

NOTICE

Notice is hereby given that the Eleventh Annual General Meeting of the Company will be held on Thursday the 23rd December, 2010 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, 2010, the Profit and Loss account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. R. Krishna Mohan who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. 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 thought fit to pass with or without modification the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of 198,269,309 and Schedule XIII and other applicable provisions if any of the Companies Act, 1956, the remuneration and perquisites payable to Shri S. Raghava Rao, Chairman & Managing Director for the remaining period of his tenure be increased, with effect from 01.11.2010, as follows:

1. Salary : Rs. 75,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or at other intervals as may be decided by the Board.
3. Perquisites and Allowances
 - i) Housing : Furnished/unfurnished residential Accommodation or house rent allowance up to 40% of Salary in lieu there of.
 - ii). Medical Reimbursement/ Allowance : Reimbursement of actual expenses for self And family and / or allowances will be paid as per the rules of the Company.

iii). Leave Travel Concession/ Allowance	: For self and family once in a year, in Accordance with the rules of the Company.
iv). Club Fees	: Fees payable subject to a maximum of two Clubs.
v). Provision of Driver/ Driver's Salary allowance	: As per rules of the Company.
vi). Personal Accident Insurance	: As per rules of the Company.
vii). Earned / Privilege Leave	: As per rules of the Company.
viii). Company's contribution to Provident Fund and Super- Annuation Fund	: As per rules of the Company.
ix). Gratuity	: As per rules of the Company.
x). Encashment of Leave	: As per rules of the Company.
xi). Car and Telephone	: Use of the Car and Telephone for official Purposes.

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. S. Raghava Rao, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under Para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

6. To consider and thought fit to pass with or with out the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of 198,269,309 and Schedule XIII and other applicable provisions if any of the Companies Act, 1956, the remuneration and perquisites payable to Shri Ch. Harinath, Executive Director for the remaining period of his tenure be increased, with effect from 01.11.2010, as follows:

1. Salary : Rs. 70,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or At other intervals as may be decided by the Board.

3. Perquisites and Allowances

i) Housing	: Furnished/unfurnished residential Accommodation or house rent allowance Up to 40% of Salary in lieu thereof.
ii). Medical Reimbursement/ allowance	: Reimbursement of actual expenses for self And family and / or allowances will be paid as per the rules of the Company.
iii). Leave Travel Concession/ allowance	: For self and family once in a year, in Accordance with the rules of the Company.
iv). Club Fees	: Fees payable subject to a maximum of two Clubs.
v). Provision of Driver/ Driver's Salary allowance	: As per rules of the Company.
vi). Personal Accident Insurance	: As per rules of the Company.
vii). Earned / Privilege Leave	: As per rules of the Company.
viii). Company's contribution to Provident Fund and Super-Annuation Fund	: As per rules of the Company.
ix). Gratuity	: As per rules of the Company.
x). Encashment of Leave	: As per rules of the Company.
xi). Car and Telephone	: Use of the Car and Telephone for official Purposes.

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. Ch. Harinath, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

7. To consider and thought fit to pass with or with out the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to the provisions of 198,269,309 and Schedule XIII and other applicable provisions if any of the Companies Act, 1956, the remuneration and perquisites payable to Shri R. Krishna Mohan, Director (Finance & Administration) for the remaining period of his tenure be increased, with effect from 01.11.2010, as follows:

1. Salary : Rs. 70,000/- per month
2. Performance Bonus : Up to a maximum of 25% of Salary, payable quarterly or at other intervals as may be decided by the Board.

3. Perquisites and Allowances

- i) Housing : Furnished/unfurnished residential Accommodation or house rent allowance up to 40% of Salary in lieu there of.
- ii). Medical Reimbursement/ Allowance : Reimbursement of actual expenses for self and family and / or allowances will be paid as per the rules of the Company.
- iii). Leave Travel Concession/ Allowance : For self and family once in a year, in accordance with the rules of the Company.
- iv). Club Fees : Fees payable subject to a maximum of Two Clubs.
- v). Provision of Driver/ Driver's Salary allowance : As per rules of the Company.
- vi). Personal Accident Insurance : As per rules of the Company.
- vii). Earned / Privilege Leave : As per rules of the Company.
- viii). Company's contribution to Provident Fund and Super-Annuation Fund : As per rules of the Company.
- ix). Gratuity : As per rules of the Company.
- x). Encashment of Leave : As per rules of the Company.
- xi). Car and Telephone : Use of the Car and Telephone for official purposes.

The aggregate of the Salary, performance bonus, perquisites and allowances, contribution towards provident fund and superannuation fund, gratuity and leave encashment taken together shall always be subject to the overall ceiling laid down in Sections 198 and 309 of the Companies Act, 1956.

Minimum Remuneration

Where in any financial year, during the currency of tenure of Mr. R. Krishna Mohan, the Company incurs a loss or its profits are inadequate, the Company may pay them remuneration by way of Salary, performance bonus, perquisites and allowances not exceeding the limits as specified under para 2 of Section II, Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Central Government from time to time as minimum remuneration.

By order of the Board

Place : Hyderabad
Dated : 30.10.2010

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 Friday December 17, 2010 to Thursday, December 23, 2010, both days inclusive, for the purpose of Annual General Meeting
- 4) The members are requested to intimate immediately any change in their address quoting their Registered Folio enabling the Company to address future communication.
- 5) Members are requested to bring copies of the Annual Report, as no extra copies shall be provided at the Meeting. Shareholders desiring any information as regards to the Audited Accounts are requested to write to the Company at least one week before the Meeting enabling the Chairman to keep the information ready to reply at the meeting.
- 6) Explanatory statement pursuant to section 173 (2) of the Companies Act 1956 is annexed for Item No. 5 to 7.

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

Item No.5

The Tenure of Mr. S. Raghava Rao, Chairman cum Managing Director runs from 01st September 2006 to 31st August 2011. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board approved the proposal for increase of remuneration for the remaining period of his tenure i.e. 01.11.2010 to 31.08.2011

Hence the resolution is at Item No. 5 of the Notice.

The Board commends this resolution for the approval of shareholders at the ensuing Annual General Meeting.

