

Deccan Aviation Private Limited

9th Annual Report 2003-04

Deccan Aviation Private Limited

Notice

Notice is hereby given that the Ninth Annual General Meeting of the Company will be held on Thursday, the 30th September, 2004 at 4.00 pm at the Registered Office of the Company at Jakkur Aerodrome, Bellary Road, Bangalore 560064 to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2004 and the Profit and Loss Account for the financial year ended on that date and the Directors Report and Auditor's Report thereon.
2. To declare a dividend for the financial year ended 31st March 2004.
3. To appoint M/s. Mohan & Sridhar, Chartered Accountants, Bangalore, the retiring Auditors, as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business:

4. To consider and if thought fit, to pass the following resolution, with or without modifications, as an Ordinary Resolution.

“RESOLVED THAT Mr. Sudhir Choudhrie, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received notice in writing under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company.”

5. To consider and if thought fit, to pass the following resolution, with or without modifications, as a Ordinary Resolution.

“RESOLVED THAT Mr. Sumant Kapur, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received notice in writing under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company.”

6. To consider and if thought fit, to pass the following resolution, with or without modifications, as a Ordinary Resolution.

“RESOLVED THAT Col. Jayanth K Poovaiah, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received notice in writing under Section 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company.”

By Order of the Board

Registered Office:

Jakkur Aerodrome
Bellary Road
Bangalore 560064
3rd September, 2004

Radhika Venkatesh
Company Secretary

Note:

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. A Blank form of the proxy is enclosed and, if used, should be returned to the Registered Office of the Company duly completed not later than 48 hours before the commencement of the meeting.

Deccan Aviation Private Limited

Directors' Report

To The Shareholders,

Your Directors have pleasure in presenting their 9th Annual Report along with the Audited Accounts of the Company for the year ended 31st March 2004.

Financial Results and Operations

The Company's financial results for the financial year ended 31st March 2004 are summarized below:

	<i>Rs. in millions</i>	
	Year ended 31st March	
	2004	2003
Gross Income	682.02	234.92
Profit before Financial charges, Depreciation and Taxes	58.14	29.70
Depreciation	11.16	3.27
Financial Expenses	38.69	15.18
Profit before taxes	8.29	11.25
Provision for taxes - Current	0.64	0.88
- Deferred	2.07	4.14
Net Profit after tax	5.58	6.23

Airline Division

During the year 2003, the Company started a separate division in the name and style of "AIR DECCAN" for scheduled flight operations. The model of this operation is based on "Low Cost Carrier Concept" (LCC) which is becoming popular in most parts of the world after its success in USA and Europe. Your Company is the first to start this concept in India. The commercial operations began during the last week of August 2003 with a single ATR 42-320 aircraft leased from ATR, France. In the first phase of the project 7 ATR 42-320s have been inducted to cover short haul sectors in the Southern & Western parts of the country. Your Company has also set up a web based Reservation and Booking System for accessing and booking of seats, which is again the first of its kind in the country. The system has excellent features to enable booking mainly from three sources, viz., from the company's own operated 24 x 7 Call Center, from the company's Web Site and also through the Travel Agents.

At the close of the financial year under review, your Company was operating 36 sectors daily with 4 aircraft. Since then, 3 more ATR 42-320 aircrafts and 3 Airbus A-320 aircraft have joined the fleet. This has resulted in the Company covering the major trunk routes along with the regional routes. The number of flights operated as on the date of this report are more than 60 per day with another 15 flights scheduled to launch in the next few days. Since inception, Air Deccan has flown more than 3,50,000 passengers. The fares offered on the flights are nearly 50% of the fare of other Airlines.

The response to the concept of a low cost airline has been overwhelming. The Web based booking system has been successfully installed and is running well. The concept of e-ticketing has also been received well by Customers, Airport Security and by the Travel Agents. The Company-managed 24 x 7 Call center to provide flight related and other information and also to facilitate booking of airline tickets has been a huge success. All these facilities are highly scalable at very short notice.

Air Deccan, by operating turbo props in the short sectors, which is a mix of both virgin routes and existing routes, has been successful in extending the air travel culture to new customers, thereby stimulating growth and expanding the market. Your Company operates Airbus A-320s in the trunk sectors competing directly with the existing operators.

Deccan Aviation Private Limited

Charter Services

The Helicopter Charter service of the Company logged an impressive growth of 34%. The long term contracts continue to ensure steady revenue to the company. The Company's operations of ferrying pilgrims at Sri Mata Vaishnodevi Temple in Jammu based on an arrangement with the Temple Trust, which commenced in the previous financial year, has yielded significant revenue for the Company. This operation caters to all segments of pilgrims has also helped in strengthening the brand and image of the company. Your company continues to explore possibilities of increasing its presence in off shore flying for oil sector.

Future Outlook

The Country has experienced an economic growth of 7% last fiscal and the core sectors like Steel, Cement, Paper, Automobile, Infrastructure, Telecom, etc are experiencing strong upward movement both in terms of demand and price which will translate into increased earnings and revenues for the travel sector. Additionally, the Government is gradually liberalizing the Civil Aviation Policy which will help to remove various visible and invisible barriers for private airline operations.

The Company's induction of new aircrafts and the strategy of connecting both the regional routes and the trunk routes has resulted in expansion of the market for air travel. Your Company, being the pioneer in the concept of low cost travel, has gained a significant first-mover advantage and intends to build on it by quickly covering the remaining parts of the country. Air Deccan will continue to explore and fly into virgin routes with the stated aim of enabling the common man to fly.

