

SIXTH ANNUAL REPORT

2004 - 2005

CITY ONLINE SERVICES LIMITED

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Annual Report 2004-05

Board Of Directors

Mr. S. Raghava Rao	: Chairman and Managing Director
Mr. Ch. Harinath	: Executive Director
Mr. R. Krishna Mohan	: Director -Finance and Administration
Mr. S.V. Kanaka Seshu	: Nominee Director (APIDC)
Mr. K.Vijay Kumar	: Additional Director
Mr V.Satyanarayana	: Additional Director
Mr. Thamos. P. Nicodamus	: Director
Mr. M. Nageswara Rao	: Director

Registered. Office : **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500 038**

Auditors G. P. Rao & Co.,
Chartered Accountants
Hyderabad-

Bankers Oriental Bank of Commerce
Hussaini Alam
Koka Bazaar
Hyderabad-500064

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 Sixth Annual General Meeting of the Company will be held on Thursday September 29, 2005 at 11.00 AM at the Registered Office of the Company at **701, 7th 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, 2005, 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. Thamos.P.Nicodamus who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. R.Krishna Mohan who retires by rotation and being eligible, offers him-self for reappointment
4. To appoint M/s G. P. Rao & Co., 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.

SPECIAL BUSINESS:

5. To consider and if thought fit to pass with or with out modification the following resolution as an Ordinary Resolution.

"RESOLVED THAT Mr. V.Satyanarayana, Director who was appointed as an Additional Director in the meeting of the Board of Directors of the company held on 12.05.2005 and who holds office upto the date of the Sixth Annual General Meeting and in respect of whom notices under Section 257 of the Companies Act, 1956 have been received from members signifying their intention to propose Sri Mr. V.Satyanarayana as a candidate for the office of Director of the Company be and is hereby appointed as a Director of the Company."

6. To consider and if thought fit to pass with or with out modification the following resolution as a Ordinary Resolution.

"RESOLVED THAT Sri K.Vijay Kumar, Director who was appointed as an Additional Director in the meeting of the Board of Directors of the company held on 12.05.2005 and who holds office upto the date of the Sixth Annual General Meeting and in respect of whom notices under Section 257 of the Companies Act, 1956 have been received from members signifying their intention to propose Sri Mr. K.Vijay Kumar as a candidate for the office of Director of the Company be and is hereby appointed as a Director of the Company."

By order of the Board

Place : Hyderabad
Dated : 29.08.2005

S.Raghava Rao
Chairman and Managing Director

Notes:

- 1) **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ELIGIBLE 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 Monday, September 26, 2005 to Thursday, September 29, 2005, both days inclusive, for the purpose of Annual General Meeting
- 4) The members are requested to intimate immediately any change in their address quoting their Registered Folio enabling the Company to address future communication.
- 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.
- 6) Explanatory statement pursuant to section 173 (2) of the Companies Act 1956

Explanatory statement pursuant to section 173 (2) of the Companies Act 1956

Item No.5

The Board of Directors of the Company appointed Mr. V. Satyanarayana as an additional Director of the Company on 30th January 2005. The Company has received a notice in writing from a member as required under Section 257 of the Companies Act 1956 signifying intention to propose Mr. V. Satyanarayana as a Director of the Company. The Board recommends appointment of Mr. V. Satyanarayana as the Director of the Company.

Mr. V. Satya Narayana, aged about 68 years , has very rich experience in industrial marketing. Mr. V.Satyanarayana may be deemed to be concerned or interested in the resolution to the extent of his appointment as Director.

None of the other Directors of the Company is in any way concerned or interested in this resolution.

Item No.6

The Board of Directors of the Company appointed Dr. K. Vijay Kumar as an additional Director of the Company on 12.05.2005. The Company has received a notice in writing from a member as required under Section 257 of the Companies Act 1956 signifying intention to propose Mr. K. Vijay Kumar as a Director of the Company. The Board recommends appointment of Mr. K. Vijay Kumar as the Director of the Company.

