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CityOnline

Internet Services with world class technology

TENTH ANNUAL REPORT 2008-2009

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Board of Directors

Mr. S. Raghava Rao	: Chairman and Managing Director
Mr. Ch. Harinath	: Executive Director
Mr. R. Krishna Mohan	: Director (Finance & Administration)
Mr. S.V. Kanaka Seshu	: Nominee Director (Nomination withdrawn by APIDC on 15th June 2009)
Mr. V.Satyannarayana	: Director
Mr. Thomas P. Nicodamus	: Director
Mr. M. Nageswara Rao	: Director
Registered Office	: 701, 7 th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038
Auditors	: Prasad & Prasad, Chartered Accountants Hyderabad
Bankers	: Oriental Bank of Commerce : Mehdiapatnam : 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 Tenth Annual General Meeting of the Company will be held on Wednesday the September 30, 2009 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, 2009, the Profit and Loss account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Ch. Harinath who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. M. Nageswara Rao who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint M/s Prasad & Prasad, Chartered Accountants, Hyderabad, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

By order of the Board

Place : Hyderabad
Dated : 02.09.2009

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 Saturday September 26, 2009 to Wednesday, September 30, 2009, 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 TENTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2009 and the Auditor's Report thereon

Financial Results:	Particulars	Sch. No	31.3.2009 Amount Rs.	31.3.2008 Amount Rs.
I) INCOME				
a) Income from operations		8	43,647,911	46,232,412
b) Other Income			49,646	89,238
TOTAL			43,697,557	46,321,700
II) EXPENDITURE				
a) Operating Expenses		9	27,512,674	28,790,971
b) Payments & Benefits To Employees 10		6,761,772	5,707,351	
c) Administrative Expenses		11	11,465,913	17,906,128
d) Selling Marketing Expenses		12	1,343,237	1,989,872
TOTAL			47,083,596	54,394,322
III) PROFIT BEFORE INTEREST AND DEPRECIATION			(3,386,039)	(8,072,622)
Interest		13	851,423	745,952
IV) PROFIT BEFORE DEPRECIATION			(4,237,462)	(8,818,574)
Depreciation		5	2,141,107	2,203,542
V) PROFIT / (LOSS) BEFORE TAX			(6,378,569)	(11,022,116)
Prior period Expenses			(2,314,591)	
Prior period Incomes			1,430,399	
VI) PROVISION FOR TAXATION				
For Current Income Tax				
For Deferred Tax/Liability (Asset)			(1,432,403)	(1,596,236)
For Fringe Benefit Tax			135,099	288,070
PROFIT / (LOSS) AFTER TAX			(5,965,457)	(9,713,950)
Add: Balance Carried from Last year			(13,316,555)	(3,602,605)
BALANCE CARRIED OVER TO BALANCE SHEET			(19,282,012)	(13,316,555)
Basic and Diluted Earnings Per Share			(1.17)	(1.90)

Review and Prospects

The year 2009-10 is being 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. Our backbone capacity and sale of bandwidth has doubled compared to last year but the same is not reflected as increase in turnover because of reduction of bandwidth prices this can be seen as a positive change as the volumes are going up both in the form of client and purchase of bandwidth.

The Board of Directors are confident to achieve better results for 2009-2010 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. The company has also increased its infrastructure capacity at Hyderabad Bangalore Vijayawada & Vishakapatnam to meet the demand of bandwidth & VOIP services in the coming years

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

Public Deposits

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

Directors: -

Mr. Ch. Harinath and Mr. M.Nageswara Rao retire by rotation at the forthcoming Annual General Meeting and being eligible, offers them-self for re-appointment.

Mr. S.V. Kanaka Seshu who is the Nominee Director on behalf of the APIDC has been withdrawn by the APIDC ON 15th June 2009.

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 its 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. Prasad & Prasad, Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and being eligible, offered them for re-appointment. The Company has received letter from them to the effect that their appointment if made would be within the prescribed limits under Section 224 (1-B) of the Companies Act, 1956.

Auditors Report

Your Directors reply to the Auditors report that

- a) The Company has set up Internal Monitoring committee and the said committee is looking after purchase of all Capital items and its usage.
- b) The Company has recruited highly professional/Technical-qualified persons to look after internal control systems. The Company operations are very less and the Management has taken care of Internal Audit themselves. However for the coming financial year Internal Auditor will be appointed
- c) Company has undisputed amount payable in respect of Income tax Rs. 5.24 Lakhs (TDS) Lakhs, service tax Rs 5.95 outstanding as at 31-03-2009 from the date they become payable. This occurred due to, which was because of reduction in bandwidth prices payable to us. However our operating expenditure remains unaltered. We have taken steps to reduce the operating expense to manageable levels and have planned to clear all the statutory dues
- d) During the year the Company has taken steps to value the Inventory according to the AS-2 (Revised) and Inventory value taken to the net realizable value and figures has stated in the Balance Sheet according to the net realized value or cost price, which ever is lower.
- e) The Company has not made any provision for retirement benefits, as the Company has no agreement with the employees for provision of retirement benefits.

Corporate Governance:

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

Particulars of Employees

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

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

Additional information:

Information as per Section 217(1)(e) read with Companies (Disclosure of particulars in the report of Board Of Directors) Rules, 1968 and forming part of report for the year ended March 31, 2009

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

	2008-09	2007-08
a) Earnings	Nil	Nil
b) Used		
i) For Foreign Travel is	Nil	US\$5511
ii) On Account of Licenses and Registrations	US\$ 3169	US\$ 2,500
iii) On account of Hardware purchase	US\$2958	US\$10142.22
iv) On account of VOIP Services	US\$58556.59	US\$62527.71
	Rs. 31,04,784	Rs. 35,44,920

Acknowledgement:

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

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

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

For and on behalf of the Board of Directors

Place : Hyderabad

Date : 02.09.2009

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 this financial year our customer base and band with capacities have doubled in all the Places but the same is not reflected in the overall turnover as purchase price of band with now is one third when compared to last year as a result of this our selling prices has come down but overall volume in sales has increased by hundred percent . We see this as a positive sign because of reduction in prices volumes are growing

INTERNAL CONTROL SYSTEMS AND THEIR ACADEMY

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

Opportunities and Threats

Opportunities

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

Threats

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

Place : Hyderabad
Date : 02.09.2009

For and on behalf of the Board of Directors

S. Raghava Rao
Chairman & Managing Director

R. Krishna Mohan
Director- Finance and Administration

CORPORATE GOVERNANCE (Mandatory Requirements)

1) Company's Philosophy

Corporate Governance is about commitment to values and about ethical business conduct. 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 stakeholders. 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 2008-09 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	5	1	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	5	5	Nil	Yes
Mr. S V Kanaka Seshu	APICD Nominee	Director	5	1	11	No
Mr. M. Nageswara Rao	Independent and Non- Executive Director	Director	5	3	1	Yes
Mr. Thamus 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 2008-09 the Board of Directors met 5 times on the following dates: April 30, 2008, July 31, 2008, September 02, 2008, October 31, 2008, and January 31, 2009.

3) Audit Committee

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

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

Composition and Other Details

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

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

During the year under review, the Audit Committee met 4 times respectively on April 30, 2008, July 31, 2008, October 31, 2008 and January 31, 2009.

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

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

4) Remuneration Committee

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

Composition and other details

Remuneration Committee was constituted with three independent Directors, viz.

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

The Committee has not met time during the year.

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

Executive Directors

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

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 has not met during the year.

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

- Transfer of shares
- Dematerialization of shares
- Replacement of lost/stolen/mutilated share certificates
- Non-receipt of rights/bonus/split share certificates
- Other related issues

The Committee focuses on strengthening investor relations.

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

7) Internal Monitoring Committee

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

Sl. No	Name of the Directors	Status
1	Mr. R. Krishna Mohan :	Chairman
2	Mr. Ch. Harinath :	Member
3	Mr. D.Rambabu :	Member

The Committee met 3 times during the year to review the operations including the commercial transactions of the Company. All the members present.

8) Others

Name and Designation of Compliance officer: Sri. S.RaghavaRao, CMD

a) Details of complaints for the year 2008-09:

Sl. No	Nature	Number			
		2008-09		2007-08	
		Received	Received	Received	Attended
1	Dematerialization/ Rematerialization	01	01	11	11
2	Loss of shares/Duplicate Certificate	Nil	Nil	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	Nil	Nil
5	Others	Nil	Nil	Nil	Nil

b) There are no valid requests pending for share transfers as at the year-end.

c) Members may contact Secretarial Circle of the Company for their queries, if any, at Telephone No. + 91 40 23757469(5 Lines), and Fax No. + 91 40 23757419.

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

Financial Year	Date	Venue	Time
2005-06	September 29, 2006	8-2-248/A, Mahashvi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2006-07	September 29, 2007	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2007-08	September 30, 2008	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038.	11.00 AM

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

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

10) Disclosures

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

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

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

11) Means of Communication

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

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

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

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

12) General Shareholders Information

- a) The Annual General Meeting of the Company will be held on September 30, 2009 at 11.00 a.m. at Registered Office, 701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.
- b) Financial calendar for the year 2009-10 (tentative):-

Financial Calendar	
i) Financial reporting for the quarter ending 30 th June 2009	: July 31, 2009
ii) Financial reporting for the Quarter ending September 30, 2009	: October 30, 2009
iii) Financial reporting for the quarter ending December 31, 2009	: January 31, 2010
iv) Financial reporting for the Year ending March 31, 2010	: April 30, 2010

- c) Dates of book closure for AGM: September 26, 2009 to September 30, 2009 for the financial year 2008-09 (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 -23733942.
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 2008-09 has been paid to these Stock Exchanges.

Address of the Exchange

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

- g) Stock Code : 6494, CITYON#(HSE)

- h) Market Price data
- | Monthly | Low | Average | High |
|---------|-----|---------|------|
| | Nil | | Nil |

- i) Performance in comparison 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 31-3-2009 and liquidity
- | | NSDL | CDSL |
|----------------------|--------|---------|
| Fully paid up shares | 280014 | 2250786 |

l) Distribution of Shareholding as on March 31, 2009

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	11461	0.22	40	6.92
2	5001	10000	8700	0.17	9	1.56
3	10001	20000	21478	0.42	12	2.08
4	20001	30000	604200	11.84	237	41.00
5	30001	40000	313517	6.14	81	14.01
6	40001	50000	402150	7.88	84	14.53
7	50001	100000	399100	7.82	46	7.96
8	100001	And Above	3342794	65.50	69	11.94
Total			5103400	100.00	578	100.00

m) Pattern of Shareholding as on March 31, 2009

Sl. No	Category	Shares	
		Numbers	%
1	State Govt institutions APDC	2,50,000	4.90
2	Private Corporate bodies	4,32,497	8.48
3	Mutual Funds, DSP Merrill Lynch	2,00,000	3.92
4	Non Resident Indians	20,000	0.39
5	Promoters	3,89,930	11.36
6	Resident Individuals	36,10,933	70.78
Total		51,03,400	100.00%

- n) Address for correspondence : City Online Services Limited
701, 7th Floor, Aditya Trade Center, Ameerpet,
Hyderabad -500 038.
Tel : 040-3356736,
Fax : 040-3356737
- o) Contact Person : Mr.R.Krishna Mohan
E-mail : rkmohan@cityonlines.com
Website : www.cityonlines.com
- p) The Company's Registrars are : M/s X L Softech Systems Limited
Road No. 2
Sagar Society
Banjara Hills
Hyderabad- 500 034
Tel- 040-
Fax -040-3553214
- Contact Person : Mr. Ramprasad

Non Mandatory Requirements

a) Chairman of the Board

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

b) Shareholder Right

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

c) Postal Ballot

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

Certificate

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

I have examined the relevant records of City Online Services Limited for the year ended March 31, 2009 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchanges, and state that in our opinion and to the best of our knowledge and according to the information and explanations given to us, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

Place : Hyderabad

Date : 02.09.2009

For Ch. Veeranjanyulu & Associates
Company Secretaries

Ch. Veeranjanyulu
CP No. 6392

AUDITOR'S REPORT

To
The Members,
CITY ON LINE SERVICES LIMITED
Hyderabad

1. We have audited the attached Balance Sheet of **CITY ON LINE SERVICES LIMITED**, as at 31st March, 2009, the Profit and Loss Account and also Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on 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. Our report as required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report Amendment) Order, 2004 (together henceforth referred to as the order) issued by the Central Government of India in terms of Section 227(4A) of "The Companies Act, 1956" of India (henceforth referred to as the Act) and on the basis of records produced to us for our verification/ perusal, such checks of the books and records of the company as we consider appropriate and according to the information and explanations given to us by the Management during the course of audit, we give in the Annexure 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 and, we report that:
 - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - (ii) 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.
 - (iii) The Balance Sheet, Profit and Loss account and Cash Flow Statement dealt with by this report are in agreement with the books of account maintained.
 - (iv) In our opinion, and to the best of our information and according to the explanations given to us, the said Balance Sheet, the Profit and Loss Account and Cash Flow Statement complied with the Accounting Standards referred to in sub section (3c) of Sec 211 of the Companies Act, 1956, as far as they are applicable to the Company except AS 2 & AS 15(Revised).
 - (v) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Schedules and notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2009;
 - (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date, and
 - (c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date
- (5) On the basis of written representations received from the Directors as on 31st March 2009 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31st, 2009 from being appointed as a director in terms of clause (g) of subsection (1) of Section 274 of the Act.

Place: Hyderabad
Date: 02.09.2009

For Prasad & Prasad
Chartered Accountants

K. Udaya Kishore
Partner

ANNEXURE TO THE AUDITOR'S REPORT

(REFERRED TO IN PARAGRAPH (3) OF OUR REPORT OF EVEN DATE OF
CITY ONLINE SERVICES LIMITED FOR THE YEAR ENDED 31ST MARCH, 2009)

As required by the Manufacturing and Other Companies (Auditor's Report) Order 2003 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:

1. a) The Company has maintained 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 noticed on such verification.
c) In our opinion and according to the information and explanations given to us, no substantial parts of the fixed assets have been disposed off during the year.
2. a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
b) In our opinion the procedure of physical verification of stocks followed by the company are reasonable and adequate in relation to the size of the company and the nature of its business.
c) In our opinion the company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
3. The Company has neither granted nor taken any loans, secured or unsecured from the directors and share holders.
4. The Company has not granted unsecured loans to Companies, firms or other parties listed in the register maintained u/s. 301 of the Companies Act, 1956. The provisions of sec. 370 (1B) of the Companies Act, 1956 are not applicable.
5. The Company has not granted Interest Free Loans or Advances in the nature of Loans to its employees and directors.
6. In our opinion and according to the information and explanations given to us, the Company needs to strengthen its internal control procedure keeping in view the size of the Company and the nature of its business, for the purchase of inventory and fixed Assets and for the sale of goods and in respect of Services rendered.
7. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs.5,00,000 in respect of any party during the year, have been made at prices which are reasonable, having regard to prevailing market prices at the relevant time.
8. The Company has not accepted any deposits from the public. Hence, the Provisions of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975, do not apply to this Company.
9. In our opinion the companies internal audit system needs to be strengthened commensurate with the size and nature of its business.
10. Since the company is not a manufacturing company the maintenance of records prescribed a/s 209 (1) (d) of the Companies Act 1956 is not applicable.
11. 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, customs duty, excise duty in case of service tax Rs.5.95 and T.D.S of Rs.5.24 lacs is outstanding as on 31st march 2009 respectively for a period of more than six months from the date they became payable.
12. On the basis of verification of records and information given to us the company has not defaulted in repayment of dues to financial institutions or banks. The company has not issued any debentures.
13. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
14. The company is not a chit fund company or a nidi / mutual benefit fund / society. Hence this clause is not applicable.
15. The company is not dealing in or trading in shares, securities, debentures and other investments. Hence this clause is not applicable.
16. The company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
17. The company has not obtained any Term Loan during the year.
18. According to the information given to us and in our opinion the company has not utilized short term funds for long term investments and vice versa.
19. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 during the.
20. The company did not have any outstanding debentures during the year and hence this clause is not applicable.
21. The Company has not raised any money by way of public issue during the year.
22. During the course of our examination of books and records of the company carried out in accordance with generally accepted auditing practices in India and in accordance with the information and explanations given to us we have not come across any instances of fraud during the year.

Place: Hyderabad
Date: 02.09.2009

For Prasad & Prasad
Chartered Accountants

K. Udaya Kishore
Partner

CITY ONLINE SERVICES LIMITED
BALANCE SHEET FOR THE YEAR ENDED 31st MARCH 2009

Particulars	Sch. No.	As at 31-03-2009 Rs.	As at 31-03-2008 Rs.
I SOURCES OF FUNDS			
(1) SHARE HOLDERS' FUNDS			
(a) Share Capital	1	56,098,330	56,098,330
(b) Reserves and Surplus	2	400,000	400,000
Sub - Total		56,498,330	56,498,330
(2) LOAN FUNDS			
(a) Secured Loans	3	7,065,358	4,021,450
(b) Deferred Tax Liability	4	265,786	1,595,189
TOTAL		63,829,474	62,217,969
II APPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	5	52,032,328	49,404,329
(b) Less: Depreciation		23,018,206	20,877,099
Net Block		29,914,120	28,527,230
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	6(a)	3,574,304	5,492,704
(b) Sundry Debtors	6(b)	12,087,937	14,152,443
(c) Cash & Bank Balances	6(c)	735,845	2,069,050
(d) Loans & Advances	6(d)	8,348,987	8,563,125
Sub - Total		24,750,073	30,287,322
Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	7(a)	2,767,327	4,690,076
(b) Provisions	7(b)	7,349,404	5,223,062
Sub - Total		10,116,731	9,913,138
NET CURRENT ASSETS		14,633,342	20,374,184
III Profit and Loss Account		19,282,012	13,316,595
TOTAL		63,829,474	62,217,969

NOTES ON ACCOUNTS¹

14

As per our Report of even date
 For Prasad & Prasad
 Chartered Accountants

For and on behalf of Board of Directors

S.RAGHAVA RAO
 Chairman and Managing Director

R. KRISHNA MOHAN
 Director

K. UDAYA KISHORE
 Partner
 M No. : 16023
 Place : Hyderabad
 Date : 02.09.2009

CITY ONLINE SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2009

Particulars	Sch. No.	As at 31-03-2009 Rs.	As at 31-03-2008 Rs.
I) INCOME			
a) Income from operations	8	43,647,911	46,232,412
d) Other Income		49,546	89,288
TOTAL		43,697,557	46,321,700
II) EXPENDITURE			
a) Operating Expenses	9	27,512,674	28,790,071
b) Payments & Benefits To Employees	10	6,761,772	5,707,351
c) Administrative Expenses	11	11,465,913	17,906,128
d) Selling Marketing Expenses	12	1,343,237	1,989,872
TOTAL		47,083,596	54,394,322
III) PROFIT BEFORE INTEREST AND DEPRECIATION		(3,386,039)	(6,072,622)
Interest	13	85,423	745,962
IV) PROFIT BEFORE DEPRECIATION		(4,237,462)	(8,818,574)
Depreciation	5	2,141,107	2,203,542
V) PROFIT /(LOSS) BEFORE TAX		(6,378,569)	(11,022,116)
Prior period Expenses		(2,314,691)	
Prior period Incomes		1,430,399	
VI) PROVISION FOR TAXATION			
For Current Income Tax			
For Deferred Tax Liability (Asset)		(1,432,403)	(1,596,238)
For Fringe Benefit Tax		135,099	288,070
PROFIT / (LOSS) AFTER TAX		(5,965,457)	(9,713,990)
Add: Balance Carried from Last year *		(13,316,555)	(3,602,605)
BALANCE CARRIED OVER TO BALANCE SHEET		(19,282,012)	(13,316,555)
Basic and Diluted Earnings Per Share		(1.17)	(1.90)

NOTES ON ACCOUNTS

14

For and on behalf of Board of Directors

As per our Report of even date
 For Prasad & Prasad
 Chartered Accountants

S. RAGHAVA RAO
 Chairman and Managing Director

K. UDAYA KISHORE
 Partner
 M No. : 16023
 Place : Hyderabad
 Date : 02.09.2009

R. KRISHNA MOHAN
 Director

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

	31.03.2009 Rs.	31.03.2008 Rs.
SCHEDULE - 1		
SHARE CAPITAL		
Authorized 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 51,04,700 Equity Shares of Rs.10/- Each (Previous Year 44,84,700 Equity Shares) (Of the above 3,57,500 Equity Shares of Rs.10/- each have been issued for consideration other than cash)	51047000	51047000
Share Forfeiture Account (26,65,300 Equity Shares of partly paid up)	4601330	4601330
Share Application Money	450000	450000
	56,098,330	56,098,330
SCHEDULE - 2		
RESERVES AND SURPLUS		
Capital Investment Subsidy from Government of Andhra Pradesh	400,000	400,000
Profit b/f from P&L account	400,000	400,000
	400,000	400,000
SCHEDULE - 3		
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).	7065358	4021450
	70,65,358	4,021,450
SCHEDULE - 4		
Deferred Tax Liability(Asset)	265786	1696189
	265786	1696189

SCHEDULE - 5

Schedule of Fixed Assets as at 31st March 2009

Sl No.	Description	GROSS BLOCK		Adjustment	DEPRECIATION		NET BLOCK	
		As On 01-04-2008	Additions During the		As On 31-03-2009	For the year	As On 31-03-2009	As On 31-03-2008
1	Furniture and Fixtures	5,545,998	884,000		1,800,293	361,755	2,162,048	4,277,950
2	Computer Equipment	7,983,902	151,998		7,801,829	54,113	7,856,942	278,968
3	Office Equipment	5,045,421	73,280		1,531,934	229,167	1,761,061	3,351,487
4	Plant and Machinery	30,829,008	866,567	1,542,152	9,743,043	1,496,082	11,239,125	21,698,602
	TOTAL	49,404,329	1,985,845	1,542,152	20,877,099	2,141,107	23,018,206	28,527,230

CITY ONLINE SERVICES LIMITED

Schedules forming part of Balance sheet and Profit & Loss account

	31.03.2009	31.03.2008
	Rs.	Rs.
SCHEDULE - 6		
CURRENT ASSETS, LOANS AND ADVANCES		
a) INVENTORIES		
Stock in Trade (As Certified by the Management)	3,574,304	5,492,704
	<u>3,574,304</u>	<u>5,492,704</u>
b) SUNDRY DEBTORS:		
Unsecured And Considered Good		
Outstanding for More than Six Months	4,081,944	8,403,187
Others	8,005,993	5,759,256
	<u>12,087,937</u>	<u>14,162,443</u>
c) CASH AND BANK BALANCES		
At Schedule Banks:		
-In Current Account	76,658	1,323,698
-As Deposits Held as Security	532,147	532,147
-In Fixed Deposits		
Accrued Interest on Fixed Deposits	58,193	31,039
Cash in hand at H.O & Branches	71,647	182,168
	<u>738,845</u>	<u>2,069,050</u>
d) ADVANCES		
Tax Deducted at Source	2,868,000	1,996,958
Advances for Expenses	1,850,000	3,540,397
Advance for capital Goods	1,000,000	-
Advances to Staff	88,397	129,941
Advances For Capital Goods		
Other Deposits	2,542,650	2,079,390
Advances to Suppliers	-	816,439
	<u>8,348,987</u>	<u>8,563,125</u>
SCHEDULE - 7		
CURRENT LIABILITIES AND PROVISIONS		
a) CURRENT LIABILITIES		
Sundry Creditors		
For Supplies	2,767,327	3,847,985
For Services	-	409,145
Advance from Customers	-	432,946
	<u>2,767,327</u>	<u>4,690,076</u>
b) PROVISIONS		
Provision for Exp	1,438,828	1,429,115
Provision for Taxes	5,775,477	3,793,947
Fringe Benefit Tax Payable	135,099	-
	<u>7,349,404</u>	<u>5,223,062</u>
SCHEDULE - 8		
INCOME FROM OPERATIONS		
Income from Internet Services	3,87,73,645	39,652,281
Income from VOIP Services	47,28,400	6,188,531
Sale of Hardware	145,866	391,600
	<u>4,36,47,911</u>	<u>46,232,412</u>
SCHEDULE - 9		
OPERATING EXPENSES		
Communication Cost	22,208,233	21,864,163
Cost of Sales	98,000	300,000
Vat	96,964	-
ISP Membership fees	-	100,000
Domain Name Registration Exp	9,949	11,534

CITY ONLINE SERVICES LIMITED

Schedules forming part of Balance sheet and Profit & Loss account

	31.03.2009	31.03.2008
	Rs.	Rs.
Tower Rents	1,375,320	611,388
Repairs and Maintenance	478,944	482,717
Electricity Charges	1,403,430	1,361,480
Generator Maintenance	21,434	45,918
Stock Adjustment	1,820,400	
Prior Period Expenses		4,213,771
	27,512,674	28,790,971
SCHEDULE -10		
PAYMENTS & BENEFITS TO EMPLOYEES		
Salaries, Wages and Other Benefits	6,619,371	5,575,185
Staff Welfare Expenses	142,401	132,166
	6,761,772	5,707,351
SCHEDULE -11		
ADMINISTRATIVE EXPENSES		
Rent	991,734	1,596,676
Postage and Telegrams	51,992	34,656
Telephone Expenses	484,112	669,341
Conveyance and Travelling	1,635,721	2,538,075
Printing and Stationery	85,300	115,774
License, Fees and Taxes	472,840	1,001,546
Insurance	25,307	27,487
Bank Charges	131,036	61,080
Office Maintenance Expenses	329,597	258,230
News papers and periodicals	32,295	7,015
Consultancy and Legal Expenses	396,694	707,843
Directors' Remuneration	2,254,520	1,500,000
Directors' sitting fees	500	1,000
Auditors Remuneration:	164,801	140,000
Advertisement Charges	42,036	21,265
Business Promotion Expenses	67,663	507,279
Freight Charges	-	38,394
Discount On Sales	6,120	691
Security Service Charges	283,248	241,401
Share Transfer fee	72,578	30,000
Membership&Subscription Fees	12,788	16,667
Vehicle Maintenance	-	129,299
Misc. & General Expenses	75,122	65,807
Copmuters Maintenance	10,791	7,775
Foreign exchange Loss	1,800	-
Bad Debts Written Off	3,857,318	8,189,027
	11,465,913	17,906,128
SCHEDULE -12		
SELLING & MARKETING EXPENSES		
Sales Promotion Expenses	0	19500
Sales Comission	1343237	1970372
	1343237	1989872
SCHEDULE -13		
INTEREST		
On Overdraft	773,391	715,992
For Delay on Tds	78,032	23,264
For Delay on Service Tax	-	6,696
	851,423	745,952

SCHEDULE-14

NOTES FORMING PART OF ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

1 General

The financial statements are prepared under the historical cost convention on the basis of a going concern and as per applicable Indian Accounting Standards. The company follows mercantile system of accounting and recognizes Income and Expenditure on accrual basis.

2 Revenue Recognition

Leased line income is recognized on the basis of agreements entered with the customers. Voip income is on the basis of time utilized by the customers. All other sales are recognized on the basis of time utilized by the customers. All other sales are recognized on the basis of rates agreed upon between the company and the customers.

3 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. 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 date of acquisition of the assets.

4 Inventories

As Per AS-2 Inventories are to be valued at cost or net realisable value which ever is less. However the company is valuing inventories at cost only. The diminution in value of inventories if any is not provided in the financial statements.

5 Retirement Benefits

No provision for gratuity is made. The company is contributing to Provident Fund which is charged to the Profit & Loss Account on accrual basis.

6 Transaction in Foreign Exchange

Transactions are recorded at the exchange rates prevailing on the balance Sheet date

7 Contingent Liabilities:

Counter guarantees given to the company bankers for bank guarantees is issued by them to the following
a) Department Of Telecommunications (DOT) Govt of India for due performance of ISP is Rs 24,00,000 (P Y Rs 20,00,000)

8 Income Tax and Deferred Tax

Provision for Income Tax for the year is not made since the company has incurred losses. Provision for Fringe Benefit Tax is made as per the provisions of the Income Tax Act. The deferred tax for timing differences between the book and tax profits for the year is accounted for, using the tax rates and laws that have been substantively enacted as of the balance sheet date. Deferred tax assets arising from timing differences are recognized to the extent there is virtual/ reasonable certainty that these would be realized in future.

9 Segment Reporting

The entire operations of the company relates to only one segment i.e. internet services provider and related services. Hence segment reporting as per AS 17 is not applicable.

10 Managerial Remuneration:

	As on 31st Mar-09 Rs.	As on 31st Mar-08 Rs.
For Managing Director	872,000	540,000
For Other Directors	1,382,520	980,000
	2,254,520	1,500,000
11 Auditors' Remuneration:		
Towards Statutory Audit	100,000	100,000
Towards Tax audits	40,000	40,000
Towards Certification Work	140,000	140,000

12 Cash Flow Statement

Cash flow statement has been prepared in accordance with the indirect method prescribed in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

13 Service Tax

CENVAT credit for input services are taken into account at the time of payment. The CENVAT credit so taken are utilized for payment of Service Tax on output services.

14 Foreign Currency Transactions		
Earnings In Foreign Currency	NIL	NIL
Expenditure In Foreign Currency:		
(i) On Account of Licenses and Registrations	US\$ 3169	US\$ 2,500
(ii) On Account of Hardware purchases	US\$ 2958	US\$ 10142.22
(iii) On Account of Bandwidth Charges	NIL	NIL
(iv) On Account of VOIP Services	US\$ 58,596.59	US\$ 62,527.71
(v) On Account of Foreign Travel	0	US\$ 5511

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

		Rs	Rs
a) Turnover			
Sale of Hardware Items		145,666	391,600
b) Quantitative Particulars of sale of Hardware			
Opening Stock	Qty		
Add Purchases	NA	5,492,704	5,457,829
Less Cost of Sales	NA		325,075
Less Written off To Cost	NA	98000	300000
Closing Stock	NA	1820400	
		3574304	5492704

16 Bank balances are subject to Reconciliations

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

18 Sundry creditors:

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

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

20 In respect of Voip income basis of billing is not available for verification

21 CIF Value of Imports	Rs	Rs
Hardware Items	144000.00	415831.00

22 Related party disclosure

As per accounting standard 18, issued by the Institute of Chartered Accountants of India,

the disclosures of transactions with the related parties as defined in the Accounting Standard are given below:

(i) List of related parties where control exists and related parties with whom transactions have taken place and relationships:

Sr.No.	Name of the Related Party	Relationship
1	Anu Digital Arts (p)Ltd	personel are able to exercise significant influence
2	SRR Engineering	personel are able to exercise significant influence

(ii) Transactions with related parties during the year

Particulars	Key Management Personnel	Total
A.Fixed Assets/CWIP		Rs 10000
Assets Purchased /Addition during the year		Rs 6,00,000
B Expenditure		NIL

The information given above, have been reckoned on the basis of information available with the company

23 Sales are reported net of service tax

As per our Report of even date

For Prasad & Prasad

Chartered Accountants

For and on behalf of Board of Directors

S.RAGHAVA RAO
Chairman and Managing Director

K. UDAYA KISHORE

Partner

M.No. : 16023

Place : Hyderabad

Date : 02.09.2009

R. KRISHNA MOHAN
Director

CITY ONLINE SERVICES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 st March 2009

Particulars	Year Ended 31st March 2009	Year Ended 31st March 2008
A. Cash Flow from Operating Activities		
Net Profit Before Interest and Tax	-6378569	-11022116
Adjustment for		
Depreciation	2141107	2203542
Prior period Expenses Written Off	1430399	4213771
Stock Adjustment	1820400	0
Bad Debts Written Off	3857318	8189027
Interest Paid	851423	745952
Non Cash Items	138903	0
Cash Generated before changes in working capital	3858981	4330176
(Increase)/ Decrease in Inventory	-1434252	-25075
(Increase)/ Decrease in Sundry Debtors	-1782511	-4994942
(Increase)/ Decrease in Loans and Advances	-1735403	-890343
(Decrease)/Increase in Current Liabilities and Provisions	-416506	3618926
Net Cash Flow from Operating Activities	-1509691	2038742
Income Tax	0	0
Fringe Benefit Tax	0	-288070
Net Cash Flow from Operating Activities	-1509691	1750672
B. Cash flow From Investing Activities		
Purchase of Fixed Assets	-1985845	-3831105
Sale of Fixed Assets	-27154	0
Net Cash Flow used in Investing Activity	-2012999	-3831105
C. Cash Flow from Financing Activities		
Proceeds from Re-issue of Shares	0	2662500
Interest Paid	-851423	-745952
Increase in Working Capital Loan	3043908	189250
Net Cash Flow used in/ from Finance Activity	2192485	2105798
Opening Balance of Cash and Cash Equivalents	2069050	2043685
Net Increase / (Decrease) in Cash and Cash Equivalents	-1330205	25365
Closing Balance of Cash and Cash equivalents	738845	2069050

As per our Report of even date
For Prasad & Prasad
Chartered Accountants

For and on behalf of Board of Directors

S.RAGHAVA RAO
Chairman and Managing Director

K. UDAYA KISHORE
Partner
M.No. : 16023
Place : Hyderabad
Date : 02.09.2009

R. KRISHNA MOHAN
Director

Balance Sheet abstract and Company's General Business Profile

I Registration Details			
Registration No.	32114	State Code	1
Balance Sheet Date	31.03.2009		
II Capital Raised During the year			
Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	0
III Position of Mobilisation and Deployment of Funds			
Total Liabilities	63,829	Total Assets	63,829
Sources of Funds			
Paid up Capital	-	Reserves & Surplus	400
Secured Loans	7,065	Unsecured Loans	NIL
Net Fixed Assets	29,914	Investments	NIL
Net Current Assets	14,633	Misc. Expenditure	NIL
Accumulated Losses	19,282		
IV Performance of Company			
Turnover	43,698	Total Expenditure	50,076
Profit/Loss before Tax	-6379		
Earning per Share	-1.17	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		

For and on behalf of Board of Directors

As per our Report of even date
For Prasad & Prasad
Chartered Accountants

S.RAGHAVA RAO
Chairman and Managing Director

K. UDAYA KISHORE
Partner
M.No. : 16023

R. KRISHNA MOHAN
Director

Place : Hyderabad
Date : 02.09.2009

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 10th Annual General Meeting of the Company to be held on
Wednesday, the 30th day of September, 2009 at 11.00 AM at the Registered Office of the Company and at any
adjournment thereof.

Signed this _____ day of September, 2009.

As fix
Rs. 1/-
Revenue
Stamp

NOTE :

- A Member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself.
- Proxy need not be a member.
- 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.

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ATTENDANCE SLIP

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

Regd. Folio _____ Shares held _____

I hereby record my presence at the 10th Annual General Meeting to be held on Wednesday, the 30th day of September,
2009 at 11.00 PM at the Registered Office of the Company.

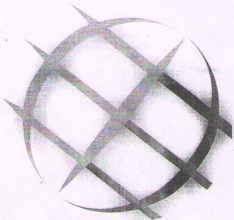
Name of the Shareholder :

Name of the Proxy :

Signature of member/proxy :

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

PRINTED MATTER
BOOK-POST



If undelivered, please return to :

City Online Services Limited

701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad - 500 038.
Ph : 23757469 (5 Lines) Telefax : 23733942 www.cityonlines.com