

ANNUAL REPORT

FOR THE YEAR ENDED 31ST MARCH 2005

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**Group
Cheviot**

CHEVIOT COMPANY LIMITED

CHEVIOT COMPANY LIMITED

CHAIRMAN (EMERITUS)

B. D. KANORIA

BOARD OF DIRECTORS

H. V. KANORIA - *Chairman and Managing Director*

P. K. BHATTACHARJEE

N. NAYAR

H. KHAITAN

S. DHANDHANIA

N. K. KEJRIWAL - *Wholetime Director*

CGM (CORPORATE) & SECRETARY

D. K. MOHTA

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AUDITORS

JAIN & CO.

Chartered Accountants

BANKERS

STATE BANK OF INDIA

REGISTERED OFFICE

24, PARK STREET

MAGMA HOUSE (9TH FLOOR)

KOLKATA - 700 016

WORKS

19, MEHTA ROAD

BUDGE-BUDGE

24-PARGANAS (SOUTH) - 743 319

WEST BENGAL

SECTOR II

FALTA SPECIAL ECONOMIC ZONE

FALTA, 24-PARGANAS (SOUTH) - 743 504

WEST BENGAL

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CHEVIOT COMPANY LIMITED**NOTICE****TO THE MEMBERS**

Notice is hereby given that the Annual General Meeting of the Members of Cheviot Company Limited will be held at The Sitaram Seksaria Auditorium of Bharatiya Bhasha Parishad, 36A, Shakespeare Sarani, 4th Floor, Kolkata – 700 017 on Thursday, the 7th July, 2005 at 11.00 A.M. to transact the following business :

1. To receive, consider and adopt the Audited Accounts for the year ended 31st March, 2005 and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend for the financial year ended 31st March, 2005.
3. To appoint a Director in place of Mr. H. Khaitan, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint M/s Jain & Co., Chartered Accountants, as the Auditors of the Company on a remuneration to be mutually agreed upon with the Board of Directors.
5. To consider and, if thought fit, to pass with or without modification(s), the following resolutions as an ORDINARY RESOLUTION :

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and 311 and other applicable provisions, if any, of the Companies Act, 1956 (the Act) read with Schedule XIII thereto, approval of the Company be and is hereby accorded to the re-appointment of Mr. Harsh Vardhan Kanoria (Mr. Kanoria), as the Chairman and Managing Director of the Company for a period of five years with effect from 1st August, 2005 upon the terms and conditions as to remuneration and otherwise as set out in an agreement (a draft of which signed by the Chairman for identification was laid on the table) to be entered into between the Company and Mr. Kanoria."

"FURTHER RESOLVED THAT in the event of absence or inadequacy of profits in any financial year during the aforesaid period of five years, the Company will pay to Mr. Harsh Vardhan Kanoria (Mr. Kanoria) remuneration by way of salary and perquisites then drawn by Mr. Kanoria subject to requisite approvals, if any as minimum remuneration."

6. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an ORDINARY RESOLUTION :

"RESOLVED THAT the Board of Directors of the Company be and is hereby authorized to pay to the Non-Executive Directors of the Company such fee, as it may determine from time to time not exceeding the limits prescribed under the Companies Act, 1956, for attending a Meeting of the Board and/or a Committee(s) thereof."

7. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an ORDINARY RESOLUTION :

"RESOLVED THAT pursuant to Section 293(1)(e) of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors of the Company to contribute and/or subscribe from time to time in any financial year to any charitable and other funds not directly related to the business of the Company or the welfare of its employees upto a total amount of Rs. 500 lacs notwithstanding that such contributions and/or subscriptions may exceed Rs. 50,000/- or 5% of the Company's average net profits as determined in accordance with the provisions of Sections 349 and 350 of the Companies Act, 1956, during the three financial years immediately preceding."

