

SEVENTH ANNUAL REPORT

2005 - 2006

CITY ONLINE SERVICES LIMITED

Annual Report 2005-06

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 V.Satyanarayana	: Director
Mr. Thomos 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
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 Seventh Annual General Meeting of the Company will be held on Saturday September 30, 2006 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, 2006, 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. Ch. Harinath 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 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 thought fit to pass with or with out the following resolution as a Special Resolution.

“RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, Mr. S. Raghava Rao, be and is hereby re-appointed as Chairman cum Managing Director of the Company for a period of 5 Years with effect from 01st September 2006 on the following terms and conditions:

1. Salary : Rs. 55,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or at other intervals as may be decided by the Board.
3. Perquisites and Allowances
 - i) Housing : Furnished/unfurnished residential Accommodation or house rent allowance up to 40% of Salary in lieu there of.
 - ii). Medical Reimbursement/
Allowance : Reimbursement of actual expenses for self And family and / or allowances will be paid as per the rules of the Company.
 - iii). Leave Travel Concession/
Allowance : For self and family once in a year, in

Accordance with the rules of the Company.

- | | |
|--|---|
| iv). Club Fees | : Fees payable subject to a maximum of two Clubs. |
| v). Provision of Driver/ Driver's Salary allowance | : As per rules of the Company. |
| vi). Personal Accident Insurance | : As per rules of the Company. |
| vii). Earned / Privilege Leave | : As per rules of the Company. |
| viii). Company's contribution to Provident Fund and Super-Annuation Fund | : As per rules of the Company. |
| ix). Gratuity | : As per rules of the Company. |
| x). Encashment of Leave | : As per rules of the Company. |
| xi). Car and Telephone | : Use of the Car and Telephone for official Purposes. |

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. S. Raghava Rao, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under Para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

6. To consider and thought fit to pass with or without the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, Mr. Ch. Harinath, be and is hereby re-appointed as Executive Director of the Company for a period of 5 Years with effect from 01st September 2006 on the following terms and conditions:

1. Salary : Rs. 50,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or At other intervals as may be decided by the Board.

3. Perquisites and Allowances

- | | |
|--|--|
| i) Housing | : Furnished/unfurnished residential Accommodation or house rent allowance Up to 40% of Salary in lieu there of. |
| ii). Medical Reimbursement/ allowance | : Reimbursement of actual expenses for self And family and / or allowances will be paid as per the rules of the Company. |
| iii). Leave Travel Concession/ allowance | : For self and family once in a year, in Accordance with the rules of the Company. |
| iv). Club Fees | : Fees payable subject to a maximum of two Clubs. |
| v). Provision of Driver/ Driver's Salary allowance | : As per rules of the Company. |
| vi). Personal Accident Insurance | : As per rules of the Company. |
| vii). Earned / Privilege Leave | : As per rules of the Company. |
| viii). Company's contribution to Provident Fund and Super-Annuation Fund | : As per rules of the Company. |
| ix). Gratuity | : As per rules of the Company. |
| x). Encashment of Leave | : As per rules of the Company. |
| xi). Car and Telephone | : Use of the Car and Telephone for official Purposes. |

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. Ch. Harinath, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

7. To consider and thought fit to pass with or without the following resolution as a Special Resolution.

“RESOLVED THAT in accordance with the provisions of Sections 198, 269, 309, 310, 314 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, Mr. R. Krishna Mohan, be and is hereby re-appointed as Director (Finance & Administration) of the Company for a period of 5 Years with effect from 01st September 2006 on the following terms and conditions:

1. Salary : Rs. 50,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or at other intervals as may be decided by the Board.
3. Perquisites and Allowances
 - i) Housing : Furnished/unfurnished residential Accommodation or house rent allowance up to 40% of Salary in lieu there of.
 - ii). Medical Reimbursement/ Allowance : Reimbursement of actual expenses for self and family and / or allowances will be paid as per the rules of the Company.
 - iii). Leave Travel Concession/ Allowance : For self and family once in a year, in accordance with the rules of the Company.
 - iv). Club Fees : Fees payable subject to a maximum of Two Clubs.
 - v). Provision of Driver/ Driver’s Salary allowance : As per rules of the Company.
 - vi). Personal Accident Insurance : As per rules of the Company.
 - vii). Earned / Privilege Leave : As per rules of the Company.
 - viii). Company’s contribution to Provident Fund and Super-Annuation Fund : As per rules of the Company.
 - ix). Gratuity : As per rules of the Company.
 - x). Encashment of Leave : As per rules of the Company.
 - xi). Car and Telephone : Use of the Car and Telephone for official purposes.

