

**AIR INDIA ENGINEERING  
SERVICES LIMITED**

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**BOARD OF DIRECTORS (AS ON 22.12.2009)**

Shri Arvind Jadhav

**Chairman**

Shri N. Vaghul

Shri E. K. Bharat Bhushan

Shri Prashant Sukul

**Chief Operating Officer**

Shri K. M. Unni

**Auditors**

M/s. N. K. Sheth & Company  
Chartered Accountants,  
Mumbai

**Bankers**

HDFC Bank Ltd.

**Registered Office**

Airlines House,  
113 Gurudwara Rakabganj Road,  
New Delhi-110 001.

**DIRECTORS' REPORT**

The Directors take pleasure in presenting the Fifth Annual Report of the Company, together with the Audited Accounts, Auditors' Report and Comments by the Comptroller and Auditor General of India, for the year ended 31 March 2009.

**FINANCIAL PERFORMANCE :**

No business transactions were carried out during the period under review.

**OTHER FINANCIAL INFORMATION :****Share Capital :**

The Authorised Share Capital of the Company is Rs.10,00,00,000/-. The entire Paid-up Share Capital of the Company, amounting to Rs.5,00,000/- (50000 Equity Shares of Rs.10/- each) has been subscribed and paid-up by National Aviation Company of India Limited.

**Foreign Exchange Earnings :**

Since the Company has not commenced any business activities, the foreign exchange earnings for the period under review is NIL.

**DIRECTORS' RESPONSIBILITY STATEMENT :**

The Board of Directors of the Company confirm :

1. that in the preparation of the Annual Accounts, the applicable accounting standards have been followed and there has been no material departure;
2. that the selected accounting policies were applied consistently and the Directors made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March 2009 and of the profit or loss of the Company for the year ended on that date;
3. that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
4. that the annual accounts have been prepared according to the going concern basis.

**BOARD OF DIRECTORS :**

As on 31 March 2009 the Board consisted of the following Members :

Shri Raghu Menon - Chairman  
Chairman & Managing Director  
National Aviation Company of India Limited

Shri N. Vaghul  
Chairman, ICICI Bank

Smt. Vilasini Ramachandran  
Addl. Secretary & Financial Advisor, Ministry of Civil Aviation

Shri Prashant Sukul  
Joint Secretary, Ministry of Civil Aviation

Shri Raghu Menon ceased to be Chairman of the Company effective 20 May 2009 and Shri Arvind Jadhav took over as Chairman effective that date.

Shri E. K. Bharat Bhushan, Jt. Secretary & Financial Advisor, Ministry of Civil Aviation was appointed Director of the Company vice Smt. Vilasini Ramachandran effective 20 May 2009.

Shri R. K. Singh, Jt. Secretary, Ministry of Civil Aviation ceased to be Director of the Company effective 16 February 2009.

The Board places on record its appreciation of the valuable services rendered by Shri Raghu Menon as Chairman and Smt. Vilasini Ramachandran & Shri R. K. Singh as Directors.

The Board met four times during the year.

**COMMENTS OF COMPTROLLER AND AUDITOR GENERAL :**

The comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of the Company for the year ended 31 March 2009 and the reply of the Management are annexed to this Report.

**AUDITORS :**

M/s N. K. Sheth & Company, Chartered Accountants, Mumbai, were appointed as Statutory Auditors for the year 2008-09 by the Comptroller & Auditor General of India.

**ACKNOWLEDGEMENTS :**

The Board gratefully acknowledges the support and guidance received from NACIL and the Ministry of Civil Aviation. The Board expresses their grateful thanks to the Comptroller and Auditor General of India, the Ministry of Corporate Affairs and the Statutory Auditors.

For & on behalf of the Board

Sd/-  
**Arvind Jadhav**  
Chairman

Place : Mumbai  
Date : 10 September 2009

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF AIR INDIA ENGINEERING SERVICES LIMITED FOR THE YEAR ENDED 31ST MARCH 2009.**

The preparation of financial statements of **Air India Engineering Services Limited** for the year ended 31st March 2009 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 10th September 2009.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit of **Air India Engineering Services Limited** under section 619(3)(b) of the Companies Act, 1956 of the financial statements for the year ended 31st March 2009. This supplementary audit has been carried out independently with access to limited working papers of the Statutory Auditors' and is also limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records.

Based on my supplementary audit, I would like to highlight the following significant matters under section 619(4) of the Companies Act, 1956 which have come to my attention and which in my view are necessary for enabling a better understanding of the financial statements and the related Audit Report :

**Balance Sheet****Application of Funds****Deferred Tax Asset : 297,540**

The Company has not commenced business operations since incorporation on 11th March 2004 in the absence of Cabinet approval and as such has no business income. Hence, recognition of Deferred Tax Assets for carry forward of business loss is incorrect due to lack of virtual certainty to unprofit in future years as required under Accounting Standards - 22.

