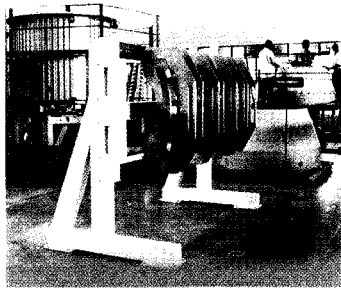
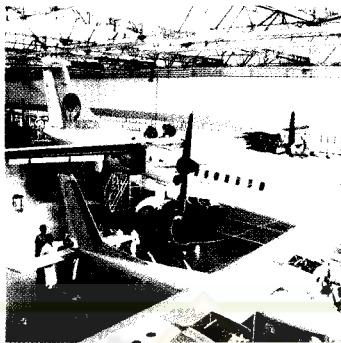




Annual Report 2006



Annual Report 2005-06

BOARD OF DIRECTORS

SALIL TANEJA

Chairman

A. K. JAIN	S. K. NEWLAY
KHUSHROO RUSTUMJI	J. P. SUREKA
R. SURIE	B. R. TANEJA
C. S. KAMESWARAN	P. GURHA
Managing Director	Jt. Managing Director

COMPANY SECRETARY

ANIL KHATRI

AUDITORS

M/S HARESH UPENDRA & CO.

Chartered Accountants

SOLICITORS & ADVOCATES

Amarchand & Mangaldas & Suresh A. Shroff & Co.

BANKERS

Bank of India	Bank of Baroda
Canara Bank	State Bank of India

REGISTERED OFFICE

Lunkad Towers, Viman Nagar,
Pune - 411 014

TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd.
3, Chintamani Apartments, Lane No. 13,
off V. G. Kale Path, 824/D Bhandarkar Road,
Pune - 411 004

CORPORATE OFFICE

Block 'B', 2nd Floor,
Akshaya Commercial Complex,
26, Victoria Road,
Bangalore - 560 047

WORKS

Belagondapalli - 635 114,
Thally Road, Denkanikottai Taluk,
Krishnagiri Dist.,
Tamilnadu.

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Annual General Meeting at Taj Blue Diamond, Pune on 29th September, 2006 at 11.00 a.m.

Taneja Aerospace and Aviation Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is indeed very gratifying to note and review the performance of the Company in the last year ending March 06. The turnover of the Company increased from Rs.13.46 Crore in 04/05 to Rs.22.24 Crore in 05/06. During the same period the net Profit increased from Rs. 3.12 Crore to Rs. 6.03 Crore. This heartening rate of growth reflects the convergence of a variety of positive factors - the efforts and investments that TAAL has made through trying times, the diversified technologies and capabilities that it has developed and, of course, the economic environment which is now vastly more conducive to the growth of the aircraft industry than in prior years. More importantly, it reflects the competitive strengths that the Company has been able to develop and the foothold that it has managed to secure in a number of growth sectors of the aviation industry. Given this positioning and given the robust foundation that has been laid, we believe the Company has every reason to look forward to a bright, exciting and rewarding future.

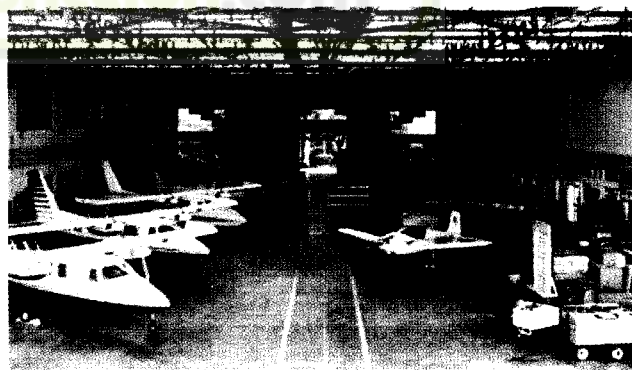
As most of you would be aware, TAAL is present in three principal business segments, the



manufacture of Aerostructures (aircraft parts and assemblies), aircraft sales (currently including P68C and Cessna aircraft) and aircraft