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. R. Krishna Mohan, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

By order of the Board

Place : Hyderabad
Dated : 02.09.2006

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 Wednesday September 27, 2006 to Saturday, September 30, 2006, 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 Tenure of Mr. S. Raghava Rao, Chairman cum Managing Director has expired on 31st August 2006. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 02nd September 2006 have re-appointed Mr. S. Raghava Rao, Chairman cum Managing Director for a further period of 5 Years w.e.f. 01.09.2006 on the terms and conditions mentioned above.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of the Companies Act, 1956.

The board recommends passing of the proposed resolution.

None of the other Directors of the Company except Mr. S. Raghava Rao is in any way concerned or interested in this resolution.

Item No.6

The Tenure of Mr. Ch. Harinath, Executive Director has expired on 31st August 2006. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 02nd September 2006 have re-appointed Mr. Ch. Harinath, Executive Director for a further period of 5 Years w.e.f. 01.09.2006 on the terms and conditions mentioned above.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of the Companies Act, 1956.

The board recommends passing of the proposed resolution.

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

Item No.7

The Tenure of Mr. R. Krishna Mohan, Director (Finance & Administration) has expired on 31st August 2006. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board of Directors at their meeting held on 02nd September 2006 have re-appointed Mr. R. Krishna Mohan, Director (Finance & Administration) for a further period of 5 Years w.e.f. 01.09.2006 on the terms and conditions mentioned above.

Members are requested to treat the same as abstract of the terms of appointment under section 302 of the Companies Act, 1956.

The board recommends passing of the proposed resolution.

None of the other Directors of the Company except Mr. R. Krishna Mohan is in any way concerned or interested in this resolution.

Directors Report

Dear Members

Your Directors have pleasure in presenting the Company's SEVENTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2006 and the Auditor's Report thereon

Financial Results:

<u>Particulars</u>	-	31.3.2006	31.3.2005
-	Sch. No	Amount Rs.	Amount Rs.
I) INCOME			
a) Income from operations		32,875,567	31,425,610
d) Other Income		1,358,991	1,591,039
TOTAL		34,234,558	33,016,649
II) EXPENDITURE			
a) Operating Expenses	8	19,045,271	17,222,963
b) Payments & Benefits To Employees	9	3,589,944	2,823,365
c) Administrative Expenses	10	7,330,541	7,446,323
TOTAL		29,965,756	27,492,651
III) PROFIT BEFORE INTEREST AND DEPRECIATION		4,268,802	5,523,998
Interest	11	350,677	202,818
IV) PROFIT BEFORE DEPRECIATION		3,918,125	5,321,180
Depreciation	4	3,043,082	2,989,587
V) PROFIT /(LOSS) BEFORE TAX		875,043	2,331,593
VI PROVISION FOR TAXATION			
For Current Income Tax		72,956	231,503
For Deferred Income Tax		(1,501,255)	1,350,464
For Fringe Benefit Tax		32,400	-
PROFIT / (LOSS) AFTER TAX		2,270,942	749,626
Add: Balance Carried from Last year		(1,928,996)	(2,678,622)
BALANCE CARRIED OVER TO BALANCE SHEET		341,946	(1,928,996)
Basic and Diluted Earnings Per Share		0.53	0.17

Review and Prospects

The year 2005-06 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 two 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.

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 2006-2007 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 tied up with iPass, a NSADAQ listed company, which provides roaming dial-up services to its customers in about 130 countries. Your company will provide dial-up services in Hyderabad, Bangalore and Vijayawada for all iPass customers visiting these three cities.