Registered Office :
24, Park Street,
Magma House, (9th Floor),
Kolkata - 700 016
Dated : 4th May, 2005

By Order of the Board,
CHEVIOT COMPANY LIMITED
D. K. MOHTA
CGM (Corporate) & Secretary

NOTES :

1. **The Register of Members and the Share Transfer Register of the Company will remain closed from 1st July, 2005 to 7th July, 2005 (both days inclusive).**
2. **Any Member who is entitled to attend and vote at this meeting may appoint a proxy to attend and vote instead of himself/herself and such proxy need not be a Member of the Company. The Proxies in order to be effective, should be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid Meeting.**
3. **Dividend, as recommended by the Board of Directors, if declared at the Meeting will be paid on or before 6th August, 2005 to those members, whose names shall appear in the Company's Register of Members at the close of working hours of the Company on Thursday, 30th June, 2005. In respect of the shares held in electronic form, the dividend will be paid to the persons whose names shall appear as beneficial owners as at the end of the business hours on 30th June, 2005 as per details furnished by National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).**
4. **In pursuance to Section 205A & 205C of the Companies Act, 1956, dividends which remain unpaid/unclaimed over a period of seven years will have to be transferred by the Company to the Investor Education and Protection Fund of the Central Government. Accordingly, unpaid/unclaimed dividend for the financial year ended 31st March, 1997 have been transferred to the said fund. Unpaid/unclaimed dividend in respect of financial year ended 31st March, 1998 will become due for transfer during September, 2005. Shareholders are advised to encash the unpaid dividend warrants before transfer to the above referred Fund. Members shall not be able to claim in respect of their unpaid/unclaimed dividend from the said fund.**

CHEVIOT COMPANY LIMITED

NOTICE (Contd.)

5. Securities and Exchange Board of India (SEBI) has made it mandatory for all the Companies to use the bank account details furnished by the Depositories for distributing dividends through Electronic Clearing Service (ECS) to the investors wherever ECS and bank details are available. Members are advised to avail ECS facility whereby the dividend will be directly credited electronically to their respective Bank Accounts. Members holding the Company's shares in dematerialised mode are requested to provide ECS particulars to their respective Depository Participants, if they have not done so already. Members holding the Company's shares in physical form who have not opted for ECS are requested to provide their ECS particulars in the enclosed '**ECS Mandate Form**' and forward the same duly filled in and signed to the Company's Registrar and Share Transfer Agent at the earliest to avail this facility.
6. Members holding shares in physical form are requested to intimate change in their registered address and bank particulars to the Company's Registrar and Share Transfer Agent and the members holding their shares in electronic form are requested to provide this information to their Depository Participants immediately.
7. Members desirous of getting any information about the accounts of the Company are requested to address their queries to the Company at least 10 (Ten) days in advance of the meeting i.e. by 26th June, 2005, so that proper information can be made available at the meeting.
8. Members who hold shares in dematerialised form are requested to bring their Client ID and DP numbers for quick identification while recording attendance at the meeting.
9. Pursuant to the provisions of Section 109A of the Companies Act, 1956, members are entitled to make a nomination and are requested to send their requests in Form 2B to the Registrar and Share Transfer Agent.
10. Note on Directors seeking appointment/re-appointment at the ensuing Annual General Meeting :
 - (a) Mr. H. Khaitan (Mr. Khaitan), aged 34 years, is a director of the Company since 07.10.1994. Mr. Khaitan has a bachelor's degree in law and has been practicing as an Advocate since 1995. His areas of expertise include commercial & corporate laws, tax laws, mergers and acquisitions, restructuring, foreign collaboration, licensing etc. Mr. Khaitan also holds directorship and membership of the Committee of the Board of Directors of the following Companies :
 1. BTS Investment Advisors Pvt. Ltd., 2. Ceat Ltd., 3. Dhunseri Tea & Industries Ltd., 4. Dormeuil-Birla VXL Ltd., 5. Gujarat Borosil Ltd., 6. Harrisons Malayalam Ltd., 7. Hindustan Composites Ltd., 8. India Foils Ltd., 9. Khaitan Consultants Ltd., 10. Kothari Plantations & Industries Ltd., 11. National Engineering Industries Ltd., 12. NeoWorth Pvt. Ltd., 13. Rama Newsprint & Papers Ltd., 14. Ritspin Synthetics Ltd., 15. Ritssfibra Pte Ltd., 16. Sterlite Optical Technologies Ltd., 17. Vinar Systems Pvt. Ltd., 18. Xpro India Ltd.
 - (b) Mr. H. V. Kanoria (Mr. Kanoria), aged 49 years, is a Director of the Company from 01.04.1981. Mr. Kanoria is a Commerce Graduate and holding the position of Chairman and Managing Director of the Company since 01.08.2000. He is an Industrialist having vast experience of 31 years of Management and Administration. Mr. Kanoria also holds directorship and membership of the Committee of the Board of Directors of the following Companies :
 1. Cheviot Agro Industries Ltd., 2. Powertone Trading Co. Pvt. Ltd., 3. Manorath Mercantiles Pvt. Ltd., 4. Harsh Investments Pvt. Ltd., 5. Cheviot International Ltd., 6. Elite (India) Ltd. (Converted into Pvt. Ltd. w.e.f. 29.04.2005).
11. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed.