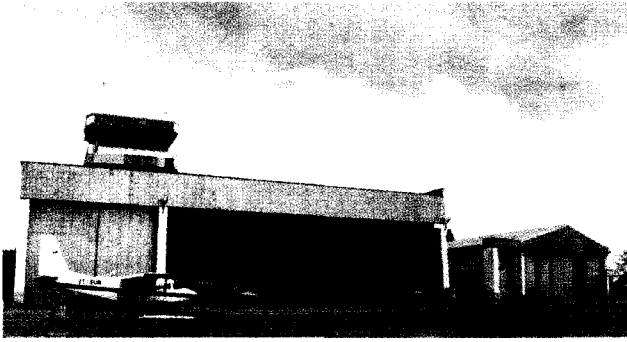
maintenance, repair and overhaul (often referred to in the industry as MRO). In each of these areas, within India, TAAL enjoys certain competitive advantages be it in terms of infrastructure or be it in terms of a set of unique capabilities resulting from a first mover advantage. Going forward TAAL's growth strategy hinges on using these advantages to establish itself as a 'Centre of Excellence' or as a Leader in each of these sectors.

On the aerostructures front the principal growth drivers are the Offset Policies proposed by the Ministry of Commerce and the Ministry of Defence (whereby foreign suppliers of aircraft are required to offset their supplies with purchases of aeronautical products from India) and the



increased impetus to outsource by domestic organizations such as ISRO and HAL. As one of the first private sector entrants in this sector, TAAL enjoys a substantial first mover advantage in terms of capabilities, relationships with customers and industry knowledge. Over the next six months your company intends to roll out an ambitious plan to capitalize on these opportunities and advantages and establish itself firmly as a global player in

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this arena.

The excitement and the growth in the MRO segment stems, as you would expect, from the rapid and sustained growth in the airline industry. TAAL's key strengths in this area include its past experience and the infrastructure that the Company owns. TAAL's airfield at Hosur has recently been upgraded to be able to accept an Airbus A320 or Boeing 737 class of aircraft. Simultaneously, a hangar has been built that can accommodate such aircraft. Recently the Company has entered into an agreement with a leading courier company for the maintenance and operation of their three BAE ATP aircraft. These aircraft have now arrived in India and are ready to enter service. This year the Company shall also launch an Approved Service Center for Cessna Citation Business Jets. TAAL is currently in discussions with a number of potential partners for setting up a full fledged MRO facility at its airfield. We expect the outcome of such

discussions to be known within the next six months.

The interest in business aircraft continues to be strong and with the economy on a stable footing we expect this trend to continue. Increasingly, companies as well as individuals are beginning to place value on their time and are therefore beginning to realize the benefits of a private aircraft. As the sole Indian representative of the Cessna Aircraft Company for their Citation range of Business Jets and the Caravan aircraft, TAAL enjoys a very strong positioning in the market and is therefore certain to benefit from the tailwinds in this sector.