This has resulted in overstatement of Deferred Tax Assets and understatement of loss for the year to the extent of Rs. 297,540.

For and on the behalf of the  
Comptroller and Auditor General of India

Sd/-  
**Sarit Jafa**  
**Principal Director of Commercial Audit**  
& *ex-officio* Member, Audit Board II, Mumbai

Place : Mumbai  
Date : 30 November 2009.

**MANAGEMENT REPLY TO THE COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2009.**

Sr. No.	Supplementary Audit Observations	Management Reply
1.	<p>The company has not commenced business operations since incorporation on 11 March 2004 in the absence of Cabinet approval and as such has no business income. Hence, recognition of Deferred Tax Assets for carry forward of business loss is incorrect due to lack of virtual certainty to earn profit in future years as required under Accounting Standard - 22.</p> <p>This has resulted in overstatement of Deferred Tax Assets and understatement of loss for the year to the extent of Rs. 2,97,540/-.</p>	<p>Deferred Tax Assets created during the year was Rs. 56,920/- and the balance of Rs. 2,40,620/- was created in previous years. The Deferred Tax Asset has been recognised consistently from inception on the basis of proposed plan of operationalising the Company.</p> <p>In view of the decision taken by the parent Company, National Aviation Company of India Limited, to operationalise AIESL under an SBU Head, the Management is of the view that operations of the Company are likely to start soon and the Company will be in a position to absorb the nominal unabsorbed losses of the Company.</p>

**REPORT OF THE AUDITORS TO THE MEMBERS OF AIR INDIA ENGINEERING SERVICES LIMITED**

We have audited the attached Balance Sheet of **Air India Engineering Services Limited**, as at 31st March 2009 and Profit & Loss Account and the cash flow statement for the year ended on that date annexed thereto. 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 test basis evidence supporting the amounts and disclosure in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over all financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order 2003 and on the basis of such checks of the books and records of the Company as we considered appropriate and the information and explanations given to us in the course of Audit, we enclose in the Annexure a statement on the matters specified in the said Order to the extent applicable to the Company.

Further to our comments in annexure referred to 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 account as required by the law have been kept by the company so far as appears from our examination of the books.
- c) The balance sheet, Profit and Loss account and cash flow statement dealt with by this report are in agreement with the books of account.
- d) In our opinion Profit and Loss account, balance sheet and cash flow statement comply with the accounting standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956.
- e) According to information and explanation given to us and on the basis of the confirmation of the company, we report that none of the Directors is disqualified from being appointed as directors in the terms of clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956.
- f) In our opinion and to the best of our information and according to the explanations given to us the said accounts read with other notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
  1. In the case of the Balance Sheet of the state of affairs of the company as at 31st March 2009.
  2. In the case of Profit and Loss account of the Loss for the year ended on that date.
  3. In case of Cash Flow Statement of the cash flow for the year ended as on that date.

**For N. K. Sheth & Company**  
Chartered Accountants

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

Place : Mumbai  
Dated : 10 September 2009



**ANNEXURE TO THE AUDITOR'S REPORT**

(Referred to in our report of even date on the accounts of **Air India Engineering Services Limited**, as on 31st March 2009.)

- (1) The Company does not have fixed assets. Therefore this provision of clause no 4(i) relating to fixed assets is not applicable.
- (2) The Company is not carrying on any trading or manufacturing activities. Therefore, the provisions of clause 4 (ii) of the Companies (Auditor's Report) Order 2003 relating to inventories are not applicable to the company.
- (3)
  - (a) The company has taken loan from its Holding Company. The amount involved is Rs.907,416/- as per provisions of clause 4 (iii) of the Companies (Auditor's Report) Order 2003 relating to loans taken by the Company. The rate of interest, terms and conditions of such loan is not prima facie prejudicial to the interest of the company.
  - (b) The company has not granted any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4 (iii) of the Companies (Auditor's Report) Order 2003 relating to loans given are not applicable to the company.
- (4) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and other activities. During the course of audit we have not observed any continuing failure to correct major weaknesses in internal controls.
- (5) During the year under consideration, the company has not entered into any transaction that need to be entered into the register maintained under section 301 of the Companies Act, 1956. Therefore, the provisions of clause 4 (v) of the Companies (Auditor's Report) Order 2003 relating to transactions, contracts and arrangements referred to in section 301 of Companies Act 1956 are not applicable to the company.
- (6) The company has not accepted any deposits from the public.
- (7) The company does not have formal internal audit system.
- (8) We are informed that the maintenance of the cost records has not been prescribed by the Central Government under the section 209(1)(d) of the Companies Act 1956.
- (9)
  - (a) There are no undisputed amounts payable in respect of Income tax, Wealth tax, Sales tax, Customs duty, Excise duty & Cess at year end for a period of more than six month from the date they became payable.
  - (b) According to the information & explanation given to us, there are no dues of Sales tax, Income tax, Customs duty, Wealth tax, Excise duty and Cess which have not been deposited on account of any dispute.
- (10) The company is registered for a period less than 5 years and hence the provision of clause 4(x) relating to accumulated losses is not applicable.
- (11) The Company do not have borrowing from Financial Institution , Bank or Debenture Holders. Therefore, the provisions of clause 4 (xi) of the Companies (Auditor's Report) Order 2003 relating to default in repayment of bank borrowings are not applicable to the company.
- (12) The company has not granted any loans and advances on the basis of securities by way of pledge of shares, debentures and other securities.
- (13) The company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (14) During the year under consideration the company has not dealt in or traded in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (15) According to information and explanation given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.