None of the other Directors of the Company except Mr. S. Raghava Rao is in any way concerned or interested in this resolution.

Item No.6

The Tenure of Mr. Ch. Harinath, Executive Director runs from 01st September 2006 to 31st August 2011. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board approved the proposal for increase of remuneration for the remaining period of his tenure i.e. 01.11.2010 to 31.08.2011

Hence the resolution is at Item No. 6 of the Notice.

The Board commends this resolution for the approval of shareholders at the ensuing Annual General Meeting.

None of the other Directors of the Company except Mr. Ch. Harinath is in any way concerned or interested in this resolution.

Item No.7

The Tenure of Mr. R. Krishna Mohan, Director (Finance & Administration) runs from 01st September 2006 to 31st August 2011. Keeping in view the Contribution to the growth and development of the Company and on the recommendations of the Remuneration Committee, the Board approved the proposal for increase of remuneration for the remaining period of his tenure i.e. 01.11.2010 to 31.08.2011

Hence the resolution is at Item No. 7 of the Notice.

The Board commends this resolution for the approval of shareholders at the ensuing Annual General Meeting.

None of the other Directors of the Company except Mr. R. Krishna Mohan is in any way concerned or interested in this resolution.

Directors Report

Dear Members,

Your Directors have pleasure in presenting the Company's ELEVENTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2010 and the Auditor's Report thereon

Financial Results:

Particulars	Sch. No	31.03.2010 Rs	31.03.2009 Rs.
I) INCOME			
a) Income from operations	8	36,386,301	43,647,911
d) Other Income		121,900	49,646
TOTAL		36,508,201	43,697,557
II) EXPENDITURE			
a) Operating Expenses	9	20,729,032	27,512,674
b) Payments & Benefits To Employees	10	6,458,752	6,761,772
c) Administrative Expenses	11	10,895,478	11,465,913
d) Selling Marketing Expenses	12	898,387	1,343,237
TOTAL		38,981,649	47,083,596
III) PROFIT BEFORE INTEREST AND DEPRECIATION		(2,473,448)	(3,386,039)
Interest	13	706,150	851,423
IV) PROFIT BEFORE DEPRECIATION		(3,179,598)	(4,237,462)
Depreciation	5	2,363,703	2,141,107
V) PROFIT / (LOSS) BEFORE TAX		(5,543,301)	(6,378,569)
Prior period Expenses		-	(2,314,591)
Prior period Incomes		2,372,082	1,430,399
VI) PROVISION FOR TAXATION			
For Current Income Tax		-	-
For Deferred Tax/Liability (Asset)		-	1,432,403
For Fringe Benefit Tax		-	135,099
PROFIT / (LOSS) AFTER TAX		(3,171,219)	(5,965,457)
Add: Balance Carried from Last year		(19,282,012)	(13,316,555)
BALANCE CARRIED OVER TO BALANCE SHEET		(22,453,231)	(19,282,012)
Basic and Diluted Earnings Per Share		(0.62)	(1.17)

Review and Prospects

The year 2009-10 has been a promising year for your company. Although the Indian market for Internet revived and there is a considerable increase in demand for higher bandwidth as the prices of raw bandwidth has come down by more than 200 percent. This demand is not only in corporate sector but also in education and broadband. In rural areas also the demand for broadband connections is increasing hence your company is planning to enter rural market by opening around 50 ISP nodes in all the districts of Andhra Pradesh by March 2011 and in Karnataka about 25 nodes. As of now your company has opened ISP nodes in Kakinada, Warngal, Khammam and Ongole. Under the leadership of your MD, your company is working day and night for sending video stream for providing IPTV services in USA and other countries as of now we are sending test signals to a company in USA and the feedback is quite encouraging in the coming months your company will be providing this services to various IPTV Broadcasters . The coming finical year promises to be a good yeas for your company and the management is confident of showing better result

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

The Board of Directors are confident to achieve better results for 2010-2011 as the efforts put in the previous year start to bear fruit. Your company has also improved its sales and marketing efforts to target specific segments like Education, Hospitality, and residential sectors for wifi networking and cross sell VoIP services, and bandwidth services.

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

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

Public Deposits

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

Directors: -

Mr. R. Krishna Mohan and Mr. Thomos P. Nicodamus 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 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. Prasad & Prasad, Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and they are not willing for re-appointment due to their pre-occupations.

In that place M/s. Seshachalam & Co, Chartered Accountants, Secunderabad have been appointed as Statutory Auditors of the Company for the Financial Year 2010-11.

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) Reply to the comment made in Paragraph No. 4 (i) of the Auditors Report regarding confirmation of balances from Sundry Debtors - we have taken necessary steps for obtaining the balance confirmation from Sundry Debtors and in respect of Point No. (ii) the management is confident recoverability of Sundry Debtors which are due for more than 6 Months.
- b) Reply to the comment made in Paragraph No. 5 of the Auditors Report regarding re-issue of forfeiture of shares - the Company has re-issued 60000 equity shares @ 7.50/- each. The Company has intimated to Bangalore Stock Exchange and got the acknowledgement from Stock Exchange.
- c) Reply to the comment made in Paragraph No. 5 of the Auditors Report regarding non-compliance of certain requirements of listing agreement;
 - i. the Company has intimated to Bangalore Stock Exchange and got the acknowledgement from Stock Exchange.
 - ii. The company is in the process of appointing a whole time Company Secretary as required under Section 383A of the Companies Act, 1956.
 - iii. Presently the composition of Board is Three Executive Directors and Three independent Directors. According to the Clause 49 of the Listing Agreement,

the Company has optimum combination of Executive, non-executive and independent Directors in the Board.

iv. The composition of Audit Committee consists Two independent Directors and One Executive Director. The chairman of the Audit Committee is independent Director. Hence the Company is having proper composition of Audit Committee.

v. The Company is regularly publishing the financial results in Business Standard and Andhra Bhoomi as when required as per clause 41 of the listing agreement.

- d) Reply to the comment made in Paragraph No. 7 of Annexure to the Auditors Report regarding internal Audit Systems- the Company has established Internal Audit department and functioning well in respect of the Internal Audit Systems.
- e) Reply to the comment made in Paragraph No. 9b of Annexure to the Auditors Report regarding non-payment of Service Tax for a period of more than 6 months - The Company has cleared the Service Tax Dues of Rs. 539,761/- subsequently.
- f) Reply to the comment made in Paragraph No. 21 of Annexure to the Auditors Report - This is a printing error. The management does not have any intention to give misrepresentation in Annual Reports.

