



City Online

Services Limited

Internet Services with world class technology

**ANNUAL REPORT
2013 - 2014**

Annual Report 2013-14

Board of Directors

Mr. S. Raghava Rao	: Chairman and Managing Director
Mr. Ch. Harinath	: Executive Director
Mr. R. Krishna Mo han	: Director (Finance & Administration)
Mr V.Satyanarayana	: Independent Director
Mr. Thomos P. Nicodamus	: Independent Director
Mr. M. Nageswara Rao	: Independent Director
Mr. K. Arun Prasad	: Independent Director

Company Secretary : **Ms. Sampada K Joshi**

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

Website : **www.cityonlines.com**

CIN : L72200TG1999PLC032114

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

Bankers Oriental Bank of Commerce, Hyderabad
ICICI Bank, Hyderabad
State bank of India, Vijayawada

Registrars and Share Transfer Agents

XL Softech Systems Ltd
3, Sagar Society, Road No.3,
Banjara Hills,
Hyderabad – 500 034.

NOTICE OF MEETING

Notice is hereby given that the 15th Annual General Meeting of the Company will be held on Monday the 29th September 2014 at 11.00 A.M. at the Registered Office of the Company situated at 701, 7th Floor, Aditya Trade Centre, Ameerpet, Hyderabad – 500038 to transact the following business:

ORDINARY BUSINESS:

- 1) To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2014 and Balance Sheet as at that date together with Directors Report and Auditors Report thereon.
- 2) To appoint a director in place of Shri Ch. Harinath who retires by rotation and being eligible offers himself for re-appointment.
- 3) To appoint M/s. Seshachalam & Co, Chartered Accountants, Secunderabad to hold office until the conclusion of sixth Annual General Meeting to be held after this meeting, subject to ratification at every Annual General Meeting and to fix their remuneration for the financial year ending 31st March, 2015.

SPECIAL BUSINESS:

- 4) To appoint Smt. S. Naga Durga as Director and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**:

“RESOLVED THAT Smt. S. Naga Durga in respect of whom the Company has received a notice in writing under Section 160 of the Companies Act, 2013 from a member proposing her candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.”

- 5) To appoint Shri V.Satyanarayana (DIN: 03267751) as an Independent Director and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**

“RESOLVED THAT pursuant to the provisions of Sections 149, 150, 152 and other applicable provisions if any of the Companies Act, 2013 (including any statutory modification(s) or re-enactment thereof for the time being in force) and the rules made there under, Shri V.Satyanarayana whose period of office is liable to determination by retirement of directors by rotation under the provisions of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member along with the deposit of the requisite amount pursuant to Section 160 of the Companies Act, 2013 proposing his candidature for the office of Director be appointed as Independent Director to hold office for 5(five) consecutive years commencing from 01st October 2014.”

- 6) To appoint Shri Thomos P. Nicodamus (DIN: 00444241) as an Independent Director and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**

“RESOLVED THAT pursuant to the provisions of Sections 149, 150, 152 and other applicable provisions if any of the Companies Act, 2013 (including any statutory modification(s) or re-enactment thereof for the time being in force) and the rules made there under, Shri Thomos P. Nicodamus whose period of office is liable to determination by retirement of directors by rotation under the provisions of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member along with the deposit of the requisite amount pursuant to Section 160 of the Companies Act, 2013 proposing his candidature for the office of Director be appointed as Independent Director to hold office for 5(five) consecutive years commencing from 01st October 2014.”

7) To appoint Shri M. Nageswara Rao (DIN: 03267864) as an Independent Director and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**

“RESOLVED THAT pursuant to the provisions of Sections 149, 150, 152 and other applicable provisions if any of the Companies Act, 2013 (including any statutory modification(s) or re-enactment thereof for the time being in force) and the rules made there under, Shri M. Nageswara Rao whose period of office is liable to determination by retirement of directors by rotation under the provisions of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member along with the deposit of the requisite amount pursuant to Section 160 of the Companies Act, 2013 proposing his candidature for the office of Director be appointed as Independent Director to hold office for 5(five) consecutive years commencing from 01st October 2014.”

8) To appoint Shri Kanuri Arun Prasad (DIN: 06830316) as an Independent Director and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**

“RESOLVED THAT pursuant to the provisions of Sections 149, 150, 152 and other applicable provisions if any of the Companies Act, 2013 (including any statutory modification(s) or re-enactment thereof for the time being in force) and the rules made there under, Shri Kanuri Arun Prasad whose period of office is liable to determination by retirement of directors by rotation under the provisions of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member along with the deposit of the requisite amount pursuant to Section 160 of the Companies Act, 2013 proposing his candidature for the office of Director be appointed as Independent Director to hold office for 5(five) consecutive years commencing from 01st October 2014.”

IMPORTANT NOTES:

1. The Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, the 24th September 2014 to Monday the 29th September 2014 (both days inclusive) for the purpose of Annual General Meeting.
2. The Explanatory Statement pursuant to Section 102 of the Companies Act, 2013, which sets out details relating to Special Business at the meeting, is annexed hereto.

3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy/ proxies to attend and vote instead of him/herself. Such a proxy/ proxies need not be a member of the company.

The instrument of Proxy in order to be effective, should be deposited at the Registered Office of the Company, duly completed and signed, not less than 48 hours before the commencement of the meeting. A Proxy form is sent herewith. Proxies submitted on behalf of the companies, societies etc., must be supported by an appropriate resolution/authority, as applicable.

4. To prevent fraudulent transactions, members are advised to exercise due diligence and notify the Company of any change in address or demise of any member as soon as possible. Members are also advised not to leave their demat account(s) dormant for long. Periodic statement of holdings should be obtained from the concerned Depository Participant and holdings should be verified. Shareholders intending to require information about Accounts to be explained in the Meeting are requested to inform the Company at least 7 days in advance of the Annual General Meeting.

5. The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit the PAN to their Depository Participants with whom they are maintaining their demat accounts. Members holding shares in physical form can submit their PAN details to the Company.

6. Details under Clause 49 of the Listing Agreement with the Stock Exchange in respect of the Directors seeking appointment/re-appointment at the Annual General Meeting, forms integral part of the notice. The Directors have furnished the requisite declarations for their Appointment/reappointment.

7. Electronic copy of the Annual Report for 2014 is being sent to all the members whose email IDs are registered with the Company/Depository Participants(s) for communication purposes unless any member has requested for a hard copy of the same. For members who have not registered their email address, physical copies of the Annual Report for 2014 is being sent in the permitted mode. Copies of the annual report will not be available for distribution to shareholders at the hall.

8. Electronic copy of the Notice of the 15th Annual General Meeting of the Company inter alia indicating the process and manner of e-voting along with Attendance Slip and Proxy Form is being sent to all the members whose email IDs are registered with the Company/Depository Participants(s) for communication purposes unless any member has requested for a hard copy of the same. For members who have not registered their email address, physical copies of the Notice of the 15th Annual General Meeting of the Company inter alia indicating the process and manner of e-voting along with Attendance Slip and Proxy Form is being sent in the permitted mode.

9. Members may also note that the Notice of the 15th Annual General Meeting and the Annual Report for 2014 will also be available on the Company's website for their download. The physical copies of the aforesaid documents will also be available at the Company's Registered Office in for inspection during normal business hours on working days. Even after registering for e-communication, members are entitled to receive such communication in physical form, upon making a request for the same, by post free of cost. For any communication, the shareholders may also send requests to the Company's investor email id.

10. Voting through electronic means:

Pursuant to the provisions of Section 108 of the Companies Act, 2013 read with Rule 20 of the Companies (Management and Administration) Rules, 2014, and Clause 35 B of the Listing Agreement executed by the company with the BSE Limited and the National Stock Exchange of India Limited, the company is pleased to provide members the facility to exercise their right to vote at the Annual General Meeting (AGM) by electronic means and the business may be transacted through e-voting services provided by Central Depository Services Ltd (CDSL).

A member may exercise his votes at any General Meeting by electronic means and company may pass any resolution by electronic voting system in accordance with the Rule 20 of the Companies (Management and Administration) Rules, 2014.

During the e-voting period, members of the company holding shares either in physical form or dematerialized form, as on the cutoff date i.e., 01st September, 2014, may cast their votes electronically.

The e-voting period commences at 9.00 am on 23rd September 2014 and ends at 6.00 pm on 25th September, 2014. The e-voting module shall be disabled by CDSL for voting thereafter.

Once the vote on a resolution is cast by a shareholder, the shareholder shall not be allowed to change it subsequently.

A copy of this notice has been placed on the website of the Company and the website of CDSL.

Mr. Ch. Veeranjanyulu, Practicing Company Secretary (FCS: 6121 CP: 6392) and Partner M/s. VCSR & Associates, Company Secretaries has been appointed as the Scrutinizer to scrutinize the e-voting process in a fair and transparent manner.

The Scrutinizer shall within a period not exceeding three (3) working days from the conclusion of the e-voting period unblock the votes in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman.

The Results declared along with the Scrutinizer's Report shall be placed on the Company's website www.cityonlines.com and on the website of CDSL within two (2) days of passing of the resolution at the AGM of the Company and communicated to the Bangalore Stock Exchange.

You can also update your mobile number and e-mail id in the user profile details of the folio which may be used for sending future communication(s).

11. All documents referred to in the accompanying Notice and the Explanatory Statement shall be open for inspection at the Registered Office of the Company during normal business hours (9.00 am to 5.00 pm) on all working days except Saturdays, up to and including the date of the Annual General Meeting of the Company.

The process and instructions for e-voting are as under:

- (i) Log on to the e-voting website www.evotingindia.com during the voting period

(ii) Click on "Shareholders" tab.

(iii) Now, select "Name of company i.e. City Online Services Limited" from the drop down menu and click on "SUBMIT"

(iv) Now Enter your User ID

a. For CDSL: 16 digits beneficiary ID,

b. For NSDL: 8 Character DP ID followed by 8 Digits Client ID,

c. Members holding shares in Physical Form should enter Folio Number registered with the Company.

d. Next enter the Image Verification Code / Captcha Code as displayed and Click on Login.

e. If you are holding shares in Demat form and had logged on to www.evotingindia.com and casted your vote earlier for EVSN of any company/entity, then your existing password is to be used. If you are a first time user follow the steps given below

(v) Now, fill up the following details in the appropriate boxes:

PAN*	Enter your 10 digit alpha-numeric *PAN issued by Income Tax Department (in Capital) (Applicable for both demat shareholders as well as physical shareholders) • Members who have not updated their PAN with the Company/Depository Participant are requested to use the first two letters of their name and the last 8 digits of the demat account/folio number in the PAN field. • In case the folio number is less than 8 digits enter the applicable number of 0's before the number after the first two characters of the name in CAPITAL letters. Eg. If your name is Ramesh Kumar with folio number 100 then enter RA00000100 in the PAN field.
DOB#	Enter the Date of Birth as recorded in your demat account or in the Bank records for the said demat account or folio in dd/mm/yyyy format.
Dividend Bank Details#	Enter the Dividend Bank Details as recorded in your demat account or in the Bank records for the said demat account or folio. # Please enter the DOB or Dividend Bank Details in order to login. If the details are not recorded with the depository or company please enter the number of shares held by you as on the cut off date in the Dividend Bank details field.

(vi) After entering these details appropriately, click on "SUBMIT" tab.

(vii) Members holding shares in physical form will then reach directly the EVSN selection screen. However, members holding shares in demat form will now reach 'Password Creation' menu wherein they are required to mandatorily enter their login password in the new password field. Kindly note that this password is to be also used by the demat holders for voting for resolutions of any other company on which they are eligible to vote, provided that company opts for e-voting through CDSL platform. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.

(viii) For Members holding shares in physical form, the details can be used only for e-voting on the resolution contained in this Notice.

(ix) Click on the relevant EVSN of Name of company on which you choose to vote.

(x) On the voting page, you will see Resolution Description and against the same the option "YES/NO" for voting. Select the option YES or NO as desired. The option YES implies that you assent to the Resolution and option NO implies that you dissent to the Resolution.

(xi) Click on the "Resolutions File Link" if you wish to view the entire Resolutions.

(xii) After selecting the resolution you have decided to vote on, click on "SUBMIT". A confirmation box will be displayed. If you wish to confirm your vote, click on "OK", else to change your vote, click on "CANCEL" and accordingly modify your vote.

(xiii) Once you "CONFIRM" your vote on the resolution, you will not be allowed to modify your vote.

(xiv) You can also take out print of the voting done by you by clicking on "Click here to print" option on the Voting page.

(xv) If Demat account holder has forgotten the changed password then enter the User ID and image verification code / Captcha Code and click on Forgot Password & enter the details as prompted by the system.

(xvi) A. Institutional shareholders (i.e. other than Individuals, HUF, NRI etc.) are required to log on to <https://www.evotingindia.co.in> and register themselves as Corporates.

B. They should submit a scanned copy of the Registration Form bearing the stamp and sign of the entity to helpdesk.evoting@cdslindia.com.

C. After receiving the login details they have to create a user who would be able to link the account(s) which they wish to vote on.

D. The list of accounts should be mailed to helpdesk.evoting@cdslindia.com and on approval of the accounts they would be able to cast their vote.

E. They should upload a scanned copy of the Board Resolution and Power of Attorney (POA) which they have issued in favour of the Custodian, if any, in PDF format in the system for the scrutinizer to verify the same.

In case of members receiving the physical copy:

I. Please follow all steps from sl.no. (i) to sl.no. (xvi) above to cast vote.

II. In case you have any queries or issues regarding e-voting, you may refer the Frequently Asked Questions ("FAQs") and e-voting manual available at www.evotingindia.co.in under help section or write an email to helpdesk.evoting@cdslindia.com.

EXPLANATORY STATEMENT SETTING OUT MATERIAL FACTS AS REQUIRED BY SECTION 102 (2) OF THE COMPANIES ACT, 2013

ITEM 4

As per the provisions of Section 149(1) of the Act and amended Clause 49 of the Listing Agreement, the Company should have at least one woman director.

Keeping in view the above legal requirements and in deference to Company's shareholders' wishes, the Board of Directors have proposed that Smt. S. Naga Durga be appointed as a Director of the Company

The Company has received a notice in writing from a member along with the deposit of requisite amount under Section 160 of the Act proposing the candidature of Smt. S. Naga Durga for the office of Director of the Company.

Smt. S. Naga Durga is not disqualified from being appointed as a Director in terms of Section 164 of the Act and has given her consent to act as a Director. She holds 40,000 equity shares in the Company as on 31.03.2014

Smt. S. Naga Durga is a Director of M/s. Anu Digital Private Limited, and M/s. City Auto Parts Private Limited.

Smt. S. Naga Durga may be deemed to be concerned or interested, financially or otherwise, to the extent of the aforesaid shareholding in respect of her appointment as a Director. Shri S. Raghava Rao, who is her relative and the Chairman & Managing Director of the Company, to the extent of their shareholding interest in the Company, may be deemed to be concerned or interested in the appointment of Smt. S. Naga Durga since one woman director should be there on the board

Save and except the above, none of the other Directors / Key Managerial Personnel of the Company / their relatives are, in any way, concerned or interested, financially or otherwise, in the resolution set out at Item No.4 of the Notice.

The Board commends the Ordinary Resolution set out at Item No.4 of the Notice for approval by the shareholders.

ITEM NO. 5, 6, 7 & 8

Shri V.Satyanarayana, Shri Thomos P. Nicodamus, Shri M. Nageswara Rao and Shri Kanuri Arun Prasad are serving on the Board of your company as Independent Directors in compliance to the Clause 49 of the Listing Agreement with BSE.

Pursuant to the provisions of Section 149 of the Companies Act, 2013, your company needs to have at least one third of the total number of directors as Independent Directors.

The Company has received notices in writing from members' along with the deposit of requisite amount under Section 160 of the Act proposing the candidatures of each of Shri V.Satyanarayana, Shri Thomos P. Nicodamus, Shri M. Nageswara Rao and Shri Kanuri Arun Prasad for the office of Directors of the Company

The Independent Directors appointed herein shall not be liable to retire by rotation. Based on the disclosures received from each of these Directors, the Board satisfied that each of these Directors meets the criteria for independence as laid down in Section 149(6) of the Companies Act, 2013 and they are not disqualified as contemplated under Section 164 of the Companies Act, 2013.

The details pertaining to these directors required to be provided pursuant to Clause 49 of Listing Agreement are furnished in the statements on the Corporate Governance forming part of this Annual Report

Shri V.Satyanarayana, Shri Thomos P. Nicodamus, Shri M. Nageswara Rao and Shri Kanuri Arun Prasad are not holding any equity shares of the company

Your Directors commend this resolution for approval of the shareholders as an ordinary resolution.

No director is concerned or interested in their respective resolutions pertaining to their appointment

By Order of the Board of Directors

Place: Hyderabad
Date: 01.09.2014

Sd/-
S.Raghava Rao
Chairman and Managing Director

DIRECTORS REPORT

Dear Members,

The Directors have pleasure in presenting before you the 15th Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31st March, 2014.

FINANCIAL RESULTS:

Particulars	₹	₹
	31.03.2014 Rs	31.03.2013 Rs.
I) INCOME		
a) Income from operations	12,49,70,759	82,977,246
d) Other Income	14,07,767	288,641
TOTAL	12,63,78,526	83,265,887
II) EXPENDITURE		
a) Operating Expenses	8,39,52,733	4,79,97,068
b) Payments & Benefits To Employees	1,10,86,013	1,24,86,364
c) Administrative Expenses	1,86,68,248	1,50,37,289
TOTAL	11,37,06,994	7,55,20,721
GROSS PROFIT	1,26,71,532	77,45,166
III) PROFIT BEFORE INTEREST AND DEPRECIATION		
Interest	12,43,256	12,26,017
IV) PROFIT BEFORE DEPRECIATION		
Depreciation	34,09,074	30,01,935
V) PROFIT /(LOSS) BEFORE TAX		
Prior period Expenses	NIL	NIL
Prior period Incomes	NIL	NIL
VI) PROVISION FOR TAXATION		
For Current Income Tax	Nil	Nil
For Deferred Tax/Liability (Asset)	(1,30,301)	(316,685)
PROFIT / (LOSS) AFTER TAX	81,49,503	3,833,899
Basic and Diluted Earnings Per Share	1.58	0.74

PERFORMANCE:

Your company has started Digital Head end division, your company is importing components and assembling and integrating it in Hyderabad so far your company has successfully executed seven head end in Andhra Pradesh as many more orders are in pipeline, as Government of India has passed a bill in parliament for converting cable TV into digital format in our country by end of 2015, your company has geared up to meet the demand in this segment .Your company is also planning to enter into Revenue sharing with established MSO,s in small towns by using their infrastructure your company wants to give digital TV and internet to end users in one fiber using GPON technology this will ensure the company long term returns

Your company has entered into providing of triple play services in gated communities as of now your company has successfully implemented this service in nine gated communities the revenue from this sector is very encouraging , hence your company is targeting another ten complexes in this financial year i.e 10000 households.

All this factors have helped your company to increase its turnover by more than

50% compared to last year this trend will continue this year also and the Board of Directors is confident that your company will show more than 100% growth in financial year 2014-2015.

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

INSURANCE:

All the fixed assets and movable assets of the Company are fully insured.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

As required by Clause 49 of the Listing Agreements with Stock Exchanges, the Management discussion and Analysis Report is enclosed as a part of this report.

DIRECTORS:

Shri Ch. Harinath will retire by rotation at the ensuing annual general meeting and, being eligible, offer himself for reappointment.

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 judgements 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:

M/s. Seshachalam & Co, Chartered Accountants, Secunderabad the Company's Auditors retire at the conclusion of the ensuing Annual General Meeting. They have signified their willingness to accept re-appointment and have further confirmed their eligibility U/s. 141 of Companies Act, 2013.

The Board of Directors in accordance with the provisions of Section 139 of the Companies Act, 2013 and their rules made thereunder recommends their appointment for a term of Five years from the conclusion of 15th Annual General Meeting to the conclusion of 20th Annual General Meeting subject to ratification every year at the Annual General Meeting for the consideration of the Shareholders.

AUDIT OBSERVATIONS:

Auditor's observations are suitably explained in notes to the Accounts and are self-explanatory.

EMPLOYEES:

The particulars of employees whose details need to be provided under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 not applicable to the company.

Your directors also place on record their deep sense of appreciation of the services of the staff and workers of the Company, who have contributed for the administration of the Company's affairs.

Code of Conduct:

The Code of Conduct has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. Code of Conduct has also been placed on the website of the Company. A declaration signed by the Managing Director is given in Annexure.

CORPORATE GOVERNANCE AND SHAREHOLDERS INFORMATION:

Your Company has taken adequate steps to adhere to all the stipulations laid down in Clause 49 of the Listing Agreement. A report on Corporate Governance is included as a part of this Annual Report.

Certificate from the Practicing Company Secretary, M/s. VCSR & Associates, Company Secretaries confirming the compliance with the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this report.

SECRETARIAL AUDITOR

The Board of Directors at their meeting held on 01st September, 2014 pursuant to the provisions of Section 203 of the Companies Act, 2013 has appointed Mr. Ch. Veeranjanyulu, Practicing Company Secretary as the Secretarial Auditor of the company to undertake the Secretarial Audit for the Financial Year 2014-15.

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, 2014.

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

- A a) Conservation of energy measures taken : Not Applicable
- b) Additional investments and proposals, if any being implemented for the reduction of consumption of energy : Not Applicable
- c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods : Not Applicable
- 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 :
- | | 2013-14 | 2012-13 |
|---|----------------|---------------|
| a) Earnings on account of rendering services | Rs. 2,92,732 | Rs. 70,592 |
| Hardware Sale Income | Rs. 20,05,143 | 0 |
| b) Used : | | |
| i) For Foreign Travel is | : Rs. 1,11,000 | Nil |
| ii) On account of Hardware Purchase/VOIP Services | Rs.2,16,02,323 | Rs. 56,78,757 |

Personnel:

The company has maintained cordial relations with the employees during the year under review. The Company has been restructuring the human resources according to the business Requirements of the Company.

Acknowledgement:

Your Directors take this opportunity to place on record their appreciation and gratitude for the cooperation, assistance, guidance and support extended by the Company's Bankers, Shareholders, customers and various Central and State Government Agencies and Local Authorities, Personnel at various levels of the organization.

By order of the Board

Place : Hyderabad
Dated : 01.09.2014

Sd/-
S. Raghava Rao
Chairman and Managing Director

ANNEXURE**DECLARATION BY MANAGING DIRECTOR OF AFFIRMATION BY DIRECTORS AND SENIOR MANAGEMENT PERSONNEL OF COMPLIANCE WITH THE CODE OF CONDUCT:**

To

The shareholders

I, S. Raghava Rao, Managing Director of the Company do hereby declare that the directors and senior management of the Company have exercised their authority and powers and discharged their duties and functions in accordance with the requirements of the code of conduct as prescribed by the Company and have adhered to the provisions of the same.

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 01.09.2014

Sd/-
S. Raghava Rao
Chairman and Managing Director

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT:

Overview

Regarding Company Business :

In the first half of this financial year we have achieved better results as we have started new segments like Digital Head End division, Triple play services ,rural broadband along with regular internet business this has resulted in higher valuation and revenue for the company and the Board is confident of achieving 100% growth in the financial year 2014-2015.

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 Digital Head End and Triple play service which your Company has entered into. The company has applied and awarded the license for digital television M.S.O as per the new guidelines of M.I.B. The company also developed some of the Digital head equipment with the help of the chairman's R&D efforts. The company already achieved significant sales in this section of the business and have major opportunities in the coming digitalization phase of Indian cable television industry .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:

a) We see no major threat in the coming year other than what was earlier.

b) Human Resources Development and Industrial Relations:

The Company is maintaining good employee relations and no man days are lost during the year. The Company continued the welfare activities for the employees, which include Medical Care, Group Insurance, and Canteen Facility. To enrich the skills of employees and enrich their experience, the Company arranges, Practical Training Courses by Internal and External Faculty.

The Company has constituted an Internal Complaint Committee (ICC) in pursuant to the Provisions of Companies Act, 2013 for prevention, prohibition and redressal of complaints /grievances on the sexual harassment of women at work places.

CORPORATE GOVERNANCE (Mandatory Requirements)

INTRODUCTION:

The Securities and Exchange Board of India (SEBI) has introduced a Code of Corporate Governance (Code) by way of amendment to the listing agreement with the Stock Exchanges. The Company has complied with the mandatory requirements of the Code.

Report on Corporate Governance

In terms of Compliance to Clause No. 49 of the Listing Agreement on Corporate Governance, your Company is complying with the guidelines. The report for current year is as follows:

(1) Company's Philosophy:

The Company's policies, practices and philosophy adopted since inception are in line with Corporate Governance. These policies, practices are required periodically to ensure its effective compliance. The composition of Board of Directors is well balanced with a view to manage the affairs of the Company efficiently and professionally and provide satisfaction to all stakeholders including customers, shareholders and employees.

(2) Board of Directors:

The Composition of the Board of Directors of the company meets the stipulated requirements.

The Board of Directors comprises a Managing Director, executive director and nonexecutive Directors. The Board functions as a full Board or through Committees. The Board and the Committees meet at regular intervals to discuss on areas of Policy formulation, evaluation of performance and control functions vest with Board, while the Committees oversee operational issues

(I) Composition and Category of Directors as of March 31, 2014 is as follows:

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	4	4	0	Yes
Mr. Ch. Harinath	Promoter and	Executive	4	4	0	Yes

	Executive Director	Director				
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	4	4	0	Yes
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	4	4	0	Yes
Mr. Thomas P. Nicodemus	Independent and Non-Executive Director	Director	4	2	0	No
Mr. K. Arun Prasad	Independent and Non-Executive Director	Director	4	4	0	No

(ii) Particulars of Directorships of other Companies:

NAME OF DIRECTOR	NAME OF COMPANY	POSITION
S. Raghava Rao	M/s. Anu Digital Arts Private Limited	Director
	M/s. City Auto Parts Private Limited	
Ch. Harinath	M/s. Pranav Tower Fabrications (I) Pvt Ltd	Director
R. Krishna Mohan	M/s. Andhra Lakshmi Industrial Co Ltd	Director
	M/s. Alliance Bussiness School	
M. Nageswara Rao	Nil	
V. Satyanarayana	M/s. Oyster Medisafe Pvt Ltd	Director
Thomas P. Nicodamus	M/s. Venturetech India Private Limited	Director
	M/s. Krishi Mech Engineers Private Limited	
K Arun Prasad	Nil	

(iii) Number of Board Meetings held, dates on which held:

4(Four) Board meetings were held during the financial year from 1st April, 2013 to 31st March, 2014. The dates on which the meetings were held are as follows: 30.05.2013, 14.08.2013, 31.10.2013 and 31.01.2014

(iv) Brief profile of the directors seeking appointment / re-appointment at this Annual General Meeting:

Smt. S. Naga Durga possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

Shri Ch. Harinath has completed his Bachelor of Engineer. He possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

Shri V. Satyanarayana has completed his MBA He possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

Shri M. Nageswara Rao has completed his B.COM He possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

Shri Thomas P. Nicodamus has completed his B.Sc Electronics He possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

Shri K. Arun Prasad has completed his B.Tech from IIT Chennai He possesses vast administrative skills and having immense Knowledge in related field of business which will be more useful for the advancement of the company in present conditions and as well as in future.

(3) Committees of Board:

a) Audit Committee:

The audit committee consists of 3(Three) directors viz., whereas Mr. M. Nageswara Rao acts as the Chairman of the Committee. Audit committee constitutions are as under:

During the period, the Committee has met 4 (Four) times respectively 30.05.2013, 14.08.2013, 31.10.2013 and 31.01.2014

Member and their attendance at the Audit Committee Meetings:

Director	Position	No. of meetings held	No. of meeting attended
Mr. M. Nageswara Rao	Chairman	4	4
Mr. Thamous P. Nicodemus	Director	4	2
Mr.R.Krishna Mohan	Director (Finance & Administration)	4	4

Terms of Reference:

- x Reviewing the adequacy of internal control systems and the internal audit reports and their compliance thereof.
- x Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- x Recommending the appointment of external auditors and fixation of their audit fee and also approval for payment for any other services.
- x Reviewing with Management the quarterly and annual financial statements before submission to the Board.
- x Review the Company's financial and risk management policies and discuss with the internal Auditors on any significant findings for follow-up thereon.

b) Remuneration Committee:

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 met once during the year.

Terms of Reference

To review, assess and recommend the appointment of executive and non-executive directors from time to time, to review the remuneration package of the executive directors and recommend suitable revision to the Board, to recommend Compensation to the non executive directors in accordance with the Companies Act, 2013, to consider and recommend Employee Stock Option Schemes from time to time and to administer and superintend the same.

The Committee will meet as and when any remuneration is to be fixed for any Director/Managing Director.

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 and have recommended that salaries of executive Directors as

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	Rs 1,05,000 P.M
2	Ch. Harinath	Rs 1,00,000 P.M
3	R. Krishna Mohan	Rs 1,00,000 P.M

c) 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
3	Mr. V. Satyanarayana	Member

d) 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
3	Mr. V. Satyanarayana	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.

e) 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 (Four) times during the year to review the operations including the commercial transactions of the Company. All the members present.

4) **Others:**

Name and Designation of Compliance officer: Ms. Sampada Keshav Joshi, Company Secretary

a) Details of complaints for the year 2013-14:

Sl. No	Nature	Number			
		2013-14		2012-13	
		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 -23757469 (5 Lines), and Fax No. + 91 40 -23757419.

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

Financial Year	Date	Venue	Time
2010-11	September 30, 2011	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2011-12	September 29, 2012	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2012-13	September 28, 2013	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.

6) DISCLOSURES;

- a. **Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its Promoters, the Directors or the management, their relatives, or subsidiaries etc., that may have potential conflict with the interest of the Company at large**

The disclosures with regard to transactions with related parties are given in the Notes to the Accounts of the audited financial statements for the year ended 31st March 2014. These transactions are not in conflict with the interest of the Company.

b. Disclosure of Accounting Treatment

The financial statements are prepared on accrual basis of accounting and in accordance with Indian GAAP and as per the provisions of the Companies Act, 1956 (the Act) and comply with material aspects with the accounting standards notified in Section 211 (3C) of the Act read with the Companies (Accounting Standard) Rules, 2006

c. Board Disclosures

i. Risk Management

Currently, the Company's risk management approach comprises of the following:

- x Governance of Risk
- x Identification of Risk
- x Assessment and control of Risk

The risks are being identified by a detailed study. Senior Management are analysing and working in mitigating them through co-ordination among the various departments. Insurance coverage and personal accident coverage for lives of all employees are also being taken.

Your company put in place the risk management framework, which helps to identify various risks cutting across its business lines. The risks are identified and are discussed by the representatives from various functions.

Presentation to the Board of Directors and the Audit Committee is made on risk management. The Board and the Audit Committee provides oversight and review the risk management policy periodically.

ii. Internal Control System

Your company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of

internal policies. The Company has a well-defined delegation of power and defined limits for approving revenue as well as capital expenditure. Processes for formulating and reviewing annual and long term business plans have been laid down to ensure adequacy of the control system, adherence to the management instructions and legal compliance.

d. **Code of Conduct**

The Board has laid down a Code of Conduct covering the ethical requirements to be complied with covering all the Board Members and Senior Management Personnel of the company. An affirmation of compliance with the code is received from them on an annual basis

e. **CEO / CFO Certification**

The CEO / CFO Certification on the financial statements and internal control are separately annexed.

7) Compliance with Non-mandatory requirements

- a. **Non-Executive Chairman's Office:** The Company doesn't maintain any office of the Non-executive chairman and any expenditure incurred by him in performance of his duties will be reimbursed by the Company.
- b. **Tenure of Independent Directors:** In terms of the Governance Policy of the Company, all Directors including Independent Directors except Managing Director are appointed / re-appointed for a period of three to five years or a shorter duration in accordance with retirement guidelines as determined by the Board from time to time. No maximum tenure for Independent Directors has been specifically determined by the Board.
- c. **Remuneration Committee:** The Company has a Remuneration Committee under the nomenclature "Remuneration Committee", the details of which are provided in this Report under the section "Committees of Board – Remuneration Committee"
- d. **Shareholders Rights:** The Quarterly, half-yearly and annual financial results of the Company are published in newspapers on all India basis and complete set of annual report is sent to every Shareholder of the Company
- e. **Audit Qualifications:** During the financial year 2013-2014, there are no audit qualifications in the Company's financial statements.
- f. **Training of Board Members:** Strategic supervision of the Company is the responsibility of the Board. To achieve this, the Board undertakes periodic review of various matters including business-wise performance and related matters, risk management, borrowings, internal & external audit findings etc., Directors are also briefed on changes / developments in the domestic / global corporate and industry scenario including those pertaining to statutes / legislation and economic development.
- g. **Mechanism for evaluation of Non-Executive Directors:** The role of the Board of Directors is to provide direction and exercise control to ensure that the Company is managed in a manner that fulfils stakeholders' aspirations and societal expectations. The Board has not evolved any method/mechanism for appointment of non-executive directors.
- h. **Whistle Blower Policy:** The Company encourages open door policy where every employee have access to the Head of the Business / Department, employees are free to report existing / probable violation of laws, regulations or unethical conduct in the organization.

8) 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

9) General Shareholders Information

Annual General Meeting	:	15 th Annual General Meeting, Monday the 29 th September 2014
Time	:	11.00 AM
Venue	:	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad – 500038.
Financial Year	:	1 st April 2013 to 31 st March 2014
Book closure dates	:	24 th September 2014 to 29 th September, 2014 (both days inclusive)

10) Financial calendar for the year 2014-15 (tentative):

Financial Calendar: 1 April, 2014 to 31 March, 2015.

- i) Financial reporting for the quarter ending 30 June 2014: 14th August 2014
- ii) Financial reporting for the Quarter ending 30 September, 2014: 14th October 2014
- iii) Financial reporting for the quarter ending 31 December, 2014: 14th February 2015
- iv) Financial reporting for the year ending 31 March, 2015: 30th May 2015

11) Dates of book closure for AGM: 24th September 2014 to 29th September, 2014 (both days inclusive)

12) Dividend Payment date: Not Applicable

13) Listing Details

a) The Shares of the Company are Listed on the Bangalore Stock Exchange. The listing fee for the period 2013-14 has been paid to the Stock Exchange. The Company has applied for Direct Listing in Bombay Stock Exchange (BSE). BSE has given in principle approval for listing of Company Securities in BSE.

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.

b) Stock Code : 6494, CITYON#

c) Market Price data

Monthly	Average	
	Low	High
	Nil	Nil

d) Performance in composition to BSE Index/CRISIL Index : The shares are infrequently traded and hence not applicable

e) 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

Dematerialization of Shares as on 31-3-2014 and liquidity

Fully paid up shares	CDSL 500213	NSDL 2515837
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Distribution of Shareholding as on March 31, 2014

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	11761	0.23	44	7.99
2	5001	10000	7700	0.15	8	1.45
3	10001	20000	24178	0.47	14	2.54
4	20001	30000	594200	11.51	233	42.29
5	30001	40000	305517	5.92	79	14.34
6	40001	50000	344900	6.68	72	13.07
7	50001	100000	339600	6.58	39	7.08
8	100001	And Above	3535544	68.47	62	11.25
Total			5163400	100.00	551	100.00

Pattern of Shareholding as on March 31, 2014

Sl. No	Category	Shares	
		Numbers	%
1	Private Corporate bodies	262497	5.08
2	Mutual Funds, DSP Merrill Lynch	200000	3.87
3	Non Resident Indians	10000	0.19
4	Promoters	719700	13.94
5	Resident Individuals	3968703	76.86
6	Others	2500	0.05
	Total	5163400	100.00

- f) Address for correspondence : City Online Services Limited
**701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad -500038**
Tel- 040-66416882, 6883, 6894
Fax-040-66416890
- g) Contact Person : Mr.R.Krishna Mohan
E-mail : rkmohan@cityonlines.com
Website : www.cityonlines.com
- h) The Company's Registrars are : M/s X L Softech Systems Limited
Road No. 2
Sagar Society
Banjara Hills
Hyderabad- 500034
Tel- 040-23553214
Fax -040-23553214

Contact Person : Mr. Ramprasad

14) Share Transfer System:

Shareholders transfer Committee also approves share transfers and meets at frequent intervals. The Company's Registrar and share transfer Agents process the transfers Share Transfers are registered and returned within 21 days of lodgment if documents are complete in all respects.

The Registrar and Share Transfer agents acknowledge and execute transfers of securities, arranges for issue of dividend warrants. The R&ST Agents also accept deals and resolve complaints of shareholders.

15) Non Mandatory Requirements

a) Chairman of the Board

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

b) Shareholders Rights

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 ON CORPORATE GOVERNANCE

To,
The Board of Directors
City Online Services Limited

We have reviewed the records concerning the Company's compliance of conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement entered into, by the Company, with the Stock Exchanges of India, for the F.Y ended on 31st March 2014.

The compliance of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

We have conducted our review on the basis of the relevant records and documents maintained by the Company and furnished to me for the review, and the information and explanations given to me by the Company.

Based on such a review to the best of my information and according to the explanations given to us, in our opinion, the company has complied with the conditions of Corporate Governance, as stipulated in Clause 49 of the said listing agreement.

On the basis of certificate issued by the company and the Minutes of meetings of the Shareholders/Investors Grievance Committee of the Company, we state that, there were no investor grievances pending against the Company for a period exceeding one month.

We further state that, such compliance is neither an assurance as to the future viability of the Company, nor as to the efficiency of effectiveness with which the management has conducted the affairs of the Company.

**For VCSR & Associates
Company Secretaries**

**Ch. Veeranjanyulu
(Partner)**
CP No. 6392, FCS No. 6121

Place: Hyderabad
Date: 01.09.2014

CHIEF EXECUTIVE OFFICER CERTIFICATION

In relation to the Audited Financial Accounts of the Company as at 31st March, 2014, 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: 01.09.2014

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
City Online Services Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of **City Online Services Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated September 13, 2013, issued by the Ministry of Corporate Affairs, in respect of Section 133 of the Act. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;
- (b) in the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date and
- (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003("the Order"), as amended, issued by the Central Government in terms of Section 227(4A) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by Section 227(3) of the Act, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - (d) In our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in Section 211(3C) of the Act read with the General Circular 15/2013 dated September 13, 2013, issued by the Ministry of Corporate Affairs, in respect of Section 133 of the Act.
 - (e) On the basis of the written representations received from the directors as on March 31, 2014 taken on record by the Board of Directors, none of the directors is disqualified as on March 13, 2014 from being appointed as a director in terms of Section 274(1)(g) of the Act.

For Seshachalam & Co
Chartered Accountants
Registration No. 003714S

T. Bharadwaj
Partner
Membership No. 201042

Hyderabad, May 30, 2014

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

(i) In respect of its fixed assets:

- (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of the fixed assets.
- (b) The fixed assets were physically verified during the year by the Management in accordance with a programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals.
- (c) There was no disposal of the fixed assets of the Company during the year.

(ii) In respect of its inventory:

- (a) As explained to us, the inventories were physically verified during the year by the Management at reasonable intervals.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

(iii) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items purchased are of special nature and suitable alternative sources are not readily available for obtaining comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of inventory and fixed assets and the sale of goods and services. During the course of our audit, we have not observed any major weakness in such internal control system.

(iv) In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.

(v) According to the information and explanations given to us in respect of statutory dues:

- (a) The Company has generally been regular in depositing undisputed dues, including Provident Fund, Income-tax, Sales Tax, Service Tax, Custom Duty and other material statutory dues applicable to it, with the appropriate authorities.

- (b) There were no undisputed amounts payable in respect of Provident Fund, Income-tax, Sales Tax, Service Tax, Custom Duty and other material statutory dues in arrears as at March 31, 2014 for a period of more than six months from the date they became payable, except as given below:

Statute	Nature of Dues	Period to which the amount relates	Amount involved
Income Tax Act, 1961	Income Tax	2013-14	2,67,217
Finance Act, 1994	Service Tax	2011-12	16,09,013

- (c) There were no dues of Provident Fund, Income-tax, Sales Tax, Service Tax and Custom Duty which have not been deposited as on March 31, 2014 on account of disputes.
- (vi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks, financial institutions.
- (vii) In our opinion, and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained.
- (viii) In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet, we report that funds raised on short-term basis have not been used during the year for long- term investment.
- (ix) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud on the Company has been noticed or reported during the year.
- (x) Having regard to the nature of the Company's business / activities, clauses 4(iii), (v), (vi), (viii), (x), (xii), (xiii), (xiv), (xv), (xviii), (xix) and (xx) of CARO are not applicable.

For Seshachalam & Co
Chartered Accountants
Registration No. 003714S

T. Bharadwaj
Partner
Membership No. 201042

Hyderabad, May 30, 2014

City Online Services Limited
Balance Sheet as at March 31, 2014

(All amounts in Indian Rupees, unless otherwise stated)

Particulars	Note	As at March 31, 2014	As at March 31, 2013
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital	3	5,60,98,330	5,60,98,330
(b) Reserves and surplus	4	(66,30,256)	(1,47,79,759)
(2) Non-current liabilities			
(a) Long term borrowings	5	6,10,284	7,29,879
(b) Long term provisions	6	6,86,000	5,30,000
(3) Current liabilities			
(a) Short-term borrowings	7	81,84,719	78,08,804
(b) Trade payables	8	1,63,04,714	1,02,56,921
(c) Other current liabilities	9	1,07,39,073	1,50,11,036
Total		8,59,92,863	7,56,55,213
II. ASSETS			
(1) Non-Current Assets			
(a) Fixed assets			
(i) Tangible assets	10	3,06,93,759	3,25,00,725
(b) Non-current investments	11	50,000	50,000
(c) Deferred tax assets	12	3,23,444	1,93,145
(d) Long term loans and advances	13	28,59,879	24,92,017
(2) Current assets			
(a) Inventories	14	79,63,927	46,95,174
(b) Trade receivables	15	2,50,71,635	2,09,15,380
(c) Cash and bank balances	16	1,47,27,479	70,01,725
(d) Short-term loans and advances	17	41,99,000	77,30,336
(e) Other current assets	18	1,03,741	76,711
Total		8,59,92,863	7,56,55,213
Corporate information and Significant accounting policies	1 & 2		
Other notes to the financial statements	3 to 35		
<p>The notes referred to above form an integral part of the financial statements. This is the Balance Sheet referred to in our report of even date.</p>			
For Seshachalam & Co		For and on behalf of the Board of Directors	
Chartered Accountants			
T. Bharadwaj Partner	S. Raghava Rao Chairman and Managing Director	R. Krishna Mohan Director	Sampada K. Joshi Company Secretary
Place: Hyderabad			
Date: May 30, 2014			

City Online Services Limited

Statement of Profit and Loss for the year ended March 31, 2014

(All amounts in Indian Rupees, unless otherwise stated)

Particulars	Note	For the year ended March 31, 2014	For the year ended March 31, 2013
Revenue from operations	19	12,49,70,759	8,29,77,246
Other income	20	14,07,767	2,88,641
Total revenue		12,63,78,526	8,32,65,887
Expenses:			
Operating Expenses	21	8,39,52,733	4,79,97,068
Employee benefits expenses	22	1,10,86,013	1,24,86,364
Finance cost	23	12,43,256	12,26,017
Depreciation	10	34,09,074	30,01,935
Other expenses	24	1,86,68,248	1,50,37,289
Total expenses		11,83,59,324	7,97,48,673
Profit Before Tax		80,19,202	35,17,214
Tax expense			
-Current tax		-	-
-Deferred tax	12	1,30,301	3,16,685
Profit for the year		81,49,503	38,33,899
Earnings per equity share - ` 10	30		
Basic and diluted		1.58	0.74
Corporate information and Significant accounting policies	1 & 2		
Other notes to the financial statements	3 to 35		

The notes referred to above form an integral part of the financial statements.
This is the Statement of Profit and Loss referred to in our report of even date.

For Seshachalam & Co
Chartered Accountants

For and on behalf of the Board of Directors

T. Bharadwaj
Partner

S. Raghava Rao
Chairman and Managing Director

R. Krishna Mohan
Director

Sampada K. Joshi
Company Secretary

Place: Hyderabad

Date: May 30, 2014

City Online Services Limited

Cash Flow Statement for the year ended March 31, 2014

(All amounts in Indian Rupees, unless otherwise stated)

Particulars	₹ For the year ended March 31, 2014	₹ For the year ended March 31, 2013
A. Cash flow from operating activities		
Profit before tax	80,19,202	35,17,214
Adjustment for:		
Interest expense	9,34,996	8,52,591
Interest income	(1,82,143)	(27,830)
Profit on sale of asset	(3,054)	-
Depreciation	34,09,074	30,01,935
Operating loss before working capital changes	1,21,78,075	73,43,910
Changes in Working Capital :		
(Increase) / decrease in Inventories	(32,68,753)	3,79,137
Increase in Sundry Debtors	(41,56,255)	(98,05,505)
Decrease / (increase) in loans and advances	35,31,336	(2,93,633)
Increase in Current liabilities and provisions	20,85,553	1,06,39,731
Cash Used in Operating activities	1,03,69,956	82,63,640
Direct taxes (paid) / refund	(3,67,862)	2,81,655
Net Cash from Operating activities (A)	1,00,02,094	85,45,295
B. Cash flow from investing activities		
Purchase of fixed assets	(16,35,054)	(66,24,116)
Purchase of investments	-	(50,000)
Proceeds from sale of fixed assets	35,999	-
Interest received	1,55,113	2,783
Net Cash Used in Investing activities (B)	(14,43,942)	(66,71,333)
C. Cash flow from financing activities		
Proceeds from short term borrowings	3,75,916	7,94,693
(Repayment) / proceeds from long term borrowings	(2,73,319)	11,01,787
Interest paid	(9,34,996)	(8,52,591)
Net Cash (used in) / from Financing activities (C)	(8,32,399)	10,43,889
D. Net increase in cash and cash equivalents (A+B+C)	77,25,753	29,17,852
E. Cash and Cash Equivalents		
at the beginning of the year	70,01,725	40,83,873
at the end of the year	1,47,27,479	70,01,725

The cash flow statement is prepared in accordance with the indirect method stated in Accounting Standard 3 on Cash Flow Statement' and presents the Cash Flows by Operating , Investing and Financing activities.

For Seshachalam & Co

Chartered Accountants

For and on behalf of the Board of Directors

T. Bharadwaj
Partner

S. Raghava Rao
Chairman and Managing Director

R. Krishna Mohan
Director

Sampada K. Joshi
Company Secretary

Place: Hyderabad

Date: May 30, 2014

City Online Services Limited

Notes to financial statements for the year ended 31 March, 2014

1. Corporate Information:

City Online Services Limited ('the Company') is domiciled in India and incorporated under the provisions of the Companies Act, 1956. The company is engaged in the business of providing internet and intranet; data centre solutions, custom Wi-Fi solutions and managed services.

2. Significant Accounting Policies

a) Basis of preparation of financial statements

The financial statements of the Company have been prepared on accrual basis under the historical cost convention in accordance with the Indian Generally Accepted Accounting Principles (GAAP) to comply in all material aspects with the Accounting Standards notified under Section 211(3C) (which continues to be applicable in terms of General circular 15/2013 dated September 13, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013) and other relevant provisions of the Companies Act, 1956. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year.

b) Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting principles (Indian GAAP) requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported year. Examples of such estimates include future obligations under employee retirement benefit plans, provision for doubtful receivables, employee benefits, provision for income taxes, useful life of depreciable fixed assets and provision for impairment. Future results could differ due to changes in these estimates and the difference between the actual result and the estimates are recognized in the period in which the results are known/materialize.

c) Revenue Recognition

Revenue is recognized on accrual basis to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Income from the services is recognized when the services are rendered in accordance with the terms agreed.

Interest income is recognized on time proportion basis taking into account the amount outstanding and the rate applicable.

d) Fixed Assets:

Tangible Assets:

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes any directly attributable costs incurred to bring the assets for its intended use.

Subsequent expenditure related to an item of fixed assets is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

City Online Services Limited

e) Depreciation

Depreciation is provided on assets which are put to use during the year using Straight Line Method over the useful lives of assets estimated by the Management. Depreciation for assets purchased/sold during a period is proportionately charged.

Individual Fixed Assets costing Rs.5,000 and below are fully depreciated in the year of purchase.

f) Leases

Lease arrangements where the risks and rewards incidental to ownership of an asset substantially vests with the lessor, are recognized as operating lease. Lease rentals under operating lease are recognized in the statement of profit and loss on a straight-line basis over the lease term.

g) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost includes all expenses incurred to bring the inventory to its present location and condition. Cost is determined on a weighted average basis.

h) Foreign currency Transactions

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of transactions and the exchange gains/losses on settlements during the year, are charged to Statement of Profit and Loss. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the date of Balance sheet. Exchange gains/losses including those relating to fixed assets are dealt with in the Statement of Profit and Loss.

i) Investments

Investments are classified into Current and Long Term Investments based on the Management's intention at the time of purchase. Long Term investments are carried at cost less provision for diminution in value, if any which is other than temporary in the value of such investments. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the Statement of profit and loss.

j) Employee Benefits

The estimated liability for employee benefits, both short and long term, for present and past services which are due as per the terms of employment are recorded in accordance with Accounting Standard (AS) 15 "Employee Benefits". A brief description of the employee benefits are as follows:

Gratuity:

In accordance with the Payment of Gratuity Act, 1972, The Company has an obligation towards gratuity, a defined retirement benefit plan ('the Gratuity Plan') covering all eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company.

City Online Services Limited

Vesting occurs on completion of five years of service. The liabilities with regard to the Gratuity Plan are determined by an independent actuarial valuation at each Balance Sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the Statement of Profit and Loss in the period in which they arise.

Provident Fund:

All eligible employees of the Company are entitled to receive benefits under the Provident Fund, a defined contribution plan to which both the employee and employer make monthly contributions at a determined percentage of the covered employee's salary. The Company has no further obligations under the provident fund plan beyond its monthly contributions.

k) Earnings Per Share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard (AS) 20, Earnings Per Share. Basic earnings per equity share is computed by dividing the net profit for the year attributable to the Equity Shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per share is computed by dividing net profits for the year, adjusted for the effects of dilutive potential equity shares, attributable to the Equity Shareholders by the weighted average number of the equity shares and dilutive potential equity shares outstanding during the year except where the results are anti dilutive. Dilutive potential equity shares are deemed converted as of the beginning of the period / year, unless issued at a later date.

l) Taxation

Current Tax is the amount of tax payable on taxable income for the period determined in accordance with the provisions of Income Tax Act, 1961.

Deferred tax expense or benefit is recognized on timing differences being the difference between taxable income and accounting income that originate in one period and is likely to reverse in one or more subsequent periods. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted as on the balance sheet date.

In the event of unabsorbed depreciation and carry forward of losses, deferred tax assets are recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available to realize such assets. In other situations, deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available to realize these assets.

Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

City Online Services Limited

m) Impairment of Assets

The management assesses the carrying amount of assets at each balance sheet date to determine whether there is any indication of impairment, if any such indication exists; the recoverable amount of the assets is estimated. An impairment loss is recognized whenever the carrying value of an asset or its cash generating unit exceeds the recoverable amount.

The recoverable amount is the greater of the asset's net selling price and value in use, which is determined, based on the estimated future cash flow discounted to their present values. An impairment loss of an asset is reversed if, and only if, the reversal can be related objectively to an event occurring after such loss was recognized. The carrying amount of an asset will be increased to its revised recoverable amount, provided such amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

n) Provisions, Contingent Liabilities and Contingent assets

A provision is recognized if, as a result of past event, the Company has a present legal obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are determined by the best estimate of the outflow of economic benefits required to settle the obligation at the reporting date.

A disclosure for Contingent liabilities is made when there is a possible obligation or a present obligation where it is not probable that an outflow of resources embodying economic benefits will be required or a reliable estimate cannot be made. Contingent assets are neither recognized nor disclosed in the financial statements.

City Online Services Limited
Notes forming part of the Financial Statements

3. Share capital

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number of Shares	Amount	Number of Shares	Amount
Authorised Equity shares of ` 10 each	77,00,000	7,70,00,000	77,00,000	7,70,00,000
Issued Equity shares of ` 10 each	70,00,000	7,00,00,000	70,00,000	7,00,00,000
Subscribed and called up Equity shares of ` 10 each	69,25,000	6,92,50,000	69,25,000	6,92,50,000
Paid up capital Equity shares of ` 10 each, fully paid-up	51,64,700	5,16,47,000	51,64,700	5,16,47,000
Share forfeiture account Equity shares of ` 10 each, fully paid-up	17,60,300	44,51,330	17,60,300	44,51,330
Total	69,25,000	5,60,98,330	69,25,000	5,60,98,330

(a) Reconciliation of share capital

Particulars	As at March 31, 2014		As at March 31, 2013	
	Number	Amount	Number	Amount
Balance at the beginning of the year	51,64,700	5,16,47,000	51,64,700	5,16,47,000
Add: Issued during the year	-	-	-	-
Less: Bought back during the year	-	-	-	-
Balance at the end of the year	51,64,700	5,16,47,000	51,64,700	5,16,47,000

(b) Rights, preferences and restrictions attached to shares

Equity Shares : The company has one class of equity shares having a face value of Rs.10 per share. Each shareholder is eligible for one vote per share held.

(c) Shareholders holding more than five percent of paid up share capital

Name of the shareholder	As at March 31, 2014		As at March 31, 2013	
	Number of Shares	% Held	Number of Shares	% Held
S. Raghava Rao	6,34,500	12.29	5,02,000	9.72

4. Reserves and surplus

Particulars	As at March 31, 2014	As at March 31, 2013
Investment Subsidy : At the beginning and at the end of the year	4,00,000	4,00,000
Deficit in the statement of Profit and Loss At the beginning of the year	(1,51,79,759)	(1,90,13,658)
Add: Profit for the year	81,49,503	38,33,899
At the end of the year	(70,30,256)	(1,51,79,759)
Total	(66,30,256)	(1,47,79,759)

5. Long-term borrowings

Particulars	As at March 31, 2014		As at March 31, 2013	
	Non-current	Current	Non-current	Current
Term Loans				
From Banks				
Secured	6,10,284	2,19,680	7,29,879	3,73,404
Total	6,10,284	2,19,680	7,29,879	3,73,404

Loan	Security	Terms of repayment	Applicable interest rate	Period of maturity (Months)	No. of installments due	As at March 31, 2014 (Non-current + Current)
Oreintal Bank of Commerce	Hypothecation of asset financed	Monthly instalments	11.25%	60	42	812,814
Bajaj Financial Services Limited	Hypothecation of asset financed	Monthly instalments	Interest free	18	3	17,150

6. Long term provisions

Particulars	As at March 31, 2014	As at March 31, 2013
Provision for employee benefits [Refer note 27]		
Gratuity	6,86,000	5,30,000
Total	6,86,000	5,30,000

7. Short-term borrowings

Particulars	As at March 31, 2014	As at March 31, 2013
Loans Repayable on Demand		
From Banks		
Secured [Refer note below]	74,34,719	70,58,804
From Others		
Unsecured	7,50,000	7,50,000
Total	81,84,719	78,08,804

Note : Overdraft from Oriental Bank of Commerce is secured by first charge on fixed assets, hypothecation of stock, book debts and further secured by personal guarantee of Directors.

8. Trade payables

Particulars	As at March 31, 2014	As at March 31, 2013
Trade payables [Refer note 33]	1,63,04,714	1,02,56,921
Total	1,63,04,714	1,02,56,921

9. Other current liabilities

Particulars	As at March 31, 2014	As at March 31, 2013
Current maturities of long-term debt [Refer Note 5]	2,19,680	3,73,404
Other payables :		
Statutory remittances	83,53,065	84,43,966
Security deposits	4,19,408	3,25,742
Advance from customers	17,46,919	58,67,924
Total	1,07,39,073	1,50,11,036

City Online Services Limited
Depreciation as per Companies Act, 1956 for the year ended March 31, 2014
 (All amounts in Indian Rupees, unless otherwise stated)

10. Tangible assets

Particulars	Gross Block - at cost			Depreciation			Net Block			
	As at March 31, 2013	Additions	Deletions	Total upto March 31, 2014	Upto March 31, 2013	For the year	On disposals	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
Plant and machinery	4,27,70,876	14,50,862	-	4,42,21,738	1,82,39,787	20,59,291	-	2,02,99,078	2,39,22,660	2,45,31,089
Office equipment	29,40,900	82,218	-	30,23,118	26,27,798	1,43,299	-	27,71,096	2,52,022	3,13,102
Vehicles	14,05,406	-	-	14,05,406	79,704	1,33,514	-	2,13,217	11,92,189	13,25,702
Computer equipment	1,17,45,473	1,01,974	35,999	1,18,11,448	87,17,298	6,21,577	3,054	93,35,822	24,75,626	30,28,175
Furniture and fixtures	71,31,027	-	-	71,31,027	38,28,371	4,51,394	-	42,79,765	28,51,262	33,02,656
Total	6,59,93,682	16,35,054	35,999	6,75,92,737	3,34,92,957	34,09,074	3,054	3,68,98,978	3,06,93,759	3,25,00,725
Previous year	5,93,69,566	66,24,116	-	6,59,93,682	3,04,91,022	30,01,935	-	3,34,92,957	3,25,00,725	2,88,78,544

11. Non-Current Investments

Particulars	As at March 31, 2014	As at March 31, 2013
Others:		
National savings certificates [5 Bonds (31.03.2013: Rs.50,000) of Rs. 10,000 each]	50,000	50,000
Total	50,000	50,000

12. Deferred tax

Components of deferred tax assets are as follows:

Particulars	As at March 31, 2014	As at March 31, 2013
Deferred tax assets		
Depreciation	2,75,240	1,67,342
Employee benefits	48,204	25,802
Total	3,23,444	1,93,145

13. Long Term Loans and advances

Particulars	As at March 31, 2014	As at March 31, 2013
Tax deducted at source	28,59,879	24,92,017
Total	28,59,879	24,92,017

14. Inventories [Lower of cost and net realisable value]

Particulars	As at March 31, 2014	As at March 31, 2013
Stock in trade	79,63,927	46,95,174
Total	79,63,927	46,95,174

15. Trade receivables [Refer note 33]

Particulars	As at March 31, 2014	As at March 31, 2013
Outstanding for a period exceeding six months	1,46,72,429	91,16,409
Others	1,03,99,206	1,17,98,971
Total	2,50,71,635	2,09,15,380

16. Cash and bank balances

Particulars	As at March 31, 2014	As at March 31, 2013
Cash and cash equivalents		
Cash on hand	1,47,857	97,124
Balances with banks - in current accounts	1,43,29,622	41,61,276
	1,44,77,479	42,58,400
Other bank balances		
Margin money deposits with banks with maturity period more than 3 months but less than 12 months	2,50,000	27,43,325
	2,50,000	27,43,325
Total	1,47,27,479	70,01,725

17. Short-term loans and advances

Unsecured, considered good

Particulars	As at March 31, 2014	As at March 31, 2013
Salary advances	5,47,691	1,42,974
Security deposits	19,52,381	26,88,507
Prepaid expenses	16,96,948	36,34,000
Advance for expenses	-	12,26,419
Advance to suppliers	1,980	38,436
Total	41,99,000	77,30,336

18. Other current assets

Unsecured, considered good

Particulars	As at March 31, 2014	As at March 31, 2013
Interest accrued on fixed deposits with bank	1,03,741	76,711
Total	1,03,741	76,711

19. Revenue from operations

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Income from internet services	8,24,82,274	7,07,03,978
Income from VOIP services	18,16,998	19,63,849
Income from sales	4,06,71,487	1,03,09,419
Total	12,49,70,759	8,29,77,246

City Online Services Limited

20. Other income

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Excess provisions written back	11,38,843	57,090
Interest	1,82,143	27,830
Rent	46,200	1,72,150
Profit on sale of fixed asset	3,054	-
Net gain on foreign currency transaction and translation	1,768	-
Miscellaneous income	35,759	31,571
Total	14,07,767	2,88,641

21. Operating Expenses

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Bandwidth charges	3,58,08,251	3,13,35,745
Repairs and maintenance	7,92,802	8,34,009
VOIP activation charges	2,33,645	5,34,700
Electricity	27,37,109	22,73,878
Rent networking	23,57,281	18,11,457
Cost of sales	3,13,60,662	55,87,308
Cable Line Expenses	4,81,628	4,62,250
Installation Expenses	6,07,350	4,97,124
Internet Telephony Charges	3,23,522	4,52,964
Last Mile Charges	91,21,451	41,40,739
Other operating expenses	1,29,032	66,894
Total	8,39,52,733	4,79,97,068

22. Employee benefits expense

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Salaries	1,05,26,680	1,20,73,015
Contribution to provident fund	2,81,761	2,38,952
Staff welfare	2,77,572	1,74,397
Total	1,10,86,013	1,24,86,364

23. Finance Cost

Particulars	₹	₹
	For the year ended March 31, 2014	For the year ended March 31, 2013
Interest expense on		
-Term loans	1,00,084	-
-Working capital borrowings	8,34,912	8,52,591
-Interest on delayed remittance of taxes		
-Interest on income tax	73,672	2,63,273
Bank charges	2,34,588	1,10,153
Total	12,43,256	12,26,017

24. Other expenses

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
	Rent [Refer note 29]	18,05,401
Rates and taxes	13,69,594	11,85,627
Director's remuneration [Refer note 28]	32,10,520	29,61,520
Sales Commission	7,51,433	19,12,562
Insurance	64,401	29,721
Auditors' remuneration:		
Statutory audit	2,00,000	2,50,000
Tax audit	50,000	50,000
Travelling and conveyance	25,94,612	13,00,294
Legal and professional charges	6,55,982	4,90,133
Advertisement expenses	2,74,975	1,36,855
Communication cost	6,63,888	6,12,241
Bad Debts written off	19,14,824	14,96,638
Printing and stationery	2,02,361	2,51,931
Prior period expenses	-	4,282
Repairs and maintenance		
Building	1,21,293	1,31,130
Others	5,33,373	6,11,388
Business Promotion expenses	3,76,032	1,66,223
Postage and courier	10,18,222	12,12,476
Advances written off	19,18,626	-
Miscellaneous expenses	9,42,711	5,33,824
Total	1,86,68,248	1,50,37,289

City Online Services Limited

Notes forming part of the Financial Statements

25. Contingent Liabilities

Particulars	₹	₹
	As at March 31, 2014	As at March 31, 2013
Performance Guarantee	24,00,000	24,00,000

26. Employee Benefit Plans:

Particulars	As at March 31, 2014	As at March 31, 2013
Components of Employer Expenses:		
Current service Cost	186,000	597,000
Interest cost	42,000	36,000
Expected return on plan assets	-	-
Net actuarial (gain)/loss to be recognized	(73,000)	(547,000)
Total expense recognized in the statement of profit and loss account	156,000	86,000
Net Asset / (Liability) Recognized in Balance Sheet:		
Defined benefit obligation	686,000	530,000
Fair value of plan assets at the end of the year	-	-
	686,000	530,000
Change in Defined Benefit Obligations (DBO):		
Present value of DBO at beginning of year	-	-
Interest cost	-	-
Current service cost	-	-
Benefits paid	-	-
Actuarial (gain)/losses on obligations	-	-
Present value of DBO at the end of year	-	-
Change in Fair Value of Plan Assets during the Year:		
Planned assets at beginning of the year	-	-
Expected return on planned assets	-	-
Contributions	-	-
Benefit paid	-	-
Actuarial gain/(loss) on plan assets	-	-
Fair Value of plan assets at the end of the year	-	-

City Online Services Limited

	₹	₹
Movement in Balance Sheet:		
Opening liability	530,000	445,000
Expenses as above	156,000	86,000
Contribution paid	-	-
Closing liability	686,000	530,000
Defined Benefit Plan - Gratuity Assumptions		
Discount rate	8.00%	8.00%
Expected rate of return on planned assets	-	-
Salary escalation rate	7.00%	6.00%
Attrition rate*	1.00-10.00%	1.00-5.00%

*Rates of Attrition-

Age at valuation date	Withdrawal Rate	
	FY 2013-14	FY 2012-13
18-30	10%	5%
31-40	5%	3%
41 & +	1%	1%

27. Segment Information

The Company's operations predominantly consist only of business of providing internet and intranet, data centre solutions. Hence, there are no reportable segments under Accounting Standard – 17 “Segment Reporting” (AS-17).

During the year, the company's business has been carried out in India. The conditions prevailing in India being uniform, no separate geographical disclosures are considered necessary. There are no other reportable segments.

28. Related Party Disclosures

- a) Related party disclosures, as required by AS-18, “Related Party Disclosure” is given below.

Names of the related parties and nature of relationship:

Nature of Relationship	Name of the Related Party
Key Managerial Personnel (KMP)	C H Harinath
	S Raghava Rao
	R Krishna Mohan

- b) Transactions with related parties:

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Managerial Remuneration		
S Raghava Rao	11,57,520	10,99,000
R Krishna Mohan	11,10,000	10,22,520
Ch Harinath	9,43,000	8,40,000

29. Lease obligation as Lessee

Lease payments made under cancellable operating leases have been recognised as an expense in the Statement of profit and Loss.

30. Earnings per share:

Particulars	₹	₹
	For the year ended March 31, 2014	For the year ended March 31, 2013
Profit after tax	81,49,503	38,33,899
Basic and diluted	1.58	0.74
Weighted average number of shares outstanding	51,64,700	51,64,700
Face value per share (Rs.)	10	10

31. Earnings in foreign currency

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Bandwidth income	-	70,592
Income from co-location service	2,92,732	-
Hardware sale income	20,05,143	-
	22,97,875	70,592

32. Expenditure in foreign currency

Particulars	For the year ended March 31, 2014	For the year ended March 31, 2013
Hardware (Including VOIP Charges)	2,16,02,323	56,78,757
	2,16,02,323	56,78,757

33. There is no balance confirmation available for the receivables and payables outstanding as on March 31, 2014 and such balances are subject to confirmation.

34. The principal amount remaining unpaid as at March 31, 2014 in respect of enterprises covered under "Micro, Small and Medium Enterprises Development Act, 2006" (MSMEDA) is Rs. Nil.

In respect of transactions with "Suppliers" who constitute Micro, Small and Medium Enterprises under Micro, Small and Medium Enterprises Development Act, 2006 disclosures relating to interest paid/payable are not applicable.

35. Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure.

For and on behalf of the Board

S. Raghava Rao
Chairman and Managing Director

R. Krishna Mohan
Director

Sampada K. Joshi
Company Secretary

Place: Hyderabad

Date: May 30, 2014

CITY ONLINE SERVICES LIMITED
701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500038

PROXY FORM

Folio No:

I/Weresident of
.....being a member/members of the above named
Company hereby appoint.....resident of as
my/our proxy to vote for me/us on my/our behalf at the..... General Meeting
of the Company to be held at 11.00 A.M. on Monday the 29th day of September 2014
and at any adjournment thereof.

Signed thisday of, 2014

Signature.....

Note:

1. A Proxy need not be a Member of the Company.
 2. This form in order to be effective should be duly stamped and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
-

CITY ONLINE SERVICES LIMITED
701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500038

ATTENDANCE SLIP

Folio No.

I hereby record my presence at the ----- General Meeting of the
Company held on Monday the 29th day of September, 2014 at 11.00 A.M. at the Registered
Office of the company

Member's/Proxy's name in block letters

Member's/Proxy's signature

NOTE: Please fill in this attendance slip and hand it over at the ENTRANCE OF THE MEETING PLACE.

Book-Post



If undelivered, please return to :

City Online Services Limited

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