

Quarterly Compliance Report on Corporate Governance

Name of the Company: Zodiac Clothing Company Limited

Quarter and year ended on: December 31, 2007

| Particulars | Clause of Listing Agreement | Compliance status (Yes/No) | Remarks |
|--------------------------------------------------------------------------|-----------------------------|----------------------------|------------------------------------------------------------------|
| I. Board of Directors | 49 I | YES | Refer enclosed note |
| (A) Composition of Board | 49 (IA) | YES | -do- |
| (B) Non – Executive Directors' compensation & disclosures | 49 (IB) | YES | -do- |
| [C] Other provisions as to Board and Committees | 49[IC] | YES | -do- |
| D) Code of Conduct | 49[1D] | YES | -do- |
| II Audit Committee | 49 (II) | YES | -do- |
| (A) Qualified & Independent Audit Committee | 49(IIA) | YES | -do- |
| (B) Meeting of Audit Committee | 49 (II B) | YES | -do- |
| (C) Powers of Audit Committee | 49 (II C) | YES | -do- |
| (D) Role of Audit Committee | 49 (IID) | YES | -do- |
| (E) Review of information by Audit Committee | 49 (IIE) | YES | -do- |
| III Subsidiary Companies | 49 (III) | YES | -do- |
| IV. Disclosures | 49(IV) | YES | -do- |
| (A) Basis of related parties transactions | 49(IVA) | YES | -do- |
| (B) Disclosure of Accounting Treatment | 49 (IVB) | YES | -do- |
| (C) Board of Disclosures | 49 (IVC) | YES | -do- |
| (D) Proceeds from Public issues, right issues, preferential issues etc., | 49 (IV D) | YES | -do- |
| (E) Remuneration of Directors | 49 (IV E) | YES | -do- |
| (F) Management | 49 (IVF) | YES | In respect of Financial year ended 31/3/2007, it forms a part of |



| | | | |
|------------------------------------|-----------|-----|--------------------------------------------------------------------------------------------------|
| | | | the Directors Report 2006-2007. |
| (G) Shareholders | 49 (IV G) | YES | -do- |
| V. CEO / CFO Certification | 49 V | YES | Refer enclosed note |
| VI. Report on Corporate Governance | 49 (VI) | YES | In respect of Financial year ended 31/3/2007, it forms a part of the Directors Report 2006-2007. |
| VII. Compliance | 49 (VII) | YES | -do- |

Note 1: Details under each of the abovementioned head are stated below:

I. Board of Directors (Clause 49 I):

The Board of Directors of the company comprises of total 11 directors, which includes an Alternate Director.

(A) Composition of Board – Clause 49 I (A)

The Board of Directors of the company comprises of 11 directors including an Alternate Director. The Chairman of the Board is a Non-Executive Director. Out of the 11 directors, 9 are Non-Executive Directors (including 1 Alternate Director). Out of the above 9 Non-Executive directors 8 are independent Directors (including One Alternate Director). Thus more than 50% of the Board comprises of Non-executive directors and more than 1/3rd of the Board are independent directors.

(B) Non executive director's compensation and disclosures Clause 49 I (B):

Non-Executive Directors are entitled to sitting fees for attending Board Meetings of the Company.

Compensation Committee :

At the Annual General Meeting held on August 31, 2006, the shareholders of the Company have approved the grant of Stock Option to employees of the Company and its subsidiaries / Directors of the Company (other than Promoter Directors or their relatives) Board of Directors at its meeting held on 31st October 2006, approved constitution of the Compensation Committee with the following Board Members:-

| | | |
|--------------------------|---|--------|
| Mr. Y. P. Trivedi | - | Member |
| Mr. M. L. Apte | - | Member |
| Mr. Bernhard Streinrueke | - | Member |



At the first meeting of the Compensation Committee held on December 27, 2006, the Committee approved grant of 2,31,500 Stock options to employees of the Company / employees of subsidiary companies and 34,000 Stock options were granted to eligible Directors of the Company at a price of Rs. 255.40 per option. Grant of 25,500 Stock options to members of Compensation Committee at a price of Rs. 255.40 per option was approved by Board of Directors on the said date. Accordingly, a total of 2,91,000 options were granted during the quarter at a price of Rs. 255.40 per share.

