

FIFTH ANNUAL REPORT

2003-2004

CITY ONLINE SERVICES LIMITED

**Annual Report
2003-04**

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Board Of Directors

Mr. S. Raghava Rao	Chairman and Managing Director
Mr. Ch. Harinath	Executive Director
Mr. R. Krishna Mohan	Director Finance and Administration
Mr. S. V. Kanaka Seshu	Nominee Director (APIDC)
Mr. S. S. R. Anjaneyulu	Director
Mr. Thamos. P. Nicodomus	Director
Mr. M. Nageswara Rao	Director

Registered. Office

#G1, 8-2-248/A, Maharishi House
Road No.3, Banjara Hills
Hyderabad-500034.

Auditors

G. P. Rao & Co.,
Chartered Accountants
6-3-1186/A/6, 3rd Floor
Behind Blumoon Hotel
Begumpet
Hyderabad-500016.

Bankers

Oriental Bank of Commerce
Mehdipatnam Branch
Mehdipatnam
Hyderabad

Oriental Bank of Commerce
Governorpet Branch
Governorpet
Vijayawada

Corporation Bank
8-2-248/A., Road No. 3
Banjara Hills
Hyderabad-500 034

Corporation Bank
Sadasiva Nagar Extension Branch
Sadasiva Nagar
Bangalore

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 Fifth Annual General Meeting of the Company will be held on Thursday, September 30, 2004 at 11.00 AM at the Registered Office of the Company at Terrace, 8-2-248/A, Road No.3, Banjara Hills, Hyderabad -500 034, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at March 31, 2004, the Profit and Loss account for the year ended on that date and the Reports of Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Ch. Harinath, who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. M. Nageswara Rao, who retires by rotation and being eligible, offers him-self for reappointment
4. To appoint M/s G. P. Rao & Co., Chartered Accountants, Hyderabad, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass with or without modification(s) the following resolution as an **Ordinary resolution**:

"RESOLVED THAT Mr. S. S. R. Anjaneyulu who was appointed as an Additional Director on April 29, 2004 up to the Annual General Meeting and in respect of whom notice under Section 257 of the Companies Act, 1956 was received from a Member signifying his intention to propose Mr. S. S. R. Anjaneyulu as a candidate for the office of Director of the Company, be and is hereby appointed as a Director of the Company, whose office shall be liable to retire by rotation."

By order of the Board for City Online Services Limited

Place : Hyderabad
Dated : September 2, 2004

S. Raghava Rao
Chairman & Managing Director

Notes:

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ELIGIBLE APPOINT A PROXY OR PROXIES WHO CAN ATTEND AND VOTE INSTEAD OF MEMBER AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2) The Proxy Form duly completed must be lodged at the Registered Office of the Company at least 48 hours before the time fixed for the Meeting.
- 3) The Register of Members of the Company will remain closed from Saturday, September 25, 2004 to Thursday, September 30, 2004, 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.

Explanatory Statement

(Pursuant to sub section (2) of Section 173 of the Companies Act, 1956)

Item No.5:

In order to broad base the Board of Directors, it was decided to induct a few experienced persons on the Board

Accordingly, Mr. S. S. R. Anjaneyulu was co-opted as an Additional Director of the Company under Section 260 of the Act, in the Board Meeting held on April 29, 2004 who shall cease to be the Director at the ensuing Annual General Meeting

In the mean time, a Notice under Section 257 of the Act has been received from a member signifying his intention to appoint Mr. S. S. R. Anjaneyulu as a Director in the ensuing Annual General Meeting.

Your Directors recommend the resolution for your approval.

None of the Directors is concerned or interested in the proposed resolution

By order of the Board for City Online Services Limited

Place : Hyderabad
Dated : September 2, 2004

S. Raghava Rao
Chairman & Managing Director

Directors Report

Dear Members

Your Directors have pleasure in presenting the Company's FIFTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2004 and the Auditor's Report thereon

Financial Results:

Particulars	31-3-2004	(Rs. In Lakhs)
		31.03.2003
Income from ISP Services	: 227.34	171.18
Income from software development	: 66.08	Nil
Other Income	2.36	12.18
Total Income	295.78	183.36
Expenditure (except Interest & Depreciation)	230.49	185.63
Profit before Interest and Depreciation	: 65.28	(2.27)
Interest	: 12.73	15.28
Profit before depreciation	52.54	(17.55)
Depreciation	: 28.77	27.44
Profit / Loss before Tax	: 23.77	(44.99)
Provision for Taxation	: 0	Nil
Profit /Loss after Tax	: 23.77	(44.99)
Balanced carried to Balance Sheet	: (26.79)	(50.55)

Review and Prospects

The Board of Directors are pleased to inform the members of the company that the Company made a Profit before Interest and Depreciation of Rs. 65.28 Lakhs in the Year 2003-04 and the turnover of the Company increased from Rs. 183.36 Crores in the Year 2002-2003 to Rs. 295.78 Crores in the Year 2003-2004

This increase was in the last two quarters of the Financial Year. The Company also got some BPO orders, which was successfully implemented.

In the ISP segment also there was an increase of turnover by 75% when compared to previous year. The Company opened its new branches at Bellary & Hospet in Karnataka and in Ongole & Eluru in AP. These branches become self-sufficient right from second month of its operations.

