

City Online

Internet Services with world class technology



IRTEENTH ANNUAL REPORT
2011 - 2012

**Annual Report
2011-12**

Board of Directors

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

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

Auditors M/s. Seshachalam & 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 Thirteenth Annual General Meeting of the Company will be held on Saturday September 29, 2012 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, 2012, 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. V. Satyanarayana who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. Thomos P. Nicodamus who retires by rotation and being eligible, offers him-self for reappointment
4. To appoint M/s. Seshachalam & Co, Chartered Accountants, Secunderabad, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass, with or without modification(s) the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions of the Companies Act, 1956 and Rules framed there under, the existing Articles of Association of the Company be and is hereby amended as under :

- i) After Sub-Article (d) of Article 20 of the Articles of Association of the Company, the following new sub article (e) shall be inserted

(e): The Board may provide video conference facility and/or other permissible electronic mode of communication to the shareholders of the Company for participating in General Meetings of the Company. Such participation by the shareholders at General Meetings of the Company through video conference facility and/or other permissible electronic mode of communication shall be governed by the Rules and Regulations as applicable to the Company for the time being in force.
- ii) After Sub-Article (h) of Article 49 of the Articles of Association of the Company, the following new sub article (i) shall be inserted:

(i): Directors may participate in Meetings of the Board and/or Committees thereof, through video conference facility and/or other permissible electronic mode of communication. Such participation by the Directors at Meetings of the Board and/or Committees thereof, through video conference facility and/or other permissible electronic mode of communication shall be governed by the Rules and Regulations as applicable to the Company for the time being in force."

"FURTHER RESOLVED THAT the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee or any person which the Board may nominate/constitute to exercise its powers including the powers by this Resolution) be and i s hereby authorized to carry out the abovementioned amendments in the existing Articles of Association of the Company and that the Board may take all such steps as may be necessary to give effect to this Resolution."

By order of the Board

Sd/-

Place : Hyderabad
Dated : 03.09.2012

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, 2012 to Saturday, September 29, 2012, both days inclusive, for the purpose of Annual General Meeting
- 4) The members are requested to intimate immediately any change in their address quoting their Registered Folio enabling the Company to address future communication.
- 5) Members are requested to bring copies of the Annual Report, as no extra copies shall be provided at the Meeting. Shareholders desiring any information as regards to the Audited Accounts are requested to write to the Company at least one week before the Meeting enabling the Chairman to keep the information ready to reply at the meeting.
- 6) It shall be mandatory for the transferee(s) to furnish copy of PAN Card to the Company/RTAs for registration of transfer of shares for securities market transactions and off market/private transaction involving transfer of shares in physical form of listed companies.
- 7) As part of Green Initiative in Corporate Governance the Ministry of Corporate Affairs (MCA), Government of India vide its Circular has allowed paperless compliances by Companies inter-alia stating that if the Company sends official documents to their shareholders electronically, it will be in compliance with the provisions of Section 53 of the Companies Act, 1956. Keeping in view shareholders are requested to update their E-Mail ID with their DP.
- 8) Explanatory statement pursuant to section 173 (2) of the Companies Act 1956 for Item No. 5 is annexed.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE
COMPANIES ACT 1956**

Item No.5

The Ministry of Corporate Affairs (MCA), Government of India, New Delhi vide General Circulars No.27/2011 and 28/2011 dated May 20, 2011 and Circular No. 35/2011 dated June 06, 2012 have permitted the companies to hold Board Meetings and Shareholders' Meetings through video conference facility, as part of the Green Initiatives under Corporate Governance.

Further, MCA vide Circular No. 72/2011 dated December 27, 2011 made the video conference facility at the Shareholders' Meetings optional to the Company. In order to provide video conference facility to its Directors and Shareholders, your Company has been advised to carry out necessary amendments in the existing Articles of Association of the Company by inserting enabling provisions.

In terms of Section 31 of the Companies Act, 1956, approval of the Members by way of a Special Resolution is required to amend the Articles of Association of the Company.

The Articles of Association with alterations proposed therein as referred to in the Notice shall be available for inspection by the Members at the Registered Office at 701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038 any working day except holidays observed by the Company during usual business hours up to the date of the Meeting and will also be available at this Annual General Meeting.

Accordingly, your Board recommends passing of the Resolution No. 5 as a Special Resolution.

None of the Directors is interested or concerned in this Resolution.

By order of the Board

Sd/-

Place : Hyderabad
Dated : 03.09.2012

S.Raghava Rao
Chairman and Managing Director

Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Company's THIRTEENTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2012 and the Auditor's Report thereon

Financial Results:

Particulars	31.03.2012 Rs	31.03.2011 Rs.
I) INCOME		
a) Income from operations	5,44,67,583	4,60,05,770
d) Other Income	8,73,415	7,85,579
TOTAL	5,53,40,998	4,67,91,349
II) EXPENDITURE		
a) Operating Expenses	3,05,49,289	2,31,85,783
b) Payments & Benefits To Employees	84,76,614	77,71,443
c) Other Expenses	1,12,60,151	1,10,56,862
TOTAL	5,02,86,054	4,20,14,088
III) PROFIT BEFORE INTEREST AND DEPRECIATION	50,54,944	47,77,261
Interest	10,31,227	9,54,890
IV) PROFIT BEFORE DEPRECIATION	40,23,717	38,22,371
Depreciation	26,53,449	24,55,663
V) PROFIT /(LOSS) BEFORE TAX	13,70,268	13,66,708
Prior period Expenses	-	-
Prior period Incomes	5,60,354	-
VI) PROVISION FOR TAXATION		
For Current Income Tax	-	-
For Deferred Tax/Liability (Asset)	(1,05,869)	(36,374)
PROFIT / (LOSS) AFTER TAX	20,36,491	14,03,081
Add: Balance Carried from Last year	(2,10,50,150)	(2,24,53,231)
BALANCE CARRIED OVER TO BALANCE SHEET	(1,90,13,658)	(2,10,50,150)
Basic and Diluted Earnings Per Share	0.39	0.27

