (12) Directors comprising four (4) Executive Directors and eight (8) Non-Executive Directors of whom five (5) are Independent Directors. The Board has met with the requirements of Para 15.02 of Bursa Securities Listing Requirements and the requirements of the Code for Independent Directors to comprise at least two or one-third (whichever is higher) of the Board's composition.

The Directors, with their different backgrounds and specializations, collectively bring with them a wide range of experience and expertise in areas such as marketing, business, operations and finance. Their expertise, experience and background are vital for the strategic direction of the Group. The Executive Directors are responsible for implementing the policies and decisions of the Board, overseeing the operations as well as co-ordinating the development and implementation of business and corporate strategies. The Independent Non-Executive Directors play an important role in ensuring that the views provided are professional, independent and that the advice and judgment made on issues and decisions are in the best interest of the shareholders and the Group.

There is a clear division of responsibilities at the head of the Company to ensure a balance of authority and power. The Board is led by Tan Sri Ab. Rahman bin Omar as the Non-Executive Chairman and the executive management of the Company is led by Mr. Hiroshi Kume, the Company's Managing Director.

The roles of the Chairman and the Managing Director are clearly defined with their individual position descriptions. The Chairman is responsible for the effective running of the Board while the Managing Director, the effective running of the business and implementation of the Board's policies and decisions.

Currently, the Board does not consider it necessary to nominate a Senior Independent Non-Executive Director to whom concerns may be conveyed as the Company has created a special email address at amru@perstima.com.my specifically for the purpose whereby shareholders or other parties may direct any queries or concerns pertaining to the Group. Such queries will be reviewed and addressed by the Board accordingly.

The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders in the Group.



Supply of Information

The Chairman ensures that all Directors have full and timely access to information with Board paper distribution in advance of meetings. All Directors are provided with an agenda and a set of Board papers prior to every Board meeting. The Board papers circulated include quarterly and annual financial statements, performance reports, minutes of meetings, updates from all the regulatory authorities and external audit reports. All matters requiring Board approvals are also circulated prior to the Board Meeting. These Board papers are issued at least ten (10) days in advance to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed before the meeting.

The Executive Directors lead the presentation and provides explanation on the paper during the meeting.

Every Director also has unhindered access to the Senior Management and the advice and services of the Company Secretaries as well as to independent professional advisers including the external auditors.

Details of periodic briefings on the industry outlook, company performance and forward previews are also conducted for the Directors to ensure that the Board is well informed on the latest market and industry trends.

Appointments to the Board

The Nomination Committee comprises the following members during the year:-

Ghazali @ Razali bin Ismail	- Chairman, Independent Non-Executive Director
Harun bin Ismail	- Independent Non-Executive Director
Ng Tuan Hoo	- Independent Non-Executive Director
Rin Nan Yoonig	- Independent Non-Executive Director

The Committee consists entirely of Non-Executive Directors, all of whom are independent.

The Nomination Committee is responsible for making recommendations to the Board on new candidates for directorships and Board Committees for its consideration and implementation. The committee will also assist the Board in reviewing the required mix of skills and experience of the Non-Executive Directors.

The Committee met once during the financial year. The Deputy Managing Director and the Executive Directors upon the invitation of the Chairman of the Committee attended the meeting.

The Board appoints its members through a formal and transparent selection process. The process has been reviewed, approved and adopted by the Board. New appointees will be considered and evaluated by the Nomination Committee. The Committee will then recommend the candidates for approval and subsequent appointment by the Board. The Company Secretary will ensure that all appointments are properly made, that all information necessary is obtained, as well as all legal and regulatory obligations are met.



Directors' training

The Board through the Nomination Committee ensures that it recruits to the Board only individuals of sufficient caliber, knowledge and experience to fulfill the duties of a Director appropriately. An orientation and education programme had been provided for the new Board members and all the members of the Board have attended the Mandatory Accreditation-Program (MAP). The Directors are also required to attend courses from time to time to equip themselves to effectively discharge their duties and to further enhance their skill and knowledge where relevant. All the Directors have achieved the required seventy-two (72) Continuing Education Programme (CEP) points for the year 2004.