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, 2010

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 :		2009-10	2008-09
a) Earnings		Nil	Nil
b) Used	:		
i) For Foreign Travel is	:	Nil	Nil
ii) On Account of Licenses and Registrations	:	Nil	US\$ 3169
iii) On account of Hardware purchase	:	Nil	US\$2958
iv) On account of VOIP Services	:	US\$27660.35	US\$58556.59
		Rs. 12,72,376	Rs. 30,30,388

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 : 27.09.2010

S. Raghava Rao
Chairman and Managing Director

MANAGEMENT DISCUSSION & ANALYSIS REPORT

[Annexure to Report on Corporate Governance]

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

Overview

Regarding Company Business

In the first half of this financial year there was a slight increase in the customer base for example Leased line customers went-up. But this is not reflected in the overall turnover due to decrease in bandwidth prices. In the later of the Financial Year we were able to rope in a good number of reputed software development and BPO companies both at Hyderabad and Bangalore and started opening new ISP nodes in districts. Your company is fast expanding into rural market where the bandwidth demand is going up day by day in education sector and also in broadband sector your company is planning to open at least 50 ISP nodes in A.P and Karnataka

INTERNAL CONTROL SYSTEMS AND THEIR ACADEMY

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

Opportunities and Threats

Opportunities

The opportunities we see are in the new areas like 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 : 27.09.2010

For and on behalf of the Board of Directors

S. Raghava Rao
Chairman & Managing
Director

R. Krishna Mohan
Director- Finance and
Administration

**Corporate Governance
(Mandatory Requirements)**

1) Company's Philosophy

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

The importance of corporate governance has always been recognized by our company and is manifest in its vision. In accordance with the listing agreement, a certificate from practicing company secretary for compliance of corporate governance by the company during the financial year 2009-10 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	5	5	2	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	5	3	1	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	5	5	2	Yes
Mr. S V Kanaka Seshu**	APIDC Nominee	Director	1	0	11	No
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	5	3	1	No
Mr. Thamous P. Nicodemus	Independent and Non-Executive Director	Director	5	0	2	No

Mr. V. Satyanarayana	Independent and Non-Executive Director	Director	5	3	1	No
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** 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

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

Meetings of the Board of Directors

During the financial year 2009-10 the Board of Directors met 5 times on the following dates: April 30, 2009, July 31, 2009, September 02, 2009, October 31, 2009 and January 30, 2010.

3) Audit Committee

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

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

Composition and Other Details

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

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

During the year under review, the Audit Committee met 5 times respectively April 30, 2009, July 31, 2009, September 02, 2009, October 31, 2009 and January 30, 2010.

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

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

4) Remuneration Committee

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

Composition and other details

Remuneration Committee was constituted with three Independent Directors, viz.

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

The Committee has not met during the year.

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

Executive Directors

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

5) Share Transfer Committee

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

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

The Committee has not met during the year.

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

- g) Transfer of shares
- h) Dematerialization of shares
- i) Replacement of lost/stolen/mutilated share certificates
- j) Non-receipt of rights/bonus/split share certificates
- k) 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 2009-10:

Sl. No	Nature	Number			
		2009-10		2008-09	
		Received	Attended	Received	Attended
1	Dematerialization/ Rematerialization	Nil	Nil	01	01
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.

b) Financial calendar for the year 2010-11 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending 30th June 2010 : July 31, 2010
- ii) Financial reporting for the Quarter ending September 30, 2010 : October 30, 2010
- iii) Financial reporting for the quarter ending December 31, 2010 : January 31, 2011
- iv) Financial reporting for the quarter ending March 31, 2011 : April 30, 2011

c) Dates of book closure for AGM: December 17, 2010 to December 23, 2010 for the financial year 2009-10 (both days inclusive)

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

f) Listing Details

The Shares of the Company are Listed on the Bangalore Stock Exchange. The listing fee for the period 2009-10 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 31-3-2010 and liquidity

Fully paid up shares	CDSL 391214	NSDL 2139586
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9) Venue and Time of the Last Three Annual General Meetings (AGM's)

Financial Year	Date	Venue	Time
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
2008-09	September 30, 2009	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 December 23, 2010 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad -500 038.**

I) Distribution of Shareholding as on March 31, 2010

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	11761	0.23	40	6.90
2	5001	10000	8700	0.17	9	1.55
3	10001	20000	26178	0.51	15	2.59
4	20001	30000	596700	11.56	234	40.34
5	30001	40000	313517	6.07	81	13.97
6	40001	50000	402150	7.79	84	14.48
7	50001	100000	401600	7.78	46	7.93
8	100001	And Above	3404094	65.90	71	12.24
Total			5164700	100.00	580	100.00

m) Pattern of Shareholding as on March 31, 2010

Sl. No	Category	Shares	
		Numbers	%
1	Private Corporate bodies	432497	8.38
2	Mutual Funds, DSP Merrill Lynch	200000	3.87
3	Non Resident Indians	20000	0.39
4	Promoters	676250	13.07
5	Resident Individuals	3835953	74.29
Total		5164700	100.00

- n) Address for correspondence : City Online Services Limited
**701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad –500 038701**
Tel- 040-23757469
Fax-040-23757419
- o) Contact Person : Mr.R.Krishna Mohan
E-mail : rkmohan@cityonlines.com
Website : www.cityonlines.com
- p) **The Company's Registrars are** : M/s X L Softech Systems Limited
Road No. 2
Sagar Society
Banjara Hills
Hyderabad- 500 034
Tel- 040- 23553214
Fax -040-23553214
- Contact Person** : Mr. Ramesh

Non Mandatory Requirements

a) Chairman of the Board

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

b) Shareholder Right

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

c) Postal Ballot

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

CERTIFICATE

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, 2010 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchange, and state that in my opinion and to the best of my knowledge and according to the information and explanations given to me, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