ANNEXURE TO NOTICE

Explanatory Statement as required under Section 173(2) of the Companies Act, 1956

ITEM No. 5

The present term of office of Mr. Harsh Vardhan Kanoria (Mr. Kanoria), Chairman and Managing Director of the Company will expire on 31st July, 2005.

Mr. Kanoria has been associated with the Company for the last several years in his capacity as Chairman and Managing Director. In view of his vast experience and significant contributions to the Company's overall growth and profitability, the Board of Directors by a resolution passed on 4th May, 2005, re-appointed Mr. Kanoria as the Chairman and Managing Director for a period of five years with effect from 1st August, 2005 on the terms and conditions mentioned in the draft agreement to be entered between the Company and Mr. Kanoria.

The principal terms and conditions including the remuneration governing the re-appointment of Mr. Kanoria are set out below :

1. **Salary** : Rs. 1,50,000/- per month in the range of Rs.1,50,000/- to Rs. 2,25,000/- per month as may be determined by the Board from time to time.
2. **Commission** : Commission may be payable at the absolute discretion of the Board, of such amount as may be approved by the Board for each year.
3. **Perquisites** : The Chairman and Managing Director shall also be entitled to furnished residential accommodation or house rent allowance, gas, electricity, reimbursement of medical expenses incurred in India or abroad including hospitalisation, surgical charges for self and family and travel relating thereto, leave travel concession for self and family, fees of clubs, personal accident insurance, surrender value of Keyman Insurance Policy, company maintained car, telephone at residence as perquisites in addition to salary and commission restricted to an amount equal to the annual salary or such other sum as may be determined by the Board from time to time. Perquisites shall be evaluated as per the Income Tax Rules, wherever applicable.

CHEVIOT COMPANY LIMITED**NOTICE (Contd.)**

The remuneration mentioned above including the value of the perquisites will be subject to the overall ceilings laid down under Sections 198 and 309 of the Companies Act, 1956.