Directors are encouraged to attend talks, seminars, workshops, conferences and other training programmes to update themselves on the new developments in the business environment. Seminars and conferences organized by the relevant regulatory authorities and professional bodies on areas relevant to the Directors' responsibilities and corporate governance issues, as well as on changes to statutory requirements and regulatory guidelines, are informed to the Directors, for their participation.

Pursuant to paragraph 15.09(z) and Appendix 9C (Part A, paragraph 27) of the Listing Requirements, the Directors have during the year attended training programmes in areas of corporate governance, finance and competitive strategies.

Re-election

In accordance with the Company's Articles of Association, all directors appointed by the Board are subject to election by the shareholders at the first Annual General Meeting (AGM) after their appointment and one-third of the remaining existing Directors are required to submit themselves for re-election by rotation at least once every three years at each AGM. The Directors to retire in every year shall be those who have been longest in office since their last election. These provide an opportunity for the shareholders to renew their mandates. The election of each Director is voted on separately. To assist shareholders in their decision, sufficient information such as personal profile, meeting attendance and the shareholdings in the Company of each Director standing for election are furnished in a separate statement accompanying the Notice of the AGM.

Directors over seventy (70) years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act 1965.

B. DIRECTORS' REMUNERATION

Remuneration Committee

The Members of the Remuneration Committee during the year were: -

Ng Tuan Hoo	- Chairman, Independent Non-Executive Director
Harun bin Ismail	- Independent Non-Executive Director
Rin Nan Yoong	- Independent Non-Executive Director
Hiroshi Sumino	- Deputy Managing Director

The Committee consists of a majority of Independent Non-Executive Directors.

The Remuneration Committee is responsible for developing the remuneration framework and remuneration packages of the Executive Directors and recommending the same to the Board for approval. The Board as a whole will endorse the remuneration packages of Non-Executive Directors including that of the Non-Executive Chairman. Directors' fees are endorsed by the Board for approval by the shareholders of the Company at the AGM.

The Committee met once during the financial year.



Directors' Remuneration

The aggregate remuneration of the Directors for the financial year ended 31 March 2008 were as follows: -

	-----RM'000-----			
	Fees	Emoluments	Benefit-in-kind	Total
Executive Directors	194	1,650	26	1,870
Non-Executive Directors	356	0	0	356

The number of Directors whose remuneration fall within the following bands are: -

Remuneration Bands (RM)	Executive Directors	Non-Executive Directors
1 - 50,000		7
50,001 - 100,000	1	
100,001 - 150,000		1
300,001 - 350,000	1	
350,001 - 400,000	1	
500,001 - 550,000	1	
600,000 - 650,000	1	

The details of the remuneration for each Director are not presented for harmonisation purposes.

C. SHAREHOLDERS

The Board is fully aware of the need for good communications with shareholders and investors.

The AGM is a platform for the shareholders to meet and exchange views with the Board. There is an open question and answer session whereby shareholders may ask questions and seek clarifications on the performance of the Group. The Chairman and the Board members are in attendance to provide explanations to all shareholders' queries.

The shareholders and investors are also able to access the corporate, financial and market information of the Company from Bursa Malaysia's listed companies information at Bursa Malaysia's website.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for ensuring that accurate and timely announcements of the Company's quarterly financial statements are made on a quarterly basis. The Board also approves the annual financial statements before submission to Bursa Securities and sending to the shareholders. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements of the Group give a true and fair view of the state of affairs of the Group as at the end of the accounting period and of their Income Statements and cash flow for the period then ended. In preparing the financial statements, the Directors have ensured that applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 have been applied.

In preparing the financial statements, the Directors have selected and applied consistently suitable accounting policies and made reasonable and prudent judgments and estimates.

The Directors also have a general responsibility for the taking of such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal Control

The Statement on Internal Control furnished on page 18 of the annual report provides an overview of the state of internal control of the Group.