The Company has ambitious plans for the Charter services and aims to expand its off shore operations as the Oil sector, which was hitherto under the control of the Government of many decades, has been opened for private sector companies. Your Company has tied up with a leading off shore helicopter operator company based in UK and using this strategic tie up to realise its plans of increasing its presence in the Off shore operations.

The company is also an authorized Customer Service Facility for Bell Helicopters, Textron, USA. This is a very prestigious operation and is a tribute to the Company's high standard of maintenance facilities and processes. To facilitate this operation, the Company has a DGCA approved maintenance shop which carries out engineering operations on the Helicopters.

The Sales and Marketing teams have been strengthened and major efforts are under way to tap non-conventional sources of revenue. As usual, cost management and control is an ongoing initiative, being an important part of the culture of a low-cost airline. As a result of these efforts, the Company expects to post high growth in both revenues and profits in the current financial year.

Finance

During the year under review, the Company's Authorised Capital was increased from Rs. 10 crore to Rs. 15 crores. This was subsequently raised to Rs. 32 crores. Consequent changes have been made to the Memorandum and Articles of Association.

The Company was also able to obtain equity investments from venture capitalists to the tune of Rs. 20.70 crores. These venture capitalists were issued 298,700 equity shares of Rs. 100/- each for cash at a premium of Rs. 593/- per share.

The Company issued Bonus shares in the ratio of 4 bonus shares of Rs. 100/- each, fully paid up, for every 5 shares of Rs. 100/- each held, to the shareholders of record on 1st March 2004.

The Company also issued Rights shares in the ratio of 3 shares of Rs. 100/- each for every 10 shares of Rs. 100/- each held, to the shareholders of record on 9th March 2004. A sum of Re. 1/- per share was called up on these rights shares.

Deccan Aviation Private Limited

Your Company was also able to tie up borrowing lines for Rs. 10 crores for the purchase of 4 helicopters for the Charter services. These helicopters were originally acquired on lease and were purchased during the year under review as the Company saw value in this conversion.

Your Company was also able to successfully tie up borrowing lines for the newly created Airline Division from Bank of India amounting to Rs. 13.47 crores.

Directors

Mr. Sudhir Choudhrie was appointed as an Additional Director of the Company at the meeting of the Board held on 21st December 2003. In terms of the provisions of the Companies Act, 1956, Mr. Choudhrie holds office upto the date of the forthcoming Annual General Meeting. The Company has received notices under Section 257 of the Act, along with a deposit of Rs. 500/-, proposing Mr. Choudhrie as a candidate for the office of Director of the Company. Mr. Choudhrie has given his consent, if appointed, to act as a Director of the Company.

Mr. Sumant Kapur was appointed as an Additional Director of the Company at the meeting of the Board held on 21st December 2003. In terms of the provisions of the Companies Act, 1956, Mr. Kapur holds office upto the date of the forthcoming Annual General Meeting. The Company has received notices under Section 257 of the Act, along with a deposit of Rs. 500/-, proposing Mr. Kapur as a candidate for the office of Director of the Company. Mr. Kapur has given his consent, if appointed, to act as a Director of the Company.

Col. Jayanth K Poovaiah was appointed as an Additional Director of the Company at the meeting of the Board held on 30th September 2003. In terms of the provisions of the Companies Act, 1956, Col. Poovaiah holds office upto the date of the forthcoming Annual General Meeting. The Company has received notices under Section 257 of the Act, along with a deposit of Rs. 500/-, proposing Col. Poovaiah as a candidate for the office of Director of the Company. Mr. Kapur has given his consent, if appointed, to act as a Director of the Company.

Mr. B G Sathyapal, AVM (Retd.) resigned from the Board of the Company effective 8th April 2004. Your Directors place on record their appreciation of the valuable contribution made by Mr. Sathyapal during his tenure on the Board.

Mr. A D Sinha resigned from the Board of the Company effective 8th April 2004. Your Directors place on record their appreciation of the valuable contribution made by Mr. Sinha during his tenure on the Board.

Dividend

Your Directors have pleasure in continuing to recommend a declaration of dividend of 5% on the Equity Capital of the Company. The Dividend, if approved by the members of the company in General Meeting, would involve an outflow of Rs. 19.71 lakhs and will be payable to members of record on 30th September, 2004. The dividend would be payable on a prorata basis on fresh shares allotted during the financial year by way of new allotments, bonus and rights.

Auditors

The Auditors of the Company, M/s. Mohan & Sridhar, the retiring auditors of the Company, being eligible, offer themselves for re-appointment to hold office from the conclusion of the forthcoming Annual General Meeting of the Company till the date of next Annual General Meeting. Confirmation has been received from M/s. Mohan & Sridhar that their appointment, if confirmed by the Company in General meeting, would be within the limits specified in Section 224(1-B) of the Companies Act, 1956.

Deccan Aviation Private Limited

Directors' Responsibility Statement

In terms of the provisions of section 217(2AA) of the Companies Act, 1956 the Directors of your Company hereby confirm that:

- In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- The Directors have selected such 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 financial year and of the profit and loss of the Company for the year;
- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- The Directors have prepared the annual accounts on a going concern basis.

Auditors' Report

As regards the Qualifications in the Auditors' Report in respect of the remarks appearing in the Annexure to the Auditors' Report, the Company has taken/is taking necessary steps to ensure compliance with the relevant laws.

Particulars of Employees under Section 217 (2A) of the Companies Act, 1956.

The particulars of those employees, whose remuneration exceeded Rs. 24 lakhs, if employed for the whole year or Rs. 2 lakhs per month, if employed for part of the year, are provided in the Annexure to this Report.

Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo

The particulars as prescribed under section 217(1)(e) of the Companies Act, 1956 and the rules framed there under are not applicable to the Company.