4. Mr. Kanoria will also be entitled to the following perquisites which shall not be included in the computation of the ceiling on remuneration as specified above :
 - (a) The Company's contribution towards Provident Fund as per the Rules of the Company but restricted to the extent this is not taxable under the Income Tax Act, 1961.
 - (b) Gratuity not exceeding one-half month's salary for each completed year of service.
5. Leave on full pay and allowance as per the Rules of the Company but not exceeding one month's leave for every eleven months of service.
6. Mr. Kanoria shall not be paid any sitting fee for attending the meeting of the Board or any Committee thereof.
7. In the event that the Company in any financial year during the aforesaid period, has no profits or its profits are inadequate, the minimum remuneration payable to Mr. Kanoria by way of salary, allowances and perquisites shall be the remuneration then drawn by Mr. Kanoria subject to requisite approvals, if any.
8. Mr. Kanoria will be reimbursed by the Company of all entertainment and other expenses actually incurred by him in connection with the business of the Company subject, however to such limits as may be fixed by the Board from time to time.
9. Mr. Kanoria will not, so long as he functions as a Chairman and Managing Director, become interested or otherwise concerned directly or through his wife and/or dependent children and/or dependent parents in any selling agency of the Company in future. His appointment shall cease and determine on any contravention of this condition.
10. Mr. Kanoria and the Company shall have right to terminate the appointment by giving three months' prior notice in writing to the other.

The copy of the draft Agreement referred to in the proposed Ordinary Resolution may be inspected by any Member at the Registered Office of the Company on any working day prior to the date of the meeting between 11.00 a.m. and 1.00 p.m. and will also be available for inspection at the Annual General Meeting.

The Board recommends that the proposed ordinary resolution be accepted by the Company.

Except Mr. H. V. Kanoria, no other director of the Company is interested or concerned in the Resolution.

The above should also be considered as an abstract of the terms of the re-appointment of Mr. Kanoria and a Memorandum as to the nature of the concern and interest of the Directors in the said re-appointment in terms of Section 302(7) of the Companies Act, 1956.

ITEM NO. 6

In consonance with the requirements of Clause 49 of the Listing Agreement with the Stock Exchange(s), sitting fees paid to the Non-Executive Directors for attending Board/Committee Meetings including Independent Directors are required to be fixed by the Board of Directors with prior approval of the shareholders of the Company in a General Meeting.

Accordingly, approval of the members is being sought for payment to Non-Executive Directors of the Company of such fees as the Board may determine from time to time for attending a meeting of the Board and/or Committee(s) thereof within the limit prescribed under the Companies Act, 1956.

The Board of Directors recommend the passing of this Resolution.

All the Non-Executive Directors of the Company may be interested in the proposed ordinary resolution to the extent of the fees that may be paid to them.

ITEM NO. 7

At the Annual General Meeting held on 22nd July, 1998, the shareholders had accorded their consent to the Board of Directors of the Company to contribute and/or subscribe up to a total amount of Rs.50 Lakhs for charitable or other funds in any financial year. In order to carry out the social obligations and increasing responsibilities of the business, it is desirable to increase the aforesaid amount of contribution and/or subscription to the Charitable and other funds. Since contribution and/or subscription in excess of the limits prescribed under Section 293(1)(e) of the Companies Act, 1956 in any financial year requires the approval of the shareholders, it is recommended that the Board should be empowered to make such contributions and/or subscriptions up to the limits as specified in the Resolution.

None of the Directors is concerned or interested in the proposed ordinary resolution.

Registered Office :
24, Park Street,
Magma House, (9th Floor),
Kolkata - 700 016
Dated : 4th May, 2005

By Order of the Board,
CHEVIOT COMPANY LIMITED
D. K. MOHTA
CGM (Corporate) & Secretary

CHEVIOT COMPANY LIMITED**DIRECTORS' REPORT****TO THE MEMBERS**

Your Directors have pleasure in presenting their Annual Report and Statement of Accounts of the Company for the year ended 31st March, 2005.

