

EIGHTH ANNUAL REPORT

2006 - 2007

CITY ONLINE SERVICES LIMITED

**Annual Report
2006-07**

Board of Directors

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

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

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

Bankers Oriental Bank of Commerce
Mehdipatnam
Hyderabad

Registrars and Share Transfer Agents
XL Softech Systems Ltd
3, Sagar Society, Road No.3,
Banjara Hills,
Hyderabad – 500 034.

NOTICE

Notice is hereby given that the Eighth Annual General Meeting of the Company will be held on Saturday September 29, 2007 at 11.00 AM at the Registered Office of the Company at **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500 038**, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at March 31, 2007, the Profit and Loss account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. R. Krishna Mohan who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. M. Nageswara Rao who retires by rotation and being eligible, offers him-self for reappointment
4. To appoint M/s Prasad & Prasad, Chartered Accountants, Hyderabad, as Auditors of the Company in place of M/s. G.P. Rao & Co, Chartered Accountants, Hyderabad and to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

By order of the Board

Place : Hyderabad
Dated : 03.09.2007

S.Raghava Rao
Chairman and Managing Director

Notes:

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ELIGIBLE TO APPOINT A PROXY OR PROXIES WHO CAN ATTEND AND VOTE INSTEAD OF MEMBER AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2) The Proxy Form duly completed must be lodged at the Registered Office of the Company at least 48 hours before the time fixed for the Meeting.
- 3) The Register of Members of the Company will remain closed from Wednesday September 26, 2007 to Saturday, September 29, 2007, both days inclusive, for the purpose of Annual General Meeting
- 4) The members are requested to intimate immediately any change in their address quoting their Registered Folio enabling the Company to address future communication.
- 5) Members are requested to bring copies of the Annual Report, as no extra copies shall be provided at the Meeting. Shareholders desiring any information as regards to the Audited Accounts are requested to write to the Company at least

one week before the Meeting enabling the Chairman to keep the information ready to reply at the meeting.

Directors Report

Dear Members

Your Directors have pleasure in presenting the Company's EIGHTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2007 and the Auditor's Report thereon

Financial Results:

Particulars		31.3.2007	31.3.2006
	Sch. No	Amount Rs.	Amount Rs.
I) INCOME			
a) Income from operations		41,082,642	32,875,567
d) Other Income		359,167	1,358,991
TOTAL		41,441,809	34,234,558
II) EXPENDITURE			
a) Operating Expenses	8	24,923,978	19,045,271
b) Payments & Benefits To Employees	9	3,811,089	3,589,944
c) Administrative Expenses	10	8,726,137	7,330,541
TOTAL	4	37,461,204	29,965,756
III) PROFIT BEFORE INTEREST AND DEPRECIATION		3,980,604	4,268,802
Interest	11	732,016	350,677
		3,248,5	3,918,12
IV) PROFIT BEFORE DEPRECIATION	89		5
Depreciation	4	3,155,720	3,043,082
V) PROFIT / (LOSS) BEFORE TAX		92869	875,043
VI PROVISION FOR TAXATION			
For Current Income Tax		--	72,956
For Deferred Income Tax		3,826,316	(1,501,255)
For Fringe Benefit Tax		211,103	32,400
		3,944,54	2,270,94
PROFIT / (LOSS) AFTER TAX	9		2
Add: Balance Carried from Last year		341,946	(1,928,996)
BALANCE CARRIED OVER TO BALANCE SHEET	4)	(3,602,60	341,946
Basic and Diluted Earnings Per Share		(0.90)	0.53

Review and Prospects

The year 2006-07 has been a promising year for your company. Although the Indian economy revived considerably, the same growth took time to percolate down to our business. Sensing that selling plain bandwidth is not enough, your company has forayed successfully into related areas, thus increasing the product line and increasing the business. Your company has successfully started the VoIP business and increased the turnover significantly. Similarly your company has also initiated Wifi networking business quite successfully. By the end of the year, your company has implemented wifi networking at ten hotels and a college campus, and has some more projects on hand to be executed next year. Your company has used internal resources for R&D, equipment purchases and manpower training for setting up wifi networking. Your company is also trying to enter into international market by trying to get Wifi projects in one or two counties in USA and is also exploring the prospects of entering into IPTV business in USA By providing regional Indian channels in USA through IP

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

The Board of Directors are confident to achieve better results for 2007-2008 as the efforts put in the previous year start to bear fruit. Your company has also improved its sales and marketing efforts to target specific segments like Education, Hospitality, and residential sectors for wifi networking and cross sell VoIP services, and bandwidth services.

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

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

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

Public Deposits

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

Directors: -

Mr. R.Krishnamohan and Mr. M.Nageswararao retire by rotation at the forthcoming Annual General Meeting and being eligible, offers them-self for re-appointment.

Directors responsibility statement

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

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) The Directors have prepared annual accounts on a Going concern basis

Auditors

The Statutory Auditors of the company, M/s. G. P. Rao & Co. Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting due to pre-occupation of other work. In that place M/s. Prasad & Prasad, Chartered Accountants, Hyderabad has been appointed as Statutory Auditors of the Company for the Financial Year 2007-08.

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

Auditors Report

Your Directors reply to the Auditors report that

- a) Company has undisputed amount payable in respect Income Tax Rs. 1.73 Lakhs (TDS) outstanding as at 31-03-2007 from the date they become payable. Subsequently it was cleared.

Corporate Governance:

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

Particulars of Employees

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

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

Additional Information:

Information as per Section 217(1)(e) read with Companies (Disclosure of particulars in the report of Board Of Directors) Rules, 1988 and forming part of report for the year ended March 31, 2007

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

- A a) Conservation of energy measures taken : The Company uses electric energy for its equipment such as air conditioners, computer terminals, lighting and utilities in the work premises. All possible measures have been taken to conserve energy by incorporating energy-efficient equipment.
- b) Additional investments and proposals, if any being implemented for the reduction of consumption of energy : There was no additional investments and proposals for reduction of consumption of energy
- c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods
- B Research & Development and Technology Absorption : The Company has not setup separate R & D department. However our technical people who run the day-to-day operations of the Company are doing R & D work in the fields of Wireless connectivity and Optic Fiber Technology. No extra costs involved for the purpose of R & D.
- C Foreign Exchange Earnings & outgo :
- | | 2006-07 | 2005-06 |
|---|----------------|-------------|
| a) Earnings | Nil | Nil |
| b) Used : | | |
| i) For Foreign Travel is : | | |
| ii) On Account of Licenses & Registration : | US \$ 2500 | US \$ 2500 |
| iii) On account of Hardware purchase : | US \$ 4806.22 | US \$ 8097 |
| iv) On account of Bandwidth charges : | Nil | Nil |
| v) On Account of VOIP Services : | US \$ 58713.42 | US \$ 26165 |

Acknowledgement:

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

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

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

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 03.09.2007

S. Raghava Rao
Chairman and Managing Director

MANAGEMENT DISCUSSION & ANALYSIS REPORT

[Annexure to Report on Corporate Governance]

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

Overview

Regarding Company Business

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

We have started Three New Network Operations Centers. This makes the Company less dependant on Telecom Operators and enables the Company to acquire more customers. To bring the New Network Operations Centers into break Even and make profits will take Six to Twelve months. Hence profitability of the Company is marginally less as compared to the last year.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

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

Opportunities and Threats

Opportunities

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

Threats

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

Place : Hyderabad
Date : 03.09.2007

For and on behalf of the Board of Directors

S. Raghava Rao
Chairman & Managing
Director

Ch. Harinath
Director

Corporate Governance (Mandatory Requirements)

1) Company's Philosophy

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

The importance of corporate governance has always been recognized by our company and is manifest in its vision. In accordance with the listing agreement,a certificate from the auditors of the company for compliance of corporate governance by the company during the financial year 2006-2007 has been inserted elsewhere in his annual report .A report in the line with the requirement of the stock exchanges, on the practice followed by the company and other voluntary compliances is given below.

2) Board of Directors

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

Composition and Category of Directors:

Name of Director	Category	Designation	No. of Meetings held during the last financial year	No. of Meetings attended	No. of Memberships in the Board of other Companies	Attendance of each director in the last AGM
Mr. S. Raghava Rao	Promoter and Executive Director	Chairman and Managing Director	5	5	2	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	5	4	Nil	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	5	5	Nil	Yes
Mr. S. V. Kanaka Seshu	APIDC Nominee	Director	5	3	11	No
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	5	5	1	Yes

Mr. Thamous P. Nicodemus	Independent and Non-Executive Director	Director	5	Nil	2	No
Mr. V. Satyanarayana	Independent and Non-Executive Director	Director	5	5	1	No

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

Meetings of the Board of Directors

During the financial year 2005-06 the Board of Directors met 5 times on the following dates: April 29, 2006, July 31, 2006, September 02, 2006, October 31, 2006, and January 31, 2007.

3) Audit Committee

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

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

Composition and Other Details

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

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

During the year under review, the Audit Committee met 5 times respectively on April 29, 2006, July 29, 2006, September 2, 2006, October 31, 2006 and January 31, 2007.

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

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

4) Remuneration Committee

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

Composition and other details

Remuneration Committee was constituted with three Independent Directors, viz.

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

The Committee met one time during the year and recommended for change in the remuneration of the Executive Directors. Mr. M. Nageswara Rao, Chairman, Mr. Thomas P. Nicodamus, Director, and Mr. R.Krishna Mohan attended the meeting.

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

Executive Directors

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

5) Share Transfer Committee

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

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

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

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

- a) Transfer of shares
- b) Dematerialization of shares
- c) Replacement of lost/stolen/mutilated share certificates
- d) Non-receipt of rights/bonus/split share certificates
- e) Other related issues

The Committee focuses on strengthening investor relations.

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

7) Internal Monitoring Committee

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

SL. No	Name of the Director	Status
1	Mr. R. Krishna Mohan	Chairman
2	Mr. Ch. Harinath	Member
3	Mr. S. Durga Prasad	Member

Mr. Rambabu resigned from the Committee.

The Committee met 5 times during the year to review the operations including the commercial transactions of the Company. All the members present.

8) Others

Name and Designation of Compliance officer: Mr. S. Durga Prasad, General Manager

a) Details of complaints for the year 2006-07:

Sl. No	Nature	Number			
		2006-07		2005-06	
		Received	Received	Received	Attended
1	Dematerialization/Rematerialization	01	01	Nil	Nil
2	Loss of shares/Duplicate Certificate	Nil	Nil	01	01
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	01	01
5	Others	Nil	Nil	Nil	Nil

- b) There are no valid requests pending for share transfers as at the year-end.
- c) Members may contact Secretarial Circle of the Company for their queries, if any, at Telephone No. + 91 40 -23757469(5 Lines), and Fax No. + 91 40 -23757419.

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

Financial Year	Date	Venue	Time
2003-04	September 30, 2004	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2004-05	September 29, 2005	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2005-06	September 29, 2006	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM

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

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

10) Disclosures

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

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

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

11) Means of Communication

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

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

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

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

12) General Shareholders Information

a) The Annual General Meeting of the Company will be held on September 28, 2007 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500 038.**

b) Financial calendar for the year 2007-08 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending 30th June 2007 : July 31, 2007
- ii) Financial reporting for the Quarter ending September 30, 2007 : October 30, 2007
- iii) Financial reporting for the quarter ending December 31, 2007 : January 31, 2008
- iv) Financial reporting for the Year ending March 31, 2008 : April 28, 2008

c) Dates of book closure for AGM: September 24, 2007 to September 28, 2007 for the financial year 2006-07 (both days inclusive)

d) Registered Office	: 701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500 038
e) Telephone & Fax	: 91 40 –23757469(5 Lines), and Fax No. + 91 40 -23757419.
Web site	www.cityonlines.com

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

Address of the Exchange

The Hyderabad Exchange Limited 6-3-654, Opp. Erramanjil Bus Stop Somajiguda Hyderabad-500 082	The Bangalore Stock Exchange Limited P. B. No. 27024, No. 51 Stock Exchange Towers, 1 st Floor J. C. Road, Bangalore-560 027 : 6494, CITYON#(HSE)
g) Stock Code	

h) Market Price data

Monthly	Low	Average	High
	Nil		Nil

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

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

k) **Dematerialization of Shares as on 31-3-2007 and liquidity**

Fully paid up shares	NSDL 1,998,486	CDSL 229,314
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l) **Distribution of Shareholding as on March 31, 2007**

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

m) **Pattern of Shareholding as on March 31, 2007**

Sl. No	Category	Shares	
		Numbers	%
1	State Govt institutions APIDC	2,50,000	5.57
2	Private Corporate bodies	4,80,992	10.73
2	Mutual Funds, DSP Merrill Lynch	2,00,000	4.46
3	Non Resident Indians	20,000	0.45
4	Promoters	16,13,388	35.97
5	Resident Individuals	19,20,320	42.82
	Total	44,84,700	100.00%

- n) Address for correspondence : City Online Services Limited
701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad –500 038
 Tel- 040-23757469,
 Fax-040-23757419
- o) Contact Person : Mr.R.Krishna Mohan
 E-mail : rkmohan@cityonlines.com
 Website : www.cityonlines.com
- p) **The Company's Registrars are** : M/s X L Softech Systems Limited
 Road No. 2
 Sagar Society
 Banjara Hills
 Hyderabad- 500 034
 Tel- 040-23553214
 Fax -040-23553214
- Contact Person** : Mr. Ramesh

Non Mandatory Requirements

a) Chairman of the Board

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

b) Shareholder Right

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

c) Postal Ballot

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

Certificate

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

We have examined the relevant records of City Online Services Limited for the year ended March 31, 2007 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchanges, and state that in our opinion and to the best of our knowledge and according to the information and explanations given to us, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

Place : Hyderabad
Date : 03.09.2007

For V. Bhaskara Rao & Co
Company Secretaries

Ch. Veeranjanyulu
Partner

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

1. We have audited the attached Balance Sheet of City Online Services Limited, as at 31st March, 2007, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of 'The Companies Act, 1956' of India ('the Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;
 - e) On the basis of written representations received from the directors, as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon (Subject to Item No.9 in Notes to Accounts) and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2007;
- ii. In the case of the Profit and Loss Account, of the Loss for the year ended on that date; and
- iii. In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Hyderabad
Date: 03.09.2007

For G.P.RAO & CO
Chartered Accountants

G.Purnachandra Rao
Proprietor

ANNEXURE TO THE AUDITOR'S REPORT

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

- (i)
 - a) The company is maintaining proper records showing full particulars , including Quantitative details and situation of fixed assets
 - b) The fixed assets of the company have been physically verified by the management at reasonable intervals and no material discrepancies were notified on such verification.
 - c) During the year the company has not disposed off any substantial part of the fixed assets and the company is a going concern.
- (ii)
 - a) The management has conducted the physical verification of inventories at reasonable intervals.
 - b) The procedure of the physical verification of stocks followed by management are in our opinion, reasonable and adequate in relation to size of the company and nature of the business.
 - c) The company is maintaining proper records of inventory and no material discrepancies have been noticed on physical verification of stocks as compared to book records.
- (iii) The Company has not either granted or taken any loans, secured or unsecured to/from Companies, firms or other parties in the register maintained under section 301 of the Companies Act, 1956.
- (iv) On the basis of selective checks carried out during the course of audit and according to the information and explanation given to us, there are adequate internal control Procedures commensurate with size of the company and its nature of the business for the purchase of inventory and fixed assets and for the sale of goods/services. In our opinion, there is no major weaknesses in internal control;
- (v) a) In our opinion and according to the information and explanations given to us, there are no transactions for purchase of goods, material and services and sale of goods, materials and services, required to be reported under section 301 of the Companies Act, 1956.
- (vi) The Company has not accepted any deposits from the public.
- (vii) The company has an Internal Audit system, commensurate with the size and nature of business.
- (viii) Maintenance of cost records has not been prescribed by the Central Government Under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.

- (ix) a) According to the information and explanations given to us the company is regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, Income Tax ,Value added Tax, Wealth tax, Custom duty, Excise Duty,. Except Tax Deducted at source of Rs. 1.73 lakhs outstanding as at March 31, 2007 for a Period of more than six months from the date they became payable.
- (x) The Company has been registered for a period not less than five years and the company has not incurred cash losses during the financial year and in the preceding financial year.
- (xi) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities to any party.
- (xii) The Company has not been dealing or trading in shares, securities, debentures and other investments during the financial year.
- (xiii) The company has not given any guarantee for loans taken by others from banks or financial institutions during the financial year.
- (xiv) No term loans were taken during the financial year from any banks or financial institutions.
- (xv) The funds raised on short-term basis have not been used for long-term investment and vice versa during the financial year.
- (xvi) The Company has not made any preferential allotment of shares to parties and Companies covered in the Register maintained under section 301 of the Companies Act, 1956.
- (xvii) The Company has not issued any debentures during the year.
- (xviii) The company has not raised any money by way of public issue during the financial year.
- (xix) No fraud on or by the company has been noticed or reported during the financial year under audit.

Place: Hyderabad
Date: 03.09.2007

For G.P.RAO & CO
Chartered Accountants

G.Purnachandra Rao
Proprietor

CITY ONLINE SERVICES LIMITED

Balance Sheet as at 31st March 2007

-	Sch.no	As at 31-03-2007	As at 31-03-2006
Particulars			
SOURCES OF FUNDS			
(1) SHARE HOLDERS' FUNDS			
(a) Share Capital	1	53,435,830	49,310,830
(b) Reserves and Surplus	2	400,000	741,946
<i>Sub - Total</i>		53,835,830	50,052,776
(2) LOAN FUNDS			
(a) Secured Loans	3	3,832,200	5,445,818
TOTAL		57,668,030	55,498,594
APPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	4	45,573,225	42,489,437
(b) Less: Depreciation		18,673,558	15,517,838
Net Block		26,899,667	26,971,599
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	5 (a)	5,467,629	4,141,930
(b) Sundry Debtors	5 (b)	17,356,531	16,408,485
(c) Cash & Bank Balances	5 (c)	2,043,685	1,711,162
(d) Loans & Advances	5 (d)	11,886,552	10,579,066
<i>Sub - Total</i>		36,754,396	32,840,643
Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	6 (a)	5,389,226	3,318,158
(b) Provisions	6 (b)	4,199,411	995,490
<i>Sub - Total</i>		9,588,637	4,313,648
NET CURRENT ASSETS			
		27,165,759	28,526,995
Profit and Loss Account		3,602,604	-
TOTAL		57,668,030	55,498,594

NOTES ON ACCOUNTS

12

For and on behalf of Board of Directors

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

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor.

CH.HARINATH
Director

Place : Hyderabad
Date : 03.09.2007

CITY ONLINE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2007

Particulars	Sch. No	31.03.2007 Rs.	31.03.2006 Rs.
I) INCOME			
a) Income from operations	7	41,082,642	32,875,567
d) Other Income		359,167	1,358,991
TOTAL		41,441,809	34,234,558
II) EXPENDITURE			
a) Operating Expenses	8	24,923,978	19,045,271
b) Payments & Benefits To Employees	9	3,811,089	3,589,944
c) Administrative Expenses	10	8,726,137	7,330,541
TOTAL		37,461,204	29,965,756
III) PROFIT BEFORE INTEREST AND DEPRECIATION		3,980,605	4,268,802
Interest	11	732,016	350,677
IV) PROFIT BEFORE DEPRECIATION		3,248,589	3,918,125
Depreciation	4	3,155,720	3,043,082
V) PROFIT/(LOSS) BEFORE TAX		92,869	875,043
VI) PROVISION FOR TAXATION			
For Current Income Tax		-	72,956
For Deferred Tax/Liability (Asset)		3,826,316	(1,501,255)
For Fringe Benefit Tax		211,103	32,400
PROFIT/(LOSS) AFTER TAX		(3,944,549)	2,270,942
Add: Balance Carried for Last year		341,946	(1,928,996)
BALANCE CARRIED OVER TO BALANCE SHEET		(3,602,604)	341,946
Basic and Diluted Earnings Per Share		(0.90)	0.53

NOTES ON ACCOUNTS

12

For and on behalf of Board of Directors

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

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor.

CH.HARINATH

Place : Hyderabad
Date : 03.09.2007

Director

CITY ONLINE SERVICES LIMITED**Schedules forming part of Balance sheet and Profit & Loss account**

	31.03.2007	31.03.2006
	Rs.	Rs.
<u>SCHEDULE - 1</u>		
<u>SHARE CAPITAL</u>		
Authorised Capital		
(77,00,000 Equity shares of Rs.10/- each)	77,000,000	77,000,000
Issued Capital		
70,00,000 Equity Shares of Rs.10/- each	70,000,000	70,000,000
Subscribed, Called up and Paid Up		
Subscribed and Called Up Capital		
69,25,000 Equity Shares of Rs.10/- Each	69,250,000	69,250,000
Paid Up Capital		
44,84,700 Equity Shares of Rs.10/- Each (Of the above 3,57,500 Equity Shares of Rs.10/- each have been issued for consideration other than cash)	44,847,000	42,597,000
Share Forfeiture Account		6,713,800
(26,65,300 Equity Shares of partly paid up)	6,151,330	30
Share Application Money	2,437,500	-
	53,435,830	49,310,830
<u>SCHEDULE - 2</u>		
<u>RESERVES AND SURPLUS</u>		
Capital Investment Subsidy from Government of Andhra Pradesh	400,000	400,000
Profit b/f from P&L account		341,946
		741,946
	400,000	46
<u>SCHEDULE - 3</u>		
<u>SECURED LOANS</u>		
From Oriental Bank of Commerce (Secured by Hypothecation of stocks and Book Debts of the Company and personal Guarantee of Three Directors of the Company).		5,445,818
	3,832,200	18
	3,832,200	5,445,818

CITY ONLINE SERVICES LIMITED
Schedule of Fixed Assets as at 31st March 2007

SCHEDULE - 4

Sl No.	Description	GROSS BLOCK			DEPRECIATION				NET BLOCK		
		As On	Additions During the	Deductions During the	As On	As On	For the year	On Deductions	As On	As On	As On
		01-04-2006			31-03-2007	01-04-2006			31-03-2007	31-03-2007	31-03-2006
1	Furniture and Fixtures	4,935,169	513,830	-	5,448,999	1,129,301	321,324		1,450,625	3,998,375	3,805,868
2	Computer Equipment	7,708,615	74,049	-	7,782,664	6,390,253	1,255,609		7,645,862	136,802	1,318,362
3	Office Equipment	3,973,841	931,192	-	4,905,033	1,104,375	190,841		1,295,216	3,609,817	2,869,466
4	Plant and Machinery	25,871,812	1,564,716	-	27,436,528	6,893,909	1,387,945		8,281,854	19,154,674	18,977,903
	TOTAL	42,489,437	3,083,788	-	45,573,225	15,517,838	3,155,720		18,673,558	26,899,667	26,971,599

CITY ONLINE SERVICES LIMITED

-	Particulars	31.03.2007 Rs.	31.03.2006 Rs.
SCHEDULE -5			
CURRENT ASSETS, LOANS AND ADVANCES			
a) INVENTORIES			
	Stock in Trade	5,467,629	4,141,930
	(As Certified by the Management)	5,467,629	4,141,930
b) SUNDRY DEBTORS:			
	Unsecured And Considered Good		
	Outstanding for More than Six Months	12,994,160	8,418,397
	Others	4,362,371	7,990,088
		17,356,531	16,408,485
c) CASH AND BANK BALANCES			
	At Schedule Banks:		
	-In Current Account	964,277	485,836
	-As Deposits Held as Security	400,000	400,000
	-In Fixed Deposits		
	Accrued Interest on Fixed Deposits	132,147	106,147
	Cash in hand at H.O & Branches	547,261	719,179
		2,043,685	1,711,162
d) ADVANCES			
	Tax Deducted at Source	900,502	330,771
	Advances for Expenses	2,547,361	2,240,002
	Advances to Staff	71,500	136,007
	Advances For Capital Goods	4,915,550	4,471,511
	Other Deposits	1,976,579	1,944,724
	Prepaid Expenses	1,475,061	924,160
	Deferred Tax Asset	-	531,891
		11,886,552	10,579,066
SCHEDULE -6			
CURRENT LIABILITIES AND PROVISIONS			
a) CURRENT LIABILITIES			
	Sundry Creditors		
	For Supplies	2,929,144	1,070,262
	For Others	2,104,190	2,215,198
	Advances from Customers	355,892	32,698
		5,389,226	3,318,158
b) PROVISIONS			
	Provision for Expenses	806,127	963,090
	Fringe Benefit Tax Payable	98,859	32,400
	Deferred Tax Liability	3,294,425	-
		4,199,411	995,490

CITY ONLINE SERVICES LIMITED

Particulars	31.03.2007 Rs	31.03.2006 Rs
<u>SCHEDULE - 7</u>		
<u>INCOME FROM OPERATIONS</u>		
Income from Internet Services	31,896,665	27,946,954
Income from VOIP Services	6,403,059	4,600,089
Sale of Hardware	2,782,918	328,524
	<u>41,082,642</u>	<u>32,875,567</u>
<u>SCHEDULE -8</u>		
<u>OPERATING EXPENSES</u>		
Communication Cost	17,062,449	14,630,961
Cost of Sales	1,944,486	232,300
Service Tax	3,903,075	2,304,613
ISP Membership fees	121,333	116,000
Domain Name Registration Exp	25,682	7,800
Cyber Café Maintenance Exp	3,500	5,713
Repairs and Maintenance	466,698	551,770
Electricity Charges	1,396,756	1,196,113
	<u>24,923,978</u>	<u>19,045,270</u>
<u>SCHEDULE -9</u>		
<u>PAYMENTS & BENEFITS TO EMPLOYEES</u>		
Salaries, Wages and Other Benefits	3,657,822	3,442,942
Staff Welfare Expenses	153,267	147,002
	<u>3,811,089</u>	<u>3,589,944</u>
<u>SCHEDULE -10</u>		
<u>ADMINISTRATIVE EXPENSES</u>		
Rent	1,604,336	1,366,715
Postage and Telegrams	76,019	100,626
Telephone Expenses	682,339	615,658
Conveyance and Travelling	1,640,028	1,089,583
Printing and Stationery	115,201	80,581
License,Fees and Taxes	459,271	85,579
Insurance	70,505	42,260
Bank Charges	59,193	49,265
Office Maintenance Expenses	663,044	471,604
News papers and periodicals	17,825	10,279
Consultancy and Legal Expenses	449,431	403,350
Directors' Remuneration	1,653,400	1,020,000
Directors' sitting fees	1,500	4,796
Auditors Remuneration:		
towards Statutory Audit	60,000	57,650
towards Tax Audits	30,000	25,000
Advertisement Charges	55,128	47,519
Business Promotion Expenses	207,920	35,580
Sales Commission	566,001	339,772
Freight Charges	125,832	81,107
Discount On Sales	84,523	3,175

Security Service Charges	-	110,256
Share Transfer fee	50,000	50,000
Loss On Sale of Asset	-	86,579
Preliminary Expenses Written Off	-	391,845
Misc. & General Expenses	54,642	40,490
Bad Debts written off	-	721,272

8,726,137	7,330,541
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SCHEDULE -11

INTEREST

On Overdraft	732,016	350,677
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732,016	350,677
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CITY ONLINE SERVICES LIMITED

SCHEDULE-12

NOTES FORMING PART OF ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a). General:

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

b).Fixed Assets:

Fixed Assets are stated at cost. The cost of Fixed Assets comprises of Pre-Operative expenditure directly related to the Assets up to the stage of commissioning of Operations.

c).Inventories:

The Stock of Inventories are Valued at Cost.

d).Revenue from Internet Services

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

e).Depreciation:

Depreciation on Fixed Assets is provided on Straight Line Method at Rates Specified in accordance with Schedule XIV of the Companies Act,1956 from the Month of the succeeding date of acquisition of such Assets.

f). Retirement Benefits:

The Company has not made any provision for Gratuity liability for eligible employees, The companys contribution to provident fund is charged to the profit and loss account on accrual Basis.

g).Preliminary Expenses:

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

Notes to Accounts

1 Deferred taxation

During the year the company has accounted for Rs. 38,26,316/- towards Deferred Tax Liability which originates during the year and reverses in subsequent years.

2 Segment Reporting

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

3 Contingent Liabilities:

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

4 Managerial Remuneration:

	As on 31st Mar-07 Rs.		As on 31st Mar-07 Rs.
For Managing Director	653,400	420,000	
	1,000,000		
For Other Directors	0	600,000	
	<u>1,653,400</u>		<u>1,020,000</u>

5 Auditors' Remuneration:

Towards Statutory Audit	60,000	57,650
Towards Tax audits	30,000	25,000
Towards Certification Work	-	-
	<u>90,000</u>	<u>82,650</u>

6 Earnings In Foreign Currency

NIL

7 Expenditure In Foreign Currency:

(i) On Account of Licenses and Registrations	US\$ 2,500	US\$ 2,500
(ii) On Account of Hard ware purchases	US\$ 4806.22	US\$ 4806.22

(iii) On Account of Bandwidth Charges	NIL	
(iv) On Account of VOIP Services	US\$ 58713.42	US\$ 26

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

		Rs.	Rs.
a) Turnover			
Sale of Hardware Items	8	2,782,91	328,524

9 The Company has not made any provision for Gratuity liability for eligible employees,

10 Sundry Debtors, creditors, advances for capital goods and other advances are subject to confirmation.

11 Sundry creditors:
There are no due to Small scale Industrial Undertakings as on the Balance Sheet date.

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

As per our Report of even date

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

G.PURNACHANDRA RAO
Proprietor.
Membership No:23024
Place : Hyderabad
Date : 03.09.2007

For and on behalf of Board of
Directors

S.RAGHAVA RAO
Chairman and Managing Director

CH.HARINATH
Director

CITY ONLINE SERVICES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31st March 2007

Particulars	Year Ended 31st March 2007	Year Ended 31st March 2006
A. Cash Flow from Operating Activities		
Net Profit Before Interest and Tax	8,24,885	1,229,716
Adjustment for		
Depreciation	20 3,155,7	3,043,082
Preliminary Expenses Written Off	-	391,845
Loss On sale Of Asset	-	86,579
	3,980,6	
Cash Generated before changes in working capital	05	4,751,222
(Increase)/ Decrease in Inventory	99) (1,325,6	(3,206,103)
(Increase)/ Decrease in Sundry Debtors	046) (9,48,	462,710
(Increase)/ Decrease in Loans and Advances (Decrease) /Increase in Current Liabilities and Provisions	486) (1,307, 89) 5,274,9	(1,492,575) (5,134,925)
	5,674,3	
Net Cash Flow from Operating Activities	64	(4,619,671)
Income Tax	-	
Fringe Benefit Tax	03) (211,1	
Deferred Tax Liability	16) (3,826,3	
	945) 1,636,	(4,619,671)
Net Cash Flow from Operating Activities	945	
B. Cash flow From Investing Activities		
Purchase of Fixed Assets	88) (3,083,7	(1,796,854)
Sale of Fixed Assets	-	100,000
Interest and Dividend Received	-	3,996
	(3,083,7	
Net Cash Flow used in Investing Activity	88)	(1,692,858)
C. Cash Flow from Financing Activities		
Proceeds from Re-issue of Forfieted Shares	00) 1,687,5	-
Receipt of Share Application Money, Pending Allotment	00) 2,437,5	-
Interest Paid	16) (732,0	(350,677)
Repayment of Loans	(1,613,6	

Proceeds from Government Subsidy	18)	400,000
Working Capital Loan		5,445,818
Net Cash Flow used in/from Finance Activity	66	5,495,141
Opening Balance of Cash and Cash Equivalents	62	1,807,279
Net Increase / (Decrease) in Cash and Cash Equivalents	23	(817,388)
Closing Balance of Cash and Cash equivalents	85	1,711,162

As per our Report of even date

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

G.PURNACHANDRA RAO
Proprietor.
Membership NO:23024
Place : Hyderabad
Date : 03.09.2007

For and on behalf of Board of
Directors

S.RAGHAVA RAO
Chairman and Managing Director

CH.HARINATH
Director

CITY ONLINE SERVICES LIMITED

Balance Sheet abstract and Company's General Business Profile

I Registration Details			
Registration No.	32114	State Code	1
Balance Sheet Date	31.03.2007		
II Capital Raised During the year			
Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	NIL
III Position of Mobilisation and Deployment of Funds			
	57,668.0		57,668.0
Total Liabilities	3	Total Assets	3
Sources of Funds			
	44,847.0	Reserves & Surplus	400.00
Paid up Capital	0		
Secured Loans	3,832.20	Unsecured Loans	NIL
Application of Funds			
	26,899.6		
Net Fixed Assets	7	Investments	NIL
	27,165.7		
Net Current Assets	6	Misc. Expenditure	NIL
Accumulated Losses	3,602.60		
IV Performance of Company			
	41,441.8		41,348.9
Turnover	1	Total Expenditure	4
Profit/Loss before Tax	92.87		
Earning per Share	-0.90	Dividend (%)	NIL
v Generic names of three principal products/services of Company			
Item Code No. (ITC Code)	Product Description		Internet Service Provider
30.04.2001335			
30.05.2001304			

As Per our Report of Even Date
For G.P. RAO & CO.
Chartered Accountants

For and on behalf of Board of
Directors

G.PURNACHANDRA RAO
Proprietor
Membership No:23024
Place: Hyderabad
Date: 03-09-2007

S.RAGHAVA RAO
Chairman and Managing Director

CH.HARINATH
Director

CITY ONLINE SERVICES LIMITED

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

PROXY FORM

I/We.....of.....
..... being a
member/ members of the above named company hereby
appoint.....
.....of.....
..... as my/our proxy to vote for me/us on my/our behalf at the
8th Annual General Meeting of the Company to be held on Saturday, the 29th day of
September, 2007 at 11.00 AM at the Registered Office of the Company and at any
adjournment thereof.

Signed this day of September, 2007.

NOTE :

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

As fix Re.1/- Revenue Stamp

.....CUT HERE.....

CITY ONLINE SERVICES LIMITED

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

ATTENDANCE SLIP

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

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

I hereby record my presence at the 8th Annual General Meeting to be held on Saturday, the 29th day of September, 2007 at 11.00 PM at the Registered Office of the Company.

Name of the Shareholder:

Name of the Proxy:

Signature of member/proxy:

Note:

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