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

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. Ch. Harinath and Mr. V. Satyanarayana 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. G. P. Rao & Co. 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 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 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, 2006

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 Optic Fiber Technology. No extra costs involved for the purpose of R & D.
- C Foreign Exchange Earnings & outgo :
- | | 2005-06 | 2004-05 |
|---|---------|------------|
| a) Earnings | Nil | US\$ 79362 |
| b) Used : | Nil | |
| i) For Foreign Travel is : | | 0 |
| ii) On Account of Licenses & Registration : | | 2500 |
| iii) On account of Hardware purchase : | | 0 |
| iv) On account of Bandwidth charges : | | |
- Rs. Lakhs

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 : 02.09.2006

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
Date : 02.09.2006

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 finanancial situation performance, ownership and governance of the company, is an important part of corporate governanace.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 2005-2006 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	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. S V Kanaka Seshu	APIDC Nominee	Director	5	4	11	No
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	5	5	1	Yes
Mr. P. Thamous Nicodemus	Independent and Non-	Director	5	2	2	No

Mr. V. Satyanarayana	Executive Director Independent and Non-Executive Director	Director	5	4	Nil	No
** K. Vijay Kumar	Executive Director Independent and Non-Executive Director	Director	5	Nil	1	No

** Mr. K. Vijay Kumar appointed as Director on 12th May 2005, resigned from the board due to his preoccupation, his resignation was accepted by the board in its meeting held on January 31, 2006

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

Meetings of the Board of Directors

During the financial year 2005-06 the Board of Directors met 5 times on the following dates: April 30, 2005, July 30, 2005, August 29, 2005, October 29, 2005, and January 31, 2006.

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. R. Krishna Mohan	Director (Finance & Administration)

During the year under review, the Audit Committee met 4 times respectively on April 30, 2005, July 30, 2005, October 29, 2005 and January 31, 2006.

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 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 Monthly Remuneration to Directors

Executive Directors

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	55,000 P.M
2	Ch. Harinath	50,000 P.M
3	R. Krishna Mohan	50,000 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. M.Nageshwar Rao	Member

The Committee met One time during the year. Mr. R. Krishna Mohan, Chairman, and Mr M Nageshwar Rao, member attended the meeting.

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 Director	Status
1	Mr. R. Krishna Mohan	Chairman
2	Mr. Ch. Harinath	Member
3	Mr. Rambabu	Member

Mr. Ch. Naresh resigned from the Committee.

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. G. Srikanth (Chief Operating officer)

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

Sl. No	Nature	Number			
		2005-06		2004-05	
		Received	Received	Received	Attended
1	Dematerialization/ Rematerialization	Nil	Nil	01	01
2	Loss of shares/Duplicate Certificate	01	01	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	01	01	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
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
2004-05	September 29, 2005	701, 7 th 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

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, 2006 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.**

b) Financial calendar for the year 2006-07 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending 30th June 2006 : July 29, 2006
- ii) Financial reporting for the Quarter ending September 30, 2006 : October 30, 2006
- iii) Financial reporting for the quarter ending December 31, 2006 : January 31, 2007
- iv) Financial reporting for the Year ending March 31, 2007 : April 28, 2007

c) Dates of book closure for AGM: September 27, 2006 to September 30, 2006 for the financial year 2005-06 (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 2006-07 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
: 6494, CITYON#(HSE)

g) Stock Code

h) Market Price data

Monthly	Low	Average	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 31-3-2006 and liquidity**

	NSDL	CDSL
Partly paid up shares	4,13,600	Nil
Fully paid up shares	18,94,686	85,014

l) Distribution of Shareholding as on March 31, 2006

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	47261	0.68	175	19.55
2	5001	10000	35300	0.51	36	4.02
3	10001	20000	42478	0.61	23	2.57
4	20001	30000	712200	10.28	278	31.06
5	30001	40000	416117	6.01	107	11.96
6	40001	50000	724950	10.47	152	16.98
7	50001	100000	546194	7.89	63	7.04
8	100001	And Above	4400500	63.55	61	6.82
		Total	6925000	100.00	895	100.00

m) Pattern of Shareholding as on March 31, 2006

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

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, 2006 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.