Amount in Rs. Lakhs

FINANCIAL RESULTS

Year ended March 31	2005	2004
The working results after charging depreciation show a gross profit of	2221.81	1749.84
From which have been deducted :		
Provision for taxation	202.10	63.70
Provision for deferred tax	110.79	12.91
Taxation for earlier years (net)	(0.05)	(2.07)
Resulting in profit after taxation of	1908.97	1675.30
To which has been added		
Balance brought forward from previous year	151.86	147.99
Making a total of	<u>2060.83</u>	<u>1823.29</u>
Which has been appropriated by the Directors as under :		
Proposed dividend	300.75	240.60
Tax on distributed profits (includes Rs. 0.62 for previous year)	42.80	30.83
Transfer to General Reserve	1500.00	1400.00
Balance to be carried forward	217.28	151.86
	<u>2060.83</u>	<u>1823.29</u>

DIVIDEND

The Directors recommend for your consideration payment of dividend @ 100% i.e. Rs. 10/- per share for the year ended 31st March, 2005.

OPERATIONS

The performance of the Company during the year under review was better as compared to the previous year when the working was affected due to loss of 12 working days. The production, export sales and profitability have shown under noted growth over last year

	Current year	Previous year	Growth %
Production (M. Tonnes)	43,659	40,630	7.46
Export Sales - (CIF Value - Rs. in Lakhs)	10,786.75	8,555.36	26.08
Profit before taxation (Rs. in Lakhs)	2,221.81	1,749.84	26.97

The increase in profitability is largely attributed to better sales realization achieved on account of steep increase in Jute yarn selling prices due to bumper overseas demand. However, the growth in profitability was partly diluted due to high raw jute price and reduction in export benefits. The Directors are pleased to report that in keeping with Company's strategy to focus on its core business of manufacturing value added items of jute goods, the Company is taking effective steps to set up a project to create facilities to manufacture jute yarn in the Falta Special Economic Zone. Your Directors are of the view that the aforesaid project would be advantageous and can be conveniently carried on along with its existing operations and would ultimately enable the Company to also have facilities within the zone for manufacturing and exporting yarn. The work on the said project is expected to commence in due course of time during current year.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT**a) Industry structure and developments**

The year under review witnessed issuance of a notification by the Government of India granting status quo ante for compulsory packing of food grains at 100% and sugar at 90% under Jute Packaging Materials (Compulsory use for Packing Commodities) Act, 1987 (JPMA) valid up to 30.06.2005. Moreover, positive indications are being received from the said Government for continuance of JPMA beyond 30.06.2005.

CHEVIOT COMPANY LIMITED

DIRECTORS' REPORT (Contd.)

Export benefits in the form of export market assistance (EMA) have been substantially reduced to a limit of Rs. 20 lakhs per beneficiary per annum during recent extension of the scheme for a period from 01.04.2005 to 31.03.2007 by the Government of India. There is uncertainty in the matter of further extension/modification of the EMA Scheme. This has largely affected exports and disappointed the industry.

Industry has, however, welcomed the new Jute Policy announced by the Government of India reiterating the plans for developing and modernizing the industry with emphasis on exports and providing protection to the domestic market so as to place the industry on strong footing.

b) Opportunities and Threats/Risks and Concerns

Following are the major areas of risks and concerns for the Jute Industry -

- ☐ Competition from Bangladesh which enjoys benefits in the form of lower wage and power cost ;
- ☐ No sign of implementation of productivity linked wage payment as stipulated in an agreement signed in 2002 ;
- ☐ Increase in dearness allowance leading to further rise in already higher wage cost ;
- ☐ Substantial reduction in export benefits in the form of EMA and its gradual phase out ;
- ☐ Oil price levels in the world market ;
- ☐ Continuous appreciation of Rupee vis-a-vis US Dollar putting pressure on export earnings ;
- ☐ Setting up of new grass root units both within and outside the state of West Bengal operating more efficiently at lower costs as compared to the existing old units.

c) Segment-wise or product-wise performance

The Company continues to operate through two business segments namely, a) Jute Goods and b) Captive Power Generation. However, captive power generation is not a reportable segment in terms of the criteria laid down in paragraph 27 of the aforesaid AS-17 as the revenue/results/assets of this segment are not more than the threshold limit of 10% of the total segment results/assets.