The Company tried its best to clear all the statutory dues to a large extent these were cleared but however some amounts are pending as pointed out in the Auditors report. We are making all arrangements to clear the dues at the earliest.

The Company has tied up with convergent Technology, Bangalore to provide wireless Internet in Hotels in the State of AP and Karnataka. Till date we have successfully completed the same at Taj Banjara, Hyderabad and in all the Taj Hotels at Bangalore.

The Company has geared up to provide VOIP services in the two States and in now in positions to start the same in large scale. The turnover in this segment will be seen in the financial year 2004-2005

Based on the market surveys and the present trend of increase in business the Board is confident that the Company will be in a positions to record overall profit by the year ending 2004-2005

Directors: -

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

Directors responsibility statement

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

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

Auditors

The Statutory Auditors of the company, M/s. G. P. Rao & Co. Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and being eligible, offered themselves for re-appointment.

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

Auditors Report

Your Directors replies to the Auditors report that

- a) Company has undisputed amount payable in respect of Income tax (TDS) Rs. 1.38 Lakhs, Service Tax 1.51 outstanding as at 31-03-2004 from the date they become payable. The Company made all efforts to clear the statutory dues in the Financial Year

2003-04, but however due to accumulation of arrears of statutory dues from two years. Even after paying substantial amount a small dues of Rs. 1.38 Lakhs towards Income Tax (TDS) and Rs. 1.51 Lakhs towards services tax is still due as on 31-3-2004. we put on record that this arrears along with the current statutory payments will be cleared in this Financial Year 2004-2005

- b) The Company has defaulted in repayment of dues to the APIDC (Andhra Pradesh Industrial Development Corporation Limited). The Amount of Rs. 27.63 Lakhs is overdue since December 2003. The Company made sufficient efforts to clear the term loan, in this case also the accumulated arrears of installments and Interest payable to APIDC in the previous two years. The Company made repayment of Rs, 35 Lakhs to APIDC in this financial year. The Balance 27.63 Lakhs is due which will be payable in this Financial Year.

Corporate Governance:

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

Particulars Of Employees

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

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

Additional Information:

Information as per Section 217(1)(e) read with Companies (Disclosure of particulars in the report of Board Of Directors) Rules, 1988 and forming part of report for the year ended March 31, 2004

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. As there is no extra cost involved for the purpose of R & D	
C	Foreign Exchange Earnings & outgo	:		
			2003-04 US\$	2002-03 US\$
a)	Earnings		95092	Nil
b)	Used	:		
i)	For Foreign Travel is	:	0	Nil
ii)	On Account of Licenses & Registration	:	2500	2,500
iii)	On account of Hardware purchase	:	0	3,750
iv)	On account of Bandwidth charges	:	21350	37,496
	Total		23850	43,746

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 Banks 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 : September 2, 2004

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

It can be observed from the Balance sheet that there was an increase in turnover in the ISP segment by over 75% in the Financial Year 2003-2004. As stated before this increase was possible due to tremendous increase in business in the last two quarters. We are confident that this trend will continue in the Financial Year 2004-2005 and the Company will make all efforts to maintain/increase the growth in the segment. As stated before the Company has geared up VOIP services in large scale. We expect that this new segment will also contribute considerable towards growth.

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

With the improvement of IT industry globally we our-self are finding a good opportunity ahead as the number of new companies both in software development and BPO are coming to Hyderabad and Bangalore. These new companies are our potential customers. The Management is making efforts to attract the customers to our fold and also our existing customers are upgrading and also VOIP services will be added to the existing business.

Threats

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

Place : Hyderabad
Date : September 2, 2004

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 assumes a great deal of importance in the business life of City Online Services Limited. The driving forces of Corporate Governance at City Online Services Limited are its core values - Belief in People, Entrepreneurship, Customer Orientation and the Pursuit of Excellence. The Company's goal is to find creative and productive ways of delighting its stakeholders, i.e., Investors, Customers and Associates, while fulfilling the role of a responsible corporate representative committed to best practices.

2) Board of Directors

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

Composition and Category of Directors:

Name of Director	Category	Designation	No. of Meetings held during the last financial year	No. of Meetings attended	No. of Memberships in the Board of other Companies	Attendance of each director in the last AGM
Mr. S. Raghava Rao	Promoter and Executive Director	Chairman and Managing Director	6	5	2	Yes
Mr. Ch. Harinath	Promoter and Executive Director	Executive Director	6	6	Nil	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	6	6	Nil	Yes
*Mr. D. Sivarama Prasad	Independent and Non-Executive Director	Director	6	6	Nil	Yes
**Mr. T. Choudary	APIDC Nominee	Director	6	4	10	Yes
Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	6	6	1	Yes

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. V. Kanaka Seshu	APIDC Nominee	Director	6	Nil	11	No
Mr. Thomas P. Nicodemus	Independent and Non-Executive Director	Director	6	4	2	Yes
****Mr. S.S.R. Anjaneyulu	Independent and Non-Executive Director	Director	6	Nil	Nil	No

*Mr. D. Sivaram Prasad resigned from the Board due to his pre-occupation, his resignation was accepted by the Board in its meeting held on July 30, 2004

**Mr. T. A Choudary appointed by APIDC and he retired from his service, his appointment automatically ceases.

*** Mr. S. V. Kanaka Seshu appointed as a Nominee Director his appointment approved by the Board in its meeting held on July 30, 2004