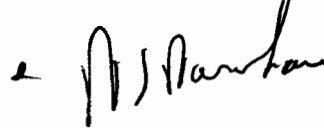
Foreign Exchange Earnings and Outgo

The relevant information appears in the Notes to the Accounts.

Appreciation/Acknowledgement

The Directors wish to place on record their sincere appreciation of the unstinted support, co-operation and assistance received from various departments and agencies of the Central Government, the various State Governments where the Company operates and Airport Authorities of India. The Directors also wish to place on record their appreciation of the continued co-operation and support received from the Lessors, Technical Collaborators, Financial Institutions, Banks, Suppliers, Business associates, and the dedicated and committed services rendered by all the executives and employees of the Company for the efficient and smooth functioning of the Company's operations.

For and on Behalf of the Board of Directors



Lt. Gen. (Retd.) N S Narahari
Chairman

Bangalore
3rd September 2004

Deccan Aviation Private Limited

Annexure to the Directors' Report

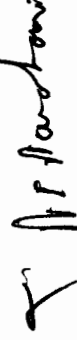
Particulars pursuant to the Companies (Particulars of Employees) Rules, 1975

Name	Designation	Qualification	Age (Years)	Date of Joining	Experience (Years)	Gross Remuneration (Rs.)	Previous Employment	Designation
Employed for part of the year								
Theodore Dounias	Chief Operating Officer	M. Sc (Air Transport Engineering), MBA	52	09 Feb 2004	26	952,056	Monarch Airlines Limited, UK	Commercial Director
Employed for the full year								
Mark James Daley	Chief Engineer	AME	39	09 Apr 2002	20	2,531,620	Pacific Helicopters Ltd., Papua New Guinea	Chief Engineer
Thasis Xavier	Company Training Captain	Graduate	58	03 Nov 1999	37	2,203,804	MHS Aviation, Malaysia	Chief Pilot

Notes:

Remuneration comprises of basic salary, allowances and taxable value of perquisites, if any
 None of the above employees are related to any Director of the Company
 None of the above employees hold any equity shares in the Company

For and on Behalf of the Board of Directors



Lt. Gen. (Retd.) N S Narahari
 Chairman

Bangalore
 3rd September 2004

MOHAN & SRIDHAR
Chartered Accountants
Bangalore

+91 80 23440931
+91 80 23315335

To

The Members of the DECCAN AVIATION PRIVATE LIMITED

We have audited the attached Balance Sheet of DECCAN AVIATION PRIVATE LIMITED as at 31st March 2004, and also the Profit and Loss Account of the Company, for the year ended on that date annexed thereto. These financial statements are primarily the responsibility of the management. Our responsibility is to express an opinion on these statements based on our audit.

We have 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 assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with the provisions of section 227 of the Companies Act, 1956, we report as under:

1. As required by the Companies (Auditors Report) Order, 2003, issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified the said order.
2. Further to our comments in the annexure referred to in paragraph 1 above, we state that:
 - a) We have obtained all the information and explanation 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 law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of accounts.
 - d) In our opinion, the Profit and Loss Account and the Balance Sheet comply with the accounting standards referred to in sub section (3c) of section 211 of the Companies Act, 1956.
 - e) On the basis of the representation received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March 2004 from being appointed as a Director in terms of 274(1) (g) of the Companies Act, 1956.

f) In our opinion and to the best of our information and according to explanation given to us, the said Balance Sheet and the Profit and Loss Account read together with the Schedules and notes on accounts given the information required by the Companies Act, 1956, in the manner so required and give a true and fair view.

i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2004

ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date.

iii) In the case of the Cash Flow Statement, of the Cash flows for the year ended on that date.

For MOHAN & SRIDHAR
Chartered Accountants

K. Sridhar

(K SRIDHAR)

Partner

Membership no. 24454

Bangalore
September 03, 2004



MOHAN & SRIDHAR
Chartered Accountants
Bangalore

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+91 80 23315335

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF THE AUDITOR'S REPORT TO
THE MEMBERS OF DECCAN AVIATION PRIVATE LIMITED ON THE ACCOUNTS
FOR THE YEAR ENDED 31ST MARCH 2004

1.
 - (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
 - (b) these fixed assets have been physically verified by the management at reasonable intervals; no material discrepancies were noticed on such verification and discrepancies noticed have been properly dealt with in the books of account;
 - (c) Substantial part of fixed assets has not been disposed off during the year, and therefore the going concern status of the company is not affected on that account;
2.
 - (a) In our opinion the management has conducted Physical verification of inventory at reasonable intervals;
 - (b) In our opinion, the procedures of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and the nature of its business.
 - (c) In our opinion, the company is maintaining proper records of inventory and there are no material discrepancies noticed on physical verification.
3.
 - (a) Company has taken unsecured loan of Rs.10,00,00,000 from a party which is a company covered in the register maintained under section 301 of the Act.
 - (b) The rate of interest and other terms and conditions of unsecured loans given or taken by the company, are not prima facie prejudicial to the interest of the company;
 - (c) The terms of payment of the principal amount and interest are not stipulated.
 - (d) There is no overdue amount more than Rs. one lakh.
4.

In our opinion the company has adequate internal control procedures commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of services. There is no continuing failure to correct major weaknesses internal control;

5.
 - (a) Transactions that need to be entered into a register in pursuance of section 301 of the Act have been entered;
 - (b) In our opinion, each of these transactions aggregating for a value exceeding Rs.5,00,000 have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;
6.

The company has not accepted deposits from the public, therefore our reporting on the compliance of the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under, does not arise.
7.

In our opinion the company has an internal audit system commensurate with its size and nature of its business;
8.

The Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Act.
9.
 - (a) The company is generally regular in depositing undisputed statutory dues including Provident Fund, Income tax, Custom Duty and other statutory dues, however, in respect of depositing of tax deducted at source under the Income-tax Act, 1961, there have been delays in some cases but no amount is outstanding for a period exceeding 6 months and also there is no arrears as on the date of the Balance Sheet. The company has no Investor Education and Protection Fund and having regard to the nature of the business not covered by Employees State Insurance and the Excise Duty, Cess, Sales Tax and Wealth Tax.
 - (b) There are no dues of Sales Tax/Income Tax/Custom Tax/Wealth Tax/Excise Duty/Cess on account of any dispute and therefore our reporting on depositing such amount and the amounts involved does not arise.
10.

There is no accumulated losses at the end of the financial year and the company has not incurred any cash losses during the financial year under report and in the financial year immediately preceding financial year under report also;
11.

The company has not defaulted in repayment of dues to any financial institution or bank or and the company has not issued any debentures.
12.

Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and therefore our reporting on the maintenance of adequate documents and records does not arise.
13.

The company is not a nidhi/mutual benefit fund/society and therefore there is no special statute applicable;

14. The company is not dealing or trading in shares, securities, debentures and other investments, and therefore our reporting on maintenance of proper records of the transactions and contracts and making of timely entries therein, does not arise.
15. The company has not given any guarantee for loans taken by others from bank or financial institutions, and therefore our reporting on the terms and conditions does not arise;
16. The term loans taken by the company has been applied for the purpose for which such loans are obtained;
17. In our opinion, the funds raised on short-term basis have not been used for long-term investment and vice versa;
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 Act;
19. The Company has not issued any debentures and therefore our reporting on the creation of securities does not arise.
20. The Company has not raised any money on public issue and therefore our reporting on the management's disclosure on the end use of money raised does not arise.
21. During the course of our audit we have noticed any fraud on or by the company and therefore our reporting on the nature of such frauds and amount involved does not arise.

Bangalore
September 03, 2004



For MOHAN & SRIDHAR
Chartered Accountants

K. Sridhar

(K SRIDHAR)
Partner

Membership no. 24454

Deccan Aviation Private Limited

Balance Sheet as at 31 March 2004

(All amounts in Indian Rupees)

	Schedule	As at 31 March 2004	As at 31 March 2003
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	155,267,298	20,800,000
Reserves and Surplus	2	89,199,971	12,353,899
		<u>244,467,269</u>	<u>33,153,899</u>
Loan Funds			
Secured Loans	3	226,212,921	73,049,934
Unsecured Loans	4	143,000,000	51,664,665
		<u>369,212,921</u>	<u>124,714,599</u>
Deferred Tax Liability		<u>13,237,119</u>	<u>11,165,586</u>
TOTAL		<u>626,917,309</u>	<u>169,034,084</u>
 APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	5	263,865,364	111,747,103
Accumulated Depreciation		16,028,838	6,310,304
Net Block		247,836,526	105,436,799
Capital Work in Progress (including Capital Advances)		3,491,169	0
		<u>251,327,695</u>	<u>105,436,799</u>
Investments		500	500
Current Assets, Loans & Advances			
Inventory	6	121,812,262	38,682,445
Sundry Debtors	7	48,084,985	29,480,569
Cash & Bank Balances	8	159,763,591	18,097,798
Loans & Advances	9	135,591,422	40,606,223
		<u>465,252,260</u>	<u>126,867,035</u>
Less: Current Liabilities			
Current Liabilities	10	289,154,413	71,616,470
Provisions	11	2,609,487	2,633,825
		<u>291,763,900</u>	<u>74,250,295</u>
Net Current Assets		173,488,360	52,616,740
Miscellaneous Expenditure			
(to the extent not written off or adjusted)			
Deferred Revenue Expenses	12	151,995,134	10,635,044
Preliminary Expenses	13	50,105,620	345,001
		<u>202,100,754</u>	<u>10,980,045</u>
TOTAL		<u>626,917,309</u>	<u>169,034,084</u>

To be read with attached schedules and Notes on Accounts.

Bangalore,

Dt: 03 September 2004

N S Narahari
Lt. Gen. (Retd.) N S Narahari

Chairman

(Capt. G. R. Gopinath)

Managing Director

(Radhika Venkatesh)

Company Secretary

As per our report of even date
for MOHAN & SRIDHAR
Chartered Accountants



K. Sridhar
(K SRIDHAR)

Partner

Deccan Aviation Private Limited

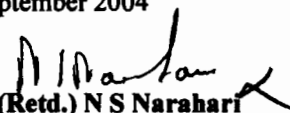


Profit and Loss account for the year ended 31 March 2004

(All amounts in Indian Rupees)

	Schedule	For the year ended 31 March 2004	For the year ended 31 March 2003
INCOME			
Sale of Tickets		314,184,820	234,151,415
Charter Service Fees		315,209,003	-
Other Income	14	52,625,807	767,597
Total Income		682,019,630	234,919,012
EXPENDITURE			
Direct Operating Expenses	15	453,301,735	125,654,928
Administrative & General Expenses	16	170,486,870	79,478,279
Finance Charges	17	38,690,184	15,179,440
Depreciation		11,162,327	3,268,241
Preliminary Expenses written off		86,250	86,250
Total Expenses		673,727,366	223,667,138
Profit before Taxation		8,292,264	11,251,874
Provision for Taxation			
Current Tax		637,468	883,000
Deferred Tax		2,071,533	4,135,063
Net Profit for the year after Tax		5,583,263	6,233,811
Proposed Dividend		1,743,359	1,000,000
Proposed Dividend Tax		227,835	125,000
Carried Forward to Balance Sheet		3,612,069	5,108,811

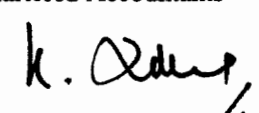
To be read with attached schedules and Notes on Accounts.