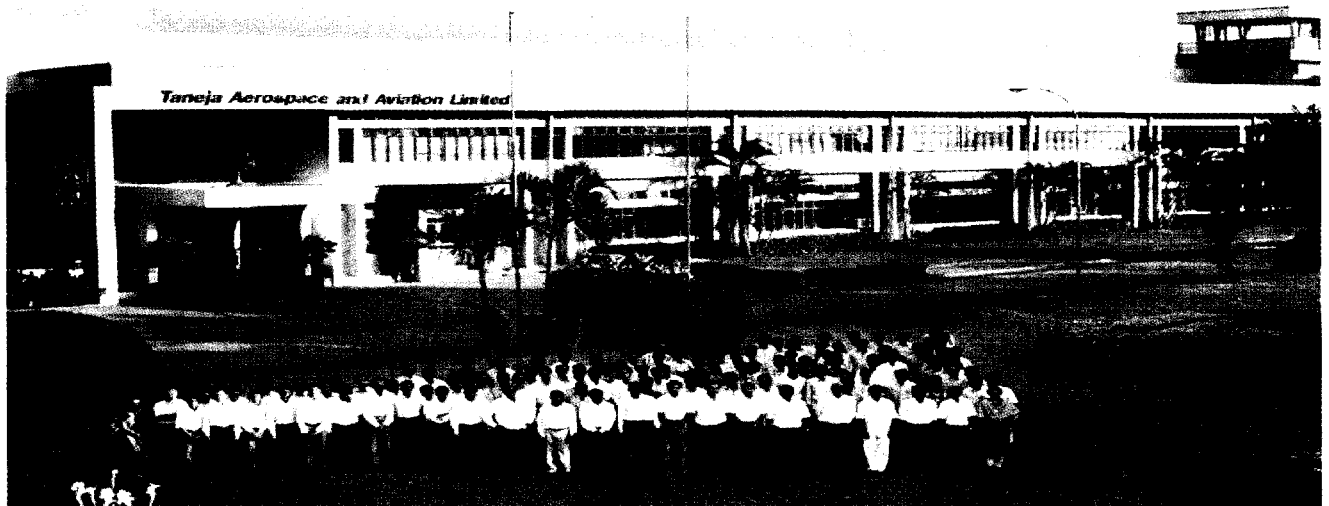
To facilitate all of the above TAAL has embarked on an aggressive HRD initiative. A number of executives have been recruited at middle to senior levels and they now form part of a very motivated and diverse team that will be responsible for driving the Company into the future. In short, the future looks exciting and every effort is being made to convert this excitement into real growth.

We look forward to the continued support of our customers, banks, financial institutions and shareholders in bringing these aspirations to fruition.

Thank you,

Salil Taneja
Chairman

Pune, June 30, 2006



Taneja Aerospace and Aviation Limited

DIRECTORS' REPORT

To the Members

The Directors are pleased to present the Seventeenth Annual Report and the Audited Accounts for the year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS (Rs in Lacs)

	2005-06	2004-05
Gross Sale	2223.80	1346.38
Operating Expenditure	1081.42	861.53
Finance Charges	199.89	211.40
Depreciation	95.03	92.69
Prior year Income (Net)	-	139.39
Provision for Taxation (including deferred & fringe benefit tax)	244.16	8.00
Profit after tax	603.30	312.15

Your Directors wish to report that during the year 2005-06 the Company earned a total income of Rs. 2223.80 lacs registering a growth of 65% over the Previous Year. Similarly, profits increased from Rs. 312.15 lacs in the Previous Year to Rs. 603.30 lacs this year, a growth of 93%.

DIVIDEND

In view of the potentially attractive investment/growth opportunities available to the Company and the need to capitalize on such opportunities quickly when they arise, the Directors believe that the Company should retain and build internal financial resources. They therefore, do not recommend any dividend for the period under review.

OPERATIONS

During the year under consideration, the aircraft and aerostructures businesses have contributed significantly to the revenue growth of the Company. In both these business segments, your Company continues to get regular orders and improve its order position.

FINANCE

In order to capitalize on emerging business opportunities in the aviation sector and with the specific objective of improving your Company's capability profile, such that it meets global standards, your Company has raised US\$ 76.76 Lacs (equivalent

to Rs.3419 lacs) through an offering of Global Depository Receipts (GDR). As per the terms of the GDR Issue, the Company has allotted 38,38,236 Equity Shares in September 2005.

Furthermore, in order to support business growth and augment working capital requirements the Company has allotted 11,25,000 warrants on preferential basis to the Promoters after receiving Rs. 173.25 Lacs as stipulated under the relevant SEBI Guidelines.

The Company has been able to reduce its long term loan liability through ongoing repayments and as a result the interest burden has tapered down.

