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**TWELFTH ANNUAL REPORT
2010 - 2011**



Annual Report 2010-11

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 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 M/s. Seshachalam & Co.,
Chartered Accountants
Secunderabad

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 Twelfth Annual General Meeting of the Company will be held on Friday September 30, 2011 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, 2011, 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. M. Nageswara Rao who retires by rotation and being eligible, offers him-self for reappointment
4. To appoint M/s. Seshachalam & Co, Chartered Accountants, Secunderabad, 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 2011 on the following terms and conditions:

1. Salary : Rs. 75,000/- 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 2011 on the following terms and conditions:

- 1. Salary : Rs. 70,000/- 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 2011 on the following terms and conditions:

1. Salary : Rs. 70,000/- 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 thereof.
- 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.
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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 : 29.08.2011

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 28, 2011 to Friday, September 30, 2011, 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 will expire on 31st August 2011. 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 29th August 2011 have re-appointed Mr. S. Raghava Rao, Chairman cum Managing Director for a further period of 5 Years w.e.f. 01.09.2011 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 will expire on 31st August 2011. 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 29th August 2011 have re-appointed Mr. Ch. Harinath, Executive Director for a further period of 5 Years w.e.f. 01.09.2011 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) will expire on 31st August 2011. 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 29th August 2011 have re-appointed Mr. R. Krishna Mohan, Director (Finance & Administration) for a further period of 5 Years w.e.f. 01.09.2011 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 TWELFTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2011 and the Auditor's Report thereon

Financial Results:

Particulars	Sch. No	31.03.2011 Rs	31.03.2010 Rs.
I) INCOME			
a) Income from operations	8	4,60,05,770	36,386,301
d) Other Income	8(a)	7,85,579	121,900
TOTAL		4,67,91,349	36,508,201
II) EXPENDITURE			
a) Operating Expenses	9	2,31,85,783	20,729,032
b) Payments & Benefits To Employees	10	77,71,443	6,458,752
c) Administrative Expenses	11	95,71,981	10,895,478
d) Selling Marketing Expenses	12	14,84,881	898,387
TOTAL		4,20,14,088	38,981,649
III) PROFIT BEFORE INTEREST AND DEPRECIATION		47,77,261	(2,473,448)
Interest	13	9,54,890	706,150
IV) PROFIT BEFORE DEPRECIATION		38,22,371	(3,179,598)
Depreciation	5	24,55,663	2,363,703
V) PROFIT / (LOSS) BEFORE TAX		13,66,708	(5,543,301)
Prior period Expenses		-	-
Prior period Incomes		-	2,372,082
VI) PROVISION FOR TAXATION			
For Current Income Tax		-	-
For Deferred Tax/Liability (Asset)		36,374	-
For Fringe Benefit Tax		-	-
PROFIT / (LOSS) AFTER TAX		14,03,081	(3,171,219)
Add: Balance Carried from Last year		(2,24,53,231)	(19,282,012)
BALANCE CARRIED OVER TO BALANCE SHEET		(2,10,50,150)	(22,453,231)
Basic and Diluted Earnings Per Share		0.27	(0.62)

Review and Prospects

The year 2011-12 has been a promising year for your company. Although the Indian market for Internet revived and there is a considerable increase in demand for higher bandwidth as the prices of raw bandwidth has come down by more than 500 percent. This demand is not only in corporate sector but also in education and broadband. In rural areas also the demand for broadband connections is increasing hence your company has started internet nodes in almost all the districts of Andhra Pradesh as on date 43 centers are under operation on franchisee model and your company is planning to start another 25 centers in this year and in Karnataka about 25 nodes. Under the leadership of your MD, your company was working day and night for sending video stream for providing IPTV services in USA and other countries and today we are sending feed to IPTV Broadcasters abroad. In coming days your company foresees this as one of its major source of income

Your company has made all efforts to diversify into the Business of sending digital feed for digital cable TV distribution your company has reviewed and analysed various products to get the best configuration for setting up digital head end and now is in a position to sell digital head end to operators or enter the cable business with operators on revenue sharing basis. Your company foresees this as a major source of income for the company as Govt of India has put a sun set date as end 2014 for the entire country and now all cable TV operators have to convert their signal from analog to digital

The Board of Directors are confident to achieve better results for 2011-2012 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. And also into the segments as mentioned above

Your company has developed enough backbone infrastructures to provide wifi services, manage wifi hotspots, and provide VoIP services from its own gateway and gatekeeper. And now has more than gigabit bandwidth

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

Public Deposits

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

Directors: -

Mr. Ch. Harinath and Mr. M. Nageswara Rao retire by rotation at the forthcoming Annual General Meeting and being eligible, offer 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. Seshachalam & Co, Chartered Accountants, Secunderabad retire at the conclusion of the ensuing Annual General Meeting offer themselves for re-appointment till the conclusion of the next Annual General Meeting.

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.

AUDIT REPORT: Reply to Auditors Observations

In respect of auditors observations in their report wide Sub Para no f of para 2 regarding non confirmation of sundry creditors balances and advances given and taken, the company has necessary documentary evidence in possession regarding Sundry Creditors and Advances taken or given.

