

ANNUAL REPORT

FOR THE YEAR ENDED 31ST MARCH 2011



**Group
Cheviot**

CHEVIOT COMPANY LIMITED

BOARD OF DIRECTORS

H. V. KANORIA - *Chairman and Managing Director, Chief Executive Officer*

N. K. KEJRIWAL - *Wholetime Director*

P. K. BHATTACHARJEE

N. NAYAR

S. DHANDHANIA

P. K. KHAITAN

**VICE PRESIDENT & SECRETARY,
CHIEF FINANCIAL OFFICER**

D. K. MOHTA

AUDITORS

JAIN & CO.
Chartered Accountants

BANKERS

STATE BANK OF INDIA
AXIS BANK LTD.

REGISTERED OFFICE

24, PARK STREET
MAGMA HOUSE (9TH FLOOR)
KOLKATA - 700 016

WORKS

19, MEHTA ROAD, BADEKALINAGAR
BUDGE-BUDGE
24-PARGANAS (SOUTH) - 700 137
WEST BENGAL

SECTOR II
FALTA SPECIAL ECONOMIC ZONE
FALTA, 24-PARGANAS (SOUTH) - 743 504
WEST BENGAL

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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 28th July, 2011 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, 2011 and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend for the financial year ended 31st March, 2011.
3. To appoint a Director in place of Mr. P. K. 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, the following resolution as a Special Resolution :

"RESOLVED THAT pursuant to sub-section (4) and (7) of Section 309 and other applicable provisions, if any, of the Companies Act, 1956, such sum by way of commission in no case exceeding in the aggregate 1% of the net profits of the Company computed in the manner referred to in Section 198 of the said Act, for each of the five financial years of the Company commencing on and from 1st April, 2012, as may be determined by the Board of Directors be paid to and distributed amongst the Non-executive directors of the Company and that the proportion and manner of such payment and distribution be decided by the Board from time to time."

Registered Office :
24, Park Street,
Magma House (9th Floor)
Kolkata - 700 016
Dated : 12th May, 2011

By Order of the Board,
CHEVIOT COMPANY LIMITED
CS D. K. MOHTA
Vice President & Secretary,
Chief Financial Officer

NOTES :

1. **The Register of Members and the Share Transfer Register of the Company will remain closed from Saturday 23rd July, 2011 to Thursday, 28th July, 2011 (both days inclusive).**
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ALSO ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY. The Proxy in order to be effective, must be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.**
3. Members are requested to bring the attendance slip along with their copy of Annual Report with them at the meeting.
4. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
5. Dividend, as recommended by the Board of Directors, if declared at the meeting will be paid on 2nd August, 2011 to those members, whose names shall appear in the Company's Register of Members at the close of working hours of the Company on Friday, 22nd July, 2011. 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 22nd July, 2011, as per details furnished by National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd (CDSL).
6. Dividend which remain unpaid/unclaimed over a period of seven years will have to be transferred by the Company to "Investor Education and Protection Fund" of the Central Government under Sections 205A & 205C of the Companies Act, 1956. Accordingly, all unpaid/unclaimed amounts in respect of dividends paid by the Company for the financial year ended 31st March, 2003 have been transferred to the said fund. Unpaid/unclaimed dividend for the financial year ended 31st March, 2004 will become due for transfer during September, 2011. 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.

NOTICE (Contd.)

7. 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 National Electronic Clearing Service (NECS) to the investors wherever NECS and bank details are available. Members are advised to avail NECS 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 NECS particulars i.e. new bank account number allotted after implementation of CBS along with a photocopy of a cheque pertaining to the concerned account to their respective Depository Participants (DP), if they have not done so already. In case of failure to provide new account number allotted under CBS to your DP, NECS to old account may either be rejected or returned.

Members holding the Company's shares in physical form who have not opted for NECS are requested to provide their NECS particulars in the enclosed '**NECS Mandate Form**' and forward the same duly filled in and signed to the Company's Registrar and Share Transfer Agent, M/s Maheshwari Datamatics Pvt. Ltd., at the earliest to avail this facility.

8. 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 DP immediately.
9. Members desirous of getting any information about the accounts and operations 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 18th July, 2011, so that proper information can be made available at the meeting.
10. 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.
11. 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 request in Form 2B to the Company's Registrar and Share Transfer Agent.
12. Members who hold shares in physical form in multiple folios in identical names or joint accounts in the same order or names are requested to send the share certificates to the Company's Registrar and Share Transfer Agent for consolidation into a single folio.
13. Notes on director seeking appointment/re-appointment at the ensuing Annual General Meeting :

Mr. P. K. Khaitan, aged 58 years, is a Director of the Company since 23.09.2006. Mr. Khaitan, by qualification is an Attorney-at-Law and has been practicing as an Advocate since last 31 years. His areas of expertise include commercial & corporate laws, joint venture, foreign collaboration, foreign investment, litigation, arbitration, real estate property etc. Mr. Khaitan also holds directorships and memberships of the committees of the Board of Directors of the following Companies :

Other Directorships :

1. Ramkrishna Forgings Ltd., 2. Rungamatttee Tea & Industries Ltd., 3. Cheviot Agro Industries Ltd., 4. Williamson Magor & Co. Ltd., 5. Manjushree Plantations Ltd., 6. Woodside Parks Ltd., 7. R.V. Investment & Dealers Ltd., 8. SIL Investments Ltd., 9. SCM Investment & Trading Company Ltd., 10. Khaitan Consultants Ltd., 11. Asian Hotels (East) Ltd., 12. McNally Sayaji Engineering Ltd., 13. GJS Hotels Ltd., 14. Time Leverage Instruments Pvt. Ltd., 15. Auro Holdings Pvt. Ltd., 16. Auro Investments Pvt. Ltd., 17. ITSA Warehouse Pvt. Ltd., 18. NOTT Investments Pvt. Ltd.

Foreign Companies :

1. Trans Global Plc, 2. Novener SAS, 3. Uniross SA.

Membership of the Committees of the Board of other Companies :

1. Williamson Magor & Co. Ltd., (Member - Audit Committee, Shareholders' Grievance Committee & Remuneration Committee), 2. Asian Hotels (East) Ltd. (Member - Remuneration Committee), 3. McNally Sayaji Engineering Ltd. (Member - Shareholders' Grievance Committee).

1. Manjushree Plantations Ltd. (Chairman - Shareholders' Grievance Committee), 2. Asian Hotels (East) Ltd. (Chairman - Share Transfer & Shareholders'/Investors' Grievance Committee).

Number of Shares held in the Company : Nil

14. 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 Company passed a special resolution on 7th August, 2008, authorising payment of commission to Non-executive directors under Section 309(4) of the Companies Act, 1956 for a period of 5 years with effect from 1st April, 2007. The special resolution will, therefore, be valid upto 31st March, 2012. Section 309(7) of the Companies Act, 1956 provides that such special resolution may be renewed from time to time for a further period of not more than five years at a time, provided that no renewal shall be effected earlier than one year from the date on which it is to come into force. The Company is accordingly competent now to renew the special resolution to take effect from 1st April, 2012 and recommend to the shareholders to pass the special resolution as set out in the notice.

All the directors who will be entitled to get the commission, as aforesaid, are interested in the proposed special resolution.

Registered Office :
24, Park Street,
Magma House (9th Floor)
Kolkata - 700 016
Dated : 12th May, 2011

By Order of the Board,
CHEVIOT COMPANY LIMITED
CS D. K. MOHTA
*Vice President & Secretary,
Chief Financial Officer*

DIRECTORS' REPORT**TO THE MEMBERS**

Your Directors have pleasure in presenting their Annual Report and Audited Accounts of the Company for the year ended 31st March, 2011.