The following disclosure under Geographical segment has, however, been considered on the basis of Sales for the Jute Goods :

- ☐ Within India - Rs. 3757.79 lakhs [Previous year - Rs. 3521.71 lakhs]
- ☐ Outside India - Rs. 10786.75 lakhs [Previous year - Rs. 8555.36 lakhs]

d) Outlook

The recent rise in price of raw jute has become a matter of concern. Besides, the features and terms of new EMA Scheme as explained in para a) above will affect the profitability considerably. However, the Company's efforts continue in the direction of product improvement and proper steps are taken for modernization, expansion, diversification into more value added items of jute goods. Moreover, the Company is also exploring new areas where jute products can be profitably used. Your Company will continue to focus on exports and make required investments on overall business development with ultimate aim to improve sales and profitability. Barring unforeseen circumstances, the outlook for the current year appears to be promising.

e) Internal control systems and their adequacy

The Company has proper internal control system in all spheres of activities. The internal control is strengthened by covering important areas under audit by internal auditor. The audit committee reviews the observations of internal auditor and timely steps are taken to implement their suggestions.

f) Discussion on financial performance with respect to operational performance

The following are the significant areas of financial performance :

- In pursuance to the announcement dated April 02, 2005 of The Institute of Chartered Accountants of India, the Company has changed its accounting policy in respect of inter unit transactions by netting them off, which during the previous financial year were reflected as part of Sales and Related Income with corresponding increase in related expenses. Such change in accounting policy has no impact on profits. Proper disclosure to the said effect has been given in the notes on accounts with corresponding change in previous year's figures to make them comparable ;
- Sale of jute goods was Rs. 14544.54 lakhs during the year as compared to Rs. 12077.07 lakhs during previous year, registering a growth of 20% ;
- Profit before taxation has increased by Rs. 471.97 lakhs from Rs. 1749.84 lakhs in previous year to Rs. 2221.81 lakhs in the current year mainly on account of better sales realization ;
- Interest expenses are lower at Rs.16.11 lakhs during the year as against Rs. 75.49 lakhs in previous year. The reduction in interest cost is attributed partly due to prepayment of term loans and partly due to prudent financial management ;
- Inventories have increased by Rs. 418.95 lakhs being Rs. 2456.25 lakhs as at 31.03.2005 as against Rs 2037.30 lakhs as at 31.03.2004. The increase in inventory is also mainly due to increase in cost of raw material and other inputs ;
- Profit on sale of Investments (net) has also contributed to the bottom line by Rs. 63.26 lakhs. The Company continues to deploy surplus cash generated from operations in mutual funds after proper evaluation ;
- The Company has invested Rs. 579.70 lakhs (net) in fixed assets during the year.

CHEVIOT COMPANY LIMITED**DIRECTORS' REPORT (Contd.)**

- g) **Material developments in Human Resources/Industrial Relations front, including number of people employed**
 As on 31.03.2005, the Company had 3751 workers on its rolls. The Company continues to provide employment to workers at new scale of pay and put great emphasis on building internal capabilities by providing them training under company's programmes.
 The Company is continuing its efforts to enhance competence of its manpower to make them more resourceful in their present job and also to prepare them for future roles. The Company has also introduced several staff welfare and tour and travel schemes under which benefits/rewards are provided periodically to deserving members of staff.
- h) **Cautionary statement**
 Statement made in this section of the report is based on the prevailing position in the jute industry and market conditions, which could be different from what we perceive with regard to outlook and performance.

CORPORATE GOVERNANCE DISCLOSURE

A detailed report on the Corporate Governance along with a certificate from the statutory auditors certifying compliance to the conditions of Corporate Governance by the Company as stipulated in the existing Clause 49 of the Listing Agreement with Stock Exchanges is set out in the Annexure to this report. Steps are being taken to comply with the provisions of new Clause 49 well before the stipulated period.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors confirm that :

- the Company has followed the applicable accounting standards in the preparation of the annual accounts for the year under review ;
- the directors have made judgements and estimates that are reasonable and prudent and have selected such accounting policies and applied them consistently to give true and fair view of the state of affairs of the Company for the year ended 31st March, 2005 and its profits for the year ended on that date ;
- the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities ;
- the Company has prepared the annual accounts for the year ended 31st March, 2005 on a going concern basis.