In respect of observations made by the auditors regarding recoverability of Sundry Debtors due for more than six months the management is confident and will make efforts for recoverability of such balances 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 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, 2011.

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 :		2010-11	2009-10
a) Earnings	:	Nil	Nil
b) Used	:		
i) For Foreign Travel is	:	Nil	Nil
ii) On Account of Licenses and Registrations	:	Nil	Nil
iii) On account of Hardware purchase	:	Nil	Nil
iv) On account of VOIP Services	:	US\$18569	US\$27660.35

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 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 : 29.08.2011

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 and started opening new ISP nodes in districts. Your company is fast expanding into rural market where the bandwidth demand is going up day by day in education sector and also in broadband sector your company has opened 43 net work centers in the districts of Andhra Pradesh and is planning to open another 25 centers in AP and 25 centers in Karnataka

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 wi-fi networking and VoIP services r IPTV Broadcasting ie sending IPTV feed for Indian channels to abroad and from sale of digital head end 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 earlier.

Place : Hyderabad
Date : 29.08.2011

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 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 practicing company secretary for compliance of corporate governance by the company during the financial year 2010-11 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 six members, three of whom are Executive Directors and three Independent Directors and non-executive Directors.

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	6	6	2	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	6	6	1	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	6	6	2	Yes
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	6	3	1	No
Mr. Thamous P. Nicodemus	Independent and Non-Executive Director	Director	6	1	2	No
Mr. V. Satyanarayana	Independent and Non-	Director	6	2	1	No

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

Meetings of the Board of Directors

During the financial year 2010-11 the Board of Directors met 6 times on the following dates: 30.04.2010, 31.07.2010, 02.09.2010, 27.09.2010 and 30.10.2010 and 31.01.2011.

3) Audit Committee

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

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

Composition and Other Details

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

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

During the year under review, the Audit Committee met 5 times respectively 30.04.2010, 31.07.2010, 27.09.2010 and 30.10.2010 and 31.01.2011.

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 has not met during the year.

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	75,000 P.M
2	Ch. Harinath	70,000 P.M
3	R. Krishna Mohan	70,000 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. Nageswara Rao	Member

The Committee has not met during the year.

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

- 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.

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. D. Rambabu	Member

The Committee met 4 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: Sri S.Raghava Rao, CMD

- a) Details of complaints for the year 2010-11:

Sl. No	Nature	Number			
		2010-11		2009-10	
		Received	Attended	Received	Attended
1	Dematerialization/ Rematerialization	Nil	Nil	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 -66416882, and Fax No. + 91 40 -23757419.

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

Financial Year	Date	Venue	Time
2007-08	September 30, 2008	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2008-09	September 30, 2009	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2009-10	December 23, 2010	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

Quarterly Results send to each shareholders residence	No
News paper where in financial results are published	Business Standard - English Andhra Bhoomi - Telugu
Any Website where results or official news are displayed	www.cityonlines.com
Whether it also displays official news release	Yes, this official news release are posted on the Company's website
The presentation made to institutional investors or to analysis	No presentation is made to institutional investors
Whether management discussion and analysis report is part of the Annual Reports	Yes

12) General Shareholders Information

a) The Annual General Meeting of the Company will be held on September 30, 2011 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.**

b) Financial calendar for the year 2011-12 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending 30th June 2011 : July 28, 2011
- ii) Financial reporting for the Quarter ending September 30, 2011 : October 31, 2011
- iii) Financial reporting for the quarter ending December 31, 2011 : January 31, 2012
- iv) Financial reporting for the quarter ending March 31, 2012 : April 30, 2012

c) Dates of book closure for AGM: September 28, 2011 to September 30, 2011 for the financial year 2010-11 (both days inclusive)

d) Registered Office	: 701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038
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e)	Telephone & Fax	:	91 40 -66416882, and Fax No. + 91 40 -23757419.
	Web site		www.cityonlines.com

f) Listing Details

The Shares of the Company are Listed on the Bangalore Stock Exchange. The listing fee for the period 2010-11 has been paid to the Stock Exchange.

Address of the Exchange

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#

h) Market Price data

Monthly

Average
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 31-3-2011 and liquidity

	CDSL	NSDL
Fully paid up shares	385714	2155086

l) Distribution of Shareholding as on March 31, 2011

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	11761	0.23	40	6.90
2	5001	10000	8700	0.17	9	1.55
3	10001	20000	26178	0.51	15	2.59
4	20001	30000	596700	11.56	234	40.34
5	30001	40000	313517	6.07	81	13.97
6	40001	50000	392150	7.59	82	14.48
7	50001	100000	401600	7.78	46	7.93
8	100001	And Above	3412794	66.10	71	12.24
		Total	5163400	100.00	578	100.00

m) Pattern of Shareholding as on March 31, 2011

Sl. No	Category	Shares	
		Numbers	%
1	Private Corporate bodies	432497	8.38
2	Mutual Funds, DSP Merrill Lynch	200000	3.87
3	Non Resident Indians	10000	0.19
4	Promoters	674950	13.07
5	Resident Individuals	3843453	74.44
6	Others	2500	0.05
Total		5163400	100.00

n) Address for correspondence : City Online Services Limited
701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad -500 038701
 Tel- 040-66416882
 Fax-040-23757419

