

REPORT OF THE AUDITORS TO THE MEMBERS OF VAYUDOOT LIMITED

We have audited the attached Balance Sheet of **Vayudoot Limited**, as at 31 March, 2009 and the Profit & Loss Account for the period ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the "Companies (Auditor's Report) order, 2003, as amended" issued by the Govt. of India in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate, we annexed herewith a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments in the annexure referred to in Paragraph 1 above, we report that :
 - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b. In our opinion, proper books of accounts as required by the law have been kept by the company so far as appears from our examination of such books.
 - c. The Balance Sheet and Profit & Loss Account referred to in this report are in agreement with the books of accounts.
 - d. In our opinion, the Profit & Loss Account and Balance Sheet referred to in this report do not comply with some Accounting Standards referred to in sub-Section (3C) of Section 211 of the Companies Act, 1956. Such non-compliances have been reported in the respective paragraphs hereunder.
 - e. As per the information & explanation given to us, in view of the Gazette notification no. GSR 829 (E) dated 21 October 2003 issued by the Central Govt. the Govt. Companies are exempt from applicability of the provision of Section 274 (1) (g) of the Companies Act, 1956.
 - f. In our opinion and to the best of our information & according to the explanations given to us and subject to :
 - i. As per Accounting Policy No. 7 stated in Schedule 10, relating to warranty claims and interest recoverable, the impact of the same has not been ascertained (Non Compliance of AS-9).
 - ii. Fixed Assets held for disposal have been valued at books value as against lower of realizable value or book value in the absence of ascertainment of realizable value of the same (non compliance of AS-10).
 - iii. Ministry of Civil Aviation, Govt. of India issued notification No. AV 18030/3/97-ACIA (Vol. IV) dated 17 January 2005 and Office Memorandum dated 21 February 2005 in respect of scheme of merger of Vayudoot Ltd. with Indian Airlines Ltd. As per these notification a one-time non-plan budgetary assistance of Rs. 1383075560/- has been granted to M/s Indian Airlines to clear some of the dues in full and final settlement of their claims detailed hereunder :

a)	Hindustan Aeronautics Ltd.	Rs. 1,14,70,00,000.00
b)	Oil & Natural Gas Commission	Rs. 7,88,28,767.00
c)	Oil Companies	Rs. 8,99,92,000.00
d)	Banks	Rs. 4,37,54,793.00
e)	Others	Rs. 2,35,00,000.00
	Total	Rs. 1,38,30,75,560.00

- iv. Further vide the above stated notification and also office memorandum dated 21 February 2005, Ministry of Civil Aviation have issued directions for write off various outstanding liabilities detailed as under :

Sl. No.	Name of the Party	Nature of Liability	Amount (Rs.)
1.	Indian Airlines		691563231
2.	Air India	Unsecured loan with Accrued interest	170637210
3.	IAAI	Unsecured loan with Accrued interest	77016052
4.	National Airport Authority		148660130
5.	Ministry of Civil Aviation	Unsecured loan with Accrued interest	159668187
6.	IATT		31043247
TOTAL			1278588057

Attention is invited to note no. B.2 of Schedule no. 10 of "Notes to accounts" annex to the Balance Sheet where in it has been explained that liabilities detailed above continued to be reflected at the original book values and necessary accounting adjustments shall be made in the books of Indian Airlines Ltd. at the time of legal merger.

v. **Schedule 5 : Fixed Assets :**

- a. This includes Fixed Assets transferred from erstwhile Agro Aviation Division at a nominal value of Rs.1/-. The value of assets of Rs.1/- is not a fair value of these assets and not in consistence with AS-10 of the Institute of Chartered Accountants of India relating to Accounting for Fixed Assets. (Non compliance of AS-10). Impact of the same is not ascertainable in the absence of details of fair market value.
- b. Attention is also drawn to Note no. 5 regarding operation of Vayudoot's Aircraft by IAL and incurring all expenditure on maintenance of these Aircraft.

vi. **Schedule 6 : Loans & Advances of Rs. 1179950/- (P. Y. Rs. 1179950/-)**

- a. Loans & Advances amounting to Rs. 1179950/- (P. Y. Rs. 1179950/-) have been considered good by the company. In absence of any confirmations from the parties it is not possible to comment upon the classification & correctness of these loans and advances.
- b. Note no. 8 stated in Schedule 10, in the, absence of non reconciliation / confirmation of various balances of parties outstanding in Debit/credit, the correctness of same cannot be commented upon.

vii. **Proposed merger of the Company with Indian Airlines Limited, Now NACIL :**

The Ministry of Civil Aviation vide its letter no. AV.18013/44/92-ACVL dated 25 May 1993 had decided that Vayudoot Ltd. should be merged with Indian Airlines Ltd. As a follow up measures, the entire shareholdings of Air India Ltd. amounting to Rs. 18.21 crores has since been transferred to Indian Airlines Ltd. making the Company a wholly owned subsidiary of Indian Airlines Ltd.

Five years moratorium on dues owned by Vayudoot Ltd. and debt servicing thereof on dues owned to all Government/Public Sector Undertakings/Banks had been placed. This moratorium was further extended for another two years till 25 May, 2000 vide Ministry of Civil Aviation Notification No. AV.18030/3/97-ACIA dated 3 June 1999 and further extended upto 30 September 2006 vide letter no. AV 18030/3/97-ACIA dated 28 July 2006. As such the interest liabilities on loans taken by the company has not been provided in the accounts.

Pending completion of legal formalities related to the merger, the company remains as a "Shell Company", as on date. The Company has no flight operations nor is undertaking any other activity since April, 1997. The Company, as such, is not a going concern: as per the Government Order related to the merger, the assets and liabilities of

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the company are reflected as per book value and no adjustments have been made. The Net realizable value of the assets has neither been calculated nor ascertained. Disclosure in this regard has been made in note no. 2 (iii) of Schedule 10.

The said Balance Sheets and Profit & Loss Account read with the Notes (Schedule -10), thereon give the information required by the Companies Act, 1956 in the manner so required and subject to our observations as given above in para f (1) to f(vii) give a true and fair view in conformity with the accounting principles generally accepted in India.

- i. In the case of the Balance Sheet of the state of affairs of the Company as at 31 March 2009.
- ii. In the case of Profit & Loss Account of the LOSS of the Company for the year ended on that date.

For Lalit Gupta & Associates
Chartered Accountants

Sd/-
L. K. Gupta
Partner
M. No. 082727

Place : New Delhi
Dated : 30 September 2009