

Carnation Industries Ltd
Code of Conduct for Directors & Senior Management Personnel

Purpose

The principal purpose of a written Code of Conduct (COC) is not to lay down any new rules of procedure, etiquette or performance but to stimulate awareness and acceptance of matters which are inherently implied in any well regulated organization. In interpreting any written COC it should be clearly understood that the spirit of the requirement is more important than the written words in which it is expressed.

As mentioned in the Dr. J. J. Irani Committee Report on Company Law, no written COC can cover every possible situation which arises in practice. However, it is important to have a written COC as a basic framework for ethical compliance bearing in mind that the Code will have to be implemented with the exercise of good judgment so as to ensure adherence to the code in letter as well as in spirit. This COC must therefore be regarded as an inclusive rather than as an exhaustive document.

The purpose of a good COC is to facilitate the harmonious and ethical development of a company which aims to attain its objectives in a legal and ethical manner.

Distinction between Executive and Non-Executive functions.

Policy formulation is the function of the Board of Directors (BOD). Policy implementation is the responsibility of the management. The Board is responsible as a collective Body. It comprises both Independent Non-Executive Directors and Executive/Managing Directors. The term "Executive Directors" will include the Managing Director as well as any other Whole-Time Director or Directors who is in the employment of the company by whatever name described. The functioning and responsibility of the Board is joint rather than individual. The Board is not responsible for transactional matters which are the function of the Management. The responsibility of the Board is to lay down

policy whereas, the function of the management is to implement policies laid down.

Decision making and Implementation

Transparency is required in the decision making process but the decisions themselves must be kept secret. It is the function and the duty of every member of the management team at all levels to faithfully implement the decisions, which have been taken either by the Board or by a superior officer. Transparency in the decision making process ensures that persons who are affected have a reasonable voice in the making of the decision. They are also entitled to seek a modification of the decisions taken by a process of discussion and debate. However, it is the duty of all persons at every level to faithfully implement the decisions, which have been taken irrespective of their personal agreement or disagreement with those decisions.

Code of Conduct for Executive/Managing Directors & Senior Management Personnel

1. As regards the definition of “Senior Management Personnel” we can do no better than refer to the Dr. J.J. Irani Committee Report on Company Law where “Senior Management” has been defined to mean “personnel of the company who are members of its core management team comprising of members of the management one level below the Executive Directors including all functional heads.” The term would include the Company Secretary, the COO (if any), the CFO – by whatever name called – and all persons who are “Officers” under the Companies Act. The Board has the authority in any appropriate case of determining whether a particular person is part of the senior management team to whom the COC applies and such decision by the Board must be accepted without further question.

Except with regard to the clause relating to punctuality and regularity of attendance, the COC for senior personnel also applies to contract persons performing similar management functions.

With the foregoing observations in mind the specific COC for Executive/Managing Directors and Senior Management personnel is outlined in Annexure-A.

2. Non-Executive/Independent Directors

The COC and the duties applicable to such directors is outlined in Annexure-B.

3. General Provisions

(a) It is absolutely inherent to a good code of ethics that all directors and all senior management personnel should avoid conflict of interest and should not exploit the company's assets or benefits for their personal gain or their personal purpose. Involvement in a competing venture would almost certainly constitute a conflict of interest and must be avoided. In the case of non-executive directors, such involvement may be permitted with the knowledge and consent of the Board to begin with, provided the involvement is restricted to non-executive directorship of another company in a similar venture. Such involvement even if permitted by the Board should be disclosed in the next annual report so that the shareholders are aware of the same. In the case of opposition by the shareholders, the non-executive director should either give up his involvement in the other company or should terminate his relationship with this company.

(b) All directors, executive as well as non-executive and all senior management personnel have the basic duty to exercise the utmost care and diligence in the conduct of the company's affairs and to exercise their powers and duties in good faith. They also have the bounden duty of not placing themselves in a position where their interests conflict with the interests of the company and should that happen they have the further duty of ensuring that the company's interests have precedence.

4. Effects of Non-Compliance

Each of the persons to whom Annexure A applies, undertakes the moral and legal obligation of complying with this provision in letter as well as in spirit and without any qualification or reservation whatsoever. Any non-compliance would

be visited with a penalty to be determined by the BOD which may range from warning, reprimand or termination of services – depending on the nature and gravity of the violation. The prerogative of the Board in reaching a decision would be unchallenged and beyond question or criticism.

Annexure A

COC for Executive/Managing Directors and Senior Management Personnel.