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- 040-23553214
 Fax -040-23553214

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

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

I have examined the relevant records of City Online Services Limited for the year ended March 31, 2011 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchange, and state that in my opinion and to the best of my knowledge and according to the information and explanations given to me, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

For Ch. Veeranjanyulu & Associates
Company Secretaries

Place : Hyderabad

Date: 29.08.2011

Ch. Veeranjanyulu
CP.No. 6392, F.C.S.No.6121

CHIEF EXECUTIVE OFFICER CERTIFICATION

In relation to the Audited Financial Accounts of the Company as at 31st March, 2011, we hereby certify that

- a. We have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or volatile of the company's code of conduct.
- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which are aware and the steps have taken or propose to take to rectify these deficiencies.
- d. We have indicated to the auditors and the Audit committee
 - i. significant changes in internal control over financial reporting during the year;
 - ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - iii. instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting

For City Online Services Limited

S. Raghava Rao
Chairman & Managing Director

Place: Hyderabad
Date: 29.08.2011

AUDITOR'S REPORT

To The Members of
CITY ON LINE SERVICES LTD
HYDERABAD

1. We have audited the attached Balance Sheet of CITY ONLINE SERVICES LTD (the Company) as at 31st March, 2011, the Profit and Loss Account and the Cash flow statement, (collectively referred to as the Financial Statements) for the year 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 test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows:

1. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above;
 - a. We have obtained all the information and explanation which, to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books;
 - c. The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

- d. In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with in this report comply with the Accounting Standards, issued by the Institute of Chartered Accountants of India referred to in Section 211 (3C) of the Companies Act 1956 (the Act) to the extent applicable.
- e. On the basis of written representations received from the directors as on March 31st, 2011 we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a Director in terms of Section 274 (g) (1), of the Companies Act, 1956.
- f. In our opinion and to the best of our information and according to the explanation given to us, the aforesaid financial statements read with the Statement on Significant Accounting Policies thereon specifically Note No. 2 of the Notes to Accounts in Schedule-14 relating to the non-confirmation of balances of creditors and Advances given and taken, give the information required by the Act, in the manner so required and also give a true and fair view in Conformity with the accounting principles generally accepted in India.
- g. With regard to recoverability of certain sundry debtors over six months considered good, the management has confirmed to us that they are confident in recovering the amount and no provision is considered necessary.
- i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
- ii. in the case of Profit and Loss account, of the Profit for the year ended on that date; and
- iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Secunderabad

Date: 29-08-2011

For Seshachalam & Co.

Chartered Accountants

Firm Registration No: 003714S

(T.Bharadwaj)

Partner

M.M No: 201042

ANNEXURE TO AUDITORS REPORT

(REFERRED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE ON THE ACCOUNTS FOR THE YEAR ENDED ON 31ST MARCH, 2011 OF CITY ON LINE SERVICES LIMITED)

As required by the Company's (Auditor's Report) Order, 2003 (CARO) issued by the Government of India in terms of Section 227(4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we report that:

1. a) the Company is maintaining the Fixed Assets register showing full particulars, including quantitative details and situation of Fixed Assets.
b) the Fixed Assets are being physically verified by the management which in our opinion is reasonable having regard to the nature and value of its assets, and no material discrepancies have been noticed on such verification.
c) the Company has not disposed off any substantial part of its Fixed Assets during the Year.
2. a) inventories have been physically verified during the year by the management at reasonable intervals.
b) the procedures of physical verification of the inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
c) the Company is maintaining proper records of its inventories and no material discrepancies were noticed on physical verification.
3. (a) the Company has not granted or taken any loans secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly sub-clauses (b), (c), (d), (f) and (g) are not applicable.

4. there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of Inventories, Fixed Assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. there are no transactions of purchases of goods or materials and sale of goods, materials and services, made in pursuance of contract or arrangement entered in the register maintained under Section 301 of the Companies Act, 1956, as aggregating during the year to Rs. 5 lacs or more in respect of each party.
6. the Company has not accepted any deposits from the public to which the provisions of Section 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 apply.
7. The internal audit, in our opinion the scope and coverage need to be enlarged keeping in view of size of the organization and nature of the business.
8. Maintenance of cost records u/s 209(1) (d) of the Companies Act, 1956 is not applicable for the company.
9. There are no undisputed amounts payable in respect of Income Tax, Service Tax, TDS, VAT and other Statutory Dues which have remained outstanding as at 31st March, 2011 for a period of more than 6 months from the date they became payable. The company is irregular in remitting Service Tax and TDS payments.
10. The Company has accumulated losses but has not incurred cash loss during the Current Financial Year.
11. The Company has not availed any term loans.
12. The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The Provisions of any special statutes applicable to a chit fund, Nidhi, Mutual Benefit Fund/Societies are not applicable to the Company.
14. The Company is not dealing or trading in shares, securities, debentures and other Investments. Accordingly, the provisions of Clause 4(xiv) of the CARO are not applicable to the Company.