Committee of Directors to approve Limited Review Report :

As per the amended Clause 41 of the Listing Agreement, during the quarter, a separate Committee was formed by the Board of Directors at its meeting held on October 29, 2007 with the following Board members

| | | |
|-------------------|---|--------|
| Mr. M.Y. Noorani | - | Member |
| Mr. S. M. Datta | - | Member |
| Mr. A.Y. Noorani | - | Member |
| Mr. S. Y. Noorani | - | Member |

to approve the Limited Review Report submitted by the Statutory Auditors of the Company on the Unaudited Financial Results of the Company, before submission to the Stock Exchanges where the equity shares of the Company are listed.

During the quarter, One Committee meeting was held on November 26, 2007, to approve the Limited Review Report on the Unaudited Financial Results of the quarter and half year ended September 30, 2007.

(C) Other provisions as to Board and Committees – Clause 49 I (C)

[i] The meetings of the board of directors are scheduled in advance. During the quarter, only one Board meeting was held on 29th October 2007, within a time gap of 4 months between any two meetings, in view of the amended Clause 49. The minimum information as stipulated under Annexure-IA is made available to Board in their meetings.

[ii] None of the Directors on the Board are members of more than 10 committees or act as Chairman of more than five committees across all companies in which they are directors. The directors of the company have been informing the company annually about the committee positions occupied by them in other companies and also about the changes as and when they take place.

(iii) Based on the reports received from the functional Heads of the company the Vice Chairman & Managing Director has been reporting to the Board periodically about the compliance position in respect of the laws applicable to the company. The Board is also informed about non-compliances, if any, as well as steps taken by the company to rectify instances of non-compliance.

(D) Code of conduct – Clause 49 I (D)

- (i) The Board has laid down a Code of Conduct for all its Board members and Senior management personnel for avoidance of conflict of interest. The Code of Conduct is effective from June 1, 2005. The code of conduct is posted on the company's website www.zodiaconline.com.
- (ii) The Code has been circulated to all the members of the Board and Senior Management and the compliance of the code has been affirmed by all the members for the year ended March 31, 2007. The Annual Report of the company for the year ended 2006-2007 contains a declaration to that effect, signed by the Vice Chairman & Managing Director

II. Audit Committee (Clause 49 II):

The Audit Committee as per the provisions of Clause 49 II of the Listing agreement has been constituted with 3 members.

(A) Qualified & Independent Audit Committee – Clause 49 II (A)

The constitution of the Audit Committee is as under:-

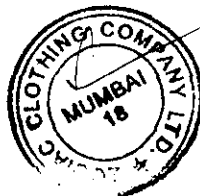
Mr. S. R. Iyer - Audit Committee Chairman & Member.
Mr. M. L. Apte and Mr. Y. P. Trivedi - Committee members

- i] All the 3 Directors/members are Non – Executive and Independent.
- ii] All the members of the audit committee are financially literate. Two members of the audit committee have accounting or related financial management expertise. viz.

Mr. S.R. Iyer has been the former Chairman and Director of Credit Information Bureau (India) Limited and was also the Managing Director of State Bank of Mysore and retired as Managing Director of State Bank of India. He has vast knowledge and rich experience in the banking industry.

Mr. Y.P. Trivedi is a practicing Supreme Court Advocate, who specializes in Income tax matters.

- iii] The Chairman of the Audit Committee is an independent director
- iv] The Chairman of the Audit Committee has been remaining present in the AGMs to answer shareholders queries.



v] The audit committee invites such of the executives as it considers appropriate [including head of finance function] to be present in the Audit Committee meetings. The head of internal audit and the statutory auditors remain present in most of the Audit Committee meetings. The Chairman, Managing Directors, the General Manager - Accounts, the Internal Auditor and the Statutory Auditors are normally invited to these meetings.

vi] The Company Secretary acts as the Secretary to the Committee.

(B) Meetings of Audit Committee – Clause 49 II (B)

During the quarter, Two audit committee meetings were held on 29th October 2007 and 27th December 2007, with minimum of two independent members present and in a time gap of not more than four months between two meetings.