For Ch. Veeranjanyulu & Associates
Company Secretaries

Place : Hyderabad

Date: 27.09.2010

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, 2010, 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 violate of the company's code of conduct.
- c. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which are aware and the steps have taken or propose to take to rectify these deficiencies.
- d. We have indicated to the auditors and the Audit committee
 - i. significant changes in internal control over financial reporting during the year;
 - ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - iii. instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting

For City Online Services Limited

S. Raghava Rao
Chairman & Managing Director

Place: Hyderabad
Date: 27.09.2010

AUDITORS' REPORT

TO
THE MEMBERS OF
CITY ONLINE SERVICES LTD.
HYDERABD

1. We have audited the attached Balance Sheet of **CITY ONLINE SERVICES LTD** (the Company) as at 31st March, 2010 and also the Profit and Loss Account and the 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. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of Sub-section (4A) of Section 227 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
4. *Our comments on the accounts are as under:*
 - i. *As stated in Note No 3 of Schedule 14, the company has not circularized requests for confirmation of balances of Sundry Debtors and Advances. These balances, therefore, remain unconfirmed and subject to adjustments, if any*
 - ii. *Attention is invited to Note No 4 of Schedule 14 which sets out the position regarding 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. We are unable to express an opinion in the matter*

The cumulative impact of the above comments (i) to (ii) above on the financial statements is not determinable.
5. The Company has re issued 60,000 forfeited shares of paid up value of Rs 2.50, with a balance calls in arrears of Rs 7.50 at a price of Rs 10.00 per share. We have noticed that Shares were issued at par by adjusting the amount of Rs 2.50 per share lying in shares forfeited account and Rs 7.50 lying in Share Application money received from the respective applicants. *The Company has not followed the mandatory guidelines of Securities and Exchange Board of India and the listing agreement of Bangalore Stock Exchange on such Preferential Issue, the impact of which on financial statements is not ascertainable*
6. *We invite attention to Note No 1 and 2 of Schedule 14 regarding non-compliance with certain requirements of listing agreement with Bangalore Stock Exchange and the Companies Act, 1956. In the absence of the compliance audit we are unable to comment on the impact of such non-compliance on financial statements.*

7. Further to our comments in the Annexure, paragraph 4, 5 and 6 referred to above , we report that
- a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) The Balance Sheet, profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet , Profit and Loss Account and dealt with by this report comply with
 - e) On the basis of the written representation received from the Directors, as on 31st March 31, 2010, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 211 of the Companies Act, 1956;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 March 31, 2010;
 - 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 the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Prasad & Prasad**
Firm Registration No. 002746S
Chartered Accountants

Nori Shyam Sunder
Partner
Membership No. 205649
Hyderabad, September 27, 2010.

Annexure referred to in paragraph 3 of our report of even date Re: City Online Services Limited.

- 1a. *We have been informed that the Fixed Assets register showing full particulars including quantitative details and situation of fixed assets is being updated. Further we are informed that the physical verification of these fixed assets will be carried only after completion of the fixed assets register and discrepancy if any, will be adjusted thereafter.*
- 1b. There was no substantial disposal of fixed assets during the year.
- 2a. The Inventory has been physically verified during the year by the Management and in our opinion the frequency of verification is reasonable.
- 2b. The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- 2c. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. 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),(e),(f) and (g) are not applicable.
4. In our opinion and according to the information and explanations given to us, the Internal Control Systems is commensurate with size of the company and nature of its business for purchases of Inventory and Fixed Assets. *However, the Internal control systems needs to be strengthened with regard to recognizing and accounting of revenue, reconciliation of bank accounts, accounting of rental expenses and accounting of year end provisions.*
5. 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.500000/- or more in respect of each party.
6. The Company has not accepted any deposits from the public.
7. *The internal audit carried out in house by unqualified person. There is no defined scope of coverage and is mostly confined to statutory dues and payroll. There is no formal reporting. There is no effective and quality internal audit. In our opinion the internal audit scope and coverage needs to be enlarged keeping in view the size of the organization and nature of its business and is to be carried out by qualified people.*
8. Maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, is not prescribed for the Company.
- 9a. According to the books and records produced to and examined by us, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues applicable to the Company.
- 9b. According to the information and explanation given to us and records of the company examined by us, there are no undisputed statutory dues including Provident fund, income tax and wealth tax outstanding at the year end, for a period of more than six months from the date they became payable except in respect of the service tax of Rs 5,39,761.
10. The Company's accumulated losses at the end of the period under report are less than fifty percent of its net worth. The Company has not incurred cash losses during the financial period covered by our audit. In the immediately preceding financial year the Company has incurred cash loss.

- 11 According to the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank.
- 12 According to the information and explanation given to us, the company has not granted any loans or advances against pledge of shares, debentures or other securities. There are no borrowings by way of debentures.
- 13 In our opinion and according to the information and explanations given to us, the nature of activities of the company does not attract any special statute applicable to chit fund and nidhi/mutual benefit fund/societies.
- 14 Based on our examination of records and information and explanations given to us, the company has not dealt/traded in shares, securities, debentures and other investments during the year.
- 15 According to the information and explanations given to us, the company has not given any guarantee for loans taken by other from banks or financial institutions.
- 16 The Company has not obtained any term loans.
- 17 The company has not utilized the long term loans for short term investment.
- 18 *Subject to our comment in Para 5 of our audit report, the company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.*
- 19 The company did not have any outstanding debentures during the year.
- 20 The company has not raised any money through public issue.
- 21 Based on the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the year, *except for where the Company has stated in its annual reports 2007-08 and 2008-09 that as per the requirements of the listing agreement quarterly/half-yearly results were audited by the statutory auditors, and the same were published in Newspapers, which is totally incorrect and which in our opinion amounts to material misrepresentation by the Company. We have not carried out any audit.*