1. Their attitude and deportment should be responsible and appropriate.
2. Decisions should be taken on merit and not based on personal predilections. The decisions taken by each person should be consistent with the policy frame work laid down by the Board, the orders or directions given by the Board as well as the orders and directions given by superior officers.
3. The persons concerned should not benefit personally from the functions which they undertake on behalf of the company. They should not solicit or receive any commissions or discounts from suppliers or other persons with whom they deal.
4. Except for minor presents of little or no commercial value they should not receive gifts from company associates or from persons with whom they deal on an official basis. If any gift is offered, it should be immediately reported to the Managing Director and in the case of the MD to the Chairman of the Board.
5. In making assessments of subordinate staff the only consideration should be the merit of the person concerned in his official transactions. Personal considerations should have no part to play whatsoever in the process.
6. The persons concerned should observe a strict “no compete” rule. This means that they should not have any interest direct or indirect in any competing firm, company or enterprise. This restriction applies equally to the spouse of the person concerned as well as to minor children or to major dependents. If there is an existing or potential competing involvement that should be immediately terminated or in the alternative, the person concerned should immediately resign from the company. If there is any doubt in the mind of the person

concerned as to the competing nature of the involvement, he should resolve the doubt by reference to the Chairman of the Board.

7. It is the duty of the persons concerned by this COC to ensure that the information as given to the Board is true, fair, correct and complete.

8. It is also their duty to maintain total secrecy with regard to the decisions taken or communicated to them.

9. No person covered by the COC shall ever make the slightest use of inside information for his personal benefit.

10. All executive directors and all senior management personnel must ensure regularity and punctuality in attendance.

Annexure B

A. COC for Non-Executive Independent Directors.

1. Such directors are expected to function only collectively when they sit on the BOD. They have no individual functions, duties or responsibilities.

2. Collectively when sitting on the Board the Non-Executive Independent Directors would help to frame policy. They would review the budget of the company and monitor variances from the budget. They would also help to formulate broad policy decisions and monitor implementation thereof by the Management.

3. Subject to the following considerations, a NEID may have an interest in a competing firm, company or enterprise:

i. The interest should be limited to a similar position of Non-Executive Independent Director on the Board. It should not involve a direct participation in the ownership or management of such competing company, firm or enterprise.

ii. Any such existing involvement should be disclosed to the Board and any new involvement which materializes subsequently should also be reported to the Board. The continuance of such involvement would depend upon a two-third majority approval by the Board failing which, the director concerned should either terminate such involvement or resign from the Board. Any failure

to do so would justify the Board in taking formal action for the removal of the director concerned. Such involvement should be indicated on the annual report. If a majority of the shareholders object to the involvement at the next AGM the non-executive director concerned should either give up his involvement in the other company or he should terminate his relationship with this company.

4. The provisions relating to commission, discounts, gifts and presents which are applicable to executive/managing directors would also apply to independent directors but only in respect of matters which arise out of their position as independent directors on the Board of this company.

5. Sitting on the Board, independent Non-Executive Directors would participate in the decision making process but would ensure that their decisions are based purely on merits and not affected by personal predilections.

6. The provisions in the COC relating to secrecy and non-use of insider-information would apply equally to non-executive independent directors.

7. All non-executive directors should ensure that they apply their best efforts for the advantage of the company, that they participate actively in board meetings and participate in the decision making process in a transparent manner for the benefit of the company. For this purpose, they must ensure that they devote adequate time to the study of the papers in addition to the time which they spend in attending Board meetings and committee meetings.

8. If any non-executive independent director has a doubt with regard to the interpretation of these requirements, he should seek the clarification of the Chairman of the Board, which should be accepted as final.

B. Duties of Independent Director

1. To undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the company;

2. To seek appropriate clarification or amplification of information and, where necessary, take and follow appropriate professional advice and opinion of outside experts at the expense of the company;

3. To strive to attend all meetings of the Board of Directors and of the Board committees of which you are a member;
4. To participate constructively and actively in the committees of the Board in which you are a chairperson or member;
5. To strive to attend the general meetings of the company;
6. Where you have concerns about the running of the company or a proposed action, ensure that these are addressed by the Board and, to the extent that they are not resolved, insist that your concerns are recorded in the minutes of the Board meeting;
7. To keep yourself well informed about the company and the external environment in which it operates;
8. Not to unfairly obstruct the functioning of an otherwise proper Board or committee of the Board;
9. To pay sufficient attention and ensure that adequate deliberations are held before approving related party transactions and ensure yourself that the same are in the interest of the company;
10. To ascertain and ensure that the company has an adequate and functional vigil mechanism and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use;
11. To report concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy;
12. Action within your authority, to assist in protecting the legitimate interests of the company, shareholders and its employees;
13. Not to disclose confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price sensitive information, unless such disclosure is expressly approved by the Board or required by law.

NOTE:

This Code of Conduct may be amended , modified or expanded by the BOD at its discretion from time to time