Relationship with the Auditors

The Board has established a formal and transparent relationship with the External Auditors. The Audit Committee meets with the External Auditors, excluding the attendance of the Executive members of the committee at least once a year to facilitate the exchange of views on issues requiring attention.

The Audit Committee Report together with the Terms of Reference of the Audit Committee can be found on pages 15 to 17.

OTHER INFORMATION

Material Contracts

As at 31 March 2006, save as disclosed below, there were no material contracts entered into by the Company involving Directors' and major shareholders' interests. JFE Shoji Trade Corporate & its subsidiary and Mitsui & Co., Ltd. are substantial shareholders of the Company and none of the Company's Directors have any interest in JFE Shoji Trade Corporation or Mitsui & Co., Ltd:-

Date	Party	Nature	Total contract (RM'000)	Term	Contact outstanding (RM'000)
Jan, Feb and Mar 2006	JFE Shoji Trade Corporation	Supply of Raw Materials	12,063	Cash	6,622
Feb and Mar 2006	Mitsui & Co., Ltd.	Supply of Raw Materials	3,667	Cash	2,058
Feb 2006	JFE Shoji Live -Pier Corporation**	Plant and Equipment	4,300	30 days credit	4,300

** Wholly owned subsidiary of JFE Shoji Trade Corporation.



Recurrent Related Party Transactions

The aggregate value of the transactions conducted pursuant to the shareholders' mandate during the financial year were as follows: -

Type Of Transactions	Party & Relationship	Total (RM'000)
Purchase of raw materials	JFE Shoji Trade Corporation, a substantial shareholder of the Company.	296,845
Purchase of raw materials, consumables & plant and equipment	JFE Shoji Live-Pier Corporation, a wholly owned subsidiary of JFE Shoji Trade Corporation.	9,153
Purchase of raw materials	Mitsui & Co., Ltd, a substantial shareholder of the Company.	212,659
Sale of tinplates	JFE Shoji Steel Malaysia Sdn Bhd, an associate company of JFE Shoji Trade Corporation.	7,196
Sale of tinplates	Kawarin Enterprise Pte. Ltd, an associate company of JFE Shoji Trade Corporation.	402
Sale of tinplates	PT JFE, a subsidiary company of JFE Shoji Trade Corporation.	811
Sale of tinplates	Mitsui & Co., Ltd, a substantial shareholder of the Company.	2,809

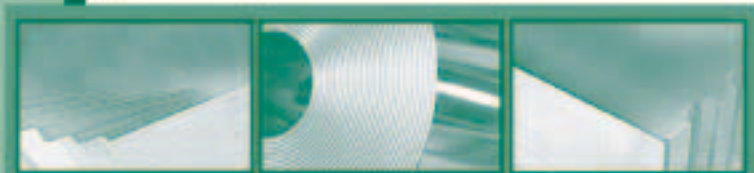
The above transactions have been entered into in the ordinary course of business and have been established under negotiated terms.

Non - Audit Fee

The amount of non-audit fees paid and payable to the external auditors by the Company for the financial year ended 31 March 2006 amounted to RM15,000.

Sanctions / Penalties

There were no sanctions and/or penalties imposed on the Company, Directors or management by the relevant regulatory bodies during the financial year.



AUDIT COMMITTEE MEMBERS

Harun bin Ismail

- Chairman / Independent Non-Executive Director

Ng Tuan Hoo

- Independent Non-Executive Director

Rin Nan Yoong

- Independent Non-Executive Director

Hiroshi Sumino

- Deputy Managing Director

TERMS OF REFERENCE

1. OBJECTIVES

The objective of the Audit Committee is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the Audit Committee shall: -

- Oversee and appraise the quality of the audits conducted both by the Company's internal and external auditors;
- Maintain open lines of communication between the Board of Directors, the internal auditors and the external auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and
- Determine the adequacy of the Group's administrative, operating and accounting controls.