Bangalore,
Dt: 03 September 2004


Lt. Gen. (Retd.) N S Narahari
 Chairman

(Capt. G. R. Gopinath)
 Managing Director

(Radhika Venkatesh)
 Company Secretary

As per our report of even date
for **MOHAN & SRIDHAR**
Chartered Accountants




(K SRIDHAR)
 Partner

Deccan Aviation Private Limited

Schedules to the Balance Sheet as at 31st March 2004

(All amounts in Indian Rupees)

	As at 31 March 2004	As at 31 March 2003
Schedule 1: Share Capital		
<u>Authorised Capital</u>		
32,00,000 (Previous year - 10,00,000) Equity Shares of Rs. 100/- each	320,000,000	100,000,000
<u>Issued and Subscribed Capital</u>		
30,38,598 (Previous year - 10,00,000) Equity Shares of Rs. 100/- each	303,859,800	100,000,000
<u>Paid up Capital</u>		
15,37,660 (Previous year - 200,000) Equity Shares of Rs. 100/- each fully paid	153,766,000	20,000,000
15,01,298 (Previous year - 800,000) Equity Shares of Rs. 100/- each (paid up Re.1/- per share)	1,501,298	800,000
	<u>155,267,298</u>	<u>20,800,000</u>
<u>Note:</u>		
Out of the above, 12,08,960 (Previous year - 1,70,000) Equity shares of Rs. 100/- each have been issued as fully paid up Bonus shares		
Schedule 2: Reserves and Surplus		
<u>Share Premium</u>		
Opening Balance	-	-
Received during the year	177,130,000	-
Less: Appropriated for Issue of Bonus Shares	97,929,900	-
Closing Balance	<u>79,200,100</u>	<u>-</u>
<u>Surplus in Profit & Loss Account</u>		
Opening Balance	12,353,898	14,275,610
Profit for the year	3,612,073	5,108,811
Less: Transferred to Deferred Tax Liability	-	7,030,522
Less: Appropriated for Issue of Bonus Shares	5,966,100	-
Closing Balance	<u>9,999,871</u>	<u>12,353,899</u>
Total	<u>89,199,971</u>	<u>12,353,899</u>

Deccan Aviation Private Limited

Schedules to the Balance Sheet as at 31st March 2004

(All amounts in Indian Rupees)

	As at 31 March 2004	As at 31 March 2003
Schedule 3: Secured Loans		
Term loans from Bank	186,150,289	55,087,092
Cash Credit facility from Bank	7,468,543	15,172,804
Vehicle Loans	3,594,089	2,790,038
Overdraft facility	29,000,000	-
	<u>226,212,921</u>	<u>73,049,934</u>

Both the term loan and the cash credit are secured by first charge on current assets and 3 helicopters, hypothecation of movable assets of the Company, extension of equitable mortgage of personal properties of directors. The loan is also secured by the personal guarantee of two directors and a corporate guarantee of Brindavan Beverages Limited

The Vehicle loans are in the nature of Hire purchase loan from banks/financial institutions and are secured by the hypothecation of the respective assets

The Overdraft facility is secured by a Fixed Deposit

Schedule 4: Unsecured Loans

Unsecured Loans from Companies	143,000,000	51,664,665
	<u>143,000,000</u>	<u>51,664,665</u>

Deccan Aviation Private Limited

Schedules to the Balance Sheet as at 31st March 2004

(All amounts in Indian Rupees)

Schedule 5: Fixed Assets

Description	Gross Block			Depreciation			Net Block		
	As at 01-Apr-03	Additions	Deletions	As at 31-Mar-04	As at 01-Apr-03	For the year	Depreciation withdrawn	As at 31-Mar-04	As at 31-Mar-03
Land - Freehold	501,059	-	-	501,059	-	-	-	501,059	501,059
Building on Rented Land	14,319,601	110,058	-	14,429,659	753,435	235,203	-	13,441,021	13,566,166
Building on Freehold Land	4,201,780	-	-	4,201,780	68,489	68,489	-	4,064,802	4,133,291
Improvements to Leased Building	-	1,595,221	-	1,595,221	-	15,160	-	1,580,061	-
Plant & Machinery	1,553,077	7,270,242	-	8,823,319	542,078	513,141	-	7,768,100	1,010,999
Tools, Equipment and Spares	2,020,896	12,491,866	-	14,512,762	411,162	370,749	-	13,730,851	1,609,734
Helicopters	70,734,077	143,697,584	40,527,502	173,904,159	1,399,945	6,631,985	1,443,793	167,316,022	69,334,132
Office Equipment	6,144,969	12,177,496	-	18,322,465	686,962	939,440	-	16,696,063	5,458,007
Furniture & Fixtures	3,837,991	4,815,965	-	8,653,956	560,984	1,122,220	-	6,970,752	3,277,007
Electrical Installation	-	640,056	-	640,056	-	51,180	-	588,876	-
Vehicles	8,433,653	3,739,026	-	12,172,679	1,887,249	1,071,082	-	9,214,348	6,546,404
Software	-	6,108,249	-	6,108,249	-	143,678	-	5,964,571	-
Previous Year	111,747,103	192,645,763	40,527,502	263,865,364	6,310,304	11,162,327	1,443,793	247,836,526	105,436,799
	23,013,233	88,733,870	-	111,747,103	3,042,063	3,268,241	-	105,436,799	-

Deccan Aviation Private Limited

Schedules to the Balance Sheet as at 31st March 2004

(All amounts in Indian Rupees)