Place : Hyderabad
Date : 02.09.2006

For G. P. Rao & Co
Chartered Accountants

G. Purnachandra Rao
Proprietor

CITY ONLINE SERVICES LIMITED

BALANCE SHEET AS AT 31st March 2006

Particulars	Sch. No.	31.03.2006	31.03.2005
		Amount Rs.	Amount Rs.
SOURCES OF FUNDS			
(1) SHARE HOLDERS' FUNDS			
(a) Share Capital	1	49,310,830	49,310,830
(b) Reserves and Surplus	2	741,946	-
<i>Sub - Total</i>		50,052,776	49,310,830
(2) LOAN FUNDS			
(a) Secured Loans	3	5,445,818	-
TOTAL		55,498,594	49,310,830
APPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	4	42,489,437	41,095,741
(b) Less: Depreciation		15,517,838	12,691,335
© Net Block		26,971,599	28,404,406
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	5(a)	4,141,930	935,827
(b) Sundry Debtors	5(b)	16,408,485	17,592,467
(c) Cash & Bank Balances	5©	1,711,162	1,807,279
(d) Loans & Advances	5(d)	10,579,066	7,716,562
<i>Sub - Total</i>		32,840,643	28,052,135
Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	6(a)	3,350,558	5,920,370
(b) Provisions	6(b)	963,090	3,546,203
<i>Sub - Total</i>		4,313,648	9,466,573
NET CURRENT ASSETS		28,526,995	18,585,562
(3) MISCELLANEOUS EXPENDITURE	7	-	391,866
(To the extent not written off or adjusted)			
(4) PROFIT AND LOSS ACCOUNT			1,928,996
TOTAL		55,498,594	49,310,830

NOTES ON ACCOUNTS

12

As per our Report of even date
For G.P.Rao & Co.,
Chartered Accountants

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor.
Place : Hyderabad
Date :2-9-2006

R.KRISHNA MOHAN
Director - Finance and Admn.

CITY ONLINE SERVICES LIMITED			
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2006			
		31.3.2006	31.3.2005
	Sch. No	Amount Rs.	Amount Rs.
I) INCOME			
a) Income from operations		32,875,567	31,425,610
d) Other Income		1,358,991	1,591,039
TOTAL	8	34,234,55	33,016,64
II) EXPENDITURE			
a) Operating Expenses	8	19,045,271	17,222,963
b) Payments & Benefits To Employees	9	3,589,944	2,823,365
c) Administrative Expenses	10	7,330,541	7,446,323
TOTAL	6	29,965,75	27,492,65
III) PROFIT BEFORE INTEREST AND DEPRECIATION			
Interest	11	4,268,802 350,677 3,918,12	5,523,998 202,818 5,321,18
IV) PROFIT BEFORE DEPRECIATION			
Depreciation	4	3,043,082 875,04	2,989,587 2,331,59
V) PROFIT /(LOSS)BEFORE TAX			
VI PROVISION FOR TAXATION			
For Current Income Tax		72,956	231,503
For Deferred Income Tax	5)	(1,501,25	1,350,464
For Fringe Benefit Tax		32,400	-
		2,270,94	
PROFIT / (LOSS)AFTER TAX			
	2	749,626	749,626
Add: Balance Carried from Last year	6)	(1,928,99	(2,678,622
BALANCE CARRIED OVER TO BALANCE SHEET	6	341,94	(1,928,99
Basic and Diluted Earnings Per Share		0.53	0.17
NOTES ON ACCOUNTS			
		12	
As per our Report of even date			
For G.P.Rao & Co.,			S.RAGHAVA RAO
Chartered Accountants			Chairman and Managing Director

G.PURNACHANDRA RAO
 Proprietor.
 Place : Hyderabad
 Date : 2-9-2006

R.KRISHNA MOHAN
 Director - Finance and Admn.

CITY ONLINE SERVICES LIMITED

31.03.2006 31.03.2005

Amount Rs. Amount Rs.

SCHEDULE - 1

**SHARE
 CAPITAL**

Authorised
 Capital

	77,000,	77,000,
	000	000

(77,00,000 Equity shares of Rs.10/- each)

Issued Capital

	70,000,	70,000,
	000	000

70,00,000 Equity Shares of Rs.10/- each

SUBSCRIBED, CALLED UP AND PAID UP CAPITAL

Subscribed and Called Up Capital

	69,250,	69,250,
	000	000

69,25,000 Equity Shares of Rs.10/- Each

Paid Up Capital

	42,597,	42,597,
	000	000

42,59,700 Equity Shares of Rs.10/- Each
 (Of the above 3,57,500 Equity Shares of
 Rs.10/-

each have been issued for consideration
 other than cash)

Share Forfeiture Account

(26,65,300 Equity Shares of partly paid up)	6713830	6713830
---	---------	---------