(C) Powers of Audit Committee – Clause 49 II (C)

Keeping in view the amendments in Clause 49 of the listing agreement the Board of Directors in their meeting held on 28th January 2005, have already empowered the Audit Committee with the following powers:-

- a. To investigate any activity within its terms of reference
- b. To seek information from any employee
- c. To obtain outside legal or other professional advice.
- d. To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) Role of Audit Committee – Clause 49 II (D)

The role of the Audit committee was re-defined in the Board Meeting held on 28th January 2005, in accordance with the provisions of Clause 49 II [D} viz. Sr.nos. 1 to 13.

(E) Review of Information by Audit Committee – Clause 49 II (E)

The Audit Committee interalia reviews the following in the meetings commencing w.e.f. 1st January 2006 onwards as and when applicable:-

1. Management discussion and analysis of financial conditions and results of operations.
2. Statement of significant related party transactions submitted by management.
3. Management letters/letters of internal control weaknesses issued by statutory auditors
4. Internal audit reports relating to internal control weaknesses.
5. The appointment, removal and terms of remuneration of the Internal auditor.



III . Subsidiary Companies – Clause 49 III:-

i] The Company has only one non-listed Indian Subsidiary Company i.e M/s Multiplex Collapsible Tubes, and as per the revised Clause 49 defines a ‘ material non-listed Indian subsidiary’ as an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding Company and its subsidiaries in the immediately preceding accounting year. The said Indian subsidiary does not fulfill the criteria of ‘material non-listed Indian subsidiary.

ii] The Audit Committee reviews the financial statements, in particular, the investments [if any] made by the unlisted subsidiary companies in their meetings held w.e.f. 1st January 2006, onwards.

iii] The minutes of the Board meetings of the unlisted subsidiaries of the company have been placed at the Board meetings of the company and the management periodically brings to the attention of the Board of the company, a statement of all significant transactions and arrangements entered into by unlisted subsidiaries w.e.f. meetings held after 1st January 2006.

IV . Disclosures – Clause 49 (IV)

(A) Basis of related party transactions – Clause 49 (IV A)

The company has entered into related party transactions, which are not likely to have a conflict with the company’s interest, the Register of contracts containing the transactions in which Directors are interested / related party transactions is placed before the Board periodically for its approval. The details of all transactions with related parties in the manner required to be tabled before the Audit Committee as per the revised Clause 49 of the listing agreement, are placed before the Audit Committee on quarterly basis w.e.f. 1st January 2006.

(B) Disclosure of Accounting Treatment – Clause 49 (IV B)

In the preparation of financial statements, no treatment materially different from that prescribed in the Accounting Standards issued by the Institute of Chartered Accountants of India has been followed as applicable.

(C) Board Disclosures – Risk Management -Clause 49 (IV C)

The Company has laid down policies and procedures to inform Board members about the risk assessment and minimization procedures. The main objective of the Risk Management policy as defined in manual is to protect the property, earnings and personnel of the company against losses and legal liabilities that may be incurred due to various risks. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.



(D) Proceeds from public issues, rights issues, preferential issues etc. – Clause 49 (IV D)

The Company had made a preferential issue of equity shares during December 2004 to few financial investors in term of SEBI (Disclosure & Investor Protection) Guidelines. The funds so raised have been completely utilized and the company has been complying the provisions of Clause 43 of the listing agreement. The details of utilization of proceeds raised through issue of preferential issue were disclosed to the Audit committee on a quarterly basis till such time the funds were utilized fully. The details of utilization of funds has been disclosed in the Annual Report for F.Y. 2006-2007.

During the quarter under review, in order to augment the long term resources of the Company, to part finance the fund requirement for capital expenditure, working capital and general corporate purposes but not limited to investment, the Company has proposed warrants on preferential basis, duly approved by the shareholders at its Extra ordinary General Meeting of the Company held on November 28, 2007, to certain promoters in accordance with the provisions of Chapter XIII of Securities and Exchange Board of India (Disclosure of Investor Protection) Guidelines, 2000. By individual letters each of the allottees have expressed their intention to subscribe and be allotted to 4,40,000 warrants of the Company to be converted into Equity shares of Rs.10/- each for cash at a price of Rs. 400/- per share (including a premium of Rs.390 per share).