	As at 31 March 2004	As at 31 March 2003
Schedule 6: Inventory		
Stores, Spares & Components	121,812,262	38,682,445
	<u>121,812,262</u>	<u>38,682,445</u>
Schedule 7: Sundry Debtors (Unsecured - considered good)		
Debts outstanding for a period exceeding 6 months	6,859,021	3,533,655
Other Debts	41,225,964	25,946,914
	<u>48,084,985</u>	<u>29,480,569</u>
Schedule 8: Cash & Bank Balances		
Cash Balance	678,200	174,838
Bank Balances with Scheduled Banks	-	-
In Current Accounts	58,615,218	17,922,960
In Deposit Accounts	80,000,000	-
Margin Money	20,470,173	-
	<u>159,763,591</u>	<u>18,097,798</u>
Schedule 9: Loans & Advances (Unsecured - considered good)		
Advances Recoverable in Cash or in kind or for value to be received	135,591,422	40,606,223
	<u>135,591,422</u>	<u>40,606,223</u>

Deccan Aviation Private Limited

Schedules to the Balance Sheet as at 31st March 2004

(All amounts in Indian Rupees)

	As at 31 March 2004	As at 31 March 2003
Schedule 10: Current Liabilities		
Sundry Creditors	153,104,849	41,753,372
Advances from Customers	16,428,732	1,783,363
Other Liabilities	71,539,031	28,079,735
Training Deposit	48,081,801	-
	289,154,413	71,616,470
Schedule 11: Provisions		
Provision for Taxation	638,293	1,508,825
Proposed Dividend	1,743,359	1,000,000
Proposed Dividend Tax	227,835	125,000
	2,609,487	2,633,825
Schedule 12: Deferred Revenue Expenditure		
Training Expenses	122,132,702	3,382,427
Software Expenses	-	127,834
Mobilisation Expenses	443,752	2,535,764
Advertisement & Publicity Expenses	29,418,680	3,753,329
Freight on Helicopter	-	835,690
	151,995,134	10,635,044
Schedule 13: Preliminary Expenses		
Preliminary Expenses	9,676	12,901
Development Expenditure	50,095,944	332,100
	50,105,620	345,001

Deccan Aviation Private Limited

Schedules to the Profit and Loss account for the year ended 31st March 2004

(All amounts in Indian Rupees)

	For the year ended 31 March 2004	For the year ended 31 March 2003
Schedule 14: Other Income		
Miscellaneous Income	19,818,373	121,680
Interest Received - TDS Rs. 230,169 (Previous year - Rs. 9,693)	7,070,989	645,917
Sundry Balances/Provisions Written Back	23,454,296	
Foreign Exchange Fluctuation	2,282,149	
	52,625,807	767,597

Schedule 15: Direct Operating Expenses

Fuel Expenses	92,443,146	12,537,800
Aircraft Insurance	22,621,325	13,181,532
Aircraft Hire Charges	7,654,083	
Repairs & Maintenance	156,446,566	33,570,368
Lease Rentals	70,386,454	57,221,911
Other Expenses	16,584	
General Crew Expenses	4,140,597	
Insurance	1,388,603	648,118
Training Expenses	2,440,932	126,226
Airport Charges	60,021,130	3,490,773
Ground Handling Charges	26,544,531	
Security Expenses	866,213	165,745
Commissions and Discounts	8,331,571	4,712,455
	453,301,735	125,654,928

Deccan Aviation Private Limited

Schedules to the Profit and Loss account for the year ended 31st March 2004

(All amounts in Indian Rupees)

	For the year ended 31 March 2004	For the year ended 31 March 2003
Schedule 16: Administrative & General Expenses		
Advertisement & Business Promotion Expenses	6,938,040	9,796,043
Miscellaneous Expenses	7,173,041	10,567,011
Directors Sitting Fees & Honorarium	77,000	84,000
Donation	43,003	186,802
Prior period expenses	369,296	
Repairs - Machinery	91,917	
Repairs - Others	2,053,019	
Communication & Connectivity Expenses	15,687,610	
Telephone Expenses	5,699,072	
Salaries, Wages & Bonus	70,743,338	25,502,205
Contribution to Provident & Other Funds	75,489	
Staff Welfare Expenses	3,175,408	1,294,377
Professional Charges	5,719,164	2,618,432
Insurance	727,230	179,743
Rates & Taxes	12,552,948	8,797,777
Rent	7,029,828	4,584,907
Travelling & Conveyance	32,331,467	15,866,982
	170,486,870	79,478,279

Schedule 17: Finance Charges

Bank Charges	7,015,128	422,165
Foreign Exchange Fluctuation	-	48,776
Interest Expense	31,675,056	14,708,499
	38,690,184	15,179,440

Deccan Aviation Private Limited

Notes on Accounts forming part of the Balance Sheet as at 31st March 2004 and the Profit and Loss Account as on that date

1. Significant Accounting Policies

Basis of preparation

The financial statements of Deccan Aviation Private Limited (“the Company”) have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India (“GAAP”). GAAP consists of the mandatory Accounting Standards (“AS”) issued by the Institute of Chartered Accountants of India (“the ICAI”) to the extent applicable and the relevant provisions of the Companies Act, 1956.

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

Revenue recognition

Revenue from Charter services is recognised based on services provided and billed as per the terms of the contract with the customer. Revenue from fixed price contracts is recognised based on the expired period of the contract.

Revenue from sale of tickets of the Airline operations is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in accrued expenses and other liabilities. It is released to the profit & loss account as passengers fly. Miscellaneous fees charged for any changes to flight tickets are recognized as revenue immediately.

Income from interest on deposits is recognised on the time proportionate method when the right to receive the income is established.

