



**CityOnline**

Internet Services with world class technology

**NINTH ANNUAL REPORT  
2007-2008**

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## Board of Directors

- Mr. S. Raghava Rao : Chairman and Managing Director
- Mr. Ch. Harinath : Executive Director
- Mr. R. Krishna Mohan : Director (Finance & Administration)
- Mr. S.V. Kanaka Seshu : Nominee Director (APIDC)
- Mr. V.Satyannarayana : Director
- Mr. Thomas P. Nicodamus : Director
- Mr. M. Nageswara Rao : Director
- Registered. Office** : 701, 7<sup>th</sup> Floor, Aditya Trade Center, Ameerpet,  
Hyderabad -500 038
- Branch Offices** : Unit # 1261, 'A' Wing, 14<sup>th</sup> Floor, Mittal Towers  
#6, MG Road, Bangalore- 560001
- #40-9-76/3, A.V.R. Arcade, Sai Nagar,  
Benz Circle, Vijayawada - 10.
- MIG - 48, Sector -5, MVP Double Road,  
Above HDFC ATM, Visakhapatnam - 17.
- Auditors** : Prasad & Prasad,  
Chartered Accountants  
Hyderabad
- Bankers** : Oriental Bank of Commerce  
: Mehdipatnam  
: Hyderabad
- Registrars and Share  
Transfer Agents** : XL Softech Systems Ltd  
3, Sagar Society, Road No.3,  
Banjara Hills,  
Hyderabad - 500 034.

## NOTICE

Notice is hereby given that the Ninth Annual General Meeting of the Company will be held on Monday September 29, 2008 at 11.00 AM at the Registered Office of the Company at 701, 7<sup>th</sup> Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038, to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at March 31, 2008, the Profit and Loss account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Thomas P Nicodamus who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. V. Satyanarayana who retires by rotation and being eligible, offers him-self for reappointment.
4. To appoint M/s Prasad & Prasad, Chartered Accountants, Hyderabad, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

By order of the Board

Place : Hyderabad  
Dated : 02.09.2008

S.Raghava Rao  
Chairman and Managing Director

### Notes:

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ELIGIBLE TO APPOINT A PROXY OR PROXIES WHO CAN ATTEND AND VOTE INSTEAD OF MEMBER AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2) The Proxy Form duly completed must be lodged at the Registered Office of the Company at least 48 hours before the time fixed for the Meeting.
- 3) The Register of Members of the Company will remain closed from Friday September 26, 2008 to Monday, September 29, 2008, both days inclusive, for the purpose of Annual General Meeting.
- 4) The members are requested to intimate immediately any change in their address.
- 5) Members are requested to bring copies of the Annual Report, as no extra copies shall be provided at the Meeting. Shareholders desiring any information as regards to the Audited Accounts are requested to write to the Company at least one week before the Meeting enabling the Chairman to keep the information ready to reply at the meeting.

## DIRECTORS REPORT

Dear Members

Your Directors have pleasure in presenting the Company's Ninth DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2008 and the Auditor's Report thereon

### Financial Results:

Particulars	Sch. No	31.3.2008 Amount Rs.	31.3.2007 Amount Rs.
<b>I) INCOME</b>			
a) Income from operations		46,232,412	41,082,642
b) Other Income	8	89,288	359,167
<b>TOTAL</b>		<b>46,321,700</b>	<b>41,441,809</b>
<b>II) EXPENDITURE</b>			
a) Operating Expenses	9	28,790,971	24,923,979
b) Payments & Benefits To Employees	10	5,707,351	3,811,089
c) Administrative Expenses	11	17,906,128	8,726,138
d) Selling Marketing Expenses	12	1,989,872	—
<b>TOTAL</b>		<b>54,394,322</b>	<b>37,461,206</b>
<b>III) PROFIT BEFORE INTEREST AND DEPRECIATION</b>		(8,072,622)	3,980,603
Interest	13	745,962	732,016
<b>IV) PROFIT BEFORE DEPRECIATION</b>		<b>(8,818,574)</b>	<b>3,248,587</b>
Depreciation	5	2,203,542	3,155,720
<b>V) PROFIT / (LOSS) BEFORE TAX</b>		<b>(11,022,116)</b>	<b>92,867</b>
<b>VI) PROVISION FOR TAXATION</b>			
For Current Income Tax		—	—
For Deferred Income Tax Liability (Asset)		(1,596,236)	3,826,316
For Fringe Benefit Tax		288,070	211,103
<b>PROFIT / (LOSS) AFTER TAX</b>		<b>(9,713,950)</b>	<b>(3,944,552)</b>
Add: Balance Carried from Last year		(3,602,605)	341,946
<b>BALANCE CARRIED OVER TO BALANCE SHEET</b>		<b>(13,316,555)</b>	<b>(3,602,606)</b>
Basic and Diluted Earnings Per Share		(1.90)	(0.90)

### Review and Prospects

The year 2007-08 has been a promising year for your company. Although the Indian economy revived considerably, the same growth took time to percolate down to our business. Sensing that selling plain bandwidth is not enough, your company has forayed successfully into related areas, thus increasing the product line and increasing the business. Your company has successfully started the VoIP business and increased the turnover significantly. Similarly your company has also initiated Wifi networking business quite successfully. By the end of the year, your company has implemented wifi networking at ten hotels and a college campus, and has some more projects on hand to be executed next year. Your company has used internal resources for R&D, equipment purchases and manpower training for setting up wifi networking. Your company is also trying to enter into international market by trying to get Wifi projects in one or two counties in USA and is also exploring the prospects of entering into IPTV business in USA.

By providing regional Indian channels in USA through IP

Regarding plain bandwidth sales, the pricing pressure still continues as the market is opening up fast. Your company has taken enough steps to maintain cost competitiveness by cutting costs and re-negotiating with the suppliers and also was able to increase the volume.

The Board of Directors are confident to achieve better results for 2008-2009 as the efforts put in the previous year start to bear fruit. Your company has also improved its sales and marketing efforts to target specific segments like Education, Hospitality, and residential sectors for wifi networking and cross sell VoIP services, and bandwidth services.

Your company has developed enough backbone infrastructures to provide wifi services, manage wifi hotspots, and provide VoIP services from its own gateway and gatekeeper.