Dr. Vijay Kumar Kolaventy, aged about 37 years, is a graduate in life sciences and has a PG Diploma in Computer Applications (PGDCA). He is the Managing Director of Starnet Online Services Limited, an Internet Service Provider in Visakhapatnam. He has vast experience in the fields of multimedia and Internet networking. He has been the key element in designing and implementing the famous '*Saukaryam*' project, an online civic service network for the Visakhapatnam Municipal Corporation. The Saukaryam project has won the National IT Award as well as the United Nations Development Program has recognised it as the world best civic service network and awarded \$20000 for further development. Dr. K. Vijay Kumar may be deemed to be concerned or interested in the resolution to the extent of his appointment as Director.

None of the other Directors of the Company is in any way concerned or interested in this resolution.

Directors Report

Dear Members

Your Directors have pleasure in presenting the Company's SIXTH ANNUAL REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2005 and the Auditor's Report thereon

Financial Results:

Particulars	(Rs. In Lakhs)	
	31.03.2005	31.03.2004
Income from operation	: 262.65	227.34
Income from software development	: 34.64	66.08
Other Income	15.91	2.36
Total Income	313.21	295.78
Expenditure (before Interest & Depreciation)	257.97	230.49
Profit before Interest and Depreciation	: 55.23	65.28
Interest	: 2.02	12.73
Profit before depreciation	53.21	52.54
Depreciation	: 29.89	28.77
Profit / Loss before Tax	: 23.31	23.77
Provision for Taxation	: 2.31	0
Profit /Loss after Tax	: 13.50	23.77
Balanced carried to Balance Sheet	: (19.28)	(26.79)

Review and Prospects

During the Year 2004-05, due to revival of Economy globally and home Front the IT market in India has grown many folds as a result of which the demand for internet bandwidth has Increased .Taking advantage of this situation your company marketed aggressively at Hyderabad and Bangalore there by there was tremendous Increase in Corporate Clientele during this period . The cost of bandwidth has reduced by 50% as a result of which the increase is not reflected in the Financial figures

Your company is expanding its network in the entire state of Andhra Pradesh with branches at nodal towns like Vijayawada, Guntur, Vizag and Other places apart from corporate office at Hyderabad catering to the needs of the Twin cities of Hyderabad, and Secunderabad.

In Karnataka your company is expanding its services to Mysore,Davangere and to near by Towns around Bangalore.

The Board of Directors are confident to achieve better results for 2005-2006 as the outlook for the forth coming year is promising from all the fronts with reviving economy globally. As a result, new IT companies and MNCs are coming up in India to set up their operations especially in Hyderabad and Bangalore.

Your company has noticed that the IT companies are now spreading allover the cities To enable to reach all the corners for Providing Internet band width and Other Services like VOIP, your company is planning to set up Internet Nodes around the city in Bangalore and Hyderabad ,From the Nodes your company plans to provide Internet Band width to the customers through Wireless solution. Your Company has already

started importing the wireless equipments at very competitive cost .Your Company plans to package the Service by leasing out the wireless Kits to provide end to end solutions to the Customers at a very competitive price. The company is targeting to double the customer base .

Your Company is providing end to end Solutions for providing Internet Band width to Call centers, Hotels and Commercial Complexes and also Soft Ware Parks through wired and wireless solutions.

Your Company is providing end to end Solutions in VOIP to call centers, Offices, Residential apartments and Public telephone Booths for International calling with Billing solutions. Your Company foresees a huge potential in this segment.

Your Company is also providing Co- Location and Dedicated Server services, FTP services to its Customers

Your company is endeavoring to implement innovative marketing strategies to tap the semi urban internet users where potential is increasing by setting up branches in different districts in Andhra Pradesh and Karnataka.