2. COMPOSITION

The Audit Committee shall be appointed by the Directors from among their number (pursuant to a resolution of the Board of Directors) which fulfils the following requirements: -

- The audit committee must be composed of no fewer than 3 members;
- A majority of the audit committee must be independent directors; and
- At least one member of the audit committee: -
 - Must be a member of the Malaysian Institute of Accountants; or
 - If he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and: -
 - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

- He must be a person who fulfils the requirements as may be prescribed by Bursa Securities and / or such other relevant authorities from time to time.

The members of the Audit Committee shall elect a chairman from among their number who shall be an independent director.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of item 2 (a) to (c) above, the vacancy must be filled within 3 months of that event.

The Board of Directors must review the term of office and performance of the Audit Committee and each of its members at least once every 3 years to determine whether the Audit Committee and members have carried out their duties in accordance with the terms of reference.

3. FUNCTIONS

The functions of the Audit Committee are as follows: -

- To review the following and report the same to the Board of Directors: -
 - With the external auditors, the audit plan;
 - With the external auditors, his evaluation of the system of internal controls;
 - With the external auditor, his audit report;
 - The assistance given by the Company's employees to the external auditors; and
 - Any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity.
- To consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
- To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To review the quarterly and year-end financial statements of the Company, focusing particularly on: -
 - Any changes in accounting policies and practices;
 - Significant adjustments arising from the audit;
 - The going concern assumption; and
 - Compliance with accounting standards and other legal requirements;



- e) To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary);
- f) To review the external auditor's management letter and management's response;
- g) To do the following where an internal audit function exists: -
 - Review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - Review the internal audit programme and results of the internal audit process and where necessary, ensure that appropriate action is taken on the recommendations of the internal audit function;
 - Review any appraisal or assessment of the performance of members of the internal audit function;
 - Approve any appointments or termination of senior staff members of the internal audit function;
 - Inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- h) To consider the major findings of internal investigations and management's response; and
- i) To consider other areas as defined by the Board.

4. RIGHTS OF THE AUDIT COMMITTEE

The Audit Committee shall, wherever necessary and reasonable for the Company to perform its duties, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company: -

- a) Have authority to investigate any matter within its terms of reference;
- b) Have the resources which are required to perform its duties;
- c) Have full and unrestricted access to any information pertaining to the Company;
- d) Have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) Be able to obtain independent professional or other advice; and

- f) Be able to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

5. MEETINGS

The Audit Committee shall meet at least 4 times a year and such additional meetings as the Chairman shall decide in order to fulfill its duties. However, at least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

In addition, the Chairman may call a meeting of the Audit Committee if a request is made by any committee member, the Company's Chief Executive, or the internal or external auditors.

The Company Secretary or other appropriate senior official shall act as secretary of the Audit Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation to committee members prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to the committee members and to the other members of the Board of Directors.

A quorum shall consist of a majority of independent directors.

By invitation of the Audit Committee, the Company must ensure that other directors and employees attend any particular audit committee meeting specific to the relevant meeting.

ACTIVITIES OF THE COMMITTEE

The summary of the activities of the Audit Committee in the discharge of its duties and responsibilities for the financial year ended 31 March 2006 included the following:-

- a) Reviewed the external auditors' scope of work and audit plan for the year.
- b) Reviewed with the external auditors the results of the audit and the audit report, management letter and management's response.
- c) Consideration and recommendation to the Board for approval, the audit fee payable to the external auditors.
- d) Reviewed the annual report and the audited financial statements of the Company prior to submission to the Board for their consideration and approval. The review was to ensure that the audited financial statements were drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards approved by the regulatory authorities.



- e) Discussed Bursa Securities Listing Requirements and its Practice Notes, particularly on the Malaysian Code on Corporate Governance and the Statement on Internal Control.
- f) Reviewed the revised Audit Committee Charter in compliance with Bursa Securities Listing Requirements.
- g) Reviewed the quarterly unaudited financial results announcements before recommending them for the Board's approval. The review and discussions were conducted with the Management.
- h) Reviewed the Company's procedures in respect of the recurrent related party transactions to satisfy itself that the procedures were sufficient to ensure that the related party transactions were not more favourable to the related parties than those generally available to the public and not detrimental to the minority shareholders.
- i) Updated and advised the Board on the latest changes and pronouncements that may be issued by the accountancy, statutory and regulatory bodies.
- j) Reported to and updated the Board on significant issues and concerns discussed during the Committee meetings and where appropriate made the necessary recommendations to the Board.