Fixed assets and depreciation

Fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of qualifying fixed assets are capitalised. The cost of fixed assets also includes the exchange differences arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

The Company has provided depreciation on fixed assets on the straight line method at the rates specified in Schedule XIV to the Companies Act, 1956, except for software, which is depreciated over an estimated useful life of three years. The Company has also developed software for its own use which will be depreciated over a period of 5 years. Additions are depreciated on a pro-rata basis from the date of installation till the date the assets are sold or disposed. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of acquisition.

Inventory

Inventory is valued at lower of cost or market value.

Inventories, principally representing rotatable aircraft spares, are stated at the lower of cost and net realizable value.

Maintenance Costs

The Company has entered into operating lease agreements for aircrafts and helicopters, where the Company has a commitment to maintain the aircraft. Provision is made during the lease term for this obligation based on estimated future costs of major airframe and certain engine maintenance checks by making appropriate charges to the profit and loss account calculated by reference to the number of hours or cycles operated during the year. All other maintenance costs are expensed as incurred.

Retirement benefits

Provident fund contributions are made to the Regional Provident Fund Commissioner, at predetermined rates and are accounted for on the accrual basis.

Deccan Aviation Private Limited

Notes on Accounts forming part of the Balance Sheet as at 31st March 2004 and the Profit and Loss Account as on that date (Continued)

1. Significant accounting policies (continued)

Foreign exchange transactions

Foreign exchange transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the profit and loss account except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at year-end rates. The resultant exchange differences (except those related to acquisition of fixed assets) are recognised in the profit and loss account.

Preliminary expenses

Preliminary and pre-operative expenses are written off over a period of 10 years.

Income tax expense

Provision is made for income tax under the tax payable method, based on the liability computed, after taking credit for allowances and exemptions.

Contingencies

Loss contingencies arising from claims, litigation, assessments, fines, penalties etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

2. Commitments and contingent liabilities

		As at 31 Mar 2004	As at 31 Mar 2003
(i)	Commitments / Contingent liabilities:		
	(a) Guarantees given by banks	189,972,290	2,000,000
	(b) Letters of credit outstanding	6,580,000	-
(ii)	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	4,882,032,449	-

3. Quantitative details

The Company is engaged in the business of providing Air Charter Services and is also engaged in the running of a Scheduled airline operation. The sale of such services and the rendering of such services is not capable of being expressed in any generic unit and hence, it is not possible to give the quantitative details required under paragraphs 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956.

4. Particulars of managerial remuneration (included in Salaries, wages and bonus)

	For the year ended 31 Mar 2004	For the year ended 31 Mar 2003
Managing Director	1,170,000	288,000
Whole time Directors	1,766,400	288,000
Directors Sitting fees	73,000	84,000
	3,009,400	660,000

Deccan Aviation Private Limited

Notes on Accounts forming part of the Balance Sheet as at 31st March 2004 and the Profit and Loss Account as on that date (Continued)

5. Auditors' remuneration

	For the year ended 31 Mar 2004	For the year ended 31 Mar 2003
Audit fees	160,000	80,000
Tax Audit fees	40,000	20,000
Other Services	50,000	-
Service Tax	25,500	10,200
	<u>275,500</u>	<u>110,200</u>

6. Earnings in foreign currency

	For the year ended 31 Mar 2004	For the year ended 31 Mar 2003
Helicopter Charter Hire Charges	77,308,837	64,761,726
	<u>77,308,837</u>	<u>64,761,726</u>

7. CIF value of imports

	For the year ended 31 Mar 2004	For the year ended 31 Mar 2003
Capital items	154,132,219	70,734,077
Components & Spares	115,031,324	14,927,735
	<u>269,163,543</u>	<u>85,661,812</u>

8. Expenditure in foreign currency

	For the year ended 31 Mar 2004	For the year ended 31 Mar 2003
Salaries	4,369,413	3,516,010
Travelling	5,929,343	2,526,238
Professional/Technical Fees	3,066,301	-
Training	74,593,757	-
Maintenance	72,597,557	-
Interest	778,260	-
Lease Rent/Technical knowhow	109,855,106	83,768,996
	<u>271,189,737</u>	<u>89,811,244</u>

9. Amounts outstanding to small scale industrial undertakings

There are no amounts outstanding to small scale industrial undertakings as at 31 March 2004 (previous year – Rs. Nil).

10. Deferred Tax

In compliance with the Accounting Standard on Taxes on Income (AS-22):

- a) A sum of Rs. 7,030,522/- was transferred from General Reserves to Deferred Tax Liability account, during the previous year, towards timing differences accumulated upto 31st March 2002.
- b) The Deferred Tax Liability as on 31st March 2004 of Rs. 13,237,119 (Previous year – Rs. 11,165,586) is due to difference in Net Book value as per Accounts and as per Income Tax Act.

Deccan Aviation Private Limited

Notes on Accounts forming part of the Balance Sheet as at 31st March 2004 and the Profit and Loss Account as on that date (Continued)

11. Comparative figures

The Profit and Loss account for the previous period represents operations only from the Charter Business of the Company. The Company's Airline division commenced operations in August 2003 and, therefore, the results of the current financial year are not strictly comparable with those of the previous year. The previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year presentation.

12. Retirement Benefits

The company's liability towards retirement gratuity is Rs. NIL (Previous year – Rs. NIL).

13. The Building constructed at a cost of Rs.159.64 lakhs (Previous year – Rs. 41.40 lakhs) is on a land rented from the State Government. Such rent agreement is renewable every year by the State Government.

14. Balances in Sundry debtors, creditors and loans and advances are subject to confirmation.

15. The Company remitted Rs. 134,250/- (Previous year – Rs. NIL) in foreign currency towards dividend on 30,000 (Previous year – NIL) shares to non-resident shareholders of the company.