Review and Prospects:

The year 2011-2012 has been a good year for your company in this year the sale of bandwidth increased to 5 times more when compared to previous year the Board is happy to inform you that our sales have crossed 2 gigabit ie more than 2000 mbps because of huge demand for bandwidth in the corporate , BPO . educational institutions and also in home use segment the drop in bandwidth prices also contributed to increase in sales we are assured that this will continue in 2012 – 2013 also as we are observing increase in revenue every month . During this year we have extended our reach to most of the towns in Andhra Pradesh

In Bangalore and Hyderabad your company has already started providing G PON services in huge gated community our target for the year 2012-2013 is to provide this service in **3000 house holds this will increase our top and bottom line to a great extent.**

The video streaming services which your company developed for sending video streams for IPTV has given good results now we are sending video streams to most of IPTV providers in USA

Your company has developed Digital Headend for providing digital TV with CAS our Headend can send up to 2000 channels in HD quality since Government of India has brought regulation to digitalize cable TV services from 2014 onwards through out the country and by March 2013 in cities have more than 10 lakhs population your company is gearing up to enter into this service in Hyderabad and Bangalore by that time and in other areas of AP & Karnataka by 2014 the Board feels that this will be a big turn around for the company

The Board of Directors are confident of achieving 30% growth rate in year 2012 -2013

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. V. Satyanarayana and Mr. Thomas P. Nicodamus retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Capital of the Company:

During the year, the Authorised Share capital of the company has been increased from Rs.7,70,00,000 to Rs.18,70,00,000/-.

Directors responsibility statement:

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

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

Auditors:

The Statutory Auditors of the company, M/s. Seshachalam & Co, Chartered Accountants, Secunderabad retire at the conclusion of the ensuing Annual General Meeting offer themselves for re-appointment till the conclusion of the next Annual General Meeting.

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

Reply to Auditors Observations if any :

- (a) In respect of auditors observations in their report wide sub para No f para 2 regarding non confirmation of balances of creditors , advances given and taken , the company has necessary documentary evidence in possession regarding sundry creditors and advances taken or given.
- (b) In respect of observations made by the auditors regarding recoverability of Sunday Debtors due for more than six months the management is confident and will make efforts for recoverability of such balances in due course.
- (c) In respect of note no 7 of Annexure to Auditors report the company has taken steps to strengthen its internal audit department.
- (d) In respect of note no 9 of Annexure to Auditors report the company has taken steps to pay the dues of service tax and tds amounts in due dates .

Code of Conduct:

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

Corporate Governance:

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

Particulars of Employees:

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

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

Additional Information:

Information as per Section 217(1)(e) read with Companies (Disclosure of particulars in the report of Board Of Directors) Rules, 1988 and forming part of report for the year ended March 31, 2012.

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	:	2011-12	2010-11
	a)	Earnings On account of Rendering Services	:	US\$12,221	NIL
	b)	Used	:		
	i)	For Foreign Travel is	:	Nil	Nil
	ii)	<i>On Account of Licenses and Registrations</i>	:	<i>Nil</i>	<i>Nil</i>
	iii)	On account of Hardware purchase	:	US\$17,950	Nil
	iv)	On account of VOIP Services	:	US\$14,635	US\$18569

Acknowledgement:

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

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

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

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

The shareholders

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

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 03.09.2012

Sd/-
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 financial year 2012-2012 your company has increased bandwidth sales 5 folds and as the trend is continuing along with other services like G PON in gated communities Digital TV services VOIP & wifi services your company is targeting a growth rate of 30% for the year 2012- 2013 which the Board is very confident of achieving

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 G PON in gated communities and Digital TV services which your company has entered into. The Board of Directors expects that, in future these businesses, along with Bandwidth sales 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 : 03.09.2012

For and on behalf of the Board of Directors

Sd/-

Sd/-

S. Raghava Rao
Chairman & Managing
Director

R. Krishna Mohan
Director- Finance and
Administration

Corporate Governance (Mandatory Requirements)

1) Company's Philosophy

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

The importance of corporate governance has always been recognized by our company and is manifest in its vision. In accordance with the listing agreement, a certificate from practicing company secretary for compliance of corporate governance by the company during the financial year 2011-12 has been inserted elsewhere in his annual report .A report in the line with the requirement of the stock exchanges, on the practice followed by the company and other voluntary compliances is given below.

2) Board of Directors

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

Composition and Category of Directors:

Name of Director	Category	Designation	No. of Meetings held during the last financial year	No. of Meetings attended	No. of Memberships in the Board of other Companies	Attendance of each director in the last AGM
Mr. S. Raghava Rao	Promoter and Executive Director	Chairman and Managing Director	6	6	1	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	6	6	2	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	6	5	3	Yes
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	6	2	1	No
Mr. Thamous P. Nicodemus	Independent and Non-Executive Director	Director	6	1	2	No

Mr. V. Satyanarayana	Independent and Non-Executive Director	Director	6	5	2	No
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None of the Directors hold membership(s) in committees of the other companies.

Meetings of the Board of Directors

During the financial year 2011-12 the Board of Directors met 6 times on the following dates: 30.04.2011, 28.07.2011, 29.08.2011, 31.10.2011, 29.12.2011 and 31.01.2012.

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 4 times respectively 28.07.2011, 29.08.2011, 31.10.2011 and 31.01.2012.

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 met once during the year.

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

Executive Directors

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	75,000 P.M
2	Ch. Harinath	70,000 P.M
3	R. Krishna Mohan	70,000 P.M

5) Share Transfer Committee

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

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

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

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

The Committee focuses on strengthening investor relations.

There were no grievances or complaints received during the year.

7) Internal Monitoring Committee

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

SL. No	Name of the Director	Status
1	Mr. R. Krishna Mohan	Chairman
2	Mr. Ch. Harinath	Member
3	Mr. D. Rambabu	Member

The Committee met 4 times during the year to review the operations including the commercial transactions of the Company. All the members present.

8) Others

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

- a) Details of complaints for the year 2011-12:

Sl. No	Nature	Number			
		2011-12		2010-11	
		Received	Attended	Received	Attended
1	Dematerialization/Rematerialization	Nil	Nil	Nil	Nil
2	Loss of shares/Duplicate Certificate	Nil	Nil	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	Nil	Nil
5	Others	Nil	Nil	Nil	Nil

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

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

Financial Year	Date	Venue	Time
2008-09	September 30, 2009	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2009-10	December 23, 2010	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2010-11	September 30, 2011	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM

In the last AGM, there were no resolutions required to be passed through postal ballot. The resolutions were passed on show of hands with requisite majority. The venue of AGM has been chosen for its central location, prominence and capacity.

10) Disclosures

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

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

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

11) Means of Communication

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

12) General Shareholders Information

- a) The Annual General Meeting of the Company will be held on September 29, 2012 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad –500 038.**
- b) Financial calendar for the year 2011-12 (tentative):
Financial Calendar
- i) Financial reporting for the quarter ending 30th June 2012 : July 31, 2012
- ii) Financial reporting for the Quarter ending September 30, 2012 : October 31, 2012

- iii) Financial reporting for the quarter ending December 31, 2012 : January 31, 2013
 iv) Financial reporting for the quarter ending March 31, 2013 : April 30, 2013

- c) Dates of book closure for AGM: September 26, 2012 to September 29, 2012 for the financial year 2011-12 (both days inclusive)

d)	Registered Office	:	701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038
e)	Telephone & Fax	:	91 40 -66416882, 6883, 6894 and Fax No. + 91 40 66416890
	Web site		www.cityonlines.com

- f) Listing Details

The Shares of the Company are Listed on the Bangalore Stock Exchange. The listing fee for the period 2011-12 has been paid to the Stock Exchange.

Address of the Exchange

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

- g) Stock Code : 6494, CITYON#

- h) Market Price data

Monthly	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 31-3-2012 and liquidity**

Fully paid up shares	CDSL 385714	NSDL 2155086
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Distribution of Shareholding as on March 31, 2012

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	11761	0.23	40	6.90
2	5001	10000	8700	0.17	9	1.55
3	10001	20000	26678	0.52	15	2.59
4	20001	30000	596200	11.55	234	40.34
5	30001	40000	313517	6.07	81	13.97
6	40001	50000	392150	7.59	82	14.48
7	50001	100000	401600	7.78	46	7.93
8	100001	And Above	3412794	66.10	71	12.24
Total			5163400	100.00	578	100.00

Pattern of Shareholding as on March 31, 2012

Sl. No	Category	Shares	
		Numbers	%
1	Private Corporate bodies	452497	8.76
2	Mutual Funds, DSP Merrill Lynch	200000	3.87
3	Non Resident Indians	10000	0.19
4	Promoters	674950	13.07
5	Resident Individuals	3843453	74.44
6	Others	2500	0.05
Total		5163400	100.00

- n) Address for correspondence : City Online Services Limited
701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038701
 Tel- 040-66416882, 6883, 6894
 Fax-040-66416890
- 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. Ramprasad

DECLARATION

To
The Members of City Online Services Limited

This is to declare that the Code of Conduct envisaged by the Company for members of the Board and the Senior Management Personnel have been complied with by all the members of the Board and the Senior Management Personnel of the Company respectively.

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 03.09.2012

Sd/-
S. Raghava Rao
Chairman and Managing Director

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, 2012 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchange, and state that in my opinion and to the best of my knowledge and according to the information and explanations given to me, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

For Ch. Veeranjanyulu & Associates
Company Secretaries

Sd/-

Place : Hyderabad
Date: 03.09.2012

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

CHIEF EXECUTIVE OFFICER CERTIFICATION

In relation to the Audited Financial Accounts of the Company as at 31st March, 2012, we hereby certify that

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

For City Online Services Limited

Sd/-

S. Raghava Rao
Chairman & Managing Director

Place: Hyderabad
Date: 03.09.2012

AUDITOR'S REPORT

To
THE MEMBERS OF
CITY ON LINE SERVICES LTD
HYDERABAD

1. We have audited the attached Balance Sheet of CITY ONLINE SERVICES LTD (the Company) as at 31st March, 2012, the Statement of Profit and Loss and the Cash flow statement, (collectively referred to as the Financial Statements) for the year ended on that date annexed thereto, these financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows:

1. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above;
 - a. We have obtained all the information and explanation which, to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books;
 - c. The Balance Sheet, Statement of Profit & Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d. In our opinion, the Balance Sheet, Statement of Profit & Loss and Cash Flow Statement dealt with in this report comply with the Accounting Standards, issued by the Institute of Chartered Accountants of India referred to in Section 211 (3C) of the Companies Act 1956 (the Act) to the extent applicable.

- e. On the basis of written representations received from the directors as on March 31st, 2012 we report that none of the Directors is disqualified as on 31st March, 2012 from being appointed as a Director in terms of Section 274 (g) (1), of the Companies Act, 1956.
- f. In our opinion and to the best of our information and according to the explanation given to us, the aforesaid financial statements read with the Statement on Significant Accounting Policies thereon specifically Note No. 2 of the Notes to Accounts in Schedule-23 relating to the non-confirmation of balances of creditors and Advances given and taken, give the information required by the Act, in the manner so required and also give a true and fair view in Conformity with the accounting principles generally accepted in India.
- g. With regard to recoverability of certain sundry debtors over six months considered good, the management has confirmed to us that they are confident in recovering the amount and no provision is considered necessary.
 - i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2012;
 - ii. in the case of Statement of Profit and Loss, of the Profit for the year ended on that date; and
 - iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Hyderabad
Date: 03-09-2012.

For Seshachalam & Co.
Chartered Accountants
FRN: 003714S

(T.Bharadwaj)
Partner
M.M No: 201042

ANNEXURE TO AUDITORS REPORT

As required by the Company's (Auditor's Report) Order, 2003 (CARO) as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Government of India in terms of Section 227(4A) of the Companies Act, 1956, we 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 are being physically verified by the management which in our opinion is reasonable having regard to the nature and value of its assets, and no material discrepancies have been noticed on such verification.
c) In our opinion, there have been no significant disposals of Fixed Assets during the year.
2. a) Inventories have been physically verified during the year by the management at reasonable intervals. In our opinion, the frequency of verification is reasonable.
b) The procedures of physical verification of the inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
c) According to the information and explanations given to us, the Company is maintaining proper records of inventories and no material discrepancies were noticed on physical verification.
3. a) The Company has not granted or taken any loans secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly sub-clauses (b), (c), (d), (f) and (g) are not applicable.
4. In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of Inventories, Fixed Assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. In our opinion, and according to the information and explanations given to us, there are no transactions of purchases of goods or materials and sale of goods, materials and services, made in pursuance of contract or arrangement entered in the register maintained under Section 301 of the Companies Act, 1956, as aggregating during the year to Rs. 5 lacs or more in respect of each party.

6. The Company has not accepted any deposits from the public to which the provisions of Section 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 apply.
7. *The internal audit, in our opinion the scope and coverage need to be enlarged keeping in view of size of the organization and nature of the business.*
8. Maintenance of cost records u/s 209(1) (d) of the Companies Act, 1956 is not applicable for the company.
9. *There are undisputed amounts payable in respect of, Service Tax, TDS, VAT and Provident Fund which have remained outstanding as at 31st March, 2012 for a period of more than 6 months from the date they became payable. The company is irregular in remitting Service Tax and TDS payments.*
10. The Company has accumulated losses but has not incurred cash loss during the Current Financial Year.
11. According to the information and explanations given to us and based on the documents and records produced before us, there has been no default in repayment of dues to Banks or Financial Institutions.
12. According to the information and explanations given to us and based on documents and records produced before us, the company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other securities.
13. The Provisions of any special statutes applicable to a chit fund, Nidhi, Mutual Benefit Fund/Societies are not applicable to the Company.
14. In our opinion, the Company is not dealing or trading in shares, securities, debentures and other Investments. Accordingly, the provision of Clause 4(xiv) of the CARO is not applicable to the Company.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. According to the Information and explanations given to us on overall basis, the Company has not obtained any term loans, Therefore application of the loan for the purpose for which the loan was obtained does not arise, Accordingly, the provisions of Clause 4 (xvi) of the CARO is not applicable to the Company
17. According to the Information and explanations given to us on overall basis funds raised on a short-term basis have prima-facie, not been used for long term investment.
18. The Company has not made any preferential allotment of shares during the year to any party.

19. The Company has not issued any debentures. Accordingly, the provisions of Clause 4 (xix) of the CARO are not applicable to the Company.
20. The Company has not raised any money by way of public issues during the year.
21. Based upon the audit procedures performed by us, to the best of our knowledge and belief and according to the information and explanations give to us by the Management, no fraud on, or by the Company, has been noticed or reported during the year.

Place: Hyderabad
Date: 03-09-2012

For Seshachalam & Co.
Chartered Accountants
FRN: 003714S

(T.Bharadwaj)
Partner
M No: 201042

City Online Services Limited
Balance Sheet as at 31 March 2012
All amounts in Rs. unless otherwise stated

	Note	31 March 2012	31 March 2011
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	3	56,098,330	56,098,330
Reserves and surplus	4	(18,613,658)	(20,650,149)
Share application money, pending allotment		-	-
Non-current liabilities			
Long term provisions	5	439,718	363,718
Deffered tax liability (net)	6	123,543	229,412
Current liabilities			
Short-term borrowings	7	7,015,607	6,470,525
Trade payables	8	4,986,071	3,671,479
Other current liabilities	9	1,736,936	922,577
Short term provisions	10	8,094,267	6,363,889
TOTAL		59,880,814	53,469,782
ASSETS			
Non-Current Assets			
Fixed assets			
Tangible assets	11	28,878,545	31,197,645
Current assets			
Inventories	12	5,074,311	3,066,028
Trade Receivable	13	11,582,043	9,299,412
Cash and bank balances	14	4,083,873	1,175,557
Short-term loans and advances	15	1,121,000	1,150,609
Other current assets	16	9,141,042	7,580,531
TOTAL		59,880,814	53,469,782
The notes are an integral part of these financial statements.			
This is the Balance Sheet referred to in our report of even date.			
For seshachalam & Co		For and on behalf of the Board of Directors of	
Chartered Accountants		City Online Services Limited	
FRN: 003714S			
T. Bharadwaj	S Raghava Rao	R. Krishna Mohan	
Partner	Chairman and Managing Director	Director	
Place: Hyderabad			
Date: 03.09.2012			

City Online Services Limited
Statement of Profit and Loss for the year ended 31 March 2012

All amounts in Rs. unless otherwise stated

	Note	31 March 2012	31 March 2011
Revenue from operations	17	54,467,583	46,005,770
Other income	18	873,415	785,579
Total revenue		55,340,998	46,791,349
Expenses:			
Operating Expenses	19	30,549,289	23,185,783
Employee benefits expenses	20	8,476,614	7,771,443
Finance cost	21	1,031,227	915,202
Depreciation	11	2,653,449	2,455,663
Other expenses	22	11,260,151	11,096,550
Total expenses		53,970,730	45,424,641
Profit / (Loss) For the Year		1,370,268	1,366,708
(Before Prior Period / Extraordinary Adjustment)			
Prior Period Income		560,354	-
Profit Before Tax		1,930,622	1,366,708
Tax expense			
-Current tax		-	-
-Deferred tax		105,869	36,374
Profit for the year		2,036,491	1,403,082
Earnings per equity share [EPS] :			
Basic EPS		0.39	0.27
Nominal value per equity share		10	10
Weighted average number of equity shares used in computation of EPS		5,164,700	5,164,700

The notes are an integral part of these financial statements.

This is the Statement of Profit and Loss referred to in our report of even date.

For seshachalam & Co
Chartered Accountants
FRN: 003714S

For and on behalf of the Board of Directors of
City Online Services Limited

T. Bharadwaj
Partner

S.Raghava Rao
Chairman and Managing Director

R.Krishna Mohan
Director

Place: Hyderabad
Date: 03.09.2012

Notes to financial statements for the year ended 31 March 2012.

1 CORPORATE INFORMATION:

City Online Services Ltd (The Company) is a Limited company domiciled in India and incorporated under the provisions of the companies Act, 1956. The company engaged in the business of providing Internet services to various clients through dial up services and leased line services and offers services related to Voice telephony services and deal in all kinds of related hardware and software.

2 BASIS OF PREPARATION:

The financial statements of the company have been prepared in accordance with generally accepted accounting principles in India (Indian GAAP). The company has prepared these financial statements to comply all material respects with the accounting standards notified under the companies (Accounting Standard) Rules, 2006 (as amended) and the relevant provisions of the companies Act, 1956. The financial statements have been prepared on an accrual basis and historical cost convention.

The accounting policies adopted in the preparation of financial statements are consistent with those of previous year, except for the change in accounting policy explained below:

2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a) Change in accounting policy

During the year ended 31 March 2012, the revised schedule VI notified under the companies Act 1956 has become applicable to the company, for preparation and presentation of its financial statements. The adoption of revised schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosure made in the financial statements. The company has also reclassified the previous year figures in accordance Revised Schedule VI.

b) Method of Accounting:

The Company is following accrual basis of accounting.

c) Fixed Assets:

Fixed assets are stated at cost, less accumulated depreciation and impairment if any. The cost comprises purchase price, borrowing costs if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

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

d) Depreciation:

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

e) Inventories:

Cost of inventory includes cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are valued at lower of cost and net realizable value.

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

f) Revenue Recognition:

The company recognizes income from services on accrual basis.

g) Gratuity:

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

h) Foreign Currency Transactions:

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

i) Provisions and Contingencies:

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

City Online Services Limited

Notes to financial statements

All amounts in Rs. unless otherwise stated

3 Share capital

	As at 31 March 2012		As at 31 March 2011	
	Number	Amount	Number	Amount
Authorized				
Equity shares of Rs.10 each	7,700,000	77,000,000	7,700,000	77,000,000
	<u>7,700,000</u>	<u>77,000,000</u>	<u>7,700,000</u>	<u>77,000,000</u>
Issued				
Equity shares of Rs.10 each	7,000,000	70,000,000	7,000,000	70,000,000
Subscribed and called up				
Equity shares of Rs.10 each	6,925,000	69,250,000	6,925,000	69,250,000
Paid Up Capital				
Equity shares of Rs.10 each, fully paid-up	5,164,700	51,647,000	5,164,700	51,647,000
Share Forfeiture Account				
Equity shares of Rs.10 each, fully paid-up	1,760,300	4,451,330	1,760,300	4,451,330
	<u>6,925,000</u>	<u>56,098,330</u>	<u>6,925,000</u>	<u>56,098,330</u>

(a) Reconciliation of share capital	As at 31 March 2012		As at 31 March 2011	
	Number	Amount	Number	Amount
Balance at the beginning of the year	5,164,700	51,647,000	5,164,700	51,647,000
Add: Alloted during the year	-	-	-	-
Less: Transferred during the year	-	-	-	-
Balance at the end of the year	<u>5,164,700</u>	<u>51,647,000</u>	<u>5,164,700</u>	<u>51,647,000</u>

Shareholders holding more than five percent of paid up share

(b) **capital**

Name of the shareholder	As at 31 March 2012		As at 31 March 2011	
	Number	% Held	Number	% Held
Equity share of Rs.10 each				
S. Raghava Rao	502,000	9.72	502,000	9.72

4. Reserves and surplus

	31 March 2012	31 March 2011
Surplus in the statement of profit or loss		
Balance at the beginning of the year	(21,050,149)	(22,453,231)
Add: Net profit for the year	2,036,491	1,403,082
Balance at the end of the year	<u>(19,013,658)</u>	<u>(21,050,149)</u>
Investment Subsidy Received from Govt.	400,000	400,000
	<u>(18,613,658)</u>	<u>(20,650,149)</u>

5. Long term provisions

	31 March 2012	31 March 2011
Provision for employee benefits		
For gratuity	439,718	363,718
As Per Actuarial Valuation Certificate	<u>439,718</u>	<u>363,718</u>

City Online Services Limited**Notes to financial statements**

All amounts in Rs. unless otherwise stated

	<u>31 March 2012</u>	<u>31 March 2011</u>
6. Deferred tax Liability (net)		
Deferred tax liability	229,412	265,786
Current year provision	105,869	36,374
Gross deferred tax liability	<u>123,543</u>	<u>229,412</u>
7. Short-term borrowings		
Secured	<u>31 March 2012</u>	<u>31 March 2011</u>
Cash Credit from Oriental Bank Of Commerce	7,014,111	6,437,662
The above cash credit is secured by Hypothecation of stock, Book debts of the company, personal guarantee of three directors of the company, First charge on fixed assets of the company		
Vehicle Loan	1,496	32,863
Hypothecated to OBC		
	<u>7,015,607</u>	<u>6,470,525</u>
8. Trade payables	<u>31 March 2012</u>	<u>31 March 2011</u>
For Supplies - ISP	4,885,894	3,586,010
For Services	100,177	85,469
	<u>4,986,071</u>	<u>3,671,479</u>
Based on information available with the Company, there are no suppliers who are registered as micro and small enterprises under "The Micro, Small and Medium Enterprises Development Act, 2006" as at 31 March 2012.		
9. Other current liabilities	<u>31 March 2012</u>	<u>31 March 2011</u>
Un Accrued Income	743,234	-
Deposits from Franchise	487,759	593,916
Advance from Customers	505,943	253,661
Rent Deposit	-	75,000
	<u>1,736,936</u>	<u>922,577</u>
10. Short term provisions	<u>31 March 2012</u>	<u>31 March 2011</u>
Directors Remuneration	194,000	246,206
Salaries And Wages	587,285	331,500
Provident Fund Payable	102,960	0
Telephone Charges	121,217	57,278
DOT Charges	68,043	234,792
Service Tax	3,401,248	2,684,919
Tax deducted at source	3,323,330	2,504,395
VAT	47,039	24,072
Electricity Charges	98,695	145,727
Audit Fee	150,450	135,000
	<u>8,094,267</u>	<u>6,363,889</u>

10 Fixed Assets

Fixed Assets	Gross Block				Accumulated Depreciation			Net Block	
	Balance as at 1 April 2011	Additions	Disposals	Balance as at 31 March 2012	Balance as at 1 April 2011	Depreciation charge for the year	Balance as at 31 March 2012	Balance as at 31 March 2012	Balance as at 31 March 2011
Tangible Assets									
Plant and Equipment	38688856	120822	0	38809678	14623463	1869488	16492951	22316727	24065393
Furniture and Fixtures	6540386	0	0	6540386	2981888	414006	3395894	3144492	3558498
Office Equipment	5445210	26500	0	5471710	2228904	259201	2488105	2983605	3216306
Computer Equipment	8360765	238027	51000*	8547792	8003317	110754	8114071	433721	357448
Total	59,035,217	385,349	51,000	59,369,566	27,837,572	2,653,449	30,491,021	28,878,545	31,197,645
Previous year	54993400	4041817	0	59035217	25381909	2455663	27837572	31197645	29611491

* Two Laptops were Purchased and sold for same price without any profit Depreciation was not charged for the same.

12 Inventories	31 March 2012	31 March 2011
Stock in Trade	5,074,311	3,066,028
(Valued at Cost or NRV which ever is Lower)		
	5,074,311	3,066,028
13. Trade Receivables	31 March 2012	31 March 2011
Trade receivables outstanding for a period less than six months from the date they are due for payment		
Secured, considered good		
Unsecured, considered good	9,210,540	3,665,368
	9,210,540	3,665,368
Less: Provision for doubtful debts	0	0
	9,210,540	3,665,368
Trade receivables outstanding for a period exceeding six months from the date they are due for payment		
Secured, considered good		-
Unsecured, considered good	2,371,503	5,634,044
	2,371,503	5,634,044
Less: Provision for doubtful debts	-	-
	2,371,503	5,634,044
	11,582,043	9,299,412
14. Cash and bank balances	31 March 2012	31 March 2011
Cash and cash equivalents		
Cash on hand	3,101,295	23,948
Balances with banks		
- in current accounts	739,253	865,466
months)	-	-
	3,840,548	889,414
Other bank balances		
Deposits with maturity of more than 12 months	243,325	286,143
	243,325	286,143
	4,083,873	1,175,557
15. Short-term loans and advances	31 March 2012	31 March 2011
Unsecured, considered good		
Advances recoverable in cash or in kind or for value to be received	1,121,000	1,150,609
	1,121,000	1,150,609
16. Other current assets	31 March 2012	31 March 2011
Other Deposits	2,681,706	2,698,140
TDS Receivables	2,773,672	2,590,140
Interest accrued on FD	51,664	18,870
Prepaid expenses	3,634,000	2,273,381
	9,141,042	7,580,531
17. Revenue from operations	31 March 2012	31 March 2011
Income from Internet Services	50,677,202	41,668,589
Income from VOIP Services	2,433,774	3,243,724
Hardware Sales	1,356,607	1,093,457
	54,467,583	46,005,770
18. Other income	31 March 2012	31 March 2011
Excess Provision Written Back	405,894	430,846
Rent Income on Sub Letting	363,000	142,000
Interest on Fixed Deposit	25,590	27,467
Interest on Income tax refund	68,563	106,410
Miscellaneous income	10,368	78,856
	873,415	785,579

19. Operating Expenses	<u>31 March 2012</u>	<u>31 March 2011</u>
Bandwidth Charges	23,264,116	18,597,799
Repairs and Maintenance	413,534	375,345
VOIP Activation charges	363,626	-
Generator Maintenance	78,161	33,651
Electricity Charges	1,829,989	1,824,751
Rent Networking	1,835,274	1,570,261
Cost of Sales	1,122,654	774,850
other operating expenses	1,641,935	9,126
	<u>30,549,289</u>	<u>23,185,783</u>
20. Employee benefits expense	<u>31 March 2012</u>	<u>31 March 2011</u>
Salaries, wages and Other Benefits	8,196,941	7,568,887
Contribution to provident and other funds	72,360	-
Gratuity	47,000	17,032
Staff welfare expenses	160,313	185,524
	<u>8,476,614</u>	<u>7,771,443</u>
21. Finance costs	<u>31 March 2012</u>	<u>31 March 2011</u>
Interest on Overdraft	898,109	754,878
Bank charges	101,885	133,399
Interest Others	31,233	26,925
	<u>1,031,227</u>	<u>915,202</u>
22. Other expenses	<u>31 March 2012</u>	<u>31 March 2011</u>
Rent	1,659,021	1,406,742
Directors Remuneration	2,926,520	2,491,520
Sales Commission	1,243,990	1,484,881
Insurance	82,509	23,653
Listing Fee and ROC Fee	113,371	
Rates and taxes	32,493	249,743
Auditors' remuneration	155,450	150,000
Travelling and conveyance	1,355,632	1,718,676
Legal and professional charges	367,740	184,716
Advertisement expenses	32,690	63,288
Communication cost	811,948	632,364
Bad Debts written off	946,753	1,435,543
Printing and stationery	135,238	147,594
Interest on delayed payment of TDS	107,637	139,856
Interest on delayed payment of service tax	84,226	33,231
Maintenance expenses	437,773	511,126
DOT License fees	155,452	-
Membership fees	310,141	262,180
Business Promotion expenses	73,202	10,926
Miscellaneous expenses	228,365	150,511
	<u>11,260,151</u>	<u>11,096,550</u>

City Online Services Limited**Cash Flow Statement for the year ended 31 March 2012**

All amounts in Rs. unless otherwise stated

	For the year ended	
	31 March 2012	31 March 2011
A. Cash flow from operating activities		
Profit After Tax	2,036,491	1,403,082
Adjustments for:		
Interest expenses	1,031,227	954,890
Depreciation	2,653,449	2,455,663
Bad debts written off	946,753	1,435,543
Deferred tax asset	(105,869)	(36,374)
Operating loss before working capital changes	<u>6,562,051</u>	<u>6,212,804</u>
(Increase)/decrease in Inventories	(2,008,283)	2,589
(Increase)/decrease in sundry Debtors	(3,229,384)	(616,194)
(Increase)/decrease in loans and advances	29,609	(2,216,820)
(Increase)/decrease in other current assets	(1,560,511)	-
(Decrease)/increase in Long Term Provisions	76,000	-
(Decrease)/increase in Current liabilities	3,859,329	1,714,111
Cash used in operations	<u>3,728,811</u>	<u>5,096,490</u>
Income taxes paid	-	-
Net cash used in operating activities	<u>3,728,811</u>	<u>5,096,490</u>
B. Cash flow from investing activities		
Purchase of fixed assets	(385,349)	(4,041,817)
Proceed from sale of fixed assets	51,000	-
Net cash used in investing activities	<u>(334,349)</u>	<u>(4,041,817)</u>
C. Cash flow from financing activities		
Proceeds from short term borrowings	545,082	403,680
Interest on loans	(1,031,227)	(954,890)
Net cash from financing activities	<u>(486,145)</u>	<u>(551,210)</u>
Net (decrease)/ increase in cash and cash equivalents (A+B+C)	2,908,317	503,463
Cash and cash equivalents at the beginning of the year	1,175,557	672,094
Cash and cash equivalent at the end of the year	<u><u>4,083,873</u></u>	<u><u>1,175,557</u></u>

For seshachalam & Co

Chartered Accountants

FRN: 003714S

T. Bharadwaj

Partner

Place: Hyderabad

Date: 03.09.2012

S.Raghava Rao

Chairman and

Managing Director

Hyderabad

R. Krishna Mohan

Director

Hyderabad

23. Notes forming part of Accounts

1. Contingent Liabilities

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

2. Balances of debtors, loans & advances, creditors are subject to confirmation and reconciliation, if any. In the opinion of the Board of Directors, Sundry Creditors, Loans and Advances as at 31st March 2012 stated would be realized in the ordinary course of the company's business are expected to produce at least the amount at which they are stated in the balance sheet.