CITY ONLINE SERVICES LIMITED

Balance Sheet as at 31st March 2010

	sch.no	As at 31-03-2010	As at 31-03-2009
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	6,066,845	7,065,358
(3) DEFERRED TAX LIABILITY	4	265,786	265,786
TOTAL		62,830,961	63,829,474
II			
APPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	5	54,993,400	52,932,326
(b) Less: Depreciation		25,381,909	23,018,206
Net Block		29,611,491	29,914,120
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	6 (a)	3,068,617	3,574,304
(b) Sundry Debtors	6 (b)	10,118,761	12,087,937
(c) Cash & Bank Balances	6 (c)	672,094	680,652
(d) Other Current Assets	6 (d)	16,031	58,193
(e) Loans & Advances	6 (e)	6,498,289	8,348,987
Sub - Total		20,373,792	24,750,073
(3) Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	7 (a)	3,652,902	2,767,327
(b) Provisions	7 (b)	5,954,651	7,349,404
Sub - Total		9,607,553	10,116,731
NET CURRENT ASSETS		10,766,239	14,633,342
(4) Profit and Loss Account		22,453,231	19,282,012
TOTAL		62,830,961	63,829,474
III			
NOTES ON ACCOUNTS	14	-	-

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

This is the Balance Sheet referred to in our report of even date

For Prasad & Prasad
Firm Registration No : 002746S
Chartered Accountants

NORI SHYAM SUNDER
Partner
Membership No. 205649
Hyderabad, September 27, 2010

For and on behalf of Board of Directors

S.RAGHAVA RAO
Chairman and Managing Director

R Krishnamohan
Director (Finance & Administration)

CITY ONLINE SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

Particulars	sch.no	As at 31-03-2010	As at 31-03-2009
I) INCOME			
a) Income from operations	8	36,386,301	43,647,911
d) Other Income		121,900	49,646
TOTAL		36,508,201	43,697,557
II) EXPENDITURE			
a) Operating Expenses	9	20,729,032	27,512,674
b) Payments & Benefits To Employees	10	6,458,752	6,761,772
c) Administrative Expenses	11	10,895,478	11,465,913
d) Selling Marketing Expenses	12	898,387	1,343,237
TOTAL		38,981,649	47,083,596
III) PROFIT BEFORE INTEREST AND DEPRECIATION		(2,473,448)	(3,386,039)
Interest	13	706,150	851,423
Depreciation	5	2,363,703	2,141,107
IV) PROFIT / (LOSS) FOR THE YEAR (Before prior period / extraordinary adjustment)		(5,543,301)	(6,378,569)
Less: Prior period Expenses		-	(2,314,591)
Add: Prior period Incomes		2,372,082	1,430,399
V) PROFIT / (LOSS) BEFORE TAX		(3,171,219)	(7,262,761)
Less: Provision for Current Income tax		-	-
Deferred Tax Asset(+) / Deferred tax Liability (-)		-	1,432,403
Less: provision for Fringe Benefit Tax		-	135,099
VI) PROFIT / (LOSS) AFTER TAX		(3,171,219)	(5,965,457)
Add: Balance Carried from Last year		(19,282,012)	(13,316,555)
VII) BALANCE CARRIED OVER TO BALANCE SHEET		(22,453,231)	(19,282,012)
Basic and Diluted Earnings Per Share		(0.62)	(1.17)
NOTES ON ACCOUNTS	14		

The Schedules referred to above and notes to accounts form integral part of the Profit and Loss Account

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

For and on behalf of Board of Directors

For Prasad & Prasad
Firm Registration No : 002746S
Chartered Accountants

S.RAGHAVA RAO
Chairman and Managing Director

NORI SHYAM SUNDER
Partner
Membership No. 205649
Hyderabad, September 27, 2010

R Krishnamohan
Director (Finance & Administration)

CITY ONLINE SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

	31.03.2010 Rs.	31.03.2009 Rs.
SCHEDULE - 1		
SHARE CAPITAL		
Authorised Capital (77,00,000 Equity shares of Rs.10/- each)	77,000,000	77,000,000
Issued Capital 70,00,000 Equity Shares of Rs.10/- each	70,000,000	70,000,000
Subscribed & Called up capital Subscribed and Called Up Capital 69,25,000 Equity Shares of Rs.10/- Each	69,250,000	69,250,000
Paid Up Capital 51,64,700 Equity Shares of Rs.10/- Each (Previous Year 51,04,700 Equity Shares) Of the above 3,57,500 (3,57,500) Equity Shares of Rs.10/- each have been issued for consideration other than cash	51,647,000	51,047,000
Share Forfeiture Account (Amount originally paidup) 17,60,300 (18,20,300 Equity Shares of partly paid up)	4,451,330	4,601,330
Share Application Money	-	450,000
	56,098,330	56,098,330
SCHEDULE - 2		
RESERVES AND SURPLUS		
Capital Investment Subsidy from Government of Andhra Pradesh	400,000	400,000
	400,000	400,000
SCHEDULE - 3		
SECURED LOANS		
Cash credit 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)	6,066,845	7,065,358
	6,066,845	7,065,358
SCHEDULE - 4		
Deferred Tax Liability (Asset)	265,786	265,786
	265786	265786

CITY ONLINE SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

	31.03.2010 Rs.	31.03.2009 Rs.
SCHEDULE - 6		
<u>CURRENT ASSETS, LOANS AND ADVANCES</u>		
a) INVENTORIES		
Stores and Spares	3,068,617	3,574,304
	3,068,617	3,574,304
b) SUNDRY DEBTORS:		
Unsecured And Considered Good	2,674,945	4,081,944
Outstanding for More than Six Months	7,443,816	8,005,993
Others		
	10,118,761	12,087,937
c) CASH AND BANK BALANCES		
At Schedule Banks:		
-In Current Account	396,952	76,658
-As Deposits Held as Security	239,643	532,147
Cash on Hand	35,499	71,847
	672,094	680,652
d) OTHER CURRENT ASSETS		
Interest accrued on Fixed Deposits	16,031	58,193
	16,031	58,193
e) ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Advance recoverable in cash or in kind or for value to be received		
Advances for Expenses	-	1,850,000
Advance for capital Goods	1,000,000	1,000,000
Advances to Staff	251,964	88,397
Other Deposits	2,525,728	2,542,590
Tax Deducted at Source	2,720,597	2,868,000
	6,498,289	8,348,987
SCHEDULE - 7		
<u>CURRENT LIABILITIES AND PROVISIONS</u>		
a) CURRENT LIABILITIES		
Sundry Creditors		
For Supplies	2,592,974	2,767,327
For Services	262,780	-
Advance from Customers	797,148	-
	3,652,902	2,767,327
b) PROVISIONS		
Provision for Gratuity	319,761	-
Provision for Exp	891,896	1,438,828
Provision for Taxes	4,742,994	5,775,477
Fringe Benefit Tax Payable	-	135,099
	5,954,651	7,349,404