Your company has already setup ISP NOC at Vishakapetnam and is planning to setup Similar NOCs . In the towns of Kakinada Rajamundry Nellore Warngal and Kodada in Andhra Pradesh and in Mysore Gulberga and Hubli in Karnataka to cater the growing Needs in small cities. We will be in operation in all these towns before March 2009.

Your company has also plans to cater to most of the Engineering and Management colleges in these two states.

With opening up of net telephony by Govt of India your company has plans to expand the already exiting VOIP business in a major way we are awaiting guidelines from Govt Ones Govt of India releases that your company is well prepared to start telecom business.

Your company is also foraying into Data Center, Remote Network Management and has plans to purchase high end storage servers again through internal resources.

**Fixed Deposits:-**

The company has not accepted any Fixed Deposits from the public and the provisions of Section 58A of the Companies Act, 1956 are not applicable to the Company

**Directors: -**

Mr. Thomas P Nicodamus and Mr. V. Sathyannarayana retire by rotation at the forthcoming Annual General Meeting and being eligible, offers them-self for re-appointment.

**Directors responsibility statement**

The Directors' responsibility statement setting out the compliance with the accounting and financial reporting requirements specified under Section 217 (2AA) of the Companies Act, 1956, in respect of the financial statements is as follows:

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) That the directors had 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 the financial year and of the profit or loss of the company for that period;
- (iii) That the directors had 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;
- (iv) The Directors have prepared annual accounts on a Going concern basis

**Auditors**

The Statutory Auditors of the company, M/s. Prasad & Prasad, Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and being eligible, offered them for re-appointment.

The Company has received letter from them to the effect that their appointment if made would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956.

**Auditors Report**

Your Directors reply to the Auditors report that

- a) The Company has set up Internal Monitoring committee and the said committee is looking after purchase of all Capital Items and its usage.
- b) The Company has recruited highly professional/Technical-qualified persons to look after internal control systems. The Company operations are very less and the company established internal audit department.
- c) Company has undisputed amount payable in respect of Income tax Rs. 3.69 Lakhs (TDS) Lakhs, Service Tax 5.69 Lakhs outstanding as at 31-03-2008 from the date they become payable. This occurred due to, which was because of reduction in bandwidth prices payable to us. However our operating expenditure remains unaltered. We have taken steps to reduce the operating expense to manageable levels and have planned to clear all the statutory dues
- d) The Company has made payments to provident fund authorities with some delays due to financial problems there after the payments was done subsequently.

**Corporate Governance:**

The Company is taking necessary steps to comply with the provisions of Clause 49 of the Listing Agreement with the Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited

### Particulars of Employees

In pursuance of the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules 1975, there is no employee who receives the limits mentioned under the Companies Act, 1956.

During the year under review, the Company maintained the cordial relations with the Employees

#### Additional Information:

Information as per Section 217(1) (e) read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 and forming part of report for the year ended March 31, 2008

Conservation of Energy, Technology absorption and Foreign Exchange earnings and Outgo: -

A	a) Conservation of energy measures taken :	The Company uses electric energy for its equipment such as air conditioners, computer terminals, lighting and utilities in the work premises. All possible measures have been taken to conserve energy by incorporating energy-efficient equipment.	
	b) Additional investments and proposals, if any being implemented for the reduction of consumption of energy :	There was no additional investments and proposals for reduction of consumption of energy.	
	c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :		
B	Research & Development and Technology Absorption :	The Company has not setup separate R & D department. However our technical people who run the day-to-day operations of the Company are doing R & D work in the fields of Wireless connectivity and VOIP Technology. No extra costs involved for the purpose of R & D.	
C	Foreign Exchange Earnings & outgo :	2007-08	2006-07
	a) Earnings	Nil	US\$ Nil
	b) Used :		Nil
	i) For Foreign Travel is :	US\$5511	Nil
	ii) On Account of Licenses & Registration :	US\$2,500	US\$2,500
	iii) On account of Hardware purchase :	US\$10412.22	US\$4806.22
	iv) On account of Bandwidth charges :	Nil	Nil
	v) On account of VOIP Services :	US\$62,527.11	US\$58,713.42

#### Acknowledgement:

Your Directors wish to place on record their appreciation for the dedication, competence, hard work, co-operation and support extended by our young, dynamic and highly motivated employees of the Company who have enabled the Company to achieve a robust growth during the year.

Your Directors would like to express their sincere thanks to all the Shareholders who have reposed faith in the Company.

Your Directors specially thank the Central Government, State Governments, Department of Telecommunications, APIDC and Company's Bankers for their continuous support to the Company during the year and look forward to receive their continued support in all future endeavors.

For and on behalf of the Board of Directors

Place : Hyderabad  
Date : 02.09.2008

S. Raghava Rao  
Chairman and Managing Director

# MANAGEMENT DISCUSSION & ANALYSIS REPORT

[Annexure to Report on Corporate Governance]

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion & Analysis Report is given below:

## Overview

### Regarding Company Business

In the first half of this financial year there was a slight increase in the customer base for example leased line customers went-up. But this is not reflected in the overall turnover due to decrease in bandwidth prices. In the later of the Financial Year we were able to rope in a good number of reputed software development and BPO companies both at Hyderabad and Bangalore.

### INTERNAL CONTROL SYSTEMS AND THEIR ACADEMY

The Company has adequate internal control systems commensurate with the size of its operations and for the purpose of exercising adequate controls of the day-to-day operations. Systems are regularly reviewed to ensure effectiveness.

### OPPORTUNITIES AND THREATS

#### Opportunities

The opportunities we see are in the new areas like wifi networking and VoIP services which your company has entered into. The Board of Directors expects that, in future these businesses, along with Data Centers and Remote Network Management will drive the growth. But the leased line customers are also crucial for the expansion plans and your company is making all the efforts to increase the customer base and retain the existing customers.

#### Threats

We see no major threat in the coming year other than what was before

Place : Hyderabad

For and on behalf of the Board of Directors

Date : 02.09.2008

S. Raghava Rao  
Chairman & Managing Director

R. Krishna Mohan  
Director- Finance and Administration



## CORPORATE GOVERNANCE (Mandatory Requirements)

### 1) Company's Philosophy

Corporate Governance is about commitment to values and ethical business practise. It is about how an Organization is managed. This includes its corporate and other structures its policies and the manner in which it deals with various stakeholder. Accordingly, timely and accurate disclosure of information regarding the financial situation performance, ownership and governance of the company, is an important part of corporate governance, this improves public understanding of the Structure activities and policies of the organization. Consequently the organization is able to attract investors and enhance the trust and confidence of the stake holders.