	49,310,	42,597
	830	,000

SCHEDULE - 2
RESERVES AND
SURPLUS

Capital Investment Subsidy from Government of Andhra Pradesh	4,00,000	
Profit b/f from P&L account	3,41,946	0
	741,	
	946	

SCHEDULE - 3
SECURED
LOANS

From Oriental Bank of Commerce	5,445,	
(Secured by Hypothecation of stocks and Book Debts of the Company and personal Guarantee of Three Directors of the Company).	818	-
	5,445,	
	818	-

CITY ONLINE SERVICES LIMITED
Schedule of Fixed Assets as at 31st March

SCHEDULE - 4

Sl No.	Description	GROSS BLOCK				As On 01-04-2005	As On 01-04-2005
		As On	Additions During the Year	Deductions During the Period	As On		
		01-04-2005			31-03-2006		
1	Furniture and Fixtures	4,540,32	394,848	-	4,935,16	841,554	
2	Computer Equipment	7,557,40	151,210	-	7,708,61	5,159,937	
3	Vehicles	403,15		403,158	-	194,753	
4	Office Equipment	3,894,36	79,480	-	3,973,84	916,297	
5	Plant and Machinery	24,700,49	1,171,316	-	25,871,81	5,578,794	
	TOTAL	41,095,74	1,796,85	403,15	42,489,43	12,691,33	
		1	4	8	7	5	

CITY ONLINE SERVICES LIMITED**31.03.2006****31.03.2005****SCHEDULE -5****CURRENT ASSETS, LOANS AND
ADVANCES****a) INVENTORIES**

	Amount Rs.	Amount Rs.
Stock in Trade	4,141,9	935,82
	30	7
	4,141,9	935,8
	30	27

b) SUNDRY DEBTORS:

Unsecured And Considered Good Outstanding for More than Six Months	8,418,3	10,161,0
	97	27
Others	7,990,0	7,431,4
	88	40
	16,408,4	17,592,4
	85	67

c) CASH AND BANK BALANCES

At Schedule Banks:

-In Current Account	485,83	1,006,6
	6	81
-As Deposits Held as Security	400,00	400,00
	0	0
-In Fixed Deposits	106,14	102,15
Accrued Interest on Fixed Deposits	7	1
Cash in hand at H.O & Branches	719,17	298,44
	9	7
	1,711,1	1,807,2
	62	79

d) ADVANCES

Tax Deducted at Source	330,77	139,80
	1	3
Advances for Expenses	2,240,0	1,922,3
	02	20
Advances to Staff	136,00	89,59
	7	5
Advances For Capital Goods	4,471,5	3,833,3
	11	89
Other Deposits	1,944,7	1,704,4
	24	55
Prepaid Expenses	924,16	27,00

	0	0
	531,89	
Deferred Tax Asset	1	-
	10,579,0	7,716,5
	66	62

SCHEDULE -6

CURRENT LIABILITIES AND PROVISIONS

a) CURRENT LIABILITIES

Sundry Creditors

		1,070,2	2,667,8
For Supplies	62		82
		2,247,5	3,213,0
For Others	98		89
		32,69	39,39
Advances from Customers	8		9
		3,350,5	5,920,3
		58	70

b) PROVISIONS

		963,09	3,227,5
For Expenses	0		16
			318,68
Deferred Income		-	7
		963,0	3,546,2
		90	03

SCHEDULE -7

MISCELLANEOUS EXPENDITURE

		391,84	783,71
Preliminary Expenses	5		1
		391,84	391,86
Less:Written off During the Year	5		6
			391,8
		-	45

CITY ONLINE SERVICES LIMITED

	31.03.2006	31.03.2005
Particulars	Amount	Amount Rs.
	Rs.	

SCHEDULE -8

OPERATING EXPENSES

		14,630,96	4	11,997,15
Communication Cost	1			
		232,30	7	1,111,91
Cost of Sales	0			
Service Tax		2,304,61		1,695,00

	3	0	925,9
BPO Expenses		- 60	
		116,00	109,6
ISP Membership fees	0	75	
		7,80	14,4
Domain Name Registration Exp	0	29	
		5,71	13,3
Cyber Café Maintenance Exp	3	67	
		551,77	194,0
Repairs and Maintenance	0	56	
		1,196,11	1,161,40
Electricity Charges	3	5	
		19,045,2	17,222,9
	70	63	