PROJECTS

The following projects are either underway or completed

- 1) Extension of Runway from 1.1 km to 2.3 km. This is with a view to upgrading the capability of the airfield such that it is able to accept aircraft of Boeing 737/Airbus A320 category
- 2) Upgrade of manufacturing facilities including the Sheet Metal Shop, Machine Shop, Surface Treatment Shops and Assembly Shops.
- 3) Construction of a 45m x 50m Hangar intended for Maintenance of Aircraft. The new hangar can accommodate an aircraft of Boeing 737/Airbus A320 category

RESEARCH & DEVELOPMENT

The Company has a continuous R & D Program related to the indigenisation of components for Civil and Defence Aircraft and to the design of modifications for aircraft or aircraft sub-system. The details of such R & D efforts are described in the Annexure to this Report

DIRECTORS

The Board of Directors at their meeting held on 29th November, 2005 and 21st January, 2006 has appointed respectively Mr. Prashant Gurha and Mr. S. K. Newlay as Additional Directors pursuant to Section 260 of the Companies Act, 1956. They hold office as Directors upto the date of ensuing Annual General Meeting (AGM). Members' approval has been sought in the notice convening the AGM for their appointment as Directors.

The Board of Directors at their meeting held on 29th November, 2005 has appointed Mr. C. S. Kameswaran and Mr. Prashant Gurha as Whole Time Directors (WTD). These WTDs' are designated as Managing Director and Joint Managing Director respectively.

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Both WTDs' term of appointment is for a period of three years w.e.f. 1st December, 2005. Members' approval is sought at the ensuing AGM for their appointment and payment of remuneration. In accordance with the Articles of Association of the Company, Mr. C.S. Kameswaran, Mr. Khushroo Rustumji and Mr. Salil Taneja retire by rotation at the ensuing AGM and being eligible, offer themselves for re-appointment.

AUDITORS & AUDITORS' REPORT

Haresh Upendra & Co., Chartered Accountants retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Accounting Policies and Notes on Accounts are self explanatory and therefore do not call for any further comments.

FIXED DEPOSITS

The Company has not accepted any deposits from the public.

CORPORATE GOVERNANCE REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section on Corporate Governance and Management Discussion and Analysis together with a Certificate from the Company's Auditors on compliance, forms a part of the Directors' Report.

STATUTORY PARTICULARS

The Particulars in respect of Conservation of Energy, Research and Development activities as required under Section 217(1)(e) of the Companies Act, 1956 are given in Annexure to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

As required by Section 217(2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is given hereunder.

The Directors hereby state:

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) that the Directors have selected accounting policies (and applied them consistently) and made judgments and estimates, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the year 31st March, 2006 and of the Profit and Loss of the Company for the year ended 31st March, 2006;
- iii) that the Directors have taken proper and sufficient care 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;
- iv) that the Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

The Board gratefully acknowledges the valuable support given by Bankers, Shareholders, Developmental Organizations, Business Associates, and Employees of the Company and looks forward to their continued support.

For and on behalf of the Board of Directors

Pune, June 30, 2006

Salil Taneja
Chairman

Taneja Aerospace and Aviation Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Structure and Development

The overall economic and industrial environment has been favourable to the Company's basket of product offerings. The rise in middle class incomes has fuelled growth in the airline industry which in turn has created, and continues to create, an increasing demand for services such as aircraft maintenance, component overhaul etc. Simultaneously, the growing awareness among the business community of the value of management time has created a tremendous demand for air-charters. This in turn has created a positive demand for business aircraft of the type that the Company manufactures as well as the Business Jets that the Company sells. Similarly, on the aerostructures front the offset policies introduced by the Commerce and Defence Ministries have created a potentially enormous market for aerostructure products from the country. Should the policy environment continue to remain growth friendly, as we expect it to, given the common vested interest across political ideologies, we should see a growth in all sectors of the Company's businesses.

Opportunities

Aircraft Sales

In the fast growing and competitive corporate environment that is evolving, senior management time is being recognized as valuable. As a result, there is an increasing requirement within the corporate community to travel at will and to destinations that are not on the commercial aviation map. This trend is pushing sales of privately owned aircraft in India and we expect it to gain momentum through the foreseeable future. Given T AAL's positioning in this market space we expect the Company to benefit from this market phenomenon.