The importance of corporate governance has always been recognized by our company and is manifest in its vision. In accordance with the listing agreement, a certificate from the auditors of the company for compliance of corporate governance by the company during the financial year 2007-08 has been inserted elsewhere in his annual report. A report in the line with the requirement of the stock exchanges, on the practice followed by the company and other voluntary compliances is given below.

### 2) Board of Directors

The current policy is to have an optimum combination of Executive and Non-executive Directors, to ensure the independent functioning of the Board. The Board consists of seven members, three of whom are Executive Directors and three Independent Directors and non-executive Director and one Nominee Director

#### Composition and Category of Directors:

Name of Director	Category	Designation	No. of Meetings held during the last financial year	No. of Meetings attended	No. of Memberships in the Board of other Companies	Attendance of each director in the last AGM
Mr. S. Raghava Rao	Promoter and Executive Director	Chairman and Managing Director	5	5	1	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	5	4	Nil	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	5	4	Nil	Yes
Mr. S V Kanaka Seshu	APIDC Nominee	Director	5	1	11	No
Mr. M. Nageswara Rao	Independent and Non- Executive Director	Director	5	5	1	Yes
Mr.Thamous P.Nicodemus	Independent and Non- Executive Director	Director	5	1	2	No
Mr. V. Satyanarayana	Independent and Non- Executive Director	Director	5	4	Nil	No

None of the Directors hold membership(s) in committees of the other companies.

### Meetings of the Board of Directors

During the financial year 2007-08 the Board of Directors met 5 times on the following dates: April 30, 2007, July 31, 2007, September 3, 2007, October 31, 2007, and January 31, 2008.

### 3) Audit Committee

As a measure of good Corporate Governance and to provide assistance to the Board of Directors in fulfilling the Board's responsibilities, an Audit Committee has been constituted consisting of only Independent Directors as subcommittee to the Board. The functions of Audit Committee include:

- a) Reviewing the adequacy of internal control systems and the internal audit reports and their compliance thereof.
- b) Oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- c) Recommending the appointment of external auditors and fixation of their audit fee and also approval for payment for any other services.
- d) Reviewing with Management the quarterly and annual financial statements before submission to the Board.

### Composition and Other Details

The Audit Committee of the Company was constituted with three independent directors viz.

Sl. No	Name of the Director	Designation
1)	Mr. M. Nageswara Rao	Chairman
2)	Mr. Thamous P. Nicodemus	Director
3)	Mr.R.Krishna Mohan	Director (Finance & Administration)

During the year under review, the Audit Committee met 5 times respectively on April 30, 2007, July 31, 2007, September 3 2007, October 31, 2007 and January 31, 2008.

The quarterly and annual audited financial statements of the Company were reviewed by the Audit Committee before consideration and approval by the Board of Directors. The Committee reviewed the internal control systems and the conduct of Internal audit.

The Chairman of the Committee Mr. M.Nageswara Rao was present at the previous AGM to answer members' queries.

### 4) Remuneration Committee

The Remuneration Committee was set up to evaluate compensation and benefits for Executive Directors.

Composition and other details

Remuneration Committee was constituted with three Independent Directors, viz.

Sl. No	Name of the Member	Status
1)	Mr. M. Nageswara Rao	Chairman
2)	Mr. Thomas P. Nicodamus	Member
3)	Mr. R.Krishna Mohan	Member

The Committee met one time during the year and recommended for no change in the remuneration of the Executive Directors.

#### 5) Share Transfer Committee

In accordance with clause 49 Para VI (D) of the Listing agreement of the Stock Exchange, the Board has constituted a Share Transfer Committee.

Sl. No	Name of the Directors	Status
1	Mr. R. Krishna Mohan	Chairman
2	Mr. M.Nageshwar Rao	Member

The Committee has not met during the year.

#### 6) Investors' Grievance Committee

As a measure of good Corporate Governance and to focus on the shareholders' grievances towards strengthening investor relations, an Investors' Grievance Committee as sub-committee to the Board of Directors has been constituted.

Sl. No	Name of the Directors	Status
1	Mr. Thomas P. Nicodamus :	Chairman
2	Mr. R. Krishna Mohan :	Member

The functions of the Committee include:

To specifically look into redressal of investors' grievances pertaining to:

- Transfer of shares
- Dematerialization of shares
- Replacement of lost/stolen/mutilated share certificates
- Non-receipt of rights/bonus/split share certificates
- Other related issues

The Committee focuses on strengthening investor relations.

The Committee met onetime during the year and noted that there were no grievances or complaints received during the year.

#### 7) Internal Monitoring Committee

The Internal Monitoring Committee of the Company was constituted on January 31, 2003 as on date the committee consists with the following members

Sl. No	Name of the Directors	Status
1	Mr. R. Krishna Mohan :	Chairman
2	Mr. Ch. Hanrajh :	Member
3	Mr. D.Rambabu:	Member

The Committee met 3 times during the year to review the operations including the commercial transactions of the Company. All the members present.

**8) Others**

Name and Designation of Compliance officer: Mr. P L Rayudu, Manager (Accounts)

a) Details of complaints for the year 2007-08:

Sl. No	Nature	Number			
		2007-08		2006-07	
		Received	Received	Received	Attended
1	Dematerialization/ Rematerialization	11	11	Nil	Nil
2	Loss of shares/Duplicate Certificate	Nil	Nil	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	01	01
5	Others	Nil	Nil	Nil	Nil

b) There are no valid requests pending for share transfers as at the year-end.

c) Members may contact Secretarial Circle of the Company for their queries, if any, at Telephone No. + 91 40 23757469(5 Lines), and Fax No. + 91 40 23757419.

**9) Venue and Time of the Last Three Annual General Meetings (AGM's)**

Financial Year	Date	Venue	Time
2004-05	September 30, 2003	8-2-248/A, Maharsi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2005-06	September 29, 2006	701, 7 <sup>th</sup> Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2006-07	September 29, 2007	701, 7 <sup>th</sup> Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038.	11.00 AM

In the last AGM, there were no resolutions required to be passed through postal ballot. The resolutions were passed

On show of hands with requisite majority. The venue of AGM has been chosen for its central location, prominence and capacity.

**10) Disclosures**

There are no materially significant related party transactions i.e., transactions material in nature, with its promoters, the Directors or the Management, or relatives etc., having potential conflict with the interests of Company at large.