CITY ONLINE SERVICES LIMITED
Schedule of Fixed Assets as at 31st March 2010

SCHEDULE - 5

Sl No.	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As On	Additions	Deductions	As On	As On	For the	On De-	As On	As On	As On
		01-04-2009 Rs.	During the Rs.	During the Rs.	31-03-2010 Rs.	31-03-2010 Rs.	year Rs.	ductions Rs.	31-03-2010 Rs.	31-03-2010 Rs.	31-03-2010 Rs.
1	Furniture and Fixtures	64,39,998	12,000		64,51,998	21,62,048	4,07,652		25,69,700	38,82,298	42,77,950
2	Computer Equipment	81,35,900	91,020		82,26,920	78,55,942	61,782		79,17,724	3,09,196	2,79,958
3	Office Equipment	51,18,701	2,23,000		53,41,701	17,61,091	2,43,459		20,04,550	33,37,151	33,57,610
4	Plant and Machinery	3,32,37,727	17,35,054		3,49,72,781	1,12,39,125	16,50,810		1,28,89,935	2,20,82,846	2,19,98,602
	TOTAL	5,29,32,326	20,61,074	-	5,49,93,400	2,30,18,206	23,63,703	-	2,53,81,909	2,96,11,491	2,99,14,120

CITY ONLINE SERVICES LIMITED
Schedules to Profit and Loss Account

Particulars	31.03.2010 Rs	31.03.2009 Rs
SCHEDULE - 8		
INCOME FROM OPERATIONS		
Income from Internet Services	3,20,51,908	3,87,73,645
Income from VOIP Services	38,94,641	47,28,400
Sale of Hardware	4,39,752	1,45,866
	3,63,86,301	4,36,47,911
SCHEDULE -9		
OPERATING EXPENSES		
Communication Cost	1,62,62,442	2,22,08,233
Cost of Sales	2,85,420	98,000
Vat	24,553	96,964
Domain Name Registration Exp	2,766	9,949
Tower Rents	14,32,409	13,75,320
Repairs and Maintenance	4,00,158	4,78,944
Electricity Charges	15,57,530	14,03,430
Generator Maintenance	49,254	21,434
Stock Adjustment	7,14,500	18,20,400
	2,07,29,032	2,75,12,674
SCHEDULE -10		
PAYMENTS & BENEFITS TO EMPLOYEES		
Salaries,Wages and Other Benefits	60,15,540	66,19,371
Staff Welfare Expenses	1,23,451	1,42,401
Gratuity	3,19,761	
	64,58,752	67,61,772
SCHEDULE -11		
ADMINISTRATIVE EXPENSES		
Rent	11,60,898	9,91,734
Postage and Telegrams	65,842	51,992
Telephone Expenses	6,35,012	4,64,112
Conveyance and Travelling	13,06,288	16,35,721
Printing and Stationery	55,872	85,300
License,Fees and Taxes	2,56,728	4,72,840
Insurance	42,646	25,307
Bank Charges	1,16,812	1,31,036
Office Maintenance Expenses	2,07,199	3,29,597
News papers and periodicals	8,326	32,295
Consultancy and Legal Expenses	1,01,716	3,96,694
Directors' Remuneration	22,34,520	22,54,520
Directors' sitting fees	-	500
Auditors Remuneration:	1,50,000	1,64,801
Advertisement Charges	45,316	42,036
Business Promotion Expenses 28,211	67,663	
Freight Charges	2,700	-
Discount On Sales	-	6,120
Security Service Charges	2,38,151	2,83,248
Share Transfer fee	-	72,578
Mebership&Subscription Fees 1,000	12,788	
Misc. & General Expenses	1,52,144	75,122
Copmuters Maintenance	13,006	10,791
Loss on Forein Exchange	-	1,800
Bad Debts Written Off	22,23,091	38,57,318
Advances Written off	18,50,000	
	1,08,95,478	1,14,65,913
SCHEDULE -12		
SELLING & MARKETING EXPENSES		
Sales Comission	8,98,387	13,43,237
	8,98,387	13,43,237
SCHEDULE -13		
INTEREST		
On Overdraft	6,37,604	7,73,391
For Delay on Tds	24,444	78,032
For Delay on Service Tax	44,102	-
	7,06,150	8,51,423

CITY ONLINE SERVICES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 st March 2010

	Year Ended 31st March 2010 Rs.	Year Ended 31st March 2009 Rs.
A. Cash Flow from Operating Activities		
Net Profit Before Interest and Tax	(31,71,219)	(63,78,569)
Adjustment for		
Depreciation	23,63,703	21,41,107
Period Expenses/(Income)	-	14,30,399
Bad debts written off	22,23,091	38,57,318
Stock Adjustment	7,14,500	18,20,400
Interest	7,06,150	8,51,423
Non Cash Items	-	1,36,903
Cash Generated before changes in working capital	28,36,225	38,58,981
(Increase)/ Decrease in Inventory	(2,08,813)	(14,34,252)
(Increase)/ Decrease in Sundry Debtors	(2,53,915)	(17,82,511)
(Increase)/ Decrease in Loans and Advances	18,92,860	(17,93,596)
(Decrease) /Increase in Current Liabilities and Provisions	(5,09,178)	(4,16,506)
Net Cash Flow from Operating Activities (A)	37,57,179	(15,67,884)
B. Cash flow From Investing Activities		
Purchase of Fixed Assets	(20,61,074)	(19,85,845)
Increase in Fixed Deposits	-	(27,154)
Net Cash Flow used in Investing Activity	(20,61,074)	(20,12,999)
C. Cash Flow from Financing Activities		
Interest paid	(7,06,150)	(8,51,423)
Increase in Working Capital Loan	(9,98,513)	30,43,908
Net Cash Flow used in/from Finance Activity	(17,04,663)	21,92,485
Opening Balance of Cash and Cash Equivalents	6,80,652	20,69,050
Net Increase/(Decrease) in Cash and Cash Equivalents	(8,558)	(13,88,398)
Closing Balance of Cash and Cash equivalents	6,72,094	6,80,652