16. Related party transactions

The company entered into related party transactions during the year ended March 31, 2004 with Brindavan Beverages Limited, a Company in which a Director is able to exercise significant influence, and key management personnel.

The transactions with Brindavan Beverages Limited comprise:

Loan of Rs. 100,000,000/- (Previous year – Rs. 37,200,000) taken during the year . The outstanding amount to Brindavan Beverages Limited as at March 31, 2004 was Rs. 83,000,000/- (Previous year – Rs. 33,000,000/-).

Rent paid Rs. 1,123,274/- (Previous year – Rs. NIL)

Interest 9,818,594/- (Previous year – Rs. 7,184,262/-)

Corporate Guarantee provided as part collateral security for the borrowings of the Company from Bank of India

Key management personnel are those Directors of the company, who have the authority and responsibility for planning, directing and controlling the activities of the company. The Company has not paid any amounts to them other than the remuneration to which they are entitled in their capacity as Managing or Executive Directors.

Bangalore,

Dt: 03 September 2004

(Lt. Gen. (Retd.) N S Narahari)

Chairman

(Capt. G. R. Gopinath)

Managing Director

(Radhika Venkatesh)

Company Secretary

As per our report of even date
for MOHAN & SRIDHAR
Chartered Accountants



K. Sridhar

(K SRIDHAR)

Partner


Deccan Aviation Private Limited

Cash Flow Statement for the year ended 31 March 2004

(All amounts in Indian Rupees)

	For the year ended 31 March 2004	For the year ended 31 March 2003
Cash Flows from Operating Activities		
Profit before Tax	8,292,268	11,251,874
Adjusted for:		
Depreciation	11,162,327	3,268,241
Interest expense	31,675,056	14,708,499
Unrealised Foreign exchange gain/loss	-2,282,149	
Preliminary Expenses written off	86,250	86,250
Gain/Loss on disposal of Fixed Assets	39,083,709	
Non recurring items	-23,454,296	0
Operating Cash Flows before changes in working capital	64,563,164	29,314,864
Change in Current Assets and liabilities	-2,723,288	619,773
Income Tax paid	-311,558	-3,583,569
Training Deposits received	48,081,801	0
Net Cash generated from Operating Activities	109,610,120	26,351,068
Cash Flows from Investing Activities		
Purchase of Fixed Assets and Changes in Capital Work in Progress	196,136,932	88,259,033
Proceeds from disposal of Fixed Assets	0	
Deferred Revenue Expenditure	191,206,960	-296,761
Net Cash used in Investing Activities	387,343,892	87,962,272
Cash Flows from Financing Activities		
Proceeds from issue of Equity Capital	207,701,298	800,000
Loans raised from Banks/FIs	165,429,987	56,476,333
Unsecured Loans received	115,835,335	55,797,078
Loans repaid to Banks/FIs	-12,267,000	-2,036,660
Unsecured Loans repaid	-24,500,000	-20,000,000
Interest expense	-31,675,056	-14,708,499
Dividends Paid	-1,000,000	-1,000,000
Dividend Tax paid	-125,000	
Net Cash generated from Financing Activities	419,399,565	75,328,252
Net change in Cash and Cash Equivalents	141,665,793	13,717,048
Cash & Cash Equivalents at the beginning of the year	18,097,798	4,380,750
Cash & Cash Equivalents at the end of the year	159,763,591	18,097,798

Bangalore,
Dt: 03 September 2004

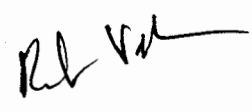

Lt. Gen. (Retd.) N S Narahari
Chairman
(Capt. G. R. Gopinath)
Managing Director
(Radhika Venkatesh)
Company Secretary

As per our report of even date
for MOHAN & SRIDHAR
Chartered Accountants




(K SRIDHAR)
Partner





Deccan Aviation Private Limited

Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No. 0 8 - 1 8 0 4 5 State Code 0 8

Balance Sheet Date 3 1 0 3 2 0 0 4

Date Month Year

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue	Rights Issue
N I L	7 0 1
Bonus Issue	Private Placement
1 0 3 8 9 6	2 0 7 0 0 0

III. Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)

Total Liabilities	Total Assets
6 2 6 9 1 9 . 3 1	6 2 6 9 1 9 . 3 1
Sources of Funds	
Paid - Up Capital	Reserves & Surplus
1 5 5 2 6 7 . 3 0	8 9 1 9 9 . 9 7
Secured Loans	Unsecured Loans
2 2 6 2 1 2 . 9 2	1 4 3 0 0 0 . 0 0
Application of Funds	
Net Fixed Assets	Investments
2 5 1 3 2 7 . 7 0	0 . 5 0
Net Current Assets	Misc. Expenditure
1 7 3 4 8 8 . 3 6	2 0 2 1 0 0 . 7 5
Accumulated Losses	
N I L	

IV Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
6 8 2 0 1 9 . 6 3	6 7 3 7 2 7 . 3 7
Profit before Tax	Profit After Tax
8 2 9 2 . 2 6	5 5 8 3 . 2 6
Earning Per Share in Rs.	Dividend @ %
1 6 . 0 1	5

V. Generic Names of Three Principal Products / Services of Company (as per monetary terms)

Item Code No.
(ITC Code) N o t A p p l i c a b l e

Product Description

A i r c r a f t C h a r t e r s

A i r l i n e O p e r a t i o n s

Bangalore,
Dt: 03 September 2004

Lt. Gen. (Retd.) N S Narahari
Chairman
(Capt. G. R. Gopinath)
Managing Director
(Radhika Venkatesh)
Company Secretary