- (16) The company has not taken any term loan during the year under consideration. Accordingly, the provisions of clause 4(xvi) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (17) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that the no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.
- (18) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act 1956. Accordingly, the provisions of clause 4(xviii) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (19) The company has not issued any debentures during the year and no such debentures are outstanding during the year under consideration. Accordingly, the provisions of clause 4(xix) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (20) The company has not made any public issue during the year under consideration. Accordingly, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.
- (21) According to information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

**For N. K. Sheth & Company**  
Chartered Accountants

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

Place : Mumbai  
Dated : 10 September 2009

**BALANCE SHEET AS AT MARCH 31, 2009**

(Amount in Rupees)

Particulars	Schedule	March 31, 2009	March 31, 2008
<b>I. SOURCES OF FUNDS :</b>			
<b>Shareholder's Funds :</b>			
Share Capital	A	500,000	500,000
<b>Loan Fund :</b>			
Unsecured Loans (From NACIL)		907,416	892,874
<b>TOTAL</b>		<b>1,407,416</b>	<b>1,392,874</b>
<b>II. APPLICATION OF FUNDS :</b>			
<b>Current Assets, Loans and Advances :</b>			
In Current Account with Scheduled Bank		500,000	500,000
<b>Less : Current Liabilities and Provisions</b>		<b>6,342</b>	<b>5,618</b>
<b>Net Current Asset</b>		<b>493,658</b>	<b>494,382</b>
<b>Deffered Tax Assets</b>		<b>297,540</b>	<b>240,620</b>
<b>Miscellaneous Expenditure</b> (To the extent not written off or adjusted)			
<b>Preliminary Expenses</b>		-	168,940
<b>Profit and Loss Account</b>			
Debit Balance		616,218	488,932
<b>TOTAL</b>		<b>1,407,416</b>	<b>1,392,874</b>
Significant Accounting policies	B		
Notes on Accounts	C		

As per our Report of Even Date

**For N. K. Sheth & Company**  
Chartered Accountants

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

For and on behalf of the Board

Sd/-  
**Arvind Jadhav**  
Chairman

Sd/-  
**Prashant Sukul**  
Director

Place : Mumbai  
Date : 10 September 2009

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009**

(Amount in Rupees)

Particulars	Schedule	2008 - 09	2007 - 08
<b>Income :</b>			
Total Income		-	-
<b>TOTAL</b>		-	-
<b>Expenditure :</b>			
ROC Filing Fees		5,000	2,000
Audit Fees (Satutory Audit Fees inclusive of Service Tax)		6,342	5,618
Professional Charges		3,924	2,696
Preliminary Expenses Written Off		168,940	168,940
<b>TOTAL</b>		184,206	179,254
<b>Profit / (Loss) for the Year</b>		(184,206)	(179,254)
Add : Deferred Tax		56,920	55,389
<b>Profit / (Loss) After Tax</b>		(127,286)	(123,865)
Less : Balance Profit/(Loss) Brought Forward		(488,932)	(365,067)
Profit/(Loss) Carried Forward to the Balance Sheet		(616,218)	(488,932)
Earning per Share		(2.55)	(2.48)

As per our Report of Even Date

**For N. K. Sheth & Company**  
Chartered Accountants

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

For and on behalf of the Board

Sd/-  
**Arvind Jadhav**  
Chairman

Sd/-  
**Prashant Sukul**  
Director

Place : Mumbai  
Date : 10 September 2009

**CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2009**

(Amount in Rupees)

