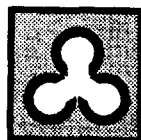


ANNUAL REPORT

FOR THE YEAR ENDED 31ST MARCH 2006

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**Group
Cheviot**

CHEVIOT COMPANY LIMITED

CHAIRMAN (EMERITUS)

B. D. KANORIA

BOARD OF DIRECTORSH. V. KANORIA - *Chairman and Managing Director, Chief Executive Officer*

P. K. BHATTACHARJEE

N. NAYAR

H. KHAITAN

S. DHANDHANIA

N. K. KEJRIWAL - *Wholetime Director***CHIEF GENERAL MANAGER (CORPORATE),
CHIEF FINANCIAL OFFICER**

D. K. MOHTA

COMPANY SECRETARY

N. GANGWAL

**AUDITORS**JAIN & CO.
*Chartered Accountants***BANKERS**

STATE BANK OF INDIA

REGISTERED OFFICE24, 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**CONTENTS**

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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 Tuesday, the 8th August, 2006 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, 2006 and the Reports of the Board of Directors and Auditors thereon.
2. To declare dividend for the financial year ended 31st March, 2006.
3. To appoint a Director in place of Mr. P. K. Bhattacharjee, 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. Nawal Kishore Kejriwal (Mr. Kejriwal), as Wholetime Director of the Company for a period of three years with effect from 1st June, 2006 upon the terms and conditions as to remuneration and otherwise as set out in the letter of re-appointment (a draft of which signed by the Chairman and Managing Director for identification was laid on the table) to be issued to Mr. Kejriwal.”

“FURTHER RESOLVED THAT in the event of absence or inadequacy of profits in any financial year during the aforesaid period of three years, the Company will pay to Mr. Nawal Kishore Kejriwal (Mr. Kejriwal) remuneration by way of salary and perquisites not exceeding the ceiling laid down in Section II of Part II of Schedule XIII of the Companies Act, 1956 or any modification or re-enactment thereof as minimum remuneration, subject to such approvals as may be required.”

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

“RESOLVED THAT in accordance with the relevant provisions of the Memorandum and Articles of Association of the Company and recommendation of the Board of Directors, and subject to the guidelines issued by the Securities and Exchange Board of India and such approvals as may be required in this regard, consent of the Members be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as the Board), for capitalization of Rs. 1,50,37,500/- standing to the credit of the General Reserves of the Company for the purpose of issue of 15,03,750 Bonus Shares of Rs. 10/- each, credited as fully paid up ordinary shares to the holders of the existing ordinary shares of the Company, whose names shall appear in the Register of Members, on such date as may be fixed in this regard by the Board of Directors, in the proportion of one new ordinary share for every two existing ordinary shares (ignoring fractions) held by them on the following terms and conditions :

- a) the said bonus shares shall rank pari-passu in all respect with the existing issued and subscribed ordinary shares except that they shall not qualify for any dividend, if any, which may be declared by the Company for its financial year ended 31st March, 2006;
- b) any such Bonus shares representing the total of the fractional entitlements shall be allotted in the name of a person as Trustee to be appointed by the Board upon trust for sale as soon as practicable of such Bonus Shares and for distribution thereafter the net proceeds thereof (after payment of all costs, charges and brokerage for such sale) amongst such members as would otherwise have been entitled to the said fractional entitlements in proportion of their respective entitlements;
- c) no allotment letters shall be issued to the allottees of the bonus shares and that the certificate(s) in respect of bonus shares shall be completed and thereafter be dispatched to the allottees thereof within the period prescribed or that may be prescribed in this behalf, from time to time, except in respect of those allottees who hold shares in dematerialized form who shall be informed individually of the allotment;
- d) the issue and allotment of the said bonus shares to the extent they relate to Non-Resident Indians (NRIs), Overseas Corporate Bodies (OCBs) and other foreign investors of the Company will be subject to the approval of the Reserve Bank of India (RBI), as may be necessary.”

“FURTHER RESOLVED THAT the Board be and is hereby authorized to take all steps as may be necessary to give effect to the aforesaid resolution and determine all other terms and conditions of the issue of bonus shares as the Board may in its absolute discretion deem fit.”

Registered Office :
24, Park Street,
Magma House, (9th Floor),
Kolkata - 700 016
Dated : 16th June, 2006

By Order of the Board,
CHEVIOT COMPANY LIMITED
N. GANGWAL
Company Secretary

NOTICE (Contd.)**NOTES:**

1. The Register of Members and the Share Transfer Register of the Company will remain closed from 1st August, 2006 to 8th August, 2006 (both days inclusive).
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE 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 of the Meeting.
3. Dividend, as recommended by the Board of Directors, if declared at the Meeting will be paid on or before 7th September, 2006 to those members, whose names shall appear in the Company's Register of Members at the close of working hours of the Company on Monday, 31st July, 2006. 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 31st July, 2006 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, unpaid/unclaimed dividend for the financial year ended 31st March, 1998 has been transferred to the "Investor Education and Protection Fund" established by the Central Government. Unpaid/unclaimed dividend in respect of financial year ended 31st March, 1999 and Interim dividend for the financial year ended 31st March, 2000 will become due for transfer during September, 2006 and May, 2007 respectively. Members 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 unencashed dividend from the said fund.
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 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 28th July, 2006, 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. P. K. Bhattacharjee (Mr. Bhattacharjee), aged 67 years, is a director of the Company since 30.7.2001. Mr. Bhattacharjee is M.A. (Gold Medalist), CAIIB. He has held senior positions in State Bank of India and was its Deputy Managing Director at the time of retirement. He is currently Chairman, SBI Home Finance Ltd. Mr. Bhattacharjee also holds directorship and membership of the Committees of the Board of Directors of the following Companies :
Other Directorships : 1. SBI Home Finance Ltd., 2. Indian Infrastructure Equipment Ltd., 3. Kanco Enterprise Ltd., 4. Global Investment Trust Ltd., 5. Stesalit Ltd., 6. M.S.M. Energy Ltd.
Chairmanship/Membership of the Committees of the Board of other Companies :
1. SBI Home Finance Ltd., 2. Indian Infrastructure Equipment Ltd., 3. Kanco Enterprise Ltd.
 - (b) Mr. N. K. Kejriwal (Mr. Kejriwal), aged 63 years, is holding the position of Wholetime Director of the Company from 1.6.1988. Mr. Kejriwal is a Commerce Graduate and has a bachelor's degree in law. He is having vast experience of 39 years of Management and Administration. Mr. Kejriwal does not hold any directorship and membership of the Committee of the Board of Directors of any other Company.
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. Nawal Kishore Kejriwal (Mr. Kejriwal), Wholetime Director of the Company expired on 31st May, 2006.

Mr. Kejriwal has been associated with the company for the last several years in his capacity as Wholetime Director. In view of his experience and useful contribution made to the Company's growth, the Board of Directors renewed his appointment as Wholetime Director for a further period of three years with effect from 1st June, 2006 on the terms and conditions mentioned in the draft letter of re-appointment to be issued to Mr. Kejriwal.

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

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

1. **Salary** : Rs. 75,000/- per month or such other sum not exceeding Rs. 1,00,000/- per month as determined by the Chairman and Managing Director 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 Wholtime Director shall also be entitled to unfurnished residential accommodation, furnishing allowance, payment of medical expenses, leave travel concession for self and family, personal accident insurance, provision of car, surrender value of Keyman Insurance Policy, 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 determined by the Chairman and Managing Director from time to time. Provision for use of Company car for official purpose and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculation of the said ceiling. Perquisites shall be evaluated as per Income Tax Rules, wherever applicable. 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. Kejriwal 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.
 - (c) Leave on full pay and allowance as per Rules of the Company but not exceeding one month's leave for every eleven months of service.
5. Mr. Kejriwal shall not be paid any sitting fee for attending the meeting of the Board or any Committee thereof.
6. In the event that the Company in any financial year during the aforesaid period, has no profits or its profits are inadequate, the remuneration payable to Mr. Kejriwal shall not exceed the limits specified in Section II of Part II of Schedule XIII of the Companies Act, 1956 or any modification or re-enactment thereof as minimum remuneration, subject to such approvals as may be required.
7. Mr. Kejriwal 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 Chairman and Managing Director from time to time.
8. Mr. Kejriwal will not, so long as he functions as a Wholtime Director, become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future. His appointment shall cease and determine on any contravention of this condition.
9. Mr. Kejriwal 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 letter of re-appointment 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. Kejriwal, 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. Kejriwal 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

The Board of Directors at their meeting held on 16th June, 2006, recommended issue of Bonus Shares in proportion of one new ordinary share for every two existing ordinary shares held by the members on a date to be fixed by the Board, by capitalizing Rs. 1,50,37,500/- standing to the credit of the General Reserves of the Company for issue of 15,03,750 bonus shares of Rs.10/- each.

Pursuant to the provisions of the Articles of Association of the Company and in terms of Guidelines of Securities and Exchange Board of India (SEBI), the capitalization of reserves and bonus issue thereof require approval of the members in General Meeting.

Accordingly, approval of the members is being sought for capitalization of amount standing to the credit of General Reserves and issue of Bonus Shares on the terms and conditions set out in the resolution.

The Board of Directors recommend passing of the resolution.

None of the Directors except Mr. H. V. Kanoria and Mr. N. K. Kejriwal, to the extent of their entitlement to the bonus shares, may be deemed to be interested or concerned in the resolution.

Registered Office :

24, Park Street,
Magma House, (9th Floor),
Kolkata - 700 016
Dated : 16th June, 2006

By Order of the Board,
CHEVIOT COMPANY LIMITED
N. GANGWAL
Company Secretary

DIRECTORS' REPORT**TO THE MEMBERS**

Your Directors are pleased to present Annual Report and Statement of Accounts of the Company for the year ended 31st March, 2006.

Amount in Rs. Lakhs

FINANCIAL RESULTS

Year ended March 31	2006	2005
The working results after charging depreciation show a gross profit of	2774.78	2221.81
From which have been deducted :		
Provision for taxation	493.00	202.10
Provision for deferred tax	(79.96)	110.79
Provision for Fringe benefit tax	7.60	—
Taxation for earlier year (net)	(0.98)	(0.05)
Resulting in profit after taxation of	2355.12	1908.97
Balance brought forward from previous year	217.28	151.86
Making a total of	2572.40	2060.83
Which has been appropriated by the Directors as under :		
Proposed Dividend	300.75	300.75
Tax on Proposed Dividend	42.18	42.80
Transfer to General Reserve	2000.00	1500.00
Balance to be carried forward	229.47	217.28
	2572.40	2060.83

DIVIDEND

Your Directors are pleased to recommend for your consideration payment of dividend @ 100% i.e. Rs.10 per share for the year ended 31st March, 2006.

ISSUE OF BONUS SHARES

The Directors recommend an issue of bonus shares in the ratio of 1:2, i.e. one additional Ordinary share for every two existing Ordinary shares held by the members. Suitable resolution is being placed before you for your consideration at the ensuing Annual General Meeting of the Company and your directors recommend passing of the same.

OPERATIONS

The Company's performance continues to be good. Sales, profitability and earnings per share during the year under review have shown under noted growth as compared to previous year :

	Current year	Previous year	Growth %
Sales (Rs. in Lakhs)	16094.80	14544.54	10.66
Profit after Taxation (Rs. in Lakhs)	2355.12	1908.97	23.37
Earnings per share of Rs 10 each (Rs.)	78.31	63.47	23.37

The euphoria of bumper overseas demand of jute yarn and steep increase in its selling prices as witnessed during previous year, gradually started waning and the overseas yarn market conditions became very tough and competitive resulting in decreasing trend in overall demand of Jute Yarn coupled with fall in its selling prices. Consequently, the Company which had taken effective steps for implementing a project for creating yarn manufacturing facilities at its Falta Unit in Falta Special Economic Zone as reported last year, ultimately dropped the project largely on account of the changed overseas market scenario of jute yarn. Production during the year under review was accordingly lower, being 41,191 Tonnes as compared to 43,509 Tonnes in the previous year.

It is, however heartening to report that despite lower production and steep increase in prices of raw jute during the year under review, the Company could register satisfactory growth in profitability mainly due to better average sales realization on account of efficient marketing of quality products. Besides, increase in upper limit of Export Market Assistance as explained in below mentioned report, also improved the bottom line.

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

As expected by the Jute Industry, the Government of India continued beyond 30.6.2005, the compulsory packing of food grains at 100% and sugar at 90% under Jute Packaging Materials (Compulsory use for Packing Commodities) Act, 1987(JPMA), which is presently valid up to 30.6.2006.

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

It is generally felt that the Government of India would continue JPMA beyond 30.6.2006 at existing levels in the interest of the Jute Industry.

During the year under review, the industry welcomed the upward revision in the limit of External Market Assistance [EMA] from Rs. 20 lakhs per beneficiary per annum to Rs. 250 lakhs per beneficiary per annum for the year 2004-05 and to Rs. 125 lakhs per beneficiary per annum for the year 2005-06. Moreover, in respect of current year upward revision in such limits of EMA from the existing Rs. 20 lakhs is under active consideration of the Government.

We look forward for revision in upper limits of EMA for the year 2006-07 with its extension beyond 31.3.2007 as also the expeditious implementation of National Jute Policy, 2005 by Government of India which are sine qua non to provide support to the jute industry and to enable it to compete effectively with comparatively cheaper synthetic materials.

b) Opportunities and Threats/Risk and concerns

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

- Shortage of Raw Jute and resultant high prices;
- Cut throat competition from Bangladesh which continues to enjoy cost advantage and the SAARC benefits as against India ;
- Non implementation of productivity linked wage ;
- Industrial dispute on account of demand for revision in dearness allowance ;
- Spiraling prices of petroleum products.

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 criterion laid down in paragraph 27 of the AS-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 on the basis of Sales for the Jute Goods :

- ☐ Within India - Rs. 4,945.27 lakhs [Previous year - Rs. 3,757.79 lakhs]
- ☐ Outside India - Rs. 11,149.53 lakhs [Previous year - Rs. 10,786.75 lakhs]

d) Outlook

Jute Industry has to operate in a competitive environment amidst aforesaid areas of risks and concern. Though the Company's prospects would follow those of Jute Industry, its focus being on exports, it would be largely governed by changes in overseas market conditions.

The Company continues to focus on exports and explore new areas where Jute products can be profitably used. Moreover, the Company is committed for continual improvement in process and quality of its products. The outlook for the current year appears to be reasonably good.

e) Internal control systems and their adequacy

The Company has an internal control system commensurate with its size and nature of business which covers all areas of activities. The observations of internal auditor are subject to periodic review and are reviewed by the Audit Committee of the Board on a regular basis.

f) Discussion on financial performance with respect to operational performance

The following are the significant areas of financial performance :

- Sale of jute goods was Rs. 16094.80 lakhs during the year as compared to Rs. 14544.54 lakhs during previous year registering a growth of 11%;
- Profit before taxation have increased by Rs. 552.97 lakhs from Rs. 2221.81 lakhs in previous year to Rs. 2774.78 lakhs in the current year mainly on account of better sale realization and upward revision in limits of EMA. The aforesaid profit of current year, however, includes an amount of Rs. 208.86 lakhs being the income pertaining to previous year ended 31.3.2005, which accrued during the year ;
- Interest expenses are lower at Rs.10.55 lakhs during the year as against Rs. 16.11 lakhs in previous year. The reduction in interest cost is attributed partly due to repayment of term loans and partly due to prudent financial management ;
- Inventories have decreased by Rs. 426.23 lakhs being Rs. 2030.02 lakhs as at 31.3.2006 as against Rs. 2456.25 lakhs as at 31.3.2005. The decrease in inventory is mainly due to better inventory control inspite of increase in cost of raw material and other inputs ;
- Profit on sale of Investments (net) has also contributed to the bottom line by Rs. 145.00 lakhs. The Company continues to deploy surplus cash generated from operations in mutual funds and shares of other bodies corporate after proper evaluation ;
- The Company has invested Rs. 492.64 lakhs (net) in fixed assets during the year from internal generations.

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

- g) Material developments in Human Resources/Industrial Relations front, including number of people employed
As on 31.3.2006, the Company had 3770 workers on its rolls. Employment of workers at new scale of pay and providing them training under Company's programmes continue in a planned manner. Deserving members of staff avail benefits under Company's several staff welfare and tour and travel schemes.
- h) 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.

CORPORATE GOVERNANCE DISCLOSURE

In compliance of the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges, a detailed report on the Corporate Governance alongwith a certificate from the statutory auditors on compliance with the conditions of the Corporate Governance is also annexed and forming part of this report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, your Directors to the best of their knowledge and belief confirm that :

- i. in the preparation of annual accounts, the Company has followed all the applicable accounting standards for the year under review;
- ii. they 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, 2006 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.

As required under the provisions of Section 217(1)(e) of the Companies Act, 1956, the details regarding conservation of energy, technology absorption and foreign exchange earning and outgo are given in the annexure forming part of this Report.

PERSONNEL

Industrial relations remained cordial during the year under review.

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, a statement giving the name and other particulars of employee is annexed which forms part of this Report.

DIRECTORS

In accordance with the Articles of Association of the Company, Mr. P. K. Bhattacharjee, Non-Executive Director retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

The Board of Directors have re-appointed Mr. N. K. Kejriwal as Wholetime Director of the Company for a period of 3 years with effect from 1st June, 2006. Mr. Kejriwal's re-appointment and remuneration are being placed before the shareholders for their approval 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 statutory auditors of the Company, M/s Jain & Co., Chartered Accountants retire at the conclusion of the ensuing Annual General Meeting of the Company and are eligible for re-appointment. The Auditors have sought the re-appointment and have confirmed that their re-appointment if made, shall be within the limits of 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, 2007.