SCHEDULE -9

PAYMENTS & BENEFITS TO EMPLOYEES

		3,442,94	2,668,58
Salaries,Wages and Other Benefits	2	3	
		147,00	154,7
Staff Welfare Expenses	2	82	
		3,589,9	2,823,3
	44	65	

SCHEDULE -10

ADMINISTRATIVE EXPENSES

		1,366,71	1,487,78
Rent	5	8	
		100,62	18,7
Postage and Telegrams	6	30	
		615,65	621,0
Telephone Expenses	8	42	
		1,089,58	730,3
Conveyance and Traveling	3	66	
		80,58	115,5
Printing and Stationery	1	50	
		85,57	488,4
License,Fees and Taxes	9	16	
		42,26	32,8
Insurance	0	71	
		49,26	82,5
Bank Charges	5	96	
		471,60	408,3
Office Maintenance Expenses	4	00	
		10,27	18,6
News papers and periodicals	9	32	
		403,35	258,0
Consultancy and Legal Expenses	0	00	
		1,020,00	1,020,00
Directors' Remuneration	0	0	
		4,79	4,50
Directors' sitting fees	6	0	
Auditors Remuneration:			
		57,65	31,5
towards Statutory Audit	0	00	

towards Tax Audits	0	25,00	00	17,1
towards Other Services		-	40	17,1
Advertisement Charges	9	47,51	84	65,2
Business Promotion Expenses	0	35,58	79	54,7
Sales Commission	2	339,77	90	343,3
Freight Charges	7	81,10		-
Discount On Sales	5	3,17	37	137,9
Bad debts written off	2	721,27	69	994,8
Security Service Charges	6	110,25		-
Share Transfer fee	0	50,00		
Loss On Sale of Asset	9	86,57		-
Preliminary Expenses Written Off	5	391,84	66	391,8
Misc. & General Expenses	0	40,49	67	105,6
		7,330,5		7,446,3
	41		23	

SCHEDULE -11
INTEREST

On Term Loans	7	350,67	43	191,7
On Other Accounts			75	11,0
		350,6		202,8
	77		18	

CITY ONLINE SERVICES LIMITED

SCHEDULE-12

NOTES FORMING PART OF ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a). General:

The Accounts are prepared on Historical Cost Convention and Generally Accepted Accounting Principles.

b).Fixed Assets:

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.

c).Inventories:

The Stock of Inventories are Valued at Cost.

d).Revenue from Internet Services

The Internet Subscription and Service Charges are Accounted on the basis of subscription contracts

e).Depreciation:

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 Month of the succeeding date of acquisition of such Assets.

f). Gratuity Liability:

The Company has not provided for any Gratuity liability.

g).Preliminary Expenses:

Preliminary Expenses are written off Over a Period of Five Years.

h) Deferred taxation

During the Year the Company has accounted for Rs.5,31,891/- Deferred Tax Asset as per AS Issued By ICAI . The deferred tax liability provision of Rs 13,50,464/- created during the FY 2004-05 has been reversed and the net effect (deferred tax asset) has been duly reflected in the FY 2005-06

i) Segment Reporting

The entire operations of the company relates to only one segment viz., Internet services and related services Hence segmental reporting as per AS - 17 is not applicable

j) Related Party Transactions

During the year Company has purchased materials from Pranav Industries for rs 1,78,500 in one of the Director is Interested

k) Government Subsidies

During the year Government of Andhra Pradesh sanctioned a Capital investment subsidy of lakhs under incentives Provided to ICT Cmpanies , and an amount of rs 4,00,000 released as first Instalment during the year

2 Contingent Liabilities:

Counter Guarantees Given to the Company Bankers For Bank Guarantees is issued by them to Department of Telecom (DOT) Government of India for Due Performance of ISP is Rs. 30,00,000/- (Previous Year Rs.40,00,000/-).