Particulars	2008 - 09		2007 - 08
<b>1. CASH FLOW FROM OPERATING ACTIVITY</b>			
Net Profit / (Loss) Before Tax as per Profit and Loss A/c	<b>(184,206)</b>		(179,254)
Adjusted for Preliminary Expenses Written Off	<b>168,940</b>		168,940
Operating Profit / (Loss) before Working Capital changes	<b>(15,266)</b>		(10,314)
Adjusted for Current Liabilities	<b>724</b>		-
<b>Net Cash Flow from Operating Activities</b>		<b>(14,542)</b>	(10,314)
<b>2. CASH FLOW FROM INVESTING ACTIVITY</b>	-		-
<b>3. CASH FLOW FROM FINANCING ACTIVITY</b>			
Proceeds from Issue of Share Capital	-		-
Preliminary Expenses	-		-
Loans adjustment	<b>14,542</b>	<b>14,542</b>	10,314
<b>Net Cash Flow from Financing Activities</b>		-	-
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		-	-
<b>Opening Balance of Cash/Cash Equivalents</b>	<b>500,000</b>		500,000
<b>Closing Balance of Cash/Cash Equivalents</b>	<b>500,000</b>		500,000

As per our Report of Even Date

**For N. K. Sheth & Company**  
Chartered Accountants

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

Place : Mumbai  
Date : 10 September 2009

For and on behalf of the Board

Sd/-  
**Arvind Jadhav**  
Chairman

Sd/-  
**Prashant Sukul**  
Director

**SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET****SCHEDULE - A : SHARE CAPITAL :**

Particulars	(Amount in Rupees)	
	March 31, 2009	March 31, 2008
<b>Authorised Share Capital</b>		
9,000,000 Equity Shares of Rs.10/- each.	<b>90,000,000</b>	90,000,000
100,000 Preference Shares of Rs.100/- each.	<b>10,000,000</b>	10,000,000
<b>TOTAL</b>	<b>100,000,000</b>	100,000,000
<b>Issued, Subscribed and Paid-up Capital</b>		
50,000 Equity Shares of Rs.10/- each (100% held by holding company M/s. National Aviation Company of India Limited)	<b>500,000</b>	500,000
<b>TOTAL</b>	<b>500,000</b>	500,000

**SCHEDULE - B : SIGNIFICANT ACCOUNTING POLICIES :****1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS :**

The financial statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956. The Company follows mercantile system of accounting.

**2. PROVISION FOR CURRENT AND DEFERRED TAX :**

Provision for current tax is made after taking into consideration benefits admissible under the provisions of the Income Tax Act, 1961. Deferred Tax resulting from 'timing differences' between book and taxable profit is accounted for using the tax rates and laws that have been enacted as on the balance sheet date. The deferred tax asset is recognised and carried forward to the extent that there is reasonable certainty that the asset will be realised in future.

**3. PRELIMINARY EXPENSES :**

Preliminary expenses are written off over a period of five years in accordance with the provisions of Section 35D of the Income Tax Act, 1961.

**SCHEDULE - C : NOTES TO ACCOUNTS :**

- The previous year's figures are regrouped or rearranged wherever necessary.
- Information Pursuant to Para 3 & 4 of Schedule VI of the Companies Act 1956 is not applicable to the Company as the Company has not started its activities.
- Deferred Tax Assets Comprise of the following :

	(Amount in Rupees)	
	As at 31 March 2009	As at 31 March 2008
Unabsorbed Business Loss	<b>297,540</b>	240,620

4. The Company has not yet commenced its operations. The accounts are prepared on the basis of "Going Concern".

5. **Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956 :**

**A. Registration Details :**

Registration No. : 125114  
State Code : 55  
Balance Sheet Date : 31-03-2009

**B. Capital raised during the year :** Rs. Nil

**C. Position of mobilization and deployment of funds : (Rs. In Thousands)**

Total Liabilities : Rs.1,407.41 Total Assets : Rs.1,407.41

**Sources of Funds**

Paid up Capital : Rs. 500.00 Reserves & Surplus : -  
Secured Loans : - Unsecured Loans : Rs. 907.41

**Application of Funds**

Net Fixed Assets : - Investments : -  
Net Current Assets : Rs. 493.65 Miscellaneous Exp. : -  
Deferred Tax Asset : Rs. 297.54 Accumulated Losses : Rs. 616.22

**D. Performance of Company :**

Turnover/Income : - Total Expenditure : Rs. 184.21  
Profit/(Loss) before extra  
ordinary item and taxation : Rs.(184.21) Profit/(Loss) Before  
Tax : Rs.(184.21)  
Profit/(Loss) After Tax : Rs. (127.29) Earning/(Loss) per Share : Rs.(2.55)

**E. Generic Names of Principal products, services of the Company :**

Item Code : Not Applicable  
Product Description : Not Applicable

As per our Report of Even Date

**For N. K. Sheth & Company**  
Chartered Accountants

For and on behalf of the Board

Sd/-  
**Naresh K. Sheth**  
Proprietor  
Membership No. 33698

Sd/-  
**Arvind Jadhav**  
Chairman

Sd/-  
**Prashant Sukul**  
Director

Place : Mumbai  
Date : 10 September 2009