There have not been any non-compliance by the Company in general and no penalties or strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

The Company has complied with all mandatory requirements of Corporate Governance, as required by the Listing agreement."

**11) Means of Communication**

The audited quarterly, half-yearly and annual financial statements viz., Balance Sheet, Profit and Loss Account including Schedules and notes thereon, press releases, and presentations made to the institutional investors or analysts are posted on the Company's web site. [www.cityonlines.com](http://www.cityonlines.com)

The quarterly, half-yearly and annual audited financial results are generally published in The Business Standard, (the English newspaper), and in Andhra Bhoomi (the Telugu vernacular newspaper).

All material information about the Company is promptly sent through facsimile to the Indian Stock Exchanges where the Company's shares are listed and released to wire services and the press for information of public at large. Besides, the Company disseminates information through press meets and analyst meets.

As required by sub-clause V of Clause 49 of the listing agreement, management discussion and analysis report is provided elsewhere in the annual report.

## 12 General Shareholders Information

- a) The Annual General Meeting of the Company will be held on September 29, 2008 at 11.00 a.m. at Registered Office, 701, 7<sup>th</sup> Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.
- b) Financial calendar for the year 2008-09 (tentative):

### Financial Calendar

- |      |   |   |                  |
|------|---|---|------------------|
| i)   | Financial reporting for the quarter ending 30 <sup>th</sup> June 2008 | : | July 31, 2008    |
| ii)  | Financial reporting for the Quarter ending September 30, 2008         | : | October 31, 2008 |
| iii) | Financial reporting for the quarter ending December 31, 2008          | : | January 31, 2009 |
| iv)  | Financial reporting for the Year ending March 31, 2009                | : | April 28, 2009   |

- c) Dates of book closure for AGM: September 26, 2008 to September 29, 2008 for the financial year 2007-08 (both days inclusive)

- d) Registered Office : 701, 7<sup>th</sup> Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038
- e) Telephone & Fax : 91 40 -23757469(5 Lines), and Fax No. + 91 40 -23733942.
- Web site : www.cityonlines.com

### f) Listing Details

The Shares of the Company are Listed on the Hyderabad and Bangalore Stock Exchanges. The listing fee for the period 2007-08 has been paid to these Stock Exchanges.

### Address of the Exchange

The Hyderabad Exchange Limited  
6-3-854, Opp. Erramanjil Bus Stop  
Somajiguda  
Hyderabad-500 082

The Bangalore Stock Exchange Limited  
P. B. No. 27024, No. 51  
Stock Exchange Towers, 1<sup>st</sup> Floor  
J. C. Road, Bangalore-560 027

- g) Stock Code : 6494, CITYON#(HSE)
- h) Market Price data

	Monthly	Low Nil	Average	High Nil
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- i) Performance in comparison to BSE Index/CRISIL Index : The shares are infrequently traded and hence not applicable

### j) Registrars and Share Transfer Agents

The Company has engaged the M/s XL Softech Systems Limited, Road No 2, Banjara Hills, Sagar society, Hyderabad -500 034 Tel: 040-23553214 and Fax 040-23553214. SEBI registered Registrar, as the Share Transfer Agents for processing the Transfers, sub-division, consolidation, splitting of securities, etc., the Company's shares are compulsorily traded in Dematerialized form, request for Demat and Remat should be sent directly to M/s. XL Softech Systems Limited. Shareholders have the option to open their accounts either with NSDL or CDSL as the Company has entered into Agreements with both these Depositories

k) Dematerialization of Shares as on 31-3-2008 and liquidity

NSDL

CDSL

Fully paid up shares \*

21,48,786

2,82,014

l) Distribution of Shareholding as on March 31, 2008

l) Distribution of Shareholding as on March 31, 2008

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	9961	0.20	39	6.75
2	5001	10000	8700	0.17	9	1.56
3	10001	20000	22978	0.45	13	2.25
4	20001	30000	604200	11.84	237	41.00
5	30001	40000	313517	6.14	81	14.01
6	40001	50000	402150	7.88	84	14.53
7	50001	100000	399100	7.82	46	7.96
8	100001	And Above	3342924	65.50	69	11.94
		Total	5104700	100.00	578	100.00

m) Pattern of Shareholding as on March 31, 2008

Sl. No	Category	Shares	
		Numbers	%
1	State Govt Institutions APIDC	2,50,000	4.90
2	Private Corporate bodies	4,32,497	8.48
3	Mutual Funds, DSP Merrill Lynch	2,00,000	3.92
4	Non Resident Indians	20,000	0.39
5	Promoters	5,91,250	11.56
6	Resident Individuals	36,10,953	70.76
	Total	51,04,700	100.00%

- n) Address for correspondence : City Online Services Limited  
701, 7<sup>th</sup> Floor, Aditya Trade Center, Ameerpet,  
Hyderabad -500 038.  
Tel : 040-3356736,  
Fax : 040-3356737
- o) Contact Person : Mr.R.Krishna Mohan  
E-mail : rkmohan@cityonlines.com  
Website : www.cityonlines.com
- p) The Company's Registrars are : M/s X L Softech Systems Limited  
Road No. 2  
Sagar Society  
Banjara Hills  
Hyderabad- 500 034  
Tel- 040-  
Fax -040-3553214
- Contact Person : Mr. Ramprasad

## Non Mandatory Requirements

a) Chairman of the Board

The Company's Managing Director shall act as the Chairman for all the Board Meetings

b) Shareholder Right

As the Company's financial results are published in major Newspapers (including regional language newspaper) having wide circulation and the same are posted on the Company's website ([www.cityonlines.com](http://www.cityonlines.com)). It is not considered necessary at this stage to send the same to the shareholders.

c) Postal Ballot

The provisions regarding postal Ballot have been introduced recently by the Companies (Amendment) Act, 2000 and hence, the company had no occasion to make use of the same

### Certificate

Certificate on compliance with the provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement

I have examined the relevant records of City Online Services Limited for the year ended March 31, 2008 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchanges, and state that in my opinion and to the best of my knowledge and according to the information and explanations given to me, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