****Mr. S. S. R. Anjaneyulu appointed as additional Director with effect from April 29, 2004

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

Meetings of the Board of Directors

During the financial year 2003-04 the Board of Directors met 6 times on the following dates: April 28, 2003, July 28, 2003, September 2, 2003, October 21, 2003, December 17, 2003 and January 19, 2004

3) Audit Committee

As a measure of good Corporate Governance and to provide assistance to the Board of Directors in fulfilling the Board's oversight 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) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- 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. S. S. R. Anjaneyulu	: Director
3)	Mr. Thomas P. Nicodemus	: Director
4)	Mr. D. Sivaram Prasad*	: Chairman

*D. Sivaram Prasad resigned from the Board in his place Mr. Nageswara Rao appointed as Chairman of the Committee.

Mr. Rama Krishna Paruchuri Asst. Company Secretary of the Company resigned from his job

During the year under review, the Audit Committee met 6 times on the following dates: April 28, 2003, July 28, 2003, September 2, 2003, October 21, 2003 and January 19, 2004 Mr. D. Sivarama Prasad, Chairman and Mr. M. Nageswara Rao, Director, Mr. Thomas P. Nicodemus attended all the meetings

The meetings of the Audit Committee were attended by the Chairman & Managing Director, Director Finance and Administration and Manager- Accounts as invitees.

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 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. D. Sivarama Prasad*	Member
4)	Mr. S. S. R. Anjaneyulu	Member

The Committee did not meet during the year and the remuneration directors was not effected during the financial year.

*D. Sivaram Prasad resigned from the Board in his place Mr. S. S. R. Anjaneyulu Appointed.

*Mr. Rama Krishna Paruchuri Asst. Company Secretary of the Company resigned from his job

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 Annual Remuneration to Directors

Executive Directors

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	35,000 P.M
2	Ch. Harinath	25,000 P.M
3	R. Krishna Mohan	25,000 P.M

Non-executive Directors: A sitting fee paid to only Mr. T. A. Choudary and no sitting fee paid to other non-executive Directors

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. Ch. Harinath	Member

The Committee met one time during the year. Mr. R. Krishna Mohan, Chairman, and Mr. Ch. Harinath, Director, attended all the meetings

Mr. Rama Krishna Paruchuri Asst. Company Secretary of the Company resigned from his job

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

Mr. Rama Krishna Paruchuri Asst. Company Secretary of the Company resigned from his job

The functions of the Committee include:

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

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

The Committee focuses on strengthening investor relations.

The Committee did not meet during the year and 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 with the following members

Sl. No	Name of the Director	Designation
1	Mr. R. Krishna Mohan	: Chairman
2	Mr. Ch. Harinath	: Member
3	Mr. Rambabu	: Member
4	Mr. Ch. Naresh	: Member

The Committee met 5 times during the year to review the purchases of the Company. All the members present

Mr. D. Sivaramu resigned from his job and Mr. B. V. Raghava Rao appointed to fill the vacancy, during this financial year i.e. on June 23, 2004 Mr. B. V. Raghava Rao expired in his place Mr. Rambabu appointed as Manager-Finance

Mr. D. Upendranath resigned from his job and Mr. Naresh, branch Manager of Vijayawada transferred from Vijayawada to fill the vacancy.

Mr. Rama Krishna Paruchuri Asst. Company Secretary of the Company resigned from his job.

8) Others

a) Name and Designation of Compliance officer: Mr. S. Raghava Rao
Chairman & Managing Director

b) Details of complaints for the year 2003-04:

Sl. No	Nature	Number			
		2003-04		2002-03	
		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

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

d) Members may contact Secretarial Circle of the Company for their queries, if any, at Telephone No. + 91 40 -23356736, and Fax No. + 91 40 -23356737.

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

Financial Year	Date	Venue	Time
2000-01	September 26, 2002	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2001-02	September 27, 2002	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM
2002-03	September 30, 2003	8-2-248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad-34	11.00 AM

During the Financial Year Company, the Extra-Ordinary General meeting of the Company was held on January 22, 2004. The EGM adjourned sine-die with the consent of the members

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

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

10) Disclosures

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

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

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

11) Means of Communication

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

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

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

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

12) General Shareholders Information

a) The Annual General Meeting of the Company will be held on Thursday, September 30, 2004 at 11.00 a.m. at Registered Office, Terrace 8 -2 -248/A, Maharshi House, Banjara Hills, Road No. 3, Hyderabad - 500 034.

b) Financial calendar for the year 2003-04 (tentative):

Financial Calendar

- | | | |
|---|---|------------------|
| i) Financial reporting for the quarter ending June 30, 2003 | : | July 28, 2003 |
| ii) Financial reporting for the Quarter ending September 30, 2003 | : | October 21, 2003 |
| iii) Financial reporting for the quarter ending December 31, 2003 | : | January 19, 2004 |
| iv) Financial reporting for the Year ending March 31, 2004 | : | April 29, 2004 |

c) Dates of book closure for AGM: September 25, 2004 to September 30, 2004 for the financial year 2003-04 (both days inclusive)

d) Registered Office : #G1, 8-2-248/A,
Maharshi House,
Banjara Hills,
Road No. 3
Hyderabad-34

e) Telephone & Fax : 040-23356736 & 23356737
Web site : www.cityonlines.com

f) Listing Details
The Shares of the Company are Listed on the Hyderabad and Bangalore Stock Exchanges. The listing fee for the period 2004-2005 has been paid to these Stock Exchanges