The individual member's attendance of the meetings held during the financial year ended 31 March 2006 were as follows:

Members	Designation	No. of meetings attended
Harun bin Ismail	Chairman/Independent Non-Executive Director	4/4
Ng Tuan Hoo	Independent Non-Executive Director	4/4
Rin Nan Yoong	Independent Non-Executive Director	4/4
Hiroshi Sumino	Deputy Managing Director	4/4



(Pursuant to para 15.27(b) of the Bursa Securities Listing Requirements)

BOARD'S RESPONSIBILITIES

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its adequacy and integrity. As with any internal control system, controls can only provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminating the risk of failure to achieve business objectives.

RISK MANAGEMENT FRAMEWORK

The Board recognises the need for an effective risk management practice and to maintain a sound system of internal control. Hence, the Board has formalized and established the risk management framework for the Group to create awareness among all management staff on the risk management process. Workshop and interviews were conducted with the senior management staff of the Group to identify and evaluate the significant risks faced by the Group. Detail risk registers of the principal risks and controls have been created and a risk profile for the Group has been developed and is reviewed by the Risk Management Committee and Board of directors on annual basis.

SYSTEM OF INTERNAL CONTROL

The Board recognises the need for an internal audit function. However, there is still an absence of this function to-date because the Board is of the opinion that the present control mechanisms are sufficient to the size of the Company. Currently, two of the Executive Directors who also held the position of the General Manager and the Factory Manager, through their day-to-day involvement in the business operations and attend operational and management meetings, manage and monitor the Company's direction, operational effectiveness and efficiency, and adhere to the Company's policies and procedures. The Executive Directors will inform the Board of any significant matters, which require the Board's attention or intervention or Board-level decision-making. The monitoring and management of the Company as a whole is delegated to Executive Directors who take on the role of Managing Director, Deputy Managing Director, General Manager and Factory Manager. Monthly senior management meetings supported by relevant written reports headed by the Managing

Director, and/or Deputy Managing Director and attended by all the Department heads are held to identify, discuss and resolve business and operational issues. These meetings serve as a two-way platform for the Board, through the Executive Directors, to communicate and address significant matters in relation to the Group's strategic, operational and financial affairs.

The Group's internal controls, amongst others include:-

Annual Budget

The Board has reviewed and approved the Group's budget for the year including major capital expenditure. As part of the budgeting process, the Group considers both internal and external risk factors that may affect the Group's profitability. This includes analysing the Group's historical performance, competitors, customers' requirements and customers' business trends, production capacity and other internal resources. At each quarterly Audit Committee Meetings and Board meetings, actual performance and results were monitored against budgets, with reasons for significant variances identified and highlighted to the Board for the appropriate corrective measures.

Financial Limits And Approving Authority

The Company has a policy on the financial limits and approving authority for its revenue and expenditure, and capital expenditure with appropriate approving authority thresholds to ensure all revenue and expenditure, and capital expenditure are in line with the Group's strategic objectives.

Other Control Processes

The Board recognises the importance of maintaining a control conscious culture throughout the Group. The Group's organisation structure, including the Vietnam operations, identifies the heads of each department, supervisors and their subordinates. The structure enables a clear reporting line from worker level up to the Board. The Board formally communicates its expectation throughout the Group through various formal documents such as the Guidelines for Rules, Regulation and Work Instructions, Responsibility Statements, Lines of Authority, ISO Policies & Procedures, Safety Policy & Manual and the Employees Code of Ethics. The Board's expectations are also communicated informally throughout the Group through the Executive Directors who are actively involved in the operations of the Group.

The Board of Directors

Perusahaan Sadur Timah Malaysia (PERSTIMA) Berhad
18 May 2006