For Ch. Veeranjanyulu & Associates  
Company Secretaries

Place : Hyderabad  
Date : 02.09.2008

Ch. Veeranjanyulu  
CP No. 6392

## AUDITOR'S REPORT TO THE MEMBERS OF CITY ONLINE SERVICES LTD.

1. We have audited the attached Balance Sheet of City Online Services Limited, as at 31<sup>st</sup>, March, 2008, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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.
2. We conducted our audit in accordance with the 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of 'The Companies Act, 1956' of India ('the Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 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 purposes of our audit;
  - b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those 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, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
  - e) On the basis of written representations received from the directors and taken on records by the board of directors, we report that none of the director is prima facie, disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
  - f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - i. In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2008;
    - ii. In the case of the Profit and Loss Account, of the Loss for the year ended on that date; and
    - iii. In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Hyderabad  
Date: 02.09.2008

For Prasad & Prasad  
Chartered Accountants

K.Udaya Kishore  
Partner





## ANNEXURE TO THE AUDITOR'S REPORT

Referred to in paragraph 3 of our report of even date:

- (i) a) The company is maintaining proper records showing full particulars, including Quantitative details and situation of fixed assets
- b) The fixed assets of the company have been physically verified by the management at reasonable intervals and no material discrepancies were notified on such verification.
- c) During the year the company has not disposed off any substantial part of the fixed assets and the company is a going concern.
- (ii) a) The management has conducted the physical verification of inventories at reasonable intervals.
- b) The procedure of the physical verification of stocks followed by management is in our opinion reasonable and adequate in relation to size of the company and nature of the business.
- c) The company is maintaining proper records of inventory and no material discrepancies have been noticed on physical verification of stocks as compared to book records.
- (iii) The Company has not either granted or taken any loans, secured or unsecured to/from Companies, firms or other parties in the register maintained under section 301 of the Companies Act, 1956.
- (iv) On the basis of selective checks carried out during the course of audit and according to the information and explanation given to us, there are adequate internal control Procedures commensurate with size of the company and its nature of the business for the purchase of inventory and fixed assets and for the sale of goods/services. In our opinion, there is no major weaknesses in internal control.
- (v) According to the Information Explanations given to us, we are of the opinion that the particulars of the contracts or arrangements that need to be entered in the Register maintained u/s 301 of the companies Act, 1956 have been so entered.
- (vi) The Company has not accepted any deposits from the public.
- (vii) The company's Internal Audit system needs to be strenghtend commensurate with the size and nature of business.
- (viii) Maintenance of cost records has not been prescribed by the Central Government Under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.
- (ix) According to the information and explanations given to us the company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, Income Tax, Value added Tax, Wealth tax, Custom duty, Excise Duty, except Service Tax of Rs. 5.69 Lakhs outstanding as at March 31, 2008 for a Period of more than six months from the date they became payable.
- (x) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities to any party.
- (xi) The Company has not been dealing or trading in shares, securities, debentures and other investments during the financial year.
- (xii) The company has not given any guarantee for loans taken by others from banks or financial institutions during the financial year.
- (xiii) No term loans were taken during the financial year from any banks or financial institutions.
- (xiv) The funds raised on short-term basis have not been used for long-term investment and vice versa during the financial year.
- (xv) 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.
- (xvi) The Company has not issued any debentures during the year.
- (xvii) The company has not raised money by public issue during the financial year.
- (xviii) No fraud on or by the company has been noticed or reported during the financial year under audit.

Place: Hyderabad  
Date: 02.09.2008

For Prasad & Prasad  
Chartered Accountants

K.Udaya Kishore  
Partner  
M.No. 16023

**CITY ONLINE SERVICES LIMITED**  
**- Balance Sheet as at 31st March 2008**

	Particulars	Sch. No.	As at 31-03-2008	As at 31-03-2007
I	<b>SOURCES OF FUNDS</b>			
	<b>(1) SHARE HOLDERS' FUNDS</b>			
	(a) Share Capital	1	56,098,330	53,435,830
	(b) Reserves and Surplus	2	400,000	400,000
	<i>Sub - Total</i>		<b>56,498,330</b>	<b>53,835,830</b>
	<b>(2) LOAN FUNDS</b>			
	(a) Secured Loans	3	4,021,450	3,832,200
	(b) Deferred Tax Liability	4	1,698,189	3,294,427
	<b>TOTAL</b>		<b>62,217,969</b>	<b>60,962,457</b>
	II	<b>APPLICATION OF FUNDS</b>		
<b>(1) FIXED ASSETS</b>				
(a) Gross Block 5			49,404,329	45,573,224
(b) Less: Depreciation			20,877,099	18,673,557
Net Block			<b>28,527,230</b>	<b>26,899,667</b>
<b>(2) CURRENT ASSETS, LOANS &amp; ADVANCES</b>				
(a) Inventories		6(a)	5,492,704	5,467,629
(b) Sundry Debtors		6(b)	14,162,443	17,356,531
(c) Cash & Bank Balances		6(c)	2,069,050	2,043,685
(d) Loans & Advances		6(d)	8,563,125	11,886,553
<i>Sub - Total</i>		<b>30,287,322</b>	<b>36,754,398</b>	
<b>Less: CURRENT LIABILITIES &amp; PROVISIONS</b>				
(a) Current Liabilities	7(a)	4,690,076	5,389,226	
(b) Provisions	7(b)	5,223,062	904,966	
<i>Sub - Total</i>		<b>9,913,138</b>	<b>6,294,212</b>	
<b>NET CURRENT ASSETS</b>		<b>20,374,184</b>	<b>30,460,186</b>	
Profit and Loss Account		<b>13,316,555</b>	<b>3,602,604</b>	
<b>TOTAL</b>		<b>62,217,969</b>	<b>60,962,457</b>	