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. Thamos.P.Nicodamus and Mr. Mr. R. Krishna Mohan retire by rotation at the forthcoming Annual General Meeting and being eligible, offers themselves 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. G. P. Rao & Co. Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves 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. As the suppliers are few in number Management has taken care of Internal Audit themselves. However for the coming financial year Internal Auditor will be appointed
- c) Company has undisputed amount payable in respect of Income tax Rs. 3.69 Lakhs (TDS) Lakhs, Service Tax 7.11 Lakhs outstanding as at 31-03-2005 from the date they became payable. This occurred due to, reduction in bandwidth prices payable to Company. However the company has taken steps to reduce the operating expense to manageable limits to clear all the statutory dues
- d) The Company has made payments to provident fund authorities and Income tax department with some delays service tax will be paid in due course.

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, 2005

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
 c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods

There was no additional investments and proposals for reduction of consumption of energy

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 Optic Fiber Technology. No extra costs involved for the purpose of R & D.

C Foreign Exchange Earnings & outgo	:		
		2004-05	2003-04
		US\$	US\$
a) Earnings		79362	95092
b) Used	:		
i) For Foreign Travel is	:	0	0
ii) On Account of Licenses & Registration	:	2500	2500
iii) On account of Hardware purchase	:	0	0
iv) On account of Bandwidth charges	:	3000	21350
		Rs. Lakhs5500	Rs. Lakhs 23850

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 : 29.08.2005

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

With the improvement in IT industry globally a good opportunities lies ahead as the number of new Company's both in software development and BPO are coming to Hyderabad and Bangalore. The new company's are potential new clients. The Management is making efforts to attract the company's to our fold and also our existing customers are increasing .

Threats

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

Place : Hyderabad
Date : 29.08.2005

For and on behalf of the Board of Directors

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 about ethical business contact. It is about how an organization is managed. This includes its corporate and other structures its culture, 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 stakeholders.

The importance of corporate governance has always been recognized by your 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 2004-05 has been inserted elsewhere in this 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	2	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. D. Sivarama Prasad	Independent and Non-Executive Director	Director	5	1	Nil	No
**Mr. T. A. Choudary	APIDC Nominee	Director	5	1	10	No
**Mr. S V Kanaka Seshu	APIDC Nominee	Director	5	3	11	Yes
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	5	4	1	Yes

Mr. Thamous P. Nicodemus	Independent and Non-Executive Director	Director	5	3	2	Yes
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* Mr.D.Sivaram Prasad resigned from the board due to his preoccupation; his resignation was accepted by the board in its meeting held on July 30, 2004

**Mr.T.A Choudary appointed by APIDC and he retired from his services, his appointment automatically ceases.

***Mr. Kanaka Seshu appointed as nominee director his appointment approved by the board in its meeting held on July 30 2004

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

Meetings of the Board of Directors

During the financial year 2004-05 the Board of Directors met 5 times on the following dates: April 29, 2004, July 30, 2004, September 2, 2004, October 30, 2004, and January 31, 2005

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:

- Reviewing the adequacy of internal control systems and the internal audit reports and their compliance thereof.
- 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.
- Recommending the appointment of external auditors and fixation of their audit fee and also approval for payment for any other services.
- 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.S.S.R Anjaneyulu*	: Director
4)	Mr.D. Sivaram Prasad*	: Director
5	Mr.R.Krishna Mohan**	Director (Finance)

*resigned as directors w.e.f. 30 July 2004

**inducted as Member w.e.f

During the year under review, the Audit Committee met 4 times respectively on April 29, 2004, July 30, 2004, September 2, 2004, October 30, 2004 and January 29, 2005. Mr. D. Sivarama Prasad, resigned from the board in his place Mr. M. Nageswara Rao

appointed as Chairman of the committee and Mr. M. Nageswara Rao, and Mr. Thamous P. Nicodamus, Directors attended all the meetings of the committee
The meetings of the Audit Committee were attended by the Director Finance and Administration and Manager- Accounts as invitees.

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 noted that there was no change in the remuneration of the Executive Directors. Mr. M. Nageswara Rao, Chairman, Mr. Thomas P. Nicodamus, Director, and Mr. R.Krishna Mohan attended the meeting.