3 Managerial Remuneration:

		As on 31st Mar-06 Rs.		As on 31st Mar-05 Rs.
For Managing Director	00	420,0	00	420,0
For Other Directors	00	600,0	00	600,0
		<u>1,020,0</u>		<u>1,020,0</u>
		00		00

4 Auditors' Remuneration:

Towards Statutory Audit	50	57,6		31,5 00
Towards Tax audits	00	25,0		17,1 00
Towards Certification Work				17,1 40
		<u>82,6</u>		<u>65,7</u>
	50			40

5 Earnings In Foreign Currency

NIL

NIL

6 Expenditure In Foreign Currency:

(i) On Account of Licenses and Registrations	US\$ 2,500	US\$ 2,500
(ii) On Account of Hard ware purchases	US\$ 8097	NIL
(iii) On Account of Bandwidth Charges	NIL	US\$3000
(iv) On Account of VOIP Services	US\$ 26165	NIL

7 Additional Information Pursuant to the Provisions of Paragraph 3 of Part II o Schedule VI of the Companies Act,1956 (As certified by the management)

		Rs.		Rs.
a) Turnover				
Sale of Hardware Items	24	328,5	55	4,353,6

8 Sundry Debtors, creditors, advances for capital goods purchases and aother advances are subjet to confirmation.

9 Previous year's figures have been regrouped where ever necessary.

As per our Report of even date

For G.P.Rao & Co.,
Chartered Accountants

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor.
Place : Hyderabad
Date 02.09.2006

R.KRISHNA MOHAN
Director - Finance and Admn.

**CITY ONLINE SERVICES
LIMITED**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

**A.Cash Flow from Operating
Activities**

Net Profit before tax		875, 043
Adjustments For		
Depreciation	3,043, 082	
Preliminary Expenses Written Off	391, 845	
Loss on Sale of Asset	86, 579	
Interest, Dividend received	3, 996	
Interest paid	350, 677	
		3,876, 179
Operating Profit Before Working Capital Changes		4,751, 222
Decrease in Trade and Other Receivables	1,183, 982	
Increase in Inventories	(3,206, 103)	
Decrease in Trade Payables and Provisions	(5,134, 925)	
Increase in Loans and Advances	(854, 453)	
Cash Generated from Operations		(8,011, 499)
		(3,260, 277)
Net Cash Flows from Operating Activities		

**B Cash Flows from Investing
Activities**

Increase in Advances for Capital (638,

Goods	122)	
	(1,796,	
Increase in Fixed Assets	854)	
	3,	
Interest , Dividend, etc Received	996	
	100,	
Sale of Fixed Assets	000	
Net Cash Used for Investing Activities		(2,330,980)

C Cash Flows from Financing Activities

Proceeds from Government Subsidies	400,000	
Loans Borrowed/ (paid)	5,445,818	
Interest Paid	(350,677)	
Net Cash Flows From Financing Activities		5,495,141

Net Increase in Cash and Cash Equivalents during the year **(96,117)**

Cash and Cash Equivalents at the beginning of the year 1,807,279

Cash and Cash Equivalents at the end of the year 1,711,162

For G.P.Rao & Co.,
Chartered Accountants

S.RAGHAVA RAO
Chairman and Managing
Director

G.PURNACHANDRA RAO
Proprietor.
Place : Hyderabad
Date : 02.09.2006

R.KRISHNA MOHAN
Director - Finance and
Admn.

**CITY ONLINE SERVICES
LIMITED**

Balance Sheet abstract and Company's General Business Profile

I	Registration Details			
	Registration No.	32114	State Code	1
	Balance Sheet Date	31-Mar-06		
II	Capital Raised During the year			
	Public Issue	NIL	Rights Issue	NIL
	Bonus Issue	NIL	Private Placement	NIL
III	Position of Mobilisation and Deployment of Funds			
	Total Liabilities	55499	Total Assets	55499
	Sources of Funds			
	Paid up Capital	49311	Reserves & Surplus	742
	Secured Loans	5446	Unsecured Loans	NIL
	Application of Funds			
	Net Fixed Assets	26972	Investments	NIL
	Net Current Assets	28527	Misc. Expenditure	NIL
	Accumulated Losses	-		
IV	Performance of Company			
	Turnover	34235	Total Expenditure	3336
	Profit/Loss before Tax	875		
	Earning per Share	0.53	Dividend (%)	NIL
v	Generic names of three principal products/services of Company			
	Item Code No. (ITC Code)		Product Description	Intern Provic
	30.04.2001	335		
	30.05.2001	304		

Per our Report of Even Date

For G.P. RAO & CO.

S.RAGHAVA
RAO

Chartered Accountant

G.PURNACHANDRA RAO
Proprietor

Place : Hyderabad
Date: 2-9-2006

Chairman and Managing Director

R.Krishna
Mohan
Director- Finance and
Admin.