NOTES ON ACCOUNTS

14

For and on behalf of Board of Directors

As per our Report of even date  
 For Prasad & Prasad  
 Chartered Accountants

**S. RAGHAVA RAO**  
 Chairman and Managing Director

**K. UDAYA KISHORE**  
 Partner

**R. KRISHNA MOHAN**  
 Director

Place : Hyderabad  
 Date : 02.09.2008

**CITY ONLINE SERVICES LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2008**

Particulars		Sch. No.	As at 31-03-2008	As at 31-03-2007
I)	<b>INCOME</b>			
	a) Income from operations	8	46,232,412	41,082,642
	b) Other Income		89,288	359,167
	<b>TOTAL</b>		<b>46,321,700</b>	<b>41,441,809</b>
II)	<b>EXPENDITURE</b>			
	a) Operating Expenses	9	28,790,971	24,923,979
	b) Payments & Benefits To Employees	10	5,707,351	3,811,089
	c) Administrative Expenses	11	17,906,128	8,726,138
	d) Selling Marketing Expenses	12	1,989,872	-
	<b>TOTAL</b>		<b>54,394,322</b>	<b>37,461,206</b>
III)	<b>PROFIT BEFORE INTEREST AND DEPRECIATION</b>		(8,072,622)	3,980,603
	Interest	13	745,952	732,016
IV)	<b>PROFIT BEFORE DEPRECIATION</b>		(8,818,574)	3,248,587
	Depreciation	5	2,203,542	3,155,720
V)	<b>PROFIT/(LOSS) BEFORE TAX</b>		(11,022,116)	92,867
VI)	<b>PROVISION FOR TAXATION</b>			
	For Current Income Tax			
	For Deferred Tax/Liability (Asset)		(1,596,236)	3,826,316
	For Fringe Benefit Tax		288,070	211,103
	<b>PROFIT/(LOSS) AFTER TAX</b>		(9,713,950)	(3,944,552)
	Add: Balance Carried for Last year		(3,602,605)	341,946
	<b>BALANCE CARRIED OVER TO BALANCE SHEET</b>		<b>(13,316,555)</b>	<b>(3,602,606)</b>
	Basic and Diluted Earnings Per Share		(1.90)	(0.90)

NOTES ON ACCOUNTS

14

For and on behalf of Board of Directors

As per our Report of even date  
 For Prasad & Prasad  
 Chartered Accountants

**S.RAGHAVA RAO**  
 Chairman and Managing Director

**R. KRISHNA MOHAN**  
 Director

**K. UDAYA KISHORE**  
 Partner

Place : Hyderabad  
 Date : 02.09.2008

**CITY ONLINE SERVICES LIMITED**

**Schedules forming part of Balance sheet and Profit & Loss account**

	31.03.2008 Rs.	31.03.2007 Rs.
<b><u>SCHEDULE - 1</u></b>		
<b><u>SHARE CAPITAL</u></b>		
Authorized Capital (77,00,000 Equity shares of Rs. 10/- each)	77,000,000	77,000,000
Issued Capital 70,00,000 Equity Shares of Rs. 10/- each	70,000,000	70,000,000
Subscribed, Called up and Paid Up Subscribed and Called Up Capital 69,25,000 Equity Shares of Rs. 10/- Each	69,250,000	69,250,000
Paid Up Capital 51,04,700 Equity Shares of Rs. 10/- Each (Previous Year 44,84,700 Equity Shares) (Of the above 3,57,500 Equity Shares of Rs. 10/- each have been issued for consideration other than cash)	51047000	44847000
Share Forfeiture Account (26,65,300 Equity Shares of partly paid up)	4601330	6151330
Share Application Money	450000	2437500
	<b>56,096,330</b>	<b>53,435,830</b>
<b><u>SCHEDULE - 2</u></b>		
<b><u>RESERVES AND SURPLUS</u></b>		
Capital Investment Subsidy from Government of Andhra Pradesh	400,000	400,000
Profit b/f from P&L account	400,000	400,000
<b><u>SCHEDULE - 3</u></b>		
From Oriental Bank of Commerce (Secured by Hypothecation of stocks and Book Debts of the Company and personal Guarantee of Three Directors of the Company).	4021450	3832200
	<b>4,021,450</b>	<b>3,832,200</b>
<b><u>SCHEDULE - 4</u></b>		
Deferred Tax Liability(Asset)	1698189	3,294,427
	<b>1698189</b>	<b>3294427</b>

Schedule of Fixed Assets as at 31st March 2008

**SCHEDULE - 6**

Sl No.	Description	GROSS BLOCK			DEPRECIATION			NET BLOCK		
		As On	Additions During the Year	Deductions During the Period	As On	For the year	On Deductions	As On	As On	
		01-04-2007			31-03-2008	01-04-2007		31-03-2008	31-03-2008	31-03-2007
1	Furniture and Fixtures	5,448,959	97,500		5,545,999	1,450,825	349,958	1,800,293	3,745,706	3,998,375
2	Computer Equipment	7,752,654	201,238		7,953,902	7,645,862	155,967	7,801,829	162,073	136,802
3	Office Equipment	4,905,033	140,385		5,045,421	1,295,216	235,718	1,531,504	3,513,487	3,608,817
4	Plant and Machinery	27,436,528	3,392,479		30,829,007	8,281,854	1,461,189	9,743,043	21,085,964	19,154,674
	<b>TOTAL</b>	<b>45,573,224</b>	<b>3,831,165</b>	<b>-</b>	<b>49,404,329</b>	<b>18,673,557</b>	<b>2,203,542</b>	<b>20,977,099</b>	<b>28,327,230</b>	<b>26,899,668</b>

**CITY ONLINE SERVICES LIMITED**

**Schedules forming part of Balance sheet and Profit & Loss account**

	31.03.2008	31.03.2007
	Rs.	Rs.
<b><u>SCHEDULE - 8</u></b>		
<b><u>INCOME FROM OPERATIONS</u></b>		
Income from Internet Services	39,652,281	31,896,665
Income from VOIP Services	6,188,531	6,403,059
Sale of Hardware	391,600	2,782,918
	<b>46,232,412</b>	<b>41,082,642</b>
<b><u>SCHEDULE -9</u></b>		
<b><u>OPERATING EXPENSES</u></b>		
Communication Cost	21,664,163	17,062,449
Cost of Sales	300,000	1,944,486
Service Tax	-	3,903,075
ISP Membership fees	100,000	121,333
Domain Name Registration Exp	11,534	25,682
Cyber Café Maintenance Expenses	-	3,500
Tower Rents	611,388	-
Repairs and Maintenance	482,717	466,698
Electricity Charges	1,361,480	1,396,756
Generator Maintenance	45,918	-
Prior Period Expenses	4,213,771	-
	<b>28,790,971</b>	<b>24,923,979</b>
<b><u>SCHEDULE -10</u></b>		
<b><u>PAYMENTS &amp; BENEFITS TO EMPLOYEES</u></b>		
Salaries, Wages and Other Benefits	5,575,185	3,657,822
Staff Welfare Expenses	132,166	153,267
	<b>5,707,351</b>	<b>3,811,089</b>
<b><u>SCHEDULE -11</u></b>		
<b><u>ADMINISTRATIVE EXPENSES</u></b>		
Rent	1,596,676	1,604,336
Postage and Telegrams	34,686	76,019
Telephone Expenses	669,341	682,339

**CITY ONLINE SERVICES LIMITED**

**Schedules forming part of Balance sheet and Profit & Loss account**

	31.03.2008 Rs.	31.03.2007 Rs.
Conveyance and Travelling	2,538,075	1,640,028
Printing and Stationery	115,774	115,201
License, Fees and Taxes	1,001,546	459,271
Insurance	27,487	70,505
Bank Charges	61,080	59,193
Office Maintenance Expenses	258,230	663,044
News papers and periodicals	7,015	17,825
Consultancy and Legal Expenses	707,843	449,431
Directors' Remuneration	1,500,000	1,653,400
Directors' sitting fees	1,000	1,500
Auditors Remuneration:	140,000	90,000
Advertisement Charges	21,265	55,128
Business Promotion Expenses	507,279	207,920
Sales Commission	-	566,001
Freight Charges	38,394	125,832
Discount On Sales	691	84,523
Security Service Charges	241,401	-
Share Transfer fee	30,000	50,000
Mebership&Subscription Fees	16,667	-
Vehicle Maintenance	129,299	-
Misc. & General Expenses	65,607	54,642
Computers Maintenance	7,775	-
Bad Debts Written Off	8,189,027	-
	<b>17,906,128</b>	<b>8,726,138</b>

**SCHEDULE -12**

**SELLING & MARKETING EXPENSES**

Sales Promotion Expenses	19500	0
Sales Commission	1970372	0
	<b>1989872</b>	<b>0</b>

**SCHEDULE-13**

**INTEREST**

On Over Draft	715992	732016
For Delay on Tds	23264	
For Delay On Service Tax	6696	
	<b>745952</b>	<b>732016</b>



**SCHEDULE-14****NOTES FORMING PART OF ACCOUNTS****1. SIGNIFICANT ACCOUNTING POLICIES****(I) General**

The financial statements are prepared under the historical cost convention on the basis of a going concern and As per applicable Indian Accounting Standards. The company follows mercantile system of accounting and recognizes Income and Expenditure on accrual basis.

**(II) Revenue Recognition**

Leased line income is recognized on the basis of agreements entered with the customers. Voip income is On the basis of time utilized by the customers. All other sales are recognized on the basis of time utilized by the Customers. All other sales are recognized on the basis of rates agreed upon between the company and the customers.

**(III) Fixed Assets and Depreciation**

Fixed assets are stated at cost. The cost of fixed assets comprises of pre operative expenditure directly related to the assets up to the stage of commissioning of operations. Depreciation on fixed assets is provided on Straight line method at rates specified in accordance with Schedule XIV of the Companies Act 1956 from the date of acquisition of the assets.

**(IV) Inventories**

As Per AS-2 Inventories are to be valued at cost or net realizable value which ever is less. How ever The company is valuing inventories at cost only. The diminution in value of inventories if any is not provided in the financial statements.

**(V) Retirement Benefits**

There are no employees eligible for gratuity. Hence no provision for gratuity is made. The company's contribution to Provident Fund is charges to the Profit & Loss Account on accrual basis.

**(VI) Transaction in Foreign Exchange**

Transactions are recorded at the exchange rates prevailing on the date of the transaction.

**Contingent Liabilities:****(VII) Income Tax and Deferred Tax**

Counter Guarantees given to the Company Bankers for Bank Guarantees is issued by them Provision to Department of Telecom (DOT) Government of India for Due Performance of ISP is Rs.20,00,000/- (Previous Year Rs.20,00,000/-)

**(IX) Provisions, And Contingent Liabilities****Managerial Remuneration:**

A provision is made based on a reliable estimate When it is probable as on 31<sup>st</sup>

Embodying economic benefits will be required to settle as obligation Mar 08 as on 31<sup>st</sup>

Contingent liabilities if material are disclosed by Mar-07

Way of notes of Accounts

Segment Reporting for Managing Director 540,000 653,400

The entire for other directors 960,000 1,000,000

1,500,000 1,653,400

**(X) Auditors' Remuneration:**

Towards Statutory Audit 100000 60000

Cash flow towards tax audits 40000 30000

Towards certification work - -

**(XII) Service Tax**

CEN Earnings in Foreign currency 140,000 82650

Nil Nil

**5. Expenditure in foreign currency:**

(I) On Account of licenses and Registrations US\$ 2,500 us\$ 2,500

(ii) On Account of Hardware purchases	US\$ 10142.22	us\$ 4806.22
(iii) On Account Of Bandwidth charges	Nil	Nil
(iv) On Account of Void Services	US\$ 62,527.71	US\$58713.42
(v) On account of Foreign travel	US\$ 5511	Nil

6. Additional Information Pursuant to the Provisions of paragraph 3 of Part 11 Schedule VI of the Companies Act, 1956 (As certified by the management)

a) Turnover		Rs	Rs
Sale of Hardware Items		391600	2782,918
b) Quantitative particular of sale of Hardware	Qty		
Opening Stock	NA	5,467,627	4,141,930
Add Purchases	NA	325,075	3270,185
Less costs of Sales	NA	300,000	1,944,485
Closing stock	NA	5492704	5467629

7. Bank balances are subject to Reconciliations

8. Sundry Debtors, creditors, Advances for capital good and other advances are subject to confirmation

9. Sundry creditors;

There are no due to Small scale Industrial undertakings as on the balance sheet date

10. Previous year's figures have been regrouped and rearranged wherever necessary.

11. In respect of Voip income basis of billing is not available for verification

12. CIF Value of Imports	Rs.
Hardware items	4, 15,631.00

13. Related party disclosure

As per accounting standard 18, issued by the Institute of Chartered Accountants of India, the disclosures of transactions with the related parties as defined in the Accounting Standard are given below:

i) List of related parties where control exists and related parties with whom transactions have taken place and relationships:

Sr.No.	Name of the Related Party	Relationship
1	Slesser & Tom Electronics	Enterprise over which key managerial personnel are able to exercise significant influence
2	Anu Digital Arts (p)Ltd	

ii) Transactions with related parties during the year

Particulars	Key Management Personnel	Total
A.Fixed Assets/CWIP		
Assets Purchased /Addition during the year	85000	85000
B.Expenditure		
Purchase of Printing & Stationary	21375	21375
		<b>106375</b>