(Amount in ₹ Lakhs)

FINANCIAL RESULTS

Particulars	Year ended 31st March 2011	Year ended 31st March 2010
Operating results after charging depreciation show a profit of	2,999.13	1,307.38
Add : Other Income	825.30	745.00
Resulting in profit before tax and exceptional item	3,824.43	2,052.38
Add : Exceptional item :		
Depreciation for earlier years written back	—	59.02
Profit before tax	3,824.43	2,111.40
From which have been deducted :		
Provision for current tax	1,015.00	505.68
Provision for deferred tax	(81.85)	(38.51)
Tax for earlier years (net)	7.66	3.25
Profit after tax	2,883.62	1,640.98
Profit brought forward from last account	371.84	351.70
Making a total of	3,255.46	1,992.68
Which has been appropriated by the directors as under :		
Proposed dividend	541.35	360.90
Corporate dividend tax	87.82	59.94
Transfer to general reserve	2,200.00	1,200.00
Surplus carried to reserves & surplus	426.29	371.84
	3,255.46	1,992.68

DIVIDEND

Your Directors are pleased to recommend for your consideration payment of dividend of ₹ 12/- per ordinary share of the face value of ₹ 10/- each for the year ended 31st March, 2011.

OPERATIONS

Production, sales, profitability and earnings per share show under noted position during the year under review as compared to previous year :

(Amount in ₹ Lakhs)

Particulars	2010-11	2009-10
Production (in M. Tonnes)	47,769	35,397
Total sales	30,244.33	17,189.02
Export sales (C.I.F. value)	17,887.07	8,288.56
Operating profit	2,999.13	1,307.38
Other income	825.30	745.00
Profit before tax	3,824.43	2,111.40
Profit after tax	2,883.62	1,640.98
Earnings per share of face value of ₹ 10/- (in ₹)	63.92	36.38

DIRECTORS' REPORT (Contd.)

Production during the year under review was 47769 M.Tonnes as compared to 35397 M.Tonnes during the previous year when the working was severely affected due to 62 days long industry wide strike.

The increase in profitability is attributed to higher production and sales coupled with better sales realisation mainly on account of steep increase in jute yarn selling prices triggered by bumper overseas demand during first half of the year under review.

The euphoria of aforesaid favourable overseas market conditions started waning during second half of the year and the yarn market condition became tough and competitive resulting in decrease in overall demand and fall in its selling prices. In the wake of overall market scenario, your Company as a conscious policy shifted its focus to manufacture and sale more sacking products, as it was more profitable to operate in domestic market.

It is a matter of satisfaction that your Company has created adequate in-house infrastructure to cater to both domestic and overseas markets with full flexibility.

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

Government of India has continued the reservation norms at 100% for compulsory use of jute bags for packing food grains and sugar under Jute Packaging Materials (Compulsory use for Packing Commodities) Act, 1987 (JPMA) for the period up to 30.06.2011 in the interest of large workforce engaged in the Jute Industry.

There has been good domestic demand of traditional jute products like sacking from jute procurement agencies. However, industry faced shortage of higher grade of raw jute which was largely responsible for increase in average cost of procurement of raw jute.

On the export front, Industry witnessed favourable market conditions which contributed to increase in export of jute goods from India.

Government of India should endeavour to reduce the dependence of the industry on sacking by promoting and developing markets for non-traditional products, such as geo-textiles, carry bags, furnishings etc.

b) Opportunities and Threats*Opportunities*

- Jute, being a valued natural bio-degradable fibre with unique characteristics like high tensile strength, and long standing end use application, should find preference with environment conscious end users which would help in increasing its demand.
- The current scenario of environment consciousness has opened a new potential for the jute goods which can be exploited by entering into new markets and new products.
- By concerted efforts of the Industry and Government, Jute Industry is being rejuvenated by developing the infrastructure and modernising the mills by utilising funds provided under the schemes of Jute Technology Mission.