PARTICULARS OF CONSERVATION OF ENERGY ETC.

Details of the conservation of energy, technology absorption, foreign exchange earnings and outgo in accordance with the sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988, are annexed to this report.

PERSONNEL

During the year under review, industrial relations remained harmonious.

Information as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given in annexure forming part of this report.

DIRECTORS

Mr. H. Khaitan, Non-Executive Director retire by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. H. V. Kanoria has been re-appointed as Chairman and Managing Director of the Company by the Board on the terms and conditions as mentioned in the resolution which is being placed before you at the ensuing Annual General Meeting and your Directors recommend passing of the same.

Brief particulars of the said directors have been given in the Notice convening Annual General Meeting.

AUDITORS

The Members are requested to re-appoint the Auditors and authorize the Board to fix their remuneration. Messrs. Jain & Co., the retiring Auditors have given their consent to continue to act as Auditors of the Company, if appointed and have furnished to the Company the required certificate under Section 224(1B) of the Companies Act, 1956.

Pursuant to provisions of Section 233B of the Companies Act, 1956, Messrs D. Radhakrishnan & Co. Cost Accountants have been appointed, subject to requisite approval of the Central Government, to conduct an audit of the Cost Accounts maintained by the Company for the year ending 31st March, 2006.

ACKNOWLEDGEMENT

The Directors place on record their sincere appreciation for the continued co-operation and support extended by Export Import Bank of India, State Bank of India, the Company's business associates and the employees at all levels. The Directors are also thankful to the shareholders of the Company for their continued support and the confidence reposed in the Company and its management.

On behalf of the Board

H. V. KANORIA

Chairman and Managing Director

Kolkata, 4th May, 2005

CHEVIOT COMPANY LIMITED**ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2005****REPORT ON CORPORATE GOVERNANCE**

[Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges]

1. Company's philosophy on Code of Governance

The Company's philosophy on corporate governance continues in the direction of achieving sustained growth and maximizing stakeholder's value over a period of time by remaining committed to excellence, efficiency, modernization and upgradation. Such philosophy is focused on customer satisfaction through continual improvement in performance including motivation and involvement of human capital.

2. Board of Directors**a) Composition**

The composition of Board of Directors is in accordance with the requirements of Clause 49 of the Listing Agreement. The Board of Directors consist of six directors of whom one is promoter director (Chairman and Managing Director), one is Wholtime Director and four are independent non-executive directors.

During the year under review, the Company paid an amount of Rs.1.79 lakhs towards legal and professional services rendered to the Company by M/s Khaitan & Co in which Mr. H. Khaitan, a non-executive director of the Company, is a partner. The Board does not consider the said firm's association with the Company of a material nature so as to affect the independence of judgement of Mr. Khaitan as a Director of the Company.

b) Details of attendance of each Director at the Board Meetings and the last Annual General Meeting (AGM) with particulars of their other Directorships and Chairmanship/Memberships of Board/Committees.

