



City Online

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FOURTEENTH ANNUAL REPORT 2012 - 2013

Annