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HINDUSTAN MOTORS LIMITED

ANNUAL REPORT

Period Ended March 31, 2006

Board of Directors

Shri C. K. Birla	**Chairman**
Shri Naresh Chandra	
Shri Pradip Kumar Khaitan	
Shri R. Vasudevan	**IDBI Nominee**
Dr. Anand C. Burman	
Shri Kranti Sinha	
Shri Achintya Karati	**ICICI Nominee**
Shri S. C. Jain	
Shri A. Sankaranarayanan	
Shri R. Santhanam	**Managing Director**

Company Secretary

Shri G. N. Pareek

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Bankers

UCO Bank
Bank of India
United Bank of India
Bank of Baroda
State Bank of India

Auditors

Messrs. S. R. Batliboi & Co.
Chartered Accountants

Share Transfer Agents

Karvy Computershare Pvt. Limited
46, Avenue 4, Street No. 1, Banjara Hills
Hyderabad 500 034

Registered Office

'Birla Building', 10th Floor
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001

CONTENTS

Notice	2
Report of the Directors	5
Management Discussion & Analysis	7
Report on Corporate Governance	9
Auditors' Report	24
Balance Sheet	28
Profit & Loss Account	29
Cash Flow Statement	30
Schedules to Accounts	31
Statement u/s. 212	54
Hindustan Motor Finance Corpn. Limited	55
HM Export Limited	76
Hindustan Motors Limited, USA	90
Consolidated Accounts	94

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Notice to the Shareholders

NOTICE is hereby given that the Sixty-fourth Annual General Meeting of the Shareholders of HINDUSTAN MOTORS LIMITED will be held at Kolkata Ice Skating Rink, 78, Syed Amir Ali Avenue, Kolkata 700 019, on Friday, the 28th July, 2006 at 3.00 PM to transact the following business:-

AS ORDINARY BUSINESS :

(1) To receive, consider and adopt the Audited Statements of Account of the Company together with the Directors' Report as also the Auditors' Report thereon for the nine-month period ended 31st March 2006.

(2) To appoint a Director in place of Shri Pradip Kumar Khaitan who retires by rotation and being eligible offers himself for re-appointment.

(3) To appoint a Director in place of Dr. Anand C. Burman who retires by rotation and being eligible offers himself for re-appointment.

(4) To consider and, if thought fit, to pass the following resolution as an **Ordinary Resolution**, relating to the appointment of the Auditors of the Company:

"RESOLVED THAT Messrs. S R Batliboi & Co., Chartered Accountants, the retiring Auditors, be and they are hereby re-appointed as Auditors of the Company under Section 224 and other applicable provisions, if any, of the Companies Act, 1956 to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at a gross remuneration of Rs. 20,00,000/- (Rupees twenty lacs only) per annum exclusive of reimbursement of out-of-pocket expenses, as may be incurred by the Auditors on travelling, boarding and lodging at the Company's factories and its other branches outside Kolkata which shall also be borne by the Company and that the said remuneration be paid to the Auditors in four equal quarterly instalments."

Registered Office:
'Birla Building'
9/1, Rajendra Nath Mukherjee Road
Kolkata 700 001
Dated, the 27th April, 2006

By Order of the Board
For HINDUSTAN MOTORS LTD.

G. N. Pareek
Company Secretary

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NOTES:

1. **A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company. The proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting.**

2. In terms of Article 155 of the Articles of Association of the Company Shri Pradip Kumar Khaitan and Dr. Anand C. Burman Directors of the Company retire by rotation in the ensuing general meeting and being eligible offer themselves for re-appointment. Brief resume of the Directors, nature of their expertise in specific functional areas and names of companies in which they hold directorship and membership/ chairmanship of Board/Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report. They hold 500 and 1000 shares respectively in the share capital of the Company. The Board of Directors of the Company recommends the respective re-appointments of the aforesaid Directors.

3. Members/Proxies should bring the enclosed Attendance Slip duly filled in for attending the meeting along with a copy of the Annual Report.

4. Members who hold shares in dematerialised form are requested to write their Client ID and DP ID Numbers and those who hold the Shares in physical form are requested to write their Folio Number in the Attendance Slip for attending the meeting.

5. Members who have shareholdings in multiple accounts in identical names or joint accounts in the same order are requested to send all the share certificate(s) to the Registrars & Share Transfer Agents, M/s Karvy Computershare Private Limited at 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad - 500 034 for consolidation of all such shareholdings into one account to facilitate better service.

6. The Register of Members and Share Transfer Books of the Company will remain closed from 18th July, 2006 to 28th July, 2006 (both days inclusive).

7. (a) Members are requested to notify change of address, if any, with PINCODE to the Company or to its Share Transfer Agents quoting reference of their folio number and in case their Shares are held in dematerialised form, this information should be passed on to their respective Depository Participants.

   (b) In case the mailing address mentioned in this Annual Report is without the PINCODE, members are requested to kindly inform their PINCODE immediately.

8. A member desirous of getting any information on the accounts or operations of the Company or share/ debenture related matter is requested to forward his/her query(ies) to the Company at least seven days prior to the meeting so that the required information can be made available at the meeting.

9. Pursuant to Section 205C of the Companies Act, 1956, all unclaimed/unpaid dividends up to the financial year ended March 31, 1998 have been transferred to the Investors Education and Protection Fund established by the Central Government.

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10. Since the Shares of the Company are eligible for being traded in dematerialised form both at NSDL and CDSL, members have the option of holding and dealing in the Shares of the Company in electronic form through the depository participants of the said two depositories. Effective 17th January 2000, trading in Shares of the Company on any Stock Exchange is permitted only in dematerialised form.

11. Individual shreholders can now take the facility of making nomination of their holding. The nominee shall be the person in whom all rights of transfer and/or amount payable in respect of Shares shall vest in the event of the death of the shareholder and the joint-holder(s), if any. A minor can be a nominee provided the name of the guardian is given in the nomination form. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu undivided family, holder of Power of Attorney cannot nominate. For further details in this regard shareholders may contact M/s Karvy Computershare Private Limited, Hyderabad, the Registrar and Share Transfer Agent of the Company.

12. In all correspondence with the Company or with its Share Transfer Agents, members are requested to quote their account/folio number and in case their Shares are held in the dematerialised form, they must quote their Client ID Number and their DPID Number.

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Directors' Report to the Shareholders

It is indeed a matter of great pride and joy for us that Shri Ganga Prasad Birla, our erstwhile Chairman, has been conferred with the National honour of "Padma Bhushan" by the Honourable President of India for his 'social service work'. This is a deserving recognition of the great contributions made to the society by Shri G. P. Birla through several charitable and philanthropic projects of hospitals, schools, institute of scientific research and higher learning, temples, heritage preservation etc.

Your Directors present their Sixty-fourth Annual Report together with audited accounts of the Company for the nine-month period ended 31st March 2006. Since the previous financial year ended on 30th June 2005, the current financial year is for the nine-month period ending 31st March, 2006.

Financial Results

Consequent to the sale of two of the business units of the Company in the previous financial year, the Company's results for the nine-month period are not comparable with that of the previous financial year.

The following table gives a summary of performance.

(Rupees in Crores)

	9 month-period ending 31st March 2006	*15 month-period ending 30th June 2005*
Gross sales and services	**553.05**	*1352.13*
Profit/(Loss) before Interest, Depreciation, Extra-ordinary Items and Taxes	**—10.20**	*41.17*
Extra-ordinary Items – Sale of PUP/PPD Units and Shares of AVTEC limited,	**0**	*190.42*
Prior period items	**0**	*29.32*
Interest payment	**8.84**	*48.34*
Depreciation	**18.00**	*51.06*
Profit/(Loss) before Tax	**— 37.04**	*102.87*
Provision for Tax	**6.65**	*0.38*
Deferred Tax Assets Write off	**0**	*41.29*
Profit/Loss After Taxation	**—43.69**	*61.20*

There was a debit balance of Rs. 43.89 Crores in the Profit and Loss Account, which was brought forward from last year. After writing back investment allowance reserve of Rs. 1.12 Crores and after considering the results of the current year, there is a closing debit balance of Rs. 86.46 Crores in the profit account.

A cash flow statement for the period under review is also attached to the enclosed Annual Accounts.

Review of operations

Sale of automobiles during the nine-month period under review, consisting of Ambassador, Lancer and utility vehicles, was at 11856 numbers compared to 18869 numbers during the previous financial year of fifteen months period. In January 2006, the Company introduced a new model of premium car, manufactured under licence from Mitsubishi Motors, Japan and branded as 'Lancer Cedia'. This product has been well received in the market. The Ambassador car caters to niche segments of the market and the demand for this car was steady during the period under review. A new variant of the utility vehicle RTV was launched with value engineered design and revised emission norm requirements.

Consequent upon input cost increases and the competitive pressure on selling prices of vehicles, the margins in the automobile business remained under pressure. The Company could minimise the pressure on margins by way of cost reduction and value engineering measures.

As part of strategic initiatives and in view of the expected growth rate in the auto component business at the rate of 15 -20% per annum, the Company's unit at Uttarpara focused on supply of components from Forge Shop, Foundry and Press Shop to other manufacturers. Initiatives taken in the year under review have resulted in an increase in auto components business and it is expected that the Company will be able to achieve further higher volumes in component business in the years to come.

The Company's Remote Services Division, engaged in providing engineering services is focusing on serving clients in automobile / engineering sectors and is confident of stepping up the sales revenue in the medium term.

A detailed Management Discussion & Analysis Report (MDAR) forms part of this report as Annexure-1.

Outlook for next year

The recent launch of 'Lancer Cedia' should enable the Company to achieve higher sales volume of vehicles in the next year. The Company is also in discussions with Mitsubishi Motors for introduction of new models of sports utility vehicles in the current year. The Uttarpara unit expects steady sales of vehicles and a substantial growth in the component business. The Company has introduced a new variant of RTV with Diesel option. With this, RTV is now available both in CNG and Diesel variants. With these initiatives, the

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Company expects the results for the next financial year to be substantially better.

Industrial Relations

Industrial relations generally remained cordial and satisfactory. Human resources initiatives such as skill level upgradation, training, appropriate reward and recognition systems and productivity improvement continue to be the focus areas.

Corporate Governance

The Company continues to remain committed for high standards of corporate governance. The revised comprehensive requirements of Corporate Governance stipulated by Securities & Exchange Board of India as part of the listing agreement with effect from 1st January, 2006 have been complied with by the Company within the given time frame.

The report on corporate governance as per the requirement of the listing agreement with stock exchanges forms part of this report as Annexure-2. The certificate from the auditors of the Company confirming compliance of the conditions of the Corporate Governance requirements is also annexed.

Statutory Declaration

The Company has complied with all the Accounting Standards prescribed by The Institute of Chartered Accountants of India. In terms of the requirement of Section 217 of the Companies Act, 1956, Directors' Responsibility Statement is enclosed as Annexure-3 to this report. The particulars of employees to be disclosed as per the provisions of sub-section 2 (A) of the said section are also given as Annexure-4.

Additional Information relating to conservation of energy, technology absorption, foreign exchange earning and outgo as required under sub-section (1)(e) of the said section is also given as Annexure-5 to this report.

There has been no material change and commitments affecting the financial position of the Company which have occurred between the end of the financial year 2005-06 and the date of this report.

There has also been no change during the financial year under review in the nature of Company's business or in the Company's subsidiaries or in the nature of business carried on by them.

Auditors

The report by the Auditors and the remarks therein are self-explanatory. The Company is reasonably confident of recovering amounts in respect of certain debts, claims and advances in due course, which are identified as "doubtful" in the accounts and hence no provision has been made in relation thereto. Your Directors request you to re-appoint auditors for another term beginning the conclusion of the ensuing Annual General Meeting till the conclusion of the subsequent Annual General Meeting and approve their remuneration as specified in the proposed resolution attached to the notice.

Subsidiary Companies

The latest accounts of the three wholly owned subsidiary companies, namely Hindustan Motor Finance Corporation Limited, HM Export Limited, Hindustan Motors Limited, USA, are attached to this report.

Directors

At the ensuing Annual General Meeting Shri P K Khaitan and Dr. Anand C Burman retire by rotation and being eligible offer themselves for reappointment. There has been no change in the composition of the Board of Directors of the Company since the last report of the Directors on 13th August, 2005.

Appreciation

Your Directors acknowledge and thank the Central and State Governments, customers, shareholders, business associates, commercial banks and financial institutions for the support extended to the Company. Your Directors also record their appreciation for the commitment and dedication of the employees of your Company.

For and on behalf of the Board of Directors

New Delhi
27th April, 2006

C. K. Birla
Chairman

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Annexure-1 to the Directors' Report

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Industry Structure & Development

During the year under review the overall economy performed well and the GDP registered a growth rate of around 8.1% as per the Economic Survey tabled by the Government. The index of industrial production increased by 7.8% in this year compared to 8.3% in the previous year. Sale of passenger vehicles in the country, which grew by 7.67% during the year, though in line with the industrial production growth rate, was less than the growth rate of 17.65% registered in the immediate previous year.

The table below summarises the growth in sale of passenger vehicles:

Domestic sales -Nos	12 Month ending 31st March 2005	12 Month ending 31st March 2006	% age increase
Passenger Cars	820179	882094	7.55
Utility Vehicles	176360	194577	10.33
Multi-purpose Vehicles	65033	66366	2.05
Total Passenger Vehicles	**1061572**	**1143037**	**7.67**

Source: Society of Indian Automobile Manufacturers – Flash Report March 2006

As per the report of SIAM, the sales increased by 15% in the Mini car segment, 8% in the Mid-size car segment and declined by 7% in the Executive/ Premium segment. The Company's products are in the Mid-size car segment. Sale of vehicles during the nine-month period was 11856 numbers compared to 18869 numbers in the previous financial year consisting of fifteen months. On an annualised basis this indicates a growth rate of 5%.

As planned, the Company introduced a new model in the premium car segment, branded as **'Lancer Cedia'** in January 2006. This model contributed to the sales volume only during the last three months. As indicated in the last year's report the Company took initiatives in time to make most of the products meet with Bharat Stage III emission norms which came into effect from April 2005. The Company has been bringing out new features and variants in its product range.

The Ambassador Car caters to niche segments in the market and the demand was steady during the year. The Company launched a new variant of Ambassador with LPG fuel option in the period under review.

Opportunities & Threats

Since the expected growth rate of GDP is 8%, the demand for passenger vehicles during the current financial year could also be in the region of 8 to 10%. With the introduction of newer models and entry of additional players, the competition is expected to further increase. The Company is in discussion with its collaborators, Mitsubishi Motors, Japan for introduction of new models in the sports utility vehicles (SUV) category.

As per published reports the potential for growth and export opportunities in the auto component business is substantial. Many of the existing players in the auto component industry are having growth rate of around 15- 20% per annum. The Company has at its Uttarpara Plant facilities, especially in the Forge Shop, Foundry and the Press Shop, to develop component business on a large scale and accordingly the Company has taken a number of initiatives to supply auto components to OEMs and to the export market. The Company expects that with additional investments, this line of business would contribute significantly to its overall revenue in the next two or three years.

Financial Performance

The results for the current financial year consisting of nine months are not comparable with those of the previous financial year, which consisted of fifteen months. Moreover, the results for the previous financial year included the operating performance of two of the business units namely PUP and PPD, which were sold in June 2005.

Total turnover of the Company during the nine-month period was Rs. 553 Crores. This indicates a growth of 10% compared to previous financial period, on an annualised basis in respect of automobile business and after excluding the turnover of the business units which were sold. The operating loss before interest and depreciation during the nine-month period was Rs. 12 Crores.

The Company has repaid loans to the extent of Rs. 192.50 Crores in June 2005, out of the cash flow received from the sale of business units and sales of shares in AVTEC Limited. This has reduced the interest burden substantially and the same has come down to Rs. 8.80 Crores for the nine-month period in the current financial year compared to Rs.48.34 Crores during the previous financial year.

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The Company is predominantly in automobile and auto component business. The segment-wise results are indicated in the notes schedule to the accounts.

Risks & Concerns

In the normal course of business, the Company is exposed to external risks such as overall demand fluctuations in the market segment in which it operates, relative market share for its products due to the impact of competition as well as internal risks such as variations in operational efficiency and cost structure. The Company is also exposed to financial risks in the form of foreign exchange fluctuations and interest rate variations. The Company is taking appropriate steps to guard itself against these identified risks.

The Company has put in place a risk management policy to identify the nature and magnitude of risk associated with the Company and to take steps for mitigating the impact of such risks. These are reviewed periodically and placed before the Board.

Internal Control Systems

The Company has established suitable internal control systems, which provide reasonable assurance with regard to safeguarding the Company's assets, promoting operational efficiency and ensuring compliance with various legal and regulatory provisions. The Internal Audit department reviews internal control systems in various business processes and also verifies compliance of the laid down policies and procedures. Reports of the internal auditor are reviewed by the senior management and are also placed before the audit committee of the Directors. The statutory auditors also review their findings with the senior management and the audit committee.

For and on behalf of the Board of Directors

New Delhi
27th April, 2006

C. K. Birla
Chairman

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Annexure-2 to the Directors' Report

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on Corporate Governance

The Company's philosophy on Corporate Governance has been developed with a tradition of fair and transparent governance and disclosure practices, many of which were in existence even before they were mandated by legislation. Transparency, integrity, professionalism and accountability- based values form the basis of the Company's philosophy for corporate governance. The Company strives to improve the corporate governance practices to meet stakeholders' expectations and strictly complies with regulatory guidelines on corporate governance.

2. Board of Directors

(a) Composition of Board

As on date the Board of Directors of the Company consists of ten Directors out of which nine i.e., 90% are Non-Executive Directors as against the minimum requirement of 50% as per Clause 49 of the listing agreement. The Non-Executive Directors are eminent professionals, drawn from amongst persons with experience in business & industry, finance & law. The Company has a Non-Executive Chairman. The composition of Board of Directors is as follows:-

Name of Directors	Category	No. of other Directorships	No. of other Board Committee (s) of which he is a member *	No. of other Board Committee (s) of which he is a Chairman
Shri C K Birla — Chairman	Promoter – Non Executive	12	-	-
Shri Pradip Kumar Khaitan	Independent – Non Executive	12	3	-
Shri A Sankaranarayanan	Not Independent - Non Executive	4	1	1
Dr. Anand C Burman	Independent – Non Executive	9	2	1
Shri Kranti Sinha	Independent – Non Executive	5	2	2
Shri A Karati	Independent – Non Executive ICICI Nominee	9	7	0
Shri R Santhanam	Managing Director	-	-	-
Shri Naresh Chandra	Independent – Non Executive	8	6	-
Shri R Vasudevan	Independent –Non Executive – IDBI Nominee	6	2	2
Shri S C Jain	Independent – Non Executive - LIC Nominee	1	-	-

** includes the membership / chairmanship only of Audit Committee(s) and Shareholders' / Investors' Grievances Committee*

None of the Non-Executive Directors of the Company has any pecuniary relationship or transactions with the Company, except Mr. Pradip Kumar Khaitan, Director of the Company, who is a partner of M/s Khaitan & Co., the Company's Solicitors and Advocates.

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