Aero-structures

There are three distinct factors that we expect will generate a demand for aerostructures: (i) outsourcing has become an accepted phenomenon for the major aircraft manufactures such as Airbus and Boeing (ii) the capability within India and with T AAL to supply these components and (iii) the policy that the suppliers of aircraft would be obliged to offset a part of their supplies to India with the purchase of aviation industry products

from the country. In addition to this, organizations such as HAL and VSSC are increasingly looking at outsourcing their products and TAAL is the obvious choice in this area.

TAAL has not only acquired the technological capabilities to manufacture aerostructures but has also gained the required credibility in the international aviation fraternity to grow its business in this segment.

Aircraft MRO

TAAL is already working with a leading courier company for the maintenance of their fleet of cargo aircraft. T AAL will also launch a Cessna 'Authorised Service Facility' for the maintenance of Cessna Aircraft in India in the year 2006-07. In addition to this there are a number of other opportunities that are available to the Company in this segment of the business.

Air Charter

There is a significant shortage of trained pilots in the country and this has affected the growth and performance of TAAL's air-charter business as it has the airlines in the country. The Company has taken the steps to mitigate the financial impact of this situation and is in the process of inducting foreign pilots to manage its fleet of aircraft and thereby restore charter operations to prior levels.

Other Opportunities

T AAL is on a constant look out for opportunities that emerge in the aviation sector. Given the Company's competencies and facilities it is uniquely positioned to cater to the existing and emerging requirements of the Indian Aviation Sector. One such possible area for future growth includes the development of the Company's airfield at Hosur.

Product-wise Performance

The product wise performance is given herein below.

	Rs. in Lacs	
	2005-06	2004-05
Aero Structure	1545.00	733.95
Agency Sales	408.32	175.98
Air Management	143.89	415.07
Total	<u>2097.21</u>	<u>1325.00</u>

Outlook

The aviation industry in India has been catapulted into the limelight all over the world as numerous airlines have announced ambitious aircraft acquisition plans. Also, private participation in the development of some of the Indian airports is

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catalyzing the growth of aviation infrastructure in the country. TAAL with its unique aviation and manufacturing facilities is in an advantageous position to capitalize on the opportunities that are surfacing. TAAL has embarked on a program to expand its facilities to benefit from this enabling business environment. The airfield and associated facilities are being upgraded so that they are capable of receiving and maintaining B-737/A320 class of aircraft. In addition, the existing manufacturing facilities are being augmented in respect of capabilities, technology, systems and processes to cater to the high demand for aerospace products from domestic and global markets. The organization structure has been significantly strengthened to support this growth and TAAL has also embarked on a AS9100 accreditation process to enhance Quality standards. The expansion plans will be completed during the third quarter of the current year.

Risks and Concerns

Availability and price of aviation fuel, the deployment of the policy on offset, and the availability of appropriately qualified personnel can have a direct or indirect impact on the performance of the Company. Apart from these the other risks relate to natural disasters and geopolitical problems.

Internal Control Systems and Adequacy

The Company has adequate internal control systems with regard to operations, financial reporting and compliances of rules and regulations. They are strengthened periodically through internal audit and review.

Financial Performance

The financial performance for the financial year 2005-06 as compared to the previous year is given below:
Rs. in Lacs

	2005-06	2004-05
Gross Income	2223.80	1346.38
Profit after Interest but before Depreciation	942.49	273.46
Depreciation	95.03	92.691
Prioryear Income(Net)	-	139.39
Provision for Income Tax (Including deferred and fringe benefit tax).	244.16	8.00
Profit after Tax	603.30	312.16

During the year the Company has registered more than 65% year on year growth in revenue and earned a post tax profit of Rs.603.30 lacs.