The Remuneration Committee is responsible for devising policy for compensation and benefits for Executive Directors and frames policies and systems for Associate Stock Option Plans. Details of Annual Remuneration to Directors

Executive Directors

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	35,000 P.M
2	Ch. Harinath	25,000 P.M
3	R. Krishna Mohan	25,000 P.M

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. S.Raghava Rao	Member
3	Mr.M.Nageswara Rao	Member

The Committee met 1 time during the year. Mr. R. Krishna Mohan, Chairman, and Mr.S.Raghava Rao and Mr. M.Nageswara Rao attended the meetings

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:

- a) Transfer of shares
- b) Dematerialization of shares
- c) Replacement of lost/stolen/mutilated share certificates
- d) Non-receipt of rights/bonus/split share certificates
- e) 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 Director		Status
1	Mr. R. Krishna Mohan	:	Chairman
2	Mr. Ch. Harinath	:	Member
3	Mr. Rambabu	:	Member
4	Mr.Ch.Naresh	:	Member

The Committee met 5 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. V.Surendra (Manager Finance)

a) Details of complaints for the year 2004-05:

Sl. No	Nature	Number			
		2004-05		2003-04	
		Received	Attended	Received	Attended
1	Dematerialization/ Rematerialization	01	01	Nil	Nil
2	Loss of shares/Duplicate Certificate	Nil	Nil	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	Nil	Nil
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
2001-02	September 27, 2002	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2002-03	September 30, 2003	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2003-04	September 30, 2004	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	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

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 30, 2005 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.**

b) Financial calendar for the year 2005-06 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending June 2005 : July 29, 2005
- ii) Financial reporting for the Quarter ending September 30, 2005 : October 30, 2005
- iii) Financial reporting for the quarter ending December 31, 2005 : January 31, 2006
- iv) Financial reporting for the Year ending December 31, 2006 : April 28, 2006

c) Dates of book closure for AGM: September 25, 2005 to September 29, 2005 for the financial year 2004-05 (both days inclusive)

d)	Registered Office	: 701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038
e)	Telephone & Fax	: 91 40 -23757469(5 Lines), and Fax No. + 91 40 -23757419.
	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 2005-06 has been paid to these Stock Exchanges.

Address of the Exchange

The Hyderabad Exchange Limited
6-3-654, Opp. Erramanjil Bus Stop
Somajiguda
Hyderabad-500 082

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

g) Stock Code

: 6494, CITYON#(HSE)

h) Market Price data

Average

Monthly **Low** **High**

Nil

Nil

i) Performance in composition 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 31-3-2005 and liquidity

	NSDL	CDSL
Partly paid up shares	4,13,600	Nil
Fully paid up shares	12,13,396	2,00,004

l) Distribution of Shareholding as on March 31, 2005

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	101610	0.24	36	5.98
2	5001	10000	77000	0.18	8	1.33
3	10001	20000	232780	0.55	13	2.16
4	20001	30000	6697000	15.72	262	43.52
5	30001	40000	3408170	8.00	88	14.62
6	40001	50000	4284500	10.06	90	14.95
7	50001	100000	4560940	10.71	52	8.64
8	100001	And Above	23235000	54.55	53	8.80
Total			42597000	100.00	602	100.00

m) Pattern of Shareholding as on March 31, 2005

Sl. No	Category	Shares	
		Numbers	%
1	State Govt institutions APIDC	2,50,000	5.87
2	Private Corporate bodies	3,55,992	8.36
2	Mutual Funds, DSP Merrill Lynch	2,00,000	4.69
3	Non Resident Indians	20,000	0.46
4	Promoters	16,13,388	37.87
5	Resident Individuals	18,20,320	57.25
Total		42,59,700	100.00%

- n) Address for correspondence : City Online Services Limited
**701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad –500 038701**
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. Ramesh

Comment: INSERT CONTACT PERSON AND MAIL id

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). 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