Address of the Exchange

The Hyderabad Exchange Limited
6-3-654, Opp. Erramanjil Bus Stop
Somajiguda
Hyderabad-500 082

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

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

h) Market Price data

Monthly	Low	Average	High
	Nil		Nil

i) Performance in 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: 040-2355 3214 and Fax 040-2355 3214. 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 31-3-2004 and liquidity

Partly paid up shares	NSDL Nil	CDSL Nil
Fully paid up shares	18,80,596	80,004

* 4,12,300 Demat Partly paid shares forfeited by the Company in its Board meeting held on December 17, 2003.

l) Distribution of Shareholding as on March 31, 2004

Sl. No	Rs.	Rs.	No. of Shares	% to Total	No. of Holders	% to Total
1	Upto	5000	101610	0.24	36	5.98
2	5001	10000	77000	0.18	8	1.33
3	10001	20000	232780	0.55	13	2.16
4	20001	30000	6697000	15.72	262	43.52
5	30001	40000	3408170	8.00	88	14.62
6	40001	50000	4284500	10.06	90	14.95
7	50001	100000	4560940	10.71	52	8.64
8	100001	And Above	23235000	54.55	53	8.80
		Total	42597000	100.00	602	100.00

m) Pattern of Shareholding as on March 31, 2004

Sl. No	Category	Shares	
		Numbers	%
1	Corporate Bodies	805992	18.92
2	Indian Mutual Funds	0	0
3	Non Resident Indians	20000	0.47
4	Promoters	1613388	37.88
5	Resident Individuals	1820320	42.73
	Total	4259700	100.00

* 4,12,300 partly paid up Demat Equity shares forfeited, after giving due notice to the members, at the Board Meeting held on December 17, 2003

* 22,53,000 partly paid up Physical Equity shares forfeited, after giving due notice to the members, at the Board Meeting held on December 17, 2003.

- n) Address for correspondence : City Online Services Limited
8-2-248/A, Road No. 3
Banjara Hills,
Hyderabad- 500 034
Tel- 040-23356736,
Fax-040-23356737
- o) Contact Person : R. Krishna Mohan
E-mail : rkmohan@cityonlines.com
Website : www.cityonlines.com

- p) **The Company's Registrars are** : M/s X L Softech Systems Limited
Road No. 2
Sagar Society
Banjara Hills
Hyderabad- 500 034
Tel- 040-
Fax -040-23553214
- Contact Person** : Mr. Ramesh

Non Mandatory Requirements

- a) Chairman of the Board

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

- b) Shareholder Right

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

- c) Postal Ballot

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

Certificate

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

We have examined the relevant records of City Online Services Limited for the year ended March 31, 2004 relating to compliance with provisions of Corporate Governance pursuant to Clause 49 of Listing Agreement entered by the Company with the Stock Exchanges, and state that in our opinion and to the best of our knowledge and according to the information and explanations given to us, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement

Place : Hyderabad
Date : September 2, 2004

For G. P. Rao & Co
Chartered Accountants

G. Purnachandra Rao
Proprietor

**AUDITOR'S REPORT TO THE MEMBERS OF
CITY ONLINE SERVICES LIMITED**

- 1) We have audited the attached balance sheet of CITY ONLINE SERVICES LIMITED as at March 31st, 2004 and the Profit and Loss account of the company for the period 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 I 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 I the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3) As required by the companies (Auditor's report) Order, 2003, issued by the Company Law Board in terms of section 227(4A) of the companies Act, 1956, we given I the annexure a statement on the matters specified in paragraph 4 of the said Order, to the extent applicable to the Company.
- 4) Further to our comments in the annexure referred to I paragraph (3) above and notes to accounts forming part of the above Balance Sheet we state that:
 - (a) We have obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) In our opinion, the Balance Sheet and the Profit and Loss account dealt with by this report are in compliance with the Accounting Standards referred to in section 211(3C) of the Companies Act, 1956;
 - (d) The Balance Sheet and Profit and Loss Account dealt with by this report are I agreement with the books of account;
 - (e) 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;
 - i. In the case of the Balance Sheet, of the state of affairs of the company as at March 31, 2004 and
 - ii. In the case of the Profit and Loss account, of the profit of the Company for the period ended on that date

- (f) On basis of the written representations from the Directors, taken on record by the Board of Directors, none of Directors is Disqualified as on March 31, 2004 from the being appointed as a Director under section 274(1)(g) of the Companies Act, 1956.