The information given above, have been reckoned on the basis of information available with the company

14. Sales are reported net of service tax

For and on behalf of Board of Directors

As per our Report of even date  
For Prasad & Prasad  
Chartered Accountants

S.RAGHAVA RAO  
Chairman and Managing Director

K. UDAYA KISHORE  
Partner  
M.No. : 16023  
Place : Hyderabad  
Date : 02.09.2008

R. KRISHNA MOHAN  
Director

**CITY ONLINE SERVICES LIMITED**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 st March 2008**

Particulars	Year Ended 31st March 2008	Year Ended 31st March 2007
<b>A. Cash Flow from Operating Activities</b>		
Net Profit Before Interest and Tax	-11022116	824885
Adjustment for Depreciation	2203542	3155720
Prior period Expenses Written Off	4213771	
Bad debts written off	8189027	
Interest Paid	745952	
<b>Cash Generated before changes in working capital</b>	<b>4330176</b>	<b>3980605</b>
(Increase)/ Decrease in Inventory	-25075	-1325699
(Increase)/ Decrease in Sundry Debtors	-4994942	-948046
(Increase)/ Decrease in Loans and Advances	-890343	-1307486
(Decrease) /Increase in Current Liabilities and Provisions	3618926	5274989
<b>Net Cash Flow from Operating Activities</b>	<b>2038742</b>	<b>5674363</b>
Income Tax	0	0
Fringe Benefit Tax	-288070	-211103
Deferred Tax Liability	-	-3826316
<b>Net Cash Flow from Operating Activities</b>	<b>1750672</b>	<b>1636944</b>
<b>B. Cash flow From Investing Activities</b>		
Purchase of Fixed Assets	-3831105	3083788
Sale of Fixed Assets	0	0
Interest and Dividend Received		
<b>Net Cash flow used in Investing Activity</b>	<b>-3831105</b>	<b>3083788</b>
<b>C. Cash Flow from Financing Activities</b>		
Proceeds from Re-issue of Shares	2662500	1687500
Receipts of Share Application Money/Pending Allotment	0	2437500
Repayment of Loans	0	
Interest Paid	-745952	-732016
Repayment of Loans		-1613618
Working Capital Loan	189250	
<b>Net Cash Flow used in/from Finance Activity</b>	<b>2105798</b>	<b>1779366</b>
Opening Balance of Cash and Cash Equivalents	2043685	1711162
Net Inflow / (Decrease) in Cash and Cash Equivalents	25365	332523
Closing Balance of Cash and Cash equivalents	<b>2069050</b>	<b>2043685</b>

For and on behalf of Board of Directors

As per our Report of even date  
For Prasad & Prasad  
Chartered Accountants

**S.RAGHAVA RAO**  
Chairman and Managing Director

**K. UDAYA KISHORE**  
Partner  
M.No. : 16023  
Place : Hyderabad  
Date : 02.09.2008

**R. KRISHNA MOHAN**  
Director

**Balance Sheet abstract and Company's General Business Profile**

<b>I</b>	<b>Registration Details</b>			
	Registration No.	32114	State Code	1
	Balance Sheet Date	31.03.2008		
<b>II</b>	<b>Capital Raised During the year</b>			
	Public Issue	NIL	Rights Issue	NIL
	Bonus Issue	NIL	Private Placement	6200
<b>III</b>	<b>Position of Mobilisation and Deployment of Funds</b>			
	<b>Total Liabilities</b>	<b>62,218</b>	<b>Total Assets</b>	<b>62,218</b>
	<b>Sources of Funds</b>			
	Paid up Capital	-	Reserves & Surplus	400
	Secured Loans	4,021	Unsecured Loans	NIL
	<b>Application of Funds</b>			
	Net Fixed Assets	28,527	Investments	NIL
	Net Current Assets	20,374	Misc. Expenditure	NIL
	Accumulated Losses	13,317		
<b>IV</b>	<b>Performance of Company</b>			
	Turnover	46,322	Total Expenditure	57,344
	Profit/Loss before Tax	-11,022		
	Earning per Share	-1.50	Dividend (%)	NIL
<b>v</b>	<b>Generic names of three principal products/services of Company</b>			
	Item Code No. (ITC Code)	Product Description	Internet Service Provider	
	30.04.2001335			
	30.05.2001304			

As per our Report of even date  
For Prasad & Prasad  
Chartered Accountants

For and on behalf of Board of Directors

**S.RAGHAVA RAO**  
Chairman and Managing Director

**K. UDAYA KISHORE**  
Partner  
M.No. : 16023

**R. KRISHNA MOHAN**  
Director

Place : Hyderabad  
Date : 02.09.2008

**CITY ONLINE SERVICES LIMITED**

Regd. Office : 701, 7<sup>th</sup> Floor, Aditya Trade Centre, Ameerpet, Hyderabad - 500 038.

**PROXY FORM**

I/We ..... of ..... being a member/  
members of the above named company hereby appoint.....  
..... of ..... as  
my/our proxy to vote for me/us on my/our behalf at the 9<sup>th</sup> Annual General Meeting of the Company to be held on  
Monday, the 29<sup>th</sup> day of September, 2008 at 11.00 AM at the Registered Office of the Company and at any adjourn-  
ment thereof.

Signed this ..... day of September, 2008.

As fix  
Rs. 1/-  
Revenue  
Stamp

**NOTE :**

- a) A Member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself.
- b) Proxy need not be a member.
- c) The proxy form duly completed should be deposited at the Registered Office of the company not less than 48 hours before the time fixed for holding the meeting.

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**ATTENDANCE SLIP**

(Please present this slip at the entrance of the meeting venue)

Regd. Folio ..... Shares held.....

I hereby record my presence at the 9<sup>th</sup> Annual General Meeting to be held on Monday, the 29<sup>th</sup> day of September,  
2008 at 11.00 PM at the Registered Office of the Company.

Name of the Shareholder :

Name of the Proxy :

Signature of member/proxy :

**Note :**

- 1) To be signed at the time of handing over this slip.
- 2) Members are requested to register their names at least 15 minutes prior to the commencement of the meeting.

PRINTED MATTER  
BOOK-POST



If undelivered, please return to :

**City Online Services Limited**

701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad - 500 038.  
Ph : 23757469 (5 Lines) Telefax : 23733942 [www.cityonlines.com](http://www.cityonlines.com)