Threats

- Duty free import of jute goods from Bangladesh is badly hurting the Indian Jute Industry. Moreover, increase in manufacturing capacity in Bangladesh may pose a threat to Indian Jute Industry.
- Use of HDPE/PP bags in violation of JPMA.

c) Risks and concerns

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

- Risk of dilution of JPMA;
- Continuous increase in wage cost due to upward revision in amount of dearness allowance;
- Instability in supply and price of raw jute which depends on the vagaries of nature;
- Increase in cost of major inputs like iron and steel, power, petroleum products;
- Pressure on demand due to comparative high prices of jute goods vis-à-vis alternate packing materials;
- Inability to achieve optimum utilisation of machines due to shortage of workers.

DIRECTORS' REPORT (Contd.)

(Amount in ₹ Lakhs)

d) 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 Accounting Standard - 17 as the revenue/results/assets of this segment are not more than the threshold limit of 10% of the total segment revenue/results/assets.

The following disclosure under Geographical segment has, however, been considered :

	2010-11		2009-10	
Particulars	Within India	Outside India	Within India	Outside India
Sales	12,357.26	17,887.07	8,900.46	8,288.56
Carrying amount of segment assets	31,451.73	—	28,165.25	—
Capital expenditure	741.87	—	366.46	—

e) Outlook

Jute industry has to operate in competitive environment. The Company's fortune will follow those of jute industry. However, your Company is striving hard to bring about overall operating efficiency, cut costs and explore the possibilities of manufacturing jute shopping bags, food grade jute products, floor coverings etc. with ultimate aim to improve sales and profitability. Looking to the current market conditions, the outlook for the current year appears to be satisfactory, though there will be substantial decline in profits from the level achieved during the year under review.

f) Internal control systems and their adequacy

The Company has a proper system of internal control comprising procedures, programmes, policies, supervision and internal audit. The observations of internal auditors are reviewed by the audit committee and suitable steps are taken to strengthen the Company's internal control system wherever required.

g) Discussion on financial performance with respect to operational performance

The financial performance of the previous year was affected due to industry wide strike for 62 days and therefore, the accounts for the year under review are not comparable with that of previous year.

The following are significant areas of financial performance :

- Sale of jute goods was ₹ 30,244.33 during the year as compared to ₹ 17,189.02 during previous year;
- Operating profit of the Company have increased by ₹ 1,691.75 during the year under review from ₹ 1,307.38 in previous year to ₹ 2,999.13 during the year under review largely on account of better sales realisation in first six months of the year under review particularly due to shortage of jute yarn in overseas markets and resultant bumper prices;
- Interest expenses were higher at ₹ 86.72 during the year under review as against ₹ 46.42 in previous year. The increase in interest cost is mainly due to more utilisation of working capital limits;
- Inventories have increased by ₹ 166.44, being ₹ 4,731.96 as at 31.03.2011 as against ₹ 4,565.52 as at 31.03.2010, on account of higher average rates of stocks;
- The Company has invested ₹ 741.87 in fixed assets inclusive of capital advances given during the year.

h) Material developments in Human Resources/Industrial Relations front, including number of people employed

There has been no material development on the human resources and industrial relations remained harmonious during the year under review.

As on 31.03.2011, the Company had 4212 employees on its rolls. The Company continues to impart in-house training to workers to enhance their skill and knowledge. Benefits and other facilities provided by the Company under its various staff welfare schemes are upgraded from time to time in the overall interest of the staff.

i) Cautionary statement

Statement made in this section of the report is based on the prevailing position in the jute industry and market conditions. Actual results might differ from what we perceive with regard to Company's outlook and performance.