For G.P.RAO & CO.
Chartered Accountants

G. Purnachandra Rao
Proprietor

Place : Hyderabad
Date : 02.09.2004

ANNEXURE TO THE AUDITOR'S REPORT

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

- (i) a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
- b) The fixed assets of the Company have been physically verified by the management at reasonable intervals and no material discrepancies were noticed on such verification.
- c) During the year the Company has not disposed off any substantial part of the fixed assets and the Company is a going concern.
- (ii) a) The management has conducted the physical verification of inventories at reasonable intervals.
- b) The procedure of the physical verification of stocks followed by the management are in our opinion, reasonable and adequate in relation to size of the Company and nature of the business.
- c) The company is maintaining proper records of inventory and no material discrepancies have been noticed on physical verification of stocks as compared to book records.
- (iii) The Company has not either granted or taken any loans, secured or unsecured to/from companies, firms or other parties in the register maintained under section 301 of the Companies Act, 1956.
- (iv) On the basis of selective checks carried out during the course of audit and according to the information and explanations given to us, there are adequate internal control procedures commensurate with size of the Company and its nature of the business for the purchase of inventory and fixed assets and for the sale of goods. In our opinion, there is no major weaknesses in internal control;
- (v) a) In our opinion and according to the information and explanations given to us, the transaction for purchase of goods, materials and services and sale of goods, materials and services, made under section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 5,00,000/- have been entered in the records.
- b) In our opinion, according to the information, and the transactions have explanations given to us the transactions been made at prices that are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The company has not accepted any deposits from the public.
- (vii) The company has an internal audit system, commensurate with the size and nature of business.
- (viii) Maintenance of cost records has not been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the Company.
- (ix) a) According to the information and explanations given to us the Company is regular in depositing the dues to Provident fund authorities.

- b) The Company has undisputed amounts payable in respect of Income Tax (TDS) Rs. 1.38 lakhs, and Service Tax Rs. 1.51 lakhs outstanding as at March 31, 2004 for period of more than six months from the date they became payable.
- (x) The Company has been registered for a period less than five years and the Company is making profits during the financial year.
- (xi) The Company has defaulted in repayment of dues to The Andhra Pradesh Industrial Development Corporation Limited. The entire loan amount of Rs. 27.63 lakhs is overdue since December 2003.
- (xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities to any party.
- (xiii) The Company has not been dealing or trading in shares, securities, debentures and other investments during the financial year.
- (xiv) The Company has not given any guarantee for loans taken by others from banks or financial institutions during the financial year.
- (xv) No term loans were taken during the financial year from any banks or financial institutions.
- (xvi) The funds raised on short-term basis have not been used for long term investment and vice versa during the financial year.
- (xvii) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the companies Act, 1956.
- (xviii) The Company has not issued any debentures during the year.
- (xix) The Company has not raised any money by public issue during the financial year.
- (xx) No fraud on or by the company has been noticed or reported during the financial year under audit.

For G.P.RAO & CO.
Chartered Accountants

G. Purnachandra Rao
Proprietor

Place : Hyderabad

Date : 02.09.2004

CITY ONLINE SERVICES LIMITED
BALANCE SHEET AS AT 31st March 2004.

	Sch. No.	<u>As at</u> <u>31.03.2004</u> Amount Rs.	<u>As at</u> <u>31.03.2003</u> Amount Rs.
ISOURCES OF FUNDS			
(1) SHARE HOLDERS' FUNDS			
(a) Share Capital	1	49,310,830	49,309,330
(b) Reserves and Surplus			
<i>Sub - Total</i>		49,310,830	49,309,330
(2) LOAN FUNDS			
(a) Secured Loans	3	3,608,540	6,996,851
TOTAL		52,919,370	56,306,181
IIAPPLICATION OF FUNDS			
(1) FIXED ASSETS			
(a) Gross Block	4	40,641,559	36,524,598
(b) Less: Depreciation		9,803,211	6,925,778
© Net Block		30,838,348	29,598,820
(2) CURRENT ASSETS, LOANS & ADVANCES			
(a) Inventories	5(a)	105,200	87,923
(b) Sundry Debtors	5(b)	14,918,779	10,941,027
(c) Cash & Bank Balances	5(c)	1,132,081	649,277
(d) Loans & Advances	5(d)	12,087,135	16,081,288
<i>Sub - Total</i>		28,243,195	27,759,515
Less: CURRENT LIABILITIES & PROVISIONS			
(a) Current Liabilities	6(a)	4,661,063	4,376,229
(b) Provisions	6(b)	4,963,442	2,907,164
<i>Sub - Total</i>		9,624,505	7,283,393
NET CURRENT ASSETS			
		18,618,690	20,476,122
(3) MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted)	7	783,711	1,175,597
(4) PROFIT AND LOSS ACCOUNT			
	2	2,678,622	5,055,643
TOTAL		52,919,370	56,306,181

NOTES ON ACCOUNTS

13

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

S.RAGHAVA RAO
Chairman and Managing Director

(G.PURNACHANDRA RAO)
Proprietor.