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

We have examined the relevant records of City Online Services Limited for the year ended March 31, 2005 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 our opinion and to the best of our knowledge and according to the information and explanations given to us, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement **except one investor compliant which is still pending as on the date of report.**

Place : Hyderabad
Date : 29.08.2005

For G. P. Rao & Co
Chartered Accountants

G. Purnachandra Rao
Proprietor

**AUDITORS' REPORT TO THE MEMBERS OF
CITY ONLINE SERVICES LIMITED.**

1. We have audited the attached Balance Sheet of CITY ONLINE SERVICES LIMITED as at March 31st, 2005 and the Profit and Loss Account of the Company for the period ended on that date, annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we given in the Annexure a statement on the matters specified in paragraphs 4 of the said Order, to the extent applicable to the Company.
4. Further to our comments in the annexure referred to in paragraph (3) above and notes to accounts forming part of the above Balance Sheet we state that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit
 - (b) In our opinion, proper books of accounts as required by the law have been kept by the Company so far as appears from our examination of those books;
 - (c) In our opinion, the Balance Sheet and Profit and Loss account dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
 - (d) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (e) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required 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 31st March, 2005 and
 - ii. In the case of the Profit and Loss Account, of the Profit of the Company for the period ended on that date.

(f) On the basis of the written representations from the Directors, taken on record by the Board of Directors, none of the Directors is disqualified as on 31.3.2005 from the being appointed as a Director under section 274 (1)(g) of the Companies Act, 1956.

for G.P. RAO & CO.
Chartered Accountants

G. Purnachandra Rao
Proprietor

Place: Hyderabad
Date : 28.08.2005.

ANNEXURE TO THE AUDITOR'S REPORT

Referred to in paragraph 3 of our report 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 interval 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 going concern.

- (ii)**
 - a)** The management has conducted the physical verification of inventories at reasonable intervals.

 - b)** The Procedure of the Physical verification of stock followed by management are 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 books records.

- (iii)** The company has not either granted or taken any loans , secured or un secured 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 Procedure commensurate with size of the company and its nature of the business for the purchase of inventory and fixed asset and for the sale of goods. In our opinion, there is no major weaknesses in internal control;

- (v)**
 - a)** In our opinion and according to the information and explanations given to us, there are no transactions for purchase of goods, material and services and sale of goods, materials and services, required to be reported under section 301 of the Companies Act, 1956.

- (vi)** The Company has not accept any deposits from the public.

- (vii)** The Company has an Internal Audit system, 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 the section 209 of the Companies Act, 1956 for the Company.

- (ix)** a) According to the information and explanations given to us the company is regular in depositing the dues to provident fund authorities.
b) The company has undisputed amounts payable in respect of Income Tax (TDS) Rs. 3.93 lakhs and Service Tax Rs. 7.11 lakhs and Sales Tax Rs.0.25 lakhs outstanding as March 31, 2005 for a Period of more than six months from the date they became payable.
- (x)** The Company has been registered for period not less than five years and the company is making profits during the financial year.
- (xi)** 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.
- (xii)** The Company has not been dealing or trading in shares, securities, debentures and other investments during the financial year.
- (xiii)** The company has not given any guarantee for loans taken by others from banks or financial institutions during the financial year.
- (xiv)** No term loans were taken during the financial year from any banks or financial institutions.
- (xv)** The funds raised on short-term basis have not been used for long-term investment and vice versa during the financial year.
- (xvi)** The company has not made any preferential allotment of shares of parties and Companies covered in the Register maintained under section 301 of the Companies Act, 1956.
- (xvii)** The Company has not issued any debentures during the year.
- (xviii)** The Company has not raised by money by public issue during the financial year.
- (xix)** No fraud on or by the company has been noticed or reported during the financial year under audit.

For G.P RAO & CO
Chartered Accountants

G. Purnachandra Rao
Proprietor.

Place: Hyderabad
Date: 29.08.2005.