DIRECTORS' REPORT *(Contd.)***CORPORATE GOVERNANCE DISCLOSURE**

The report on corporate governance as required under clause 49 of the listing agreement with the stock exchange along with a certificate from the statutory auditors certifying compliance with the conditions of corporate governance are attached to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, your directors make the following statement to the best of their knowledge and belief that :

- i. in the preparation of annual accounts for the year ended 31st March, 2011, the applicable accounting standards have been followed and there are no material departures from the same;
- ii. they have made judgement 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, 2011 and of the profit of the Company for that period;
- iii. they 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;
- iv. they have prepared the annual accounts on a going concern basis.

PARTICULARS OF CONSERVATION OF ENERGY ETC.

Particulars in terms of 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 set out in annexure to this report.

PARTICULARS OF EMPLOYEES

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

Under Article 97 of the Articles of Association of the Company, Mr. P. K. Khaitan, a Non-executive director, retires from the Board by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment. Brief particulars of Mr. Khaitan have been given in the Notice convening Annual General Meeting.

AUDITORS

The statutory auditors, Messers Jain & Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and offer themselves for re-appointment. The Company has received a certificate from the said Auditors to the effect that their re-appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956. The audit committee and the Board recommends the re-appointment of M/s Jain & Co., Chartered Accountants, as auditors of the Company.

Pursuant to provisions of Section 233B of the Companies Act, 1956, Messers 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, 2012, as per directives of the Central Government.

ACKNOWLEDGEMENT

The Directors express their appreciation for assistance and co-operation received from Export Import Bank of India, State Bank of India, Axis Bank Ltd., customers, vendors and shareholders of the Company.

The Directors also wish to place on record their appreciation and acknowledge the commitment and dedication made by the employees at all levels.

Kolkata, 12th May, 2011

On behalf of the Board
H. V. KANORIA
*Chairman and Managing Director,
Chief Executive Officer*

ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2011**REPORT ON CORPORATE GOVERNANCE**

[Pursuant to clause 49 of the listing agreement with the stock exchange]

1. Company's philosophy on Code of Governance

The Company's philosophy on corporate governance is directed towards conducting its affairs in fair and transparent manner in all facets of its operation. Such philosophy is based on the principles of integrity, transparency and is guided by commitment towards values to attain sustained growth in the overall interest of all stakeholders including customers, shareholders and employees.

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

The Board of Directors consist of six directors of whom one is promoter director (Chairman and Managing Director), one is Wholetime director and four are independent Non-executive directors.

Mr. P. K. Khaitan, a Non-executive director of the company is a partner of M/s Khaitan & Co., who have a professional relationship with the Company. The legal & professional charges of ₹ 5.83 lakhs that was paid to them during the year is not considered to be of material nature so as to affect the independence of judgement of Mr. Khaitan as a director of the Company.

No director is related to any other director on the Board.

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 Chairmanships/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 [22.07.2010]	Directorships #	Committee Memberships	Committee Chairmanships
Mr. H. V. Kanoria	Chairman and Managing Director, Chief Executive Officer (Promoter Director)	4	Yes	5	Nil	Nil
Mr. N. K. Kejriwal	Wholetime Director	4	Yes	1	Nil	Nil
Mr. P. K. Bhattacharjee	Independent Non-Executive	4	Yes	10	1	2
Mr. N. Nayar	Independent Non-Executive	4	Yes	7	Nil	Nil
Mr. S. Dhandhanania	Independent Non-Executive	3	Yes	8	Nil	Nil
Mr. P. K. Khaitan	Independent Non-Executive	2	No	21	5	2

Includes alternate directorship and directorship in private limited companies and foreign companies.

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

Four Board Meetings were held during the year ended 31st March, 2011 viz. on 7th May, 2010, 22nd July, 2010, 30th October, 2010 and 31st January, 2011. The maximum gap between any two meetings was less than four months.

d) Brief Details of Director seeking appointment/re-appointment

The brief details of director seeking re-appointment are appended to the Notice convening the ensuing Annual General Meeting.