Place : Hyderabad
Date : 02.09.2004

R. Krishna Mohan
Director - Finance and Administrator.

CITY ONLINE SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2004

	Sch. No	For the year ended 31st March 2004.	For the year ended 31st March 2003.
		Amount Rs.	Amount Rs.
I) INCOME			
a) From ISP Services		21,979,404	17,529,424
b) From BPO		6,608,105	-
c) Sale of Hardware		754,128	494,955
d) Other Income		235,820	311,614
TOTAL		29,577,457	18,335,993
II) EXPENDITURE			
a) Operating Expenses	8	14,507,439	10,227,528
b) Purchase of Hardware		561,706	291,928
b) Payments & Benefits To Employees	9	2,572,536	2,831,420
c) Administrative Expenses	10	5,200,828	4,881,200
d) Sales Promotion Expenses	11	207,191	330,875
TOTAL		23,049,700	18,562,951
III) PROFIT BEFORE INTEREST AND DEPRECIATION		6,527,757	(226,958)
Interest	12	1,273,303	1,528,236
IV) PROFIT BEFORE DEPRECIATION		5,254,454	(1,755,194)
Depreciation	4	2,877,433	2,744,126
V) PROFIT /(LOSS) BEFORE TAX		2,377,021	(4,499,320)
Prior period Adjustments		-	-
VI PROVISION FOR TAXATION			
For Current Year		-	-
For Previous Years			
Profit / (Loss) After Tax		2,377,021	(4,499,320)
Add: Balance Carried from Last year		(5,055,643)	(556,323)
BALANCE CARRIED OVER TO BALANCE SHEET		(2,678,622)	(5,055,643)
Basic and Dilutive Earnings Per Share			

NOTES ON ACCOUNTS

13

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

S.RAGHAVA RAO
Chairman and Managing Director

(G.PURNACHANDRA RAO)
Proprietor.
Place : Hyderabad
Date : 02.09.2004

R. Krishna Mohan
Director - Finance and Administrator.

CITY ONLINE SERVICES LIMITED

	AS AT 31-MAR-04 Amount Rs.	AS AT 31-MAR-03 Amount Rs.
SCHEDULE - 1		
<u>SHARE CAPITAL</u>		
Authorised Capital (77,00,000 Equity shares of Rs.10/- each)	<u>7,70,00,000</u>	<u>7,70,00,000</u>
Issued Capital 70,00,000 Equity Shares of Rs.10/- each	<u>7,00,00,000</u>	<u>7,00,00,000</u>
SUBSCRIBED, CALLED UP AND PAID UP CAPITAL		
Subscribed and Called Up Capital 69,25,000 Equity Shares of Rs.10/- Each	6,92,50,000	6,92,50,000
Paid Up Capital 42,59,700 Equity Shares of Rs.10/- Each (Prev. year 42,50,400 Shares of Rs.10/- Each) (Of the above 3,57,500 Equity shares of Rs.10/- issued for consideration other than cash)	42,597,000	49,309,330
Shares Forfeiture Account (26,65,300 equity shares of partly paid up)	6,713,830	-
TOTAL	<u>49,310,830</u>	<u>49,309,330</u>
SCHEDULE - 2		
<u>RESERVES AND SURPLUS</u>		
<u>PROFIT AND LOSS ACCOUNT</u>		
Opening Balance	(5,055,643)	(556,323)
Profit/(Loss) for the year	2,377,021	(4,499,320)
TOTAL	<u>(2,678,622)</u>	<u>(5,055,643)</u>
SCHEDULE - 3		
<u>SECURED LOANS</u>		
From Oriental Bank of Commerce (Secured by Hypothecation and Exclusive Charge on certain Fixed Assets of the Company and Personal Guarantee of Directors).	842,052	2,513,254
From APIDC (Secured by Hypothecation and Exclusive Charge on Fixed Assets of the Company and Personal Guarantee of Directors).	2,763,003	4,398,857
From Citicorp Maruti Finance Ltd (Secured by Hypothecation of Motor Vehicle)	3,485	84,740
	<u>3,608,540</u>	<u>6,996,851</u>

CITY ONLINE SERVICES LIMITED

Schedule of Fixed Assets as at 31st March 2004

SCHEDULE – 4

Sl.No	Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		As on 01-04-2003	Additions During the Year	Deductions During the Period	As on 31-03-2004	As on 01-04-2003	For the year	On Deductions	As on 31-03-2004	As on 31-03-2004	As on 31-03-2003
1	Furniture & Fixture	2,467,319	2,675,921	-	5,143,240	355,427	222,535	0	577,962	4,565,278	2,111,892
2	Computer Equipment	6,782,825	189,342	-	6,972,167	2,867,083	1,144,821	0	4,011,904	2,960,263	3,915,742
3	Vehicles	403,158	-	-	403,158	118,153	38,300	0	156,453	246,705	285,005
4	Office Equipment	3,336,952	145,643	-	3,482,595	567,120	176,209	0	743,329	2,739,266	2,769,832
	Plant and Machinery	23,534,344	2,738,383	1,632,333	24,640,394	3,017,995	1,295,568	0	4,313,563	20,326,831	20,516,349
	TOTAL	36,524,598	5,749,289	1,632,333	40,641,554	6,925,778	2,877,433	0	9,803,211	30,838,048	29,598,820