ACKNOWLEDGEMENT

The Directors would like to place their sincere appreciation for the continued support, valuable contribution and assistance extended by Export Import Bank of India, State Bank of India, the Company's business associates and the employees at all levels. The Directors also express their deep appreciation to the shareholders of the Company for their valued support to the Company and its management.

On behalf of the Board

H. V. KANORIA

*Chairman and Managing Director,
Chief Executive Officer*

Kolkata, 16th June, 2006

CHEVIOT COMPANY LIMITED**ANNEXURE TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2006****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 is directed towards conducting its affairs in an ethical and transparent manner in all aspects of its dealings. Such philosophy is guided by unswerving commitment towards excellence, efficiency, modernization and upgradation to attain sustained growth and to promote the 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. H. 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 professional fees of Rs. 0.11 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.

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 [7.7.2005]	Directorships #	Committee Memberships	Committee Chairmanships
Mr. H. V. Kanoria	Chairman and Managing Director, Chief Executive Officer (Promoter Director)	4	Yes	6	Nil	Nil
Mr. P. K. Bhattacharjee	Independent Non-Executive	5	Yes	5	4	2
Mr. N. Nayar	Independent Non-Executive	5	Yes	11	Nil	Nil
Mr. H. Khaitan	Independent Non-Executive	1	No	19	7	Nil
Mr. N. K. Kejriwal	Wholetime Director	5	Yes	Nil	Nil	Nil
Mr. S. Dhandhanja	Independent Non-Executive	4	Yes	10	Nil	Nil

Includes Alternate Directorship and Directorship in Private Limited Companies.

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

Five Board Meetings were held during the year ended 31st March, 2006 viz. on 4th May, 2005 (two meetings), 29th July, 2005, 31st October, 2005 and 24th January, 2006.

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

All the members of the Committee have good financial and accounting knowledge.

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

Four meetings of the Audit Committee were held on 3rd May, 2005, 28th July, 2005, 29th October, 2005 and 21st January, 2006.

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

Mr. D. K. Mohta, Chief General Manager (Corporate) and Chief Financial Officer was Secretary of the Committee upto 7th July, 2005. Mr. N. Gangwal, Company Secretary acts as the Secretary to the Committee with effect from 8th July, 2005. The Statutory Auditors, Internal Auditors and Cost Auditors are invitees to all meetings of the Audit Committee. The Chairman of the Audit Committee was present at the Annual General Meeting held on 7th July, 2005, Minutes of each Audit Committee are placed before the Board for noting.

c) Terms of Reference

The role and terms of reference of the Audit Committee are in accordance with the provisions as specified under sub-clause (D) of Clause 49 II of the listing agreement and Section 292A of the Companies Act, 1956. The role of the audit committee include the following :

- Oversight of the Company's financial reporting processes and system.
- Reviewing the quarterly and annual financial statements before submission to the Board for approval.
- Reviewing with the management, performance of statutory and internal auditors and the adequacy of the internal control systems.
- Reviewing reports of the Internal Auditors and to discuss these periodically with the Company's officials relating to internal control procedures.
- Reviewing the Company's Financial and Risk Management Policies.
- Reviewing the Compliances of the Accounting Standards.
- Meeting Statutory Auditors and discuss their findings and recommendation of corrective actions.
- Reviewing and recommending the appointment/removal of statutory auditors and fees payable to them.
- Reviewing the related party transactions.
- Reviewing the compliances with Stock Exchanges and other legal requirements relating to financial statements.

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

Remuneration Committee being a non-mandatory requirement has not been formed. The Board of Directors fixes the remuneration of the Executive Directors which is approved by the shareholders.

b) Details of remuneration paid to the Directors

Details of remuneration paid to Executive Directors for the year ended 31st March, 2006 :

(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	109.00	1.80	10.24	5 years from 1.8.2005
Mr. N. K. Kejriwal	7.20	7.00	0.72	7.13	3 years from 1.6.2003

The appointment of the Executive Directors is governed by the Articles of Association of the Company and the Resolutions passed by the Board of Directors and the Members of the Company. 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. There is no provision for payment of severance fees under the resolutions governing the appointment of Executive Directors.

Details of remuneration paid to Non-Executive Directors for the year ended 31st March 2006 :

(Rs. in Lakhs)

Non-Executive Directors	Sitting fees	Commission
Mr. H. Khaitan*	0.02	1.00
Mr. S. Dhandhanja	0.08	1.00
Mr. P. K. Bhattacharjee	0.10	1.00
Mr. N. Nayar	0.10	1.00

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