At the Extra ordinary General Meeting held on November 28, 2007, it was also proposed and approved to issue Equity shares, partly convertible bonds, Foreign Currency Convertible Bonds (FCCBs) and / or debentures and / or other securities etc. by prospectus and / or offer letter, and / or offering circular and / or on public and / or private or preferential basis not exceeding 15,00,000 equity shares of Rs.10/- each under and in accordance with the SEBI (Disclosure of Investors Protection) Guidelines 2000.

(E) Remuneration of Directors – Clause 49 (IV E):-

The non-executive directors are not entitled to any remuneration except sitting fees for attending Board/Committee meetings. As regards executive directors, as per the terms of appointment, they are not entitled to any remuneration. Pecuniary relationship or transactions of the non-executive directors vis-à-vis, company has been disclosed in the Annual report of 2005-06 and will continue to be disclosed in keeping with the requirements under Clause 49 [IV E] as may be applicable. Rest of the stipulations contained in clause 49 IV[E] has been complied with in the Annual Report – F.Y. 2006-07 to the extent applicable.

During the financial year 2006-07, 59,500 Stock options were granted to eligible Directors of the Company (i.e. 8500 options per Director to seven directors) at a price of Rs. 255.40 per option and 11,000 options lapsed due to the resignation of the allottees.



(F) Management - Clause 49 (IV F):

The Management Discussion and Analysis Report for the financial year ended March 31, 2007, forms a part of Annual Report for 2006-2007 and the company will continue to adhere to the said clause for the Annual Report for F.Y.2007-08.

The Senior Management have affirmed to the Board, that there are no commercial or material financial transactions where there is a personal interest that may have a potential conflict with the interest of the company at large.

(G) Shareholders - Clause 49 (IV G)

i] In the Annual General Meeting held on September 25, 2007, Mr. M. Y. Noorani, Mr. Bernhard Steinruecke and Mr. S. M. Datta were re-appointed as Directors liable to retire by rotation. The brief resume of the aforesaid Directors, their nature of expertise in specific functional areas & names of the companies in which they hold the Directorship and the membership of Committees of the Board have been provided to the shareholders in the Annual report 2006-07. No new directors were appointed during the year ended 31st March, 2007.

ii] The Company has been periodically putting on its web-site its quarterly unaudited financial results and also presentations made by the company to analysts including investor updates.

iii] A Board committee under the Chairmanship of a non-executive director has been formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee has been designated as 'Shareholders/Investors Grievance Committee'. The Committee meets at frequent intervals to consider share transfer, Shareholders' complaints and other matters as delegated to it by the Board of Directors. All valid share transfers received during the year 2006-07 have been approved/ratified and attended to by the Committee in accordance with the delegation of authority conferred on the said Committee by the Board

V. CEO / CFO Certification - Clause 49 (V)

The CEO and CFO have certified to the Board of Directors with regards to the financial statements and cash flow, as per the provisions of revised Clause 49 [V] in the Board meeting held on June 30, 2007. The said provision shall be complied time to time as per clause 49.

The CEO and CFO have also certified to the Board of Directors with regards to the correctness of the Unaudited Financial Results for the quarter and half year ended September 2007 as per the amended Clause 41 of the Listing Agreement of the Stock Exchange.



VI. Report on Corporate Governance – Clause 49 VI

The report on Corporate Governance for the financial year ended March 31, 2007 incorporating the requirements under Annexure IC to the extent applicable has been published in Annual Report of F.Y. 2006-07.

VII. Compliance - Clause 49 (VII)

The Company has obtained an Auditors' Certificate on compliance of the conditions of Corporate Governance under Clause 49 of the Listing Agreement and the same is provided to the shareholders in the Annual report for F.Y. 2006-07. The said provisions will again be complied in the Annual report for F.Y. 2007-08.

The Company has also obtained an Auditors' Certificate on compliance of the conditions of the proposed issue of 4,40,000 warrants on a preferential allotment basis.

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