	AS AT 31-03-2004 Amount Rs.	AS AT 31-03-2003 Amount Rs.
SCHEDULE -5		
CURRENT ASSETS, LOANS AND ADVANCES		
a) INVENTORIES		
Stock of CD's	105,200	87,922
TOTAL	105,200	87,922
b) SUNDRY DEBTORS:		
Unsecured And Considered Good		
Outstanding for More than Six Months	4,355,140	9,216,143
Others	10,563,639	1,724,884
TOTAL	14,918,779	10,941,027
c) CASH AND BANK BALANCES		
At Schedule Banks:		
-In Current Account	344,670	76,996
-As Deposits Held as Security	400,000	400,000
Accrued Interest on Fixed Deposits	17,000	39,072
Cash in hand at H.O & Branches	370,411	133,209
TOTAL	1,132,081	649,277
d) ADVANCES		
Tax Deducted at Source	285,003	182,937
Advances for Expenses	1,369,317	1,228,463
Advances to Staff	179,861	21,072
Advances For Capital Goods	5,502,966	9,663,227
Other Deposits	4,387,386	4,324,318
Prepaid Expenses	362,602	661,271
TOTAL	12,087,135	16,081,287
SCHEDULE -6		
CURRENT LIABILITIES AND PROVISIONS		
a) CURRENT LIABILITIES		
Sundry Creditors		
For Capital Goods	459,163	263,930
For Expenses	2,477,598	2,566,807
For Others	876,499	505,140
Advances from Customers	810,388	959,740
Interest accrued but not due	37,415	80,612
TOTAL	4,661,063	4,376,229
b) PROVISIONS		
For Expenses	4,406,709	2,907,164
Deferred Income	556,733	-
TOTAL	4,963,442	2,907,164
SCHEDULE -7		
MISCELLANEOUS EXPENDITURE		
Preliminary Expenses	172,162	229,549
Public Issue Expenses	1,003,435	1,337,914
Less: Written off During the Year	391,866	391,866
TOTAL	783,711	1,175,597

Year Ended 31-03-2004 Amount Rs.	Year Ended 31-03-2003. Amount Rs.
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SCHEDULE -8**OPERATING EXPENSES**

Communication Cost	11,021,133	8,825,138
BPO Expenses	1,894,767	-
ISP membership fees	118,038	-
Domain name registration exp	10,561	-
Freight Charges	-	2,630
Cyber Café Maintenance Exp-Via.	35,540	103,032
Repairs and Maintenance	426,986	303,538
Electricity Charges	1,000,414	993,190
	14,507,439	10,227,528

SCHEDULE -9**PAYMENTS & BENEFITS TO EMPLOYEES**

Salaries, Wages and Other Benefits	2,413,606	2,691,885
Staff Welfare Expenses	158,930	139,535
	2,572,536	2,831,420

SCHEDULE -10**ADMINISTRATIVE EXPENSES**

Rent	1,173,636	1,348,840
Postage and Telegrams	39,165	17,638
Telephone expenses	608,861	601,296
Conveyance and Traveling	635,904	488,212
Printing and Stationery	142,728	126,187
License, Fees and Taxes	64,000	99,941
Insurance	30,185	34,214
Bank Charges	112,721	126,213
Office Maintenance Expenses	315,387	181,207
News papers and periodicals	22,851	9,584
Consultancy and Legal Expenses	105,537	20,875
Directors' Remuneration	1,020,000	1,095,000
Directors' sitting fees	1,000	1,000
Auditors Remuneration		
towards Statutory Audit	31,500	32,400
towards Tax Audit	17,100	18,825
Loss On Sale of Asset	442,573	247,050
Preliminary Expenses Written Off	391,866	391,866
Misc. & General Expenses	45,814	40,851
	5,200,828	4,881,200

SCHEDULE -11**SALES PROMOTION EXPENSES**

Advertisement Charges	60,517	31,263
Business Promotion Expenses	46,237	30,304
Sales Commission	58,031	184,823
Discount on Sales	30,944	84,485
Bad debts written off	11,462	-
	207,191	330,875

SCHEDULE -12**INTEREST**

On Term Loans	1,015,847	1,492,302
On Other Accounts	257,456	35,934
	1,273,303	1,528,236

SCHEDULE-13

NOTES FORMING PART OF ACCOUNTS

1 SIGNIFICANT ACCOUNTING POLICIES

a). General:

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

b). Fixed Assets:

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

c). Inventories:

The Stock of Inventories are Valued at Cost.

d). Revenue from Internet Services

The Internet Subscription and Service Charges are Accounted on the basis of Subscriptions received from Customers.

e). Depreciation:

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

f). Gratuity Liability:

The Company has not provided for any Gratuity liability.

g). Differed Taxation

The Company has not recognised for any Differ Tax asset/ Liability as the company is under tax holiday period

h). Related Party disclosure

During the year company has purchased materials from Pranav industries for Rs 88020/- in which one of the director is interested

I). Pre-Operative Expenditure Pending Capitalization:

Pre-Operative Expenditure Pending Capitalization has been capitalized at the date of Expansion Project becomes Operational.

J). Preliminary Expenses:

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

2 Secured Loans:

Term Loan from Oriental Bank of Commerce, Old city Branch, Hyderabad is Secured by Hypothecation and Exclusive Charge on certain Fixed Assets of the Company and Personal Guarantee of Directors.

Term Loan from APIDC Ltd is Secured by Hypothecation and Exclusive Charge on Fixed Assets of the Company and Personal Guarantee of Directors).Other Loan is from Maruthi Citi Car Fin. Secured by Hypothecation of Motor Vehicle

3 Contingent Liabilities:

Counter Guarantees Given to the Company Bankers For Bank Guarantees is issued by them to Department of Telecom (DOT) Government of India For Due Performance of ISP is Rs =40,00,000/- (Previous Year Rs.40,00,000/-).