This is the Cash Flow Statement referred to in report of even date

For and on behalf of Board of Directors

For Prasad & Prasad
Firm Registration No : 002746S
Chartered Accountants

NORI SHYAM SUNDER
Partner
Membership No. 205649
Hyderabad, September 27, 2010

S.RAGHAVA RAO
Chairman and Managing Director

R Krishnamohan
Director (Finance & Administration)

Balance Sheet abstract and Company's General Business Profile

I	Registration Details			
	Registration No.	32114	State Code1	
	Balance Sheet Date	31.03.2010		
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	62,831	Total Assets	62,831
	Sources of Funds			
	Paid up Capital	-	Reserves & Surplus	400
	Secured Loans	6,067	Unsecured Loans	NIL
	Application of Funds			
	Net Fixed Assets	29,611	Investments	NIL
	Net Current Assets	10,766	Misc. Expenditure	NIL
	Accumulated Losses	22,453		
IV	Performance of Company			
	Turnover	36,386	Total Expenditure	42,052
	Profit/Loss before Tax	(5543)		
	Earning per Share	(0.62)	Dividend (%)	NIL

v Generic names of three principal products/services of Company

Item Code No. (ITC Code)	Product Description	Internet Service Provider
30.04.2001335		
30.05.2001304		

As Per our Report of Even Date

For and on behalf of Board of Directors

For Prasad & Prasad
Firm Registration No : 002746S
Chartered Accountants

NORI SHYAM SUNDER
Partner
Membership No. 205649
Hyderabad, September 27, 2010

S.RAGHAVA RAO
Chairman and Managing Director

R Krishnamohan
Director (Finance & Administration)

ASCHEDULE 14

SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

These financial statements have been prepared under the historical cost convention on accrual basis to comply in all material respects with the notified Accounting Standards by the Companies Accounting Standards Rules, 2006 (as amended), other pronouncements of the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year, except for accounting of retirement benefits.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

3. Revenue recognition

- i. Revenue is recognized as and when the services are provided on the basis of actual usage of the Company's network.
- ii. Revenue from Leased lines is recognized over the period of the respective arrangements based on contracted rates.
- iii. Revenue from Internet Telephony (VoIP) services are recognized based on usage.
- iv. All other revenue is recognized on the basis of usage and at rates agreed upon between the company and the customers.
- v. Interest income on investments is recognized on time proportion basis.

4. Fixed Assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, impairment losses and specific grant/subsidies, if any. Cost comprise of purchase price, freight, non refundable taxes and duties and any attributable cost of bringing the asset to its working condition for its intended use. Finance costs relating to acquisition of fixed assets which take substantial period of time to get ready for use are included to the extent they relate to the period till such assets are ready for intended use.

Expenditure directly relating to construction activity is capitalized. Indirect expenditure is capitalized to the extent those relate to the construction activity or is incidental thereto. Income earned during construction period is deducted from the total expenditure relating to construction activity.

Assets retired from active use and held for disposal are stated at their estimated net realizable values or net book values, whichever is lower.

Depreciation is provided on the straight-line method, based on the useful life of the assets as estimated by the management which generally coincides with rates prescribed under Schedule XIV to the Companies Act, 1956.

5. Inventories

Stores, spares and consumables are valued at lower of cost, calculated on "First-in-First out" basis.

6. Retirement benefits

Employee benefits in the form of provident fund are a defined contribution scheme and the contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective authorities.

Gratuity is a defined benefit obligation and is provided for on the basis of an actuarial valuation on project unit credit method made at the end of each financial year.

Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation. The actuarial valuation is done as per projected unit credit method.

Actuarial gains/losses are immediately taken to Profit and Loss Account and are not deferred.

7. Transactions in foreign exchange

- i. Transactions in foreign currency are accounted at the exchange rates prevailing at the time of the transaction.
- i. Any gain or loss on account of exchange differences is charged to the Profit & Loss Account.

8. Income Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

9. Impairment of Assets:

The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life. A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However, the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

10. Earnings per Share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of equity shares outstanding during the period are adjusted for the effects of all dilutive potential equity

11. Provisions

A provision is recognized when the Company has a present obligation as a result of pas event and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

12. Prior Period Adjustments

Expenditure/income relating to previous year is shown in the accounts under the head "prior Period Adjustment Account" as per the provisions of AS-5 (Net Profit or Loss for the period, Prior period Items and changes in Accounting Policies) issued by Institute of Chartered Accountants of India.

13. Cash and cash equivalents

Cash and cash equivalents in the cash flow statements comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

NOTES FORMING PART OF ACCOUNTS

1. The Company has not complied with certain mandatory requirements laid down under listing Agreement such as :
 - i. Not sending intimation to stock exchange about reissue of forfeited shares within 15 minutes of the closure of the Board Meeting.
 - ii. Not Appointing a Company Secretary to act as a compliance officer
 - iii. Not having an optimum Combination of the executive, Non-Executive and Independent Directors in the Board in terms of the clause 49 of the listing agreement.
 - iv. Not having a Proper composition of the Audit Committee consisting of the required number of Independent Directors.
 - v. Not publishing audited quarterly and half-yearly financial results as required under clause 41 of the listing agreement.

The Company is in the process of making suitable compliances by appointing a Company Secretary and undertaking a comprehensive compliance audit with respect to requirements of listing agreement and SEBI. In view of the same no provision on estimation basis is made for any penal liabilities that may be payable for non-compliance in accordance with the provisions of listing agreement and SEBI.

2. The Company is in the process of appointing a whole time Company Secretary as required under Section 383A of the Companies Act, 1956.
3. Requests for confirmation of balances are yet to be sent by the company to debtors and for advances given by the company. These balances included in Sundry Debtors or Advances are therefore subject to adjustments if any, on receipt of responses to requests for confirmation.
4. Sundry debtors over six months considered good includes Rs – lakhs due from certain parties which are outstanding for a considerable period. The management is confident of recovering the amount and hence no provision has been considered necessary
5. The Company till last year provided for gratuity as per Gratuity Act, 1972 whenever it became payable, during the year the company has changed its accounting policy and provided gratuity on actuarial valuation. This has resulted in increase in loss by Rs 3,19,761.