15. The Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. On an overall examination of the Financial Statements of the Company, funds raised on a short-term basis have prima-facie, not been used for long term investment.
18. The Company has not made any preferential allotment of shares during the year to any party.
19. The Company has not issued any debentures. Accordingly, the provisions of Clause 4 (xix) of the CARO are not applicable to the Company.
20. The Company has not raised any money by way of public issues during the year.
21. Considering the size and nature of the Company's operation, no fraud of material significance on or by the Company has been noticed or reported during the year.

Place: Secunderabad
Date: 29-08-2011

For Seshachalam & Co.
Chartered Accountants
Firm Registration No: 003714S

(T.Bharadwaj)
Partner
MI No: 201042

CITY ONLINE SERVICES LIMITED
Balance Sheet as at 31st March 2011

Particulars	sch.no	As at 31-03-2011	As at 31-03-2010
I SOURCES OF FUNDS			
(1) SHARE HOLDERS' FUNDS			
(a) Share Capital	1	56,098,330	56,098,330
(b) Reserves and Surplus	2	400,000	400,000
<i>Sub - Total</i>		56,498,330	56,498,330
(2) LOAN FUNDS			
(a) Secured Loans	3	6,470,525	6,066,845
(3) DEFERRED TAX LIABILITY	4	229,412	265,786
TOTAL		63,198,267	62,830,961
II APPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	5	59,035,217	54,993,400
(b) Less: Depreciation		27,837,572	25,381,909
Net Block		31,197,645	29,611,491
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	6(a)	3,066,028	3,068,617
(b) Sundry Debtors	6(b)	9,299,412	10,118,761
(c) Cash & Bank Balances	6(c)	1,175,557	672,094
(d) Interest accrued on FD		18,870	16,031
(d) Loans & Advances	6(e)	8,712,270	6,498,289
<i>Sub - Total</i>		22,272,137	20,373,792
(3) Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	7(a)	4,935,289	3,652,902
(b) Provisions	7(b)	6,386,375	5,954,651
<i>Sub - Total</i>		11,321,664	9,607,553
NET CURRENT ASSETS		10,950,473	10,766,239
(4) Profit and Loss Account		21,050,149	22,453,231
TOTAL		63,198,267	62,830,961
III NOTES ON ACCOUNTS	14	-	-

The Schedules referred to above and notes to accounts form integral part of the Accounts

In terms of our report attached

For and on behalf of Board

For Seshachalam & Co.
Chartered Accountants
Firm Registration No:003714S

S.Raghava Rao
Chairman and Managing Director

T.Bharadwaj
Partner
M No.201042
Hyderabad, 29th August 2011

R Krishnamohan
Director

CITY ONLINE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2011

Particulars	Sch. No	31.03.2011 Rs	31.03.2010 Rs.
I) INCOME			
a) Income from operations	8	46,005,770	36,386,301
d) Other Income	8(A)	785,579	121,900
TOTAL		46,791,349	36,508,201
II) EXPENDITURE			
a) Operating Expenses	9	23,185,783	20,729,032
b) Payments & Benefits To Employees	10	7,771,443	6,458,752
c) Administrative Expenses	11	9,571,981	10,895,478
d) Selling Marketing Expenses	12	1,484,881	898,387
TOTAL		42,014,088	38,981,649
III) PROFIT BEFORE INTEREST AND DEPRECIATION		4,777,261	(2,473,448)
Interest	13	954,890	706,150
Depreciation	5	2,455,663	2,363,703
IV) PROFIT /(LOSS) FOR THE YEAR (Before prior period / extraordinary adjustment)		1,366,708	(5,543,301)
Add: Prior period Incomes		-	2,372,082
V) PROFIT / (LOSS) BEFORE TAX		1,366,708	(3,171,219)
Less: Provision for Current Income tax		-	
Deferred Tax Asset(+) / Deferred tax Liability (-)		36,374	
VI) PROFIT / (LOSS) AFTER TAX		1,403,082	(3,171,219)
Add: Balance Carried from Last year		(22,453,231)	(19,282,012)
VII) BALANCE CARRIED OVER TO BALANCE SHEET		(21,050,149)	(22,453,231)
Basic and Diluted Earnings Per Share		0.27	(0.62)
NOTES ON ACCOUNTS	14		

The Schedules referred to above and notes to accounts form integral part of the Accounts

In terms of our report attached

For and on behalf of Board

For Seshachalam & Co.
Chartered Accountants
Firm Registration No:003714S

S.Raghava Rao
Chairman and Managing Director

T.Bharadwaj
Partner
M No.201042
Hyderabad, 29th August 2011

R Krishnamohan
Director

CITY ONLINE SERVICES LIMITED		
Schedules to Balance sheet		
	31.03.2011	31.03.2010
	Rs.	Rs.
<u>SCHEDULE - 1</u>		
<u>SHARE CAPITAL</u>		
Authorised Capital (77,00,000 Equity shares of Rs.10/- each)	77,000,000	77,000,000
Issued Capital 70,00,000 Equity Shares of Rs.10/- each	70,000,000	70,000,000
Subscribed & Called up capital Subscribed and Called Up Capital 69,25,000 Equity Shares of Rs.10/- Each	69,250,000	69,250,000
Paid Up Capital 51,64,700 Equity Shares of Rs.10/- Each (Previous Year 51,64,700 Equity Shares) Of the above 3,57,500 (3,57,500) Equity Shares of Rs.10/- each have been issued for consideration other than cash	51,647,000	51,647,000
Share Forfeiture Account (Amount originally paidup) 17,60,300 (17,60,300 Equity Shares of partly paid up)	4,451,330	4,451,330
	56,098,330	56,098,330
<u>SCHEDULE - 2</u>		
<u>RESERVES AND SURPLUS</u>		
Capital Investment Subsidy from Government of Andhra Pradesh	400,000	400,000
	400,000	400,000
<u>SCHEDULE - 3</u>		
<u>SECURED LOANS</u>		
Cash credit from Oriental Bank of Commerce (Secured by Hypothecation of stocks, Book Debts of the Company, personal Guarantee of Three Directors of the Company, First charge on Fixed assets of the company and EM of property).	6,437,662	6,066,845
Vehicle Loan from Oriental Bank Of Commerce	32,863	-
	6,470,525	6,066,845
<u>SCHEDULE - 4</u>		
Deferred Tax Liability (Asset)	229,412	265,786
	229412	265786

CITY ONLINE SERVICES LIMITED
Schedule of Fixed Assets as at 31st March 2011

SCHEDULE - 5

Sl No	Particulars	GROSS BLOCK AT COST			DEPRECIATION			NET BLOCK		
		As At 01-04-2010	Additions	Deductions	As at 31-03-2011	As at 01-04-2010	For the year	On Deductions	As at 31-03-2011	As at 31-03-2010
1	Furniture and Fixtures	6,451,998	88,388		6,540,386	2,569,700	412,188		2,981,888	3,882,298
2	Computer Equipment	8,226,920	133,845		8,360,765	7,917,724	85,593		8,003,317	309,196
3	Office Equipment	5,341,701	103,509		5,445,210	2,004,550	224,354		2,228,904	3,337,151
4	Plant and Machinery	34,972,781	3,716,075		38,688,856	12,889,935	1,733,528		14,623,463	22,082,846
	TOTAL	54,993,400	4,041,817	-	59,035,217	25,381,909	2,455,663	-	27,837,572	29,611,491
	Previous Year	52,932,326	2,061,074	-	54,993,400	23,018,206	2,363,703	-	25,381,909	29,914,120

CITY ONLINE SERVICES LIMITED
Schedules to Balance Sheet

	31.03.2011	31.03.2010
	Rs.	Rs.
SCHEDULE -6		
CURRENT ASSETS, LOANS AND ADVANCES		
a) INVENTORIES		
Stores and Spares	3,066,028	3,068,617
	<u>3,066,028</u>	<u>3,068,617</u>
b) SUNDRY DEBTORS:		
Unsecured And Considered Good		
Outstanding for More than Six Months	5,634,044	2,674,945
Others	3,665,368	7,443,816
	<u>9,299,412</u>	<u>10,118,761</u>
c) CASH AND BANK BALANCES		
At Schedule Banks:		
-In Current Account	865,466	396,952
-As Deposits Held as Security	286,143	239,643
Cash on Hand	23,948	35,499
	<u>1,175,557</u>	<u>672,094</u>
e) ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Advance recoverable in cash or in kind or for value to be received		
Advances for Expenses	-	-
Advance for capital Goods	1,007,109	1,000,000
Advances to Staff	143,500	251,964
Other Deposits	2,698,140	2,525,728
Tax Deducted at Source	2,590,140	2,720,597
Prepaid Expenses	2,273,381	-
	<u>8,712,270</u>	<u>6,498,289</u>
SCHEDULE -7		
CURRENT LIABILITIES AND PROVISIONS		
a) CURRENT LIABILITIES		
Sundry Creditors		
For Supplies	4,452,159	2,592,974
For Services	154,469	262,780
Advance from Customers	253,661	797,148
Deposits from customers	75,000	-
	<u>4,935,289</u>	<u>3,652,902</u>
b) PROVISIONS		
Provision for Gratuity	363,718	319,761
Provision for Exp	574,478	891,896
Provision for Taxes	5,448,179	4,742,994
	<u>6,386,375</u>	<u>5,954,651</u>

CITY ONLINE SERVICES LIMITED		
Schedules to Profit and Loss Account		
Particulars	31.03.2011 Rs	31.03.2010 Rs
<u>SCHEDULE -11</u>		
<u>ADMINISTRATIVE EXPENSES</u>		
Rent	1,406,742	1,160,898
Postage and Telegrams	81,840	65,842
Telephone Expenses	550,524	635,012
Conveyance and Travelling	1,718,676	1,306,288
Printing and Stationery	147,594	55,872
License, Fees and Taxes	210,035	256,728
Insurance	23,653	42,646
Bank Charges	133,399	116,812
Office Maintenance Expenses	427,233	207,199
News papers and periodicals	5,897	8,326
Consultancy and Legal Expenses	184,716	101,716
Directors' Remuneration	2,491,520	2,234,520
Auditors Remuneration:	150,000	150,000
Advertisement Charges	63,288	45,316
Business Promotion Expenses	10,926	28,211
Freight Charges	4,551	2,700
Security Service Charges	72,873	238,151
Share Transfer fee	39,708	-
Membership & Subscription Fees	262,180	1,000
Misc. & General Expenses	145,960	152,144
Computers Maintenance	5,123	13,006
Bad Debts Written Off	1,435,543	2,223,091
Advances Written off		1,850,000
	9,571,981	10,895,478
<u>SCHEDULE -12</u>		
<u>SELLING & MARKETING EXPENSES</u>		
Sales Commission	1,484,881	898,387
	1,484,881	898,387
<u>SCHEDULE -13</u>		
<u>INTEREST</u>		
On Overdraft	754,878	637,604
For Delay on TDS	139,856	24,444
For Delay on Service Tax	33,231	44,102
Interest Others	26,925	
	954,890	706,150

CITY ONLINE SERVICES LIMITED		
Schedules to Profit and Loss Account		
Particulars	31.03.2011 Rs	31.03.2010 Rs
<u>SCHEDULE - 8</u>		
<u>INCOME FROM OPERATIONS</u>		
Income from Internet Services	41,668,589	32,051,908
Income from VOIP Services	3,243,724	3,894,641
Sale of Hardware	1,093,457	439,752
	46,005,770	36,386,301
SCHEDULE – 8(A)		
<u>OTHER INCOME</u>		
Excess provision written back	430,846	-
Interest on Income Tax Refund	106,410	-
Interest Received	27,467	121,900
Miscellaneous Income	78,856	-
Rent – Income (sub letting)	142,000	-
	785,579	121,900
<u>SCHEDULE -9</u>		
<u>OPERATING EXPENSES</u>		
Communication Cost	18,597,799	16,262,442
Cost of Sales	774,850	285,420
Vat	-	24,553
Domain Name Registration Exp	9,126	2,766
Tower Rents	1,570,261	1,432,409
Repairs and Maintenance	375,345	400,158
Electricity Charges	1,824,751	1,557,530
Generator Maintenance	33,651	49,254
Stock Adjustment	-	714,500
	23,185,783	20,729,032
<u>SCHEDULE -10</u>		
<u>PAYMENTS & BENEFITS TO EMPLOYEES</u>		
Salaries,Wages and Other Benefits	7,568,887	6,015,540
Staff Welfare Expenses	185,524	123,451
Gratuity	17,032	319,761
	7,771,443	6,458,752

**City Online Services Limited
Balance Sheet Abstract
and Company's General Business Profile as per
Schedule VI Part (iv) of the Companies Act, 1956**

Registration Details in '000s

Registration No	32114	State Code:	01
Balance Sheet Date	31.03.2011		

Capital Raised during the year (Amount Rs. in Thousands)

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

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

Sources of Funds

Total Liabilities	63,198	Total Assets	63,198
Paid-up Capital	51,647	Reserves & Surplus	400
Secured Loans	6,471	Unsecured Loans	NIL

Application of Funds

Net Fixed Assets	31,198	Investments	NIL
Net Current Assets	10,950	Misc. Expenditure	NIL
Accumulated Losses	21050		

Performance of the Company (Amount Rs. in Thousands)

Total Income	46,006	Total Expenditure	45,425
Profit/(Loss) Before Tax	1,367	Profit/(Loss) After Tax	1,403
Earnings per Share	0.27	Dividend Rate %	Nil

Generic Names of Three Principal Products / Services of the Company

Item Code No	30.04.2001335	30.05.2001304	
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Product Description Internet Service Provider

As Per our Report of Even Date

For and on behalf of the Board of Directors

**S Raghava Rao
Chairman & Managing Director**

**R Krishna Mohan
Director**

Place: Hyderabad
Date: 29th August 2011

CITY ONLINE SERVICES LIMITED		
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 st March 2011		
	Year Ended 31st March 2011	Year Ended 31st March 2010
A. Cash Flow from Operating Activities		
Net Profit Before Interest and Tax	1,403,082	(3,171,219)
Adjustment for		
Depreciation	2,455,663	2,363,703
Period Expenses/(Income)	-	-
Bad debts written off	1,435,543	2,223,091
Stock Adjustment	-	714,500
Interest	954,890	706,150
Deferred Tax asset	(36,374)	-
Cash Generated before changes in working capital	6,212,804	2,836,225
(Increase)/ Decrease in Inventory	2,589	(208,813)
(Increase)/ Decrease in Sundry Debtors	(616,194)	(253,915)
(Increase)/ Decrease in Loans and Advances	(2,216,820)	1,892,860
(Decrease) /Increase in Current Liabilities and Provisions	1,714,111	(509,178)
Net Cash Flow from Operating Activities (A)	5,096,490	3,757,179
B. Cash flow From Investing Activities		
Purchase of Fixed Assets	(4,041,817)	(2,061,074)
Increase in Fixed Deposits	-	-
Net Cash Flow used in Investing Activity	(4,041,817)	(2,061,074)
C. Cash Flow from Financing Activities		
Interest paid	(954,890)	(706,150)
Increase in Working Capital Loan	403,680	(998,513)
Net Cash Flow used in/from Finance Activity	(551,210)	(1,704,663)
Opening Balance of Cash and Cash Equivalents	672,094	680,652
Net Increase / (Decrease) in Cash and Cash Equivalents	503,463	(8,558)
Closing Balance of Cash and Cash equivalents	1,175,557	672,094
In terms of our report attached	For and on behalf of Board	
For Seshachalam & Co. Chartered Accountants Firm Registration No:003714S	S.Raghava Rao Chairman and Managing Director	
T.Bharadwaj Partner M No.201042 Hyderabad, 29th August 2011	R Krishnamohan Director	

Schedule 14 - Notes forming part of Accounts - 2010-11

Significant Accounting Policies & Notes to Account

1. Basis of Accounting:

The financial statements of the Company are prepared under the historical cost convention on the basis of a going concern in accordance with the Generally Accepted Accounting Principles in India (GAAP) and comply with the mandatory Accounting Standards prescribed in the Companies (Accounting Standard) Rules 2006 as amended by Company (Accounting Standard) Amendment Rules 2009 and with the relevant provisions of the Companies Act, 1956.

2. Method of Accounting:

The Company is following accrual basis of accounting.

3. Fixed Assets:

Fixed Assets are stated at actual cost less accumulated depreciation. The actual cost capitalized includes material cost, freight, installation cost, duties and taxes, finance charges and other incidental expenses incurred during the installation stage.

4. Depreciation:

Depreciation on the Fixed Assets has been provided at the rates and in the manner prescribed in Schedule XIV to the Companies Act 1956 on straight line basis. Depreciation during the year is calculated on pro-rata basis from the date in which the asset becomes available for use. Depreciation on additions to/deductions from Fixed Assets during the year is charged on Pro-rata basis from/up to the date in which the asset become available for use.

5. Inventories:

In view of several items in the inventory, a certificate from management has been taken for arriving at the closing inventory.

6. Revenue Recognition:

The company recognizes income from services on accrual basis.

7. Gratuity:

Provision for Gratuity has been made in the books of accounts, though the No. of employees in the Company's payroll is less than the statutory minimum requirement as per the Payment of Gratuity Act, 1972.

8. Foreign Currency Transactions:

Foreign currency transactions are accounted at the rates of exchange prevailing on the date of the transactions.

9. Provisions and Contingencies:

The Company recognizes a provision when there is a present obligation as a result of past obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Notes forming part of Accounts

1. Contingent Liabilities

The company has given performance guarantee to department of Telecom (DOT) Government of India for due performance of ISP is Rs.24,00,000/- (Previous Year Rs.20,00,000/-).

2. Balances of debtors, loans & advances, creditors are subject to confirmation and reconciliation, if any. In the opinion of the Board of Directors, Sundry Creditors, Loans and Advances as at 31st March 2011 stated would be realized in the ordinary course of the company's business are expected to produce at least the amount at which they are stated in the balance sheet.
3. Cash Flow Statement has been prepared in accordance with Indirect method prescribed in AS - 3 issued by ICAI.
4. **Managerial Remuneration**

Particulars	(Rs. In Lakhs)	
	31.03.2011	31.03.2010
Mr. Raghava Rao, Chairman & Managing Director	9.35	8.52
Mr. CH.Harinath, Executive Director	8.97	6.00
Mr. R.Krishna Mohan, Wholetime Director	6.60	7.83

5. a.) Auditors Remuneration

Particulars	(Rs. In Lakhs)	
	31.03.2011	31.03.2010
Audit Fees (incl. Service Tax)	1.50	1.40

b.) CIF Value of Capital Goods, Components and Spare Parts Imported

Particulars	(Value In USD)	
	31.03.2011	31.03.2010
Outflow in Foreign Currency	18569	22955

6. Effective April 1st, 2007, the company has adopted Accounting Standard – 15 (Revised) on “Employee Benefits” issued by the Institute of Chartered Accountants of India.

Defined benefit plans:

The following table sets forth the status of the Gratuity Plan of the Company and the amounts recognized in the Balance Sheet.

(Amount in Rs.)

Particulars	31.03.2011	31.03.2010
Projected benefit obligation at the beginning of the period	3,19,761	0
Current service cost	17,032	3,19,761
Interest cost	26,925	0
Actuarial loss/(gain)	3,63,718	3,19,761
Benefits paid	-	-
Projected benefit obligation at the end of the period	-	-
Amounts recognized in the balance sheet	3,63,718	3,19,761
Projected benefit obligation at the end of the period	3,63,718	3,19,761
Cost for the period		
Current service cost	17,032	3,19,761
Interest cost	26,925	0
Expected return on plan assets	-	-
Net actuarial (gain)/loss recognized in the period	-	-
Past service cost	-	-
Net cost	-	-
Assumptions		
Discount rate	8.00%	7.50%
Estimated rate of return on plan assets	8.00%	7.50%

7. Segment Reporting: Segment Reporting in accordance with AS 17 "Segment Reporting" issued by the Institute of Chartered Accountants of India is not applicable as the company has only one segment i.e. Internet Service Provider.
8. Related party disclosures, as required by AS-18, "Related Party Disclosure" is given below.

Related party transactions during the year

(Rs. In lacs)

Nature of transactions	For the year ended	
	31.03.2011	31.03.2010
Remuneration		
Mr. Raghava Rao, Chairman & Managing Director	9.35	8.52
Mr. CH.Harinath, Executive Director	8.97	6.00
Mr. R.Krishna Mohan, Wholetime Director	6.60	7.83

9. Deferred Tax Asset/(Liability) calculation:

Depreciation as per Companies Act	24,55,663
Less : Depreciation as per Income Tax Act	23,45,938
Difference (Liability)	1,09,725

10. There are no Micro, Small and Medium Enterprises, to whom company owes dues, as at the Balance Sheet date. The Micro, Small and Medium Enterprises have been identified on the basis of information available with Company.
11. Previous year figures have been regrouped and reclassified wherever necessary to confirm to current year's classification.

For **SESHACHALAM & CO.**
Firm Registration No:003714S
Chartered Accountants

For and on behalf of the Board of Directors

(T. Bharadwaj)
Partner

(S.Raghava Rao)
Chairman&Managing Director

(R.Krishna Mohan)
Director

Membership No.201042
Place: Hyderabad
Date: 29-08-2011

CITY ONLINE SERVICES LIMITED

Regd. Office : 7th, Aditya Trade Centre, Ameerpet, Hyderabad - 500 038

PROXY FORM

I/We ofbeing a member / members of the above named company hereby appoint ofas my/our proxy to vote for me/us on my/our behalf at the 12th Annual General Meeting of the Company to be held on Friday, the 30th day of September, 2011 at 11.00 AM at the Registered Office of the Company and at any adjournment thereof.

Signed this day of September, 2011.

As fix
Re. 1/
Revenue
Stamp

NOTE :

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

CITY ONLINE SERVICES LIMITED

Regd. Office : 7th, Aditya Trade Centre, Ameerpet, Hyderabad - 500 038

ATTENDANCE SLIP

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

Regd. Folio Shares held

I hereby record my presence at the 12th Annual General Meeting to be held on Friday, the 30th day of September, 2011 at 11.00 AM at the Registered Office of the Company.

Name of the Shareholder :

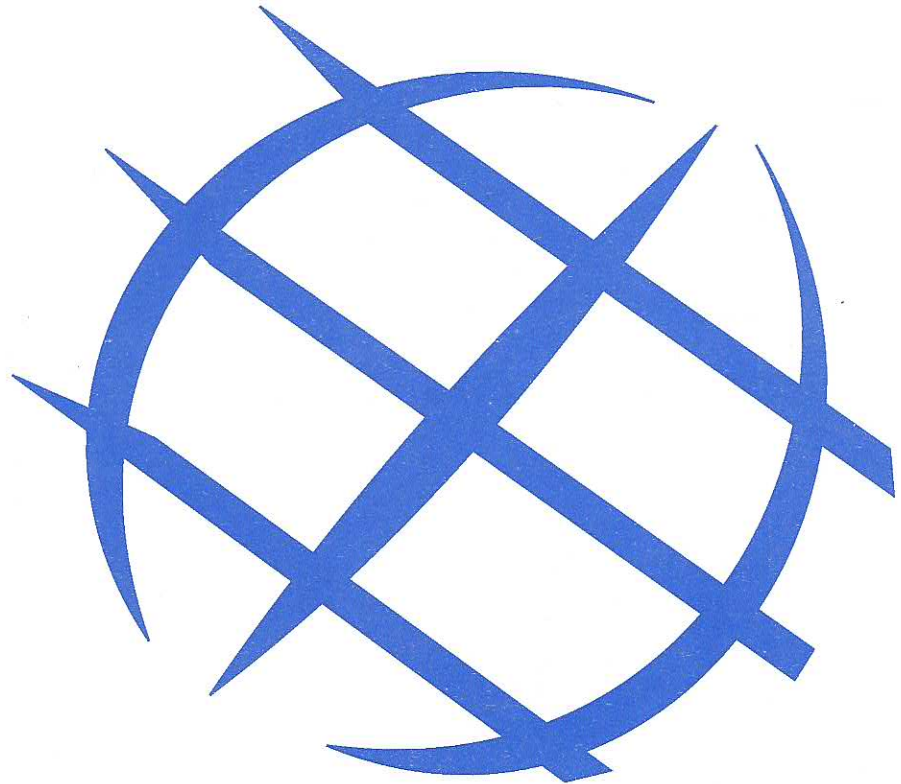
Name of the Proxy :

Signature of member / proxy :

Note :

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

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If undelivered, please return to :

City Onlince Services Limited

701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad - 500 038.
Ph : 040-66416882 (5 Lines) Telefax : 66416891 www.cityonlines.com