4 Managerial Remuneration:

	As on 31st Mar-04 Rs.	As on 31st Mar-03 Rs.
For Managing Directors	420000	420000
For Other Directors	600000	675000
	1020000	1095000

5 Auditors' Remuneration:

Towards Statutory Audit	31500	31500
Towards Tax Audit	15750	15750
Towards Certification Work		
	47250	47250

6 Earnings In Foreign Currency

	US\$95092	Nil
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7 Expenditure In Foreign Currency:

(I) On Account of Foreign Travel	Nil	Nil
(ii) On Account of Licenses and Registrations	US\$2500	US\$2500
(iii) On Account of Bandwidth Charges	US\$21350	US\$56500

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

	Rs.	Rs.
a) Turnover		
Sale of Hardware Items	754128.00	494955.00

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

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor
Place : Hyderabad
Date 02.09.2004

R. Krishna Mohan
Director - Finance and Administration.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2004

A. Cash Flow from Operating Activities

Net Profit before tax 2377021

Adjustments For

Depreciation	2877433	
Preliminary Expenses Written Off	391866	
Loss on Sale of Asset	442573	
Interest, Dividend received	(17000)	
Interest paid	<u>1273303</u>	
		4968175
Operating Profit Before Working Capital Changes		7345196

Increase in Trade and Other Receivables	(3977752)	
Increase in Inventories	-17278	
Increase in Trade Payables and Provision	2341112	
Increase in Loans and Advances	<u>(166109)</u>	
Cash Generated from Operations		(1820027)
Net Cash Flows from Operating Activities		5525169

B Cash Flows from Investing Activities

Decrease in Advances for Capital Goods	(1484340)	
Increase in Payables for Capital Goods	195233	
Increase in Fixed Assets	(282899)	
Sale of Fixed Assets	<u>1189755</u>	
Net Cash Used for Investing Activities		(382251)

C Cash Flows from Financing Activities

Proceeds from issue of Shares	1500	
Loans Borrowed/ (paid)	(3388311)	
Interest Paid	<u>(1273303)</u>	
Net Cash Flows From Financing Activities		(4660114)

Net Increase in Cash and Cash Equivalents during the year	482804
Cash and Cash Equivalents at the beginning of the year	649277
Cash and Cash Equivalents at the end of the year	1132081

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

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor

R. Krishna Mohan
Director - Finance and Administrator.

Hyderabad
02.09.2004

CITY ONLINE SERVICES LIMITED

Balance sheet abstract and Company's General Business Profile

I Registration Details

Registration No. 32114 State Code 1
Balance Sheet Date : 31-Mar-04

II Capital Raised during the year

Public Issue NIL Rights Issue NIL
Bonus Issue NIL Private Placement NIL

III Position of Mobilisation and Deployment of Funds

Total Liabilities 52919 **Total Assets** 52919

Sources of funds

Paid up Capital 42597 Reserves & Surplus NIL
Secured Loans 3608 Unsecured Loans NIL

Application of funds

Net Fixed Assets 30838 Investments NIL
Net Current Assets 18618 Misc. Expenditure 784
Accumulated losses

IV Performance of Company

Turnover 29577 Total Expenditure 27198
Profit/Loss before tax 2377 Profit/Loss after tax 2377
Earning per share 0.56 Dividend (%) NIL

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Generic names of three principal products / services of Company

V (as per monetary terms)

Item Code No. (ITC Code)		Product Description	Internet Service Provider
30.4.2001	##	335	
30.5.2001	##	304	

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

S.RAGHAVA RAO
Chairman and Managing Director

G.PURNACHANDRA RAO
Proprietor

Hyderabad
02.09.2004

R. Krishna Mohan
Director - Finance and Administrator.

City Online Services Limited

Regd. Office: G 1, 8-2-248/A, Maharishi House, Road No.3, Banjara Hills, Hyderabad-500034.

PROXY FORM
Annual General Meeting, 2003-2004

Folio No. DP ID Client ID.

I/We of in the district of being a member /members of the above named Company, hereby appoint Mr./Ms/ Kum..... in the district ofas my / our proxy to attend and vote for me / us on my / our behalf at the Fifth Annual General Meeting of the Company to be held at Regd. Office: Terrace, 8-2-248/A, Maharishi House, Road No.3, Banjara Hills, Hyderabad-500034 on Thursday, September 30, 2004 at 11.00 AM. and at any adjournment thereof

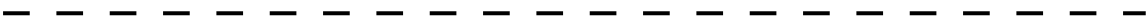
Signed this..... day of2004

Affix Re.1
Revenue
Stamp

Address
.....
.....

Signed

Note: The proxy from duly completed must be deposited at Regd. Office not less than 48 hours before the time for holding the meeting. A proxy need not be a member of the Company



City Online Services Limited

Regd. Office: G 1, 8-2-248/A, Maharishi House, Road No.3, Banjara Hills, Hyderabad-500034

Attendance Slip

I hereby record my presence at the Fifth Annual General of the Company at Regd. Office: Terrace, 8-2-248/A, Maharishi House, Road No.3, Banjara Hills, Hyderabad-500034, on Thursday, September 30, 2004 at 11.00 AM.

.....
full name of the shareholder
(in block letter)

.....
Signature

Folio No / DPID & Client ID

No. of shares held

.....
Full name of the proxy (in block letters)
(to be filled if the proxy attends instead

.....
Signature

of the member)

Note: shareholders attending the meeting in person or by proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting hall