Profit and Loss Account

	2009-2010	2008-2009
Net employee benefit expense (included under employee cost)		
Current service cost	3,19,761	0
Interest cost on benefit obligation		0
Expected return on plan assets	0	0
Net actuarial (gain)/loss recognized in the year	0	0
Past service cost	0	0
Net benefit expense	0	0
Actual return on plan assets	0	0

Balance Sheet

	March 31, 2010	March 31, 2009
Details of provisions for gratuity		
Defined benefit obligation	3,19,761	0
Fair value of plan assets	0	0
Net plan liability	0	0

Changes in the present value of the defined benefit obligation for gratuity are as follows:

	2009-2010	2008-2009
Opening defined benefit obligation	0	0
Current service cost	3,19,761	0
Interest cost	0	0
Past service cost	0	0
Benefits paid	0	0
Actuarial (gains)/losses on obligation	0	0
Closing defined benefit obligation	3,19,761	0

Changes in fair value of plan assets

	2009-2010	2008-2009
Opening fair value of plan assets	0	0
Expected return	0	0
Contributions by employer	0	0
Benefits paid	0	0
Actuarial gains/(losses)	0	0
Closing fair value of plan assets	0	0

The principal assumptions used in determining gratuity obligations for the Company's plans are shown below:

	March 31, 2010	March 31, 2009
Discount rate (p.a.) (%)	7.50	0
Expected return on assets (p.a.) (%)	7.50	0
Employee turnover:		
Attrition Rate For All Ages	1%	-

6. Segment reporting

The Company is engaged in the business of providing internet and voice on Internet services, which constitutes a single business segment. The Company has no operations outside India. In view of the above, primary and secondary reporting disclosures for business/geographical segment as envisaged in Accounting Standard 17 on 'Segment reporting' issued by the Institute of Chartered Accountants of India are not applicable to the Company.

7. Earnings per Share:

- i. The calculation of Earning Per Share (EPS) as disclosed in the Statement of profit and loss have been made in accordance with Accounting Standard (AS) 20 on Earnings Per share' issued by Companies (Accounting Standards) Rules, 2006. A statement on calculation of diluted EPS is as under:

The principal assumptions used in determining gratuity obligations for the Company's plans are shown below:

	Current Year	Previous Year
A. Profit/(Loss) after tax	(3,17,1,219)	(5,965,457)
B. Weighted average no of equity shares	51,64,700	51,04,700
C. Earnings Per Share	(0.62)	(1.17)

8. As required by Accounting Standard 28 on impairment of Assets, the Company has carried out impairment test of plant and machinery and no impairment loss has been identified on such test.

9. Sundry Creditors:

- i. In respect of the amounts mentioned under Section 205C of the Companies Act, 1956 there are no dues that are to be credited to the Investor Education and Protection Fund as at March 31, 2010 (March 31, 2009: Rs NIL).
- ii. The company has not received any intimation from suppliers regarding their status under the micro, small and medium enterprises development act 2006 and hence disclosures regarding amount due and outstanding to suppliers as at the end of the accounting year, interest paid during the year, interest payable at the end of the accounting year and interest accrued and unpaid at the end of the accounting year has not been given. The company is making efforts to get the confirmations from the suppliers as regards their status under the act.

10. Cash flow Statement

Cash flow statement has been prepared in accordance with the indirect method prescribed in AS 3 issued by ICAI.

11. Auditors remuneration

	As on 31 st March 2010	As on 31 st March 2009
Towards Statutory Audit	100,000	100,000
Towards Tax Audits	50,000	40,000
Towards certification work	Nil	Nil
Total	150,000	140,000

12. Prior Period Adjustments:

During the period 2007-08 and 2008-09 the Company has written off Bad Debts of Rs 38,57,318 and Rs 81,89,027 including Rs 13,25,141 of service tax. The service tax written off is reversed during the current year and is shown under prior period adjustment.

13. Foreign Currency transactions

	As on 31 st March 2010	As on 31 st March 2009
Earnings in foreign currency	Nil	Nil
Expenditure in foreign currency		
1. On account of licenses & regulations	Nil	Rs. 1,39,436
2. Hard ware purchase	Nil	Rs. 1,30,152
3. Band width	Nil	Nil
4. Voip services	Rs. 12,72,376	Rs. 27,60,800
5. On account of foreign travel	Nil	Nil

14. Capital Commitments

Estimated amount of contracts (net of advances) remaining to be executed on capital account and not provided for Rs NIL (March 31, 2009: Rs NIL).

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

16. CIF value of imports

	As on 31 st March 2010	As on 31 st March 2009
Hardware items	Nil	144,000

17. Related party disclosure

Names of related parties, where control exists or with whom transactions were carried out during each year and description of relationship as identified as per the requirements of Accounting Standard – 18 are presented in the following table.

Sl.No	Name of related party	Relationship - Key Management Personnel
1	S. Raghava Rao	CMD
2	Ch. harinath	Executive Director
3	R. Krishna Mohan	Wholetime Director

Transactions with related parties during the year

Nature of Transaction	2009-10	2008-09
Remuneration paid to CMD – Mr. S. Raghava Rao	Rs. 8,52,000	Rs. 8,72,000
Remuneration paid to Executive Director– Mr. Ch. Harinath	Rs. 6,00,000	Rs. 6,00,000
Remuneration paid to wholetime Director– Mr. R. Krishna Mohan	Rs. 7,82,520	Rs. 7,82,520

19. Contingent Liabilities

The Company has give performance guarantee to department of telecom (DOT) Government of India for due performance of ISP is Rs. 24, 00,000/- (previous year Rs. 20, 00,000/-).

Signatures to Schedules 1 to 14

As per our Report of even date
For **Prasad and Prasad**
Firm Registration No. 002746S
Chartered Accountants

Nori Shyam Sunder
Partner

M No: 205649
Hyderabad, September 27, 2010

For and on behalf of Board of Directors

S. Raghava Rao
Chairman and Managing director

R. Krishna Mohan
Director