3. Cash Flow Statement has been prepared in accordance with Indirect method prescribed in AS - 3 issued by ICAI.

4. Auditors Remuneration

Particulars	(In Lakhs)	
	31.03.2012	31.03.2011
Audit Fees	1,50,450/-	1,50,000/-

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

Particulars	(Value In USD)	
	31.03.2012	31.03.2011
Outflow in Foreign Currency	32,585	18,569

6. Foreign Currency earnings

Particulars	(Value In USD)	
	31.03.2012	31.03.2011
Inflow in Foreign Currency on Rendering Services	12,221	0

7. During this Financial year the Company has decided to write back un Cleared Cheques issued to various parties amounting to Rs. 5,60,354/- as Prior Period Income.

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

Defined benefit plans:

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

(Amount in)

Particulars	31.03.2012	31.03.2011
Projected benefit obligation at the beginning of the period	3,63,718	3,19,761
Current service cost	47,000	17,032
Interest cost	29,000	26,925
Actuarial loss/(gain)	4,39,718	3,63,718
Benefits paid	-	-
Projected benefit obligation at the end of the period	-	-
Amounts recognized in the balance sheet	4,39,718	3,63,718
Projected benefit obligation at the end of the period	4,39,718	3,63,718
Cost for the period		
Current service cost	47,000	17,032
Interest cost	29,000	26,925
Expected return on plan assets	-	-
Net actuarial (gain)/loss recognized in the period	-	-
Past service cost	-	-
Net cost	-	-
Assumptions		
Discount rate	8.00%	8.00%
Estimated rate of return on plan assets	8.00%	8.00%

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

Related party transactions during the year

Nature of transactions	For the year ended	
	31.03.2012	31.03.2011
Remuneration		
Mr. Raghava Rao, Chairman & Managing Director	10,92,000	9,35,000
Mr. CH.Harinath, Executive Director	8,40,000	8,97,000
Mr. R.Krishna Mohan, Wholetime Director	9,95,000	6,60,000

11. Deferred Tax Asset/(Liability) calculation:

Depreciation as per Income Tax Act	23,10,831
Less : Depreciation as per Companies Act	26,53,449
Timing Difference	3,42,618
Deferred Tax Asset	1,05,869

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

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

For and on behalf of the Board of Directors

(T. Bharadwaj)
Partner

(S.Raghava Rao)
Chairman&Managing Director

(R.Krishna Mohan)
Director

Membership No.201042
Place: Hyderabad
Date: 03.09.2012

CITY ONLINE SERVICES LIMITED

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

PROXY FORM

I/We ofbeing a member / members of the above named company hereby appoint ofas my/our proxy to vote for me/us on my/our behalf at the 13th Annual General Meeting of the Company to be held on Saturday, the 29th day of September, 2012 at 11.00 AM at the Registered Office of the Company and at any adjournment thereof.

Signed this day of September, 2012.

As fix
Re. 1/
Revenue
Stamp

NOTE :

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

CITY ONLINE SERVICES LIMITED

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

ATTENDANCE SLIP

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

Regd. Folio Shares held

I hereby record my presence at the 13th Annual General Meeting to be held on Saturday, the 29th day of September, 2012 at 11.00 AM at the Registered Office of the Company.

Name of the Shareholder :

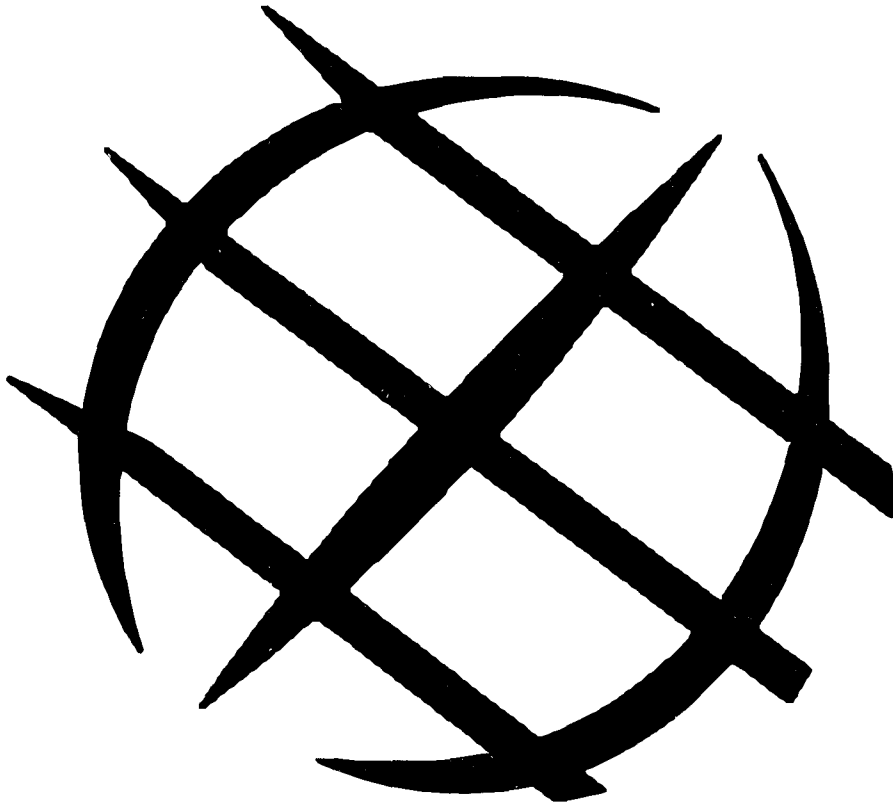
Name of the Proxy :

Signature of member / proxy :

Note :

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

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City Onlince Services Limited

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