Name of the Directors	Position	Attendance Particulars		No. of other directorships and other committee memberships/chairmanships held		
		Board Meetings	Last AGM held on [11.08.2004]	Directorships #	Committee Memberships	Committee Chairmanships
Mr. H. V. Kanoria	Chairman and Managing Director (Promoter Director)	6	Yes	6	Nil	Nil
Mr. P. K. Bhattacharjee	Independent Non-Executive	6	Yes	2	Nil	Nil
Mr. N. Nayar	Independent Non-Executive	5	Yes	11	Nil	Nil
Mr. H. Khaitan	Independent Non-Executive	2	No	18	7	Nil
Mr. N. K. Kejriwal	Wholtime Director	6	Yes	Nil	Nil	Nil
Mr. S. Dhandhanja	Independent Non-Executive	6	No	10	Nil	Nil

Includes Alternate Directorship and Directorship in Private Limited Companies.

c) Number of Board Meetings held and dates on which held

During 2004-05, the Board met six times on 16th June, 2004 [two meetings], 30th July, 2004, 29th October, 2004, 4th January, 2005 and 31st January, 2005.

3. Audit Committee**a) Composition**

The present composition of the Audit Committee is as follows :

Name of the Directors	Designation	Category
Mr. N. Nayar	Chairman	Non-Executive & Independent
Mr. P. K. Bhattacharjee	Member	Non-Executive & Independent
Mr. S. Dhandhanja	Member	Non-Executive & Independent

ANNEXURE TO THE DIRECTORS' REPORT (Contd.)**REPORT ON CORPORATE GOVERNANCE (Contd.)****b) Meetings and attendance**

The Audit Committee had met four times during the year under review on 15th June, 2004, 29th July, 2004, 28th October, 2004 and 28th January, 2005.

Name of the Directors	Number of Meetings attended
Mr. N. Nayar	4
Mr. P. K. Bhattacharjee	3
Mr. S. Dhandhanja	4

Mr. D. K. Mohta, CGM (Corporate) & Secretary acts as the Secretary to the Committee.

The Statutory Auditors, Internal Auditors and Cost Auditors are invitees to all meetings of the Audit Committee. The minutes of the Audit Committee are noted by the Board of Directors at the Board Meetings. The Chairman of the Audit Committee was present at the Annual General Meeting held on 11th August, 2004.

c) Terms of Reference

The role and terms of reference of the Audit Committee are in accordance with the provisions of Clause 49 II (D) of the listing agreement and Section 292A of the Companies Act, 1956 and includes the following :

- To review the quarterly and annual financial statements before submission to the Board for approval.
- To review with the management, performance of statutory and internal auditors and the adequacy of the internal control systems.
- To review reports of the Internal Auditors and to discuss these periodically with the Company's officials relating to internal control procedures.
- To meet Statutory Auditors and discuss their findings.
- To recommend appointment of statutory auditors and fees payable to them.
- To review related party transactions.
- To review the compliances with listing and other legal requirements relating to financial statements.

4. Remuneration Committee**a) Remuneration Policy**

The Company has not constituted a remuneration committee. The Board of Directors fix the remuneration of the Executive Directors which is approved by the shareholders.

The Company pays sitting fees to the Non-Executive Directors for attending every meeting of the Board. The Company also pays Commission to the Non-Executive Directors as decided by the Board not exceeding 1% of the net profits of the Company.

b) Details of remuneration paid to the Directors

Details of remuneration paid to Executive Directors for the year ended 31st March, 2005 :

(Rs. in Lakhs)

Name of the Directors	Salary	Commission	Contribution to Provident Fund	Estimated value of other Perquisites	Tenure of appointment
Mr. H. V. Kanoria	18.00	83.00	1.80	11.34	5 years from 01.08.2000
Mr. N. K. Kejriwal	7.20	7.00	0.72	4.33	3 years from 01.06.2003

As per terms of appointment, the Company and the executive directors have the right to terminate the appointment by giving three months' prior notice in writing to the other.

Details of remuneration paid to Non-Executive Directors for the year ended 31st March 2005 :

(Rs. in Lakhs)

Non-Executive Directors	Sitting fees	Commission
Mr. H. Khaitan*	0.04	1.00
Mr. S. Dhandhanja	0.12	1.00
Mr. P. K. Bhattacharjee	0.12	1.00
Mr. N. Nayar	0.10	1.00

* Paid to the firm in which Director is a partner.