Development in Human Resources / Industrial Relations

During the year, the Company continued to have normal relationship with its employees. The Company's human resource activities are focused on building talent to meet future challenges.

Cautionary Statement

Statements in the Management Discussion and Analysis describing the Company's projections, estimates, expectations or predictions are 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include demand-supply conditions, raw materials prices, changes in Government regulations, tax regimes, economic developments within the country and other factors such as litigation and labour negotiations.

Taneja Aerospace and Aviation Limited

CORPORATE GOVERNANCE REPORT

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

These days there has been a lot of emphasis on Corporate Governance. The Company is committed to good corporate governance by being transparent with high level of integrity, accountability and social responsibility. This report is prepared in conformity with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges.

BOARD OF DIRECTORS

The composition of the Board, attendance at Board Meetings held during the year and at the last Annual General Meeting, number of Directorships in other public limited companies and committees across various public limited companies of which the Director is a Member / Chairman are given below :

Name of the Director	Category	Financial year 2005-06 Attendance at		As on Date		
		Board Meetings	Last AGM	No. of Directorships in other public companies	Committee positions in other public companies	
					Member	Chairman
Mr Salil Taneja Chairman w.e.f. 21.1.06	Non Executive	6	Yes	1	--	--
Mr A K Jain	Non Executive	5	Yes	1	--	--
Mr S K Newlay w.e.f. 21.1.06	Non Executive Independent	1	NA	1	--	--
Mr Khushroo Rustumji Chairman upto 20.1.06	Non Executive Independent	6	Yes	1	1	--
Mr J P Sureka	Non Executive	6	Yes	3	--	--
Mr Rakesh Surie	Non Executive Independent	--	No	Nil	--	--
Mr B R Taneja	Non Executive	8	Yes	1	--	--
Mr C S Kameswaran	Executive	8	Yes	Nil	--	--
Mr Prashant Gurha w.e.f 1.12.05	Executive	1	NA	Nil	--	--

The Company has a Non Executive Chairman and the number of independent Directors are as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges

During the year under review - 9 Board Meetings were held i. e. on 16th April 2005, 30th April 2005, 3rd June 2005, 18th July 2005, 13th September 2005, 24th October 2005, 29th November 2005, 21st January 2006 and 22nd March 2006.

Brief resumes of the Directors proposed to be appointed / re-appointed.

Mr. C. S. Kameswaran is a Chartered Accountant by Profession and a Post Graduate in Business Administration. He has three decades of rich working experience in leading large and medium scale industries, in various capacities covering the areas of corporate planning, finance and operational management. He has been associated with the

Company for more than 10 years and is presently designated as Managing Director. He does not hold Directorship in any other company.

Mr. Prashant Gurha is a graduate in Mechanical Engineering with an MBA from Deakin University, Melbourne, Australia. He has extensive experience in marketing and projects and is presently designated as Joint Managing Director. He does not hold Directorship in any other company.

Mr. Salil Taneja holds a degree of B.Sc in Mechanical Engg. from Case Western Reserve University, Ohio, USA and Masters in Business Management specialised in finance and marketing from Yale University, USA. He has been associated with the Company since its inception and has been instrumental in growing the aviation business of the Company over the past eight years. He is holding 2,900 Equity Shares in the Company. Mr. Salil Taneja is a Director on the Board of ISMT Limited.

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Mr. Khushroo Rustumji is a B.Tech. (Hons.) from IIT, Kharagpur. He has to his credit, more than four decades of rich working experience and has been associated with the Company for the past nine years and has contributed significantly to the growth and strategic planning / initiatives of the Company during this time. He is holding 200 Equity Shares in the Company. Mr. Khushroo Rustumji is a Director on the Board of ISMT Limited.

Mr. S. K. Newlay is a post graduate in Science and CAIIB. He was associated with Reserve Bank of India and served as Chief General Manager of RBI's College of Agricultural Bankers, Pune. He has been faculty member of RBI Staff College, Madras. He has wide experience in financial analysis, credit management and monitoring exchange rate management. Mr. S. K. Newlay is a Director on the board of Indseam Services Limited. He does not hold any Equity Shares in the Company.

AUDIT COMMITTEE

Till 21st January, 2006 the Audit Committee comprised Mr. J. P. Sureka, Mr. A. K. Jain and Mr. Rakesh Surie as Committee Members. The Audit Committee of the Board of Directors was reconstituted on 21st January, 2006 with Mr. Khushroo Rustumji, Chairman, Mr. S. K. Newlay and Mr. Rakesh Surie as Members.

The terms of reference of Audit Committee covers the areas mentioned as per the provisions of Section 292A of the Companies Act, 1956 and the duties and functions generally mentioned under Clause 49 of the Listing Agreement with the Stock Exchanges.

During the year under review, four Audit Committee Meetings were held on 16th April 2005, 18th July 2005, 24th October 2005 and 21st January 2006. The Audit Committee attendance is given below:

Name of Member	Meetings Attended
Mr. Khushroo Rustumji	1
Mr. A. K. Jain	3
Mr. S. K. Newlay	-
Mr. J. P. Sureka	4
Mr. Rakesh Surie	-

MANAGERIAL REMUNERATION

a. Remuneration Committee:

Till 21st January, 2006 the Remuneration Committee comprised Mr. J. P. Sureka, Mr. A. K. Jain and Mr. Rakesh Surie as Committee Members. The Remuneration Committee of the Board of Directors was reconstituted on 21st January, 2006 with Mr. Khushroo Rustumji, Chairman, Mr. S. K. Newlay and Mr. Rakesh Surie as Members.

The Remuneration Committee is empowered to fix, review, approve and recommend the

remuneration payable to Whole Time Directors. During the year, one Remuneration Committee Meeting was held on 29th November, 2005 which recommended the remuneration and perquisites payable to Mr. C. S. Kameswaran and Mr. Prashant Gurha. The meeting was attended by Mr. A. K. Jain and Mr. J. P. Sureka.

b. Remuneration Policy :

The remuneration of the Whole Time Directors is decided by the Board of Directors based on the recommendations of the Remuneration Committee Meeting, which inter alia is based on the criteria such as industry benchmarks, Company's performance, performance of the Whole Time Directors. The Company pays remuneration by way of salary, perquisites and allowances to its Whole Time Directors.

Mr Khushroo Rustumji, Non Executive Director was paid remuneration upto December, 2005 after seeking Central Government's approval.

No remuneration is paid to any other Non Executive Director. The payment of sitting fees was approved at the Board Meeting held on 21st January, 2006. The Non Executive Directors are paid sitting fees of Rs. 5000 for Board Meeting and Rs. 2,500 for Committee Meeting.

c. Remuneration to Directors:

A Statement on the remuneration paid to the Whole Time Directors and sitting fees paid to Non-Executive Directors during the year 2005-06 is given below:

Name of Director	Salary & Perquisites p.a (Rs)	Sitting fees (Rs)
S. Taneja	--	5,000
A. K. Jain	--	15,000
S. K. Newlay	--	5,000
Khushroo Rustumji	4,54,064	10,000
J. P. Sureka	--	15,000
Rakesh Surie	--	--
B. R. Taneja	--	10,000
C. S. Kameswaran	13,27,840	--
Prashant Gurha	7,11,732	--

Note : Salary and perquisites include other allowances, contribution to Provident Fund and Superannuation, leave travel allowance, medical reimbursement and accommodation provided.

SHAREHOLDERS/ INVESTORS GRIEVANCE COMMITTEE

Till 21st January 2006 the Investors' Grievance Committee of the Board of Directors comprised Mr. J. P. Sureka, Mr. A. K. Jain and Mr. Rakesh Surie as Committee Members. The Investor's Grievance Committee was reconstituted on 21st January, 2006 with Mr. Khushroo Rustumji, Chairman, Mr. S. K. Newlay & Mr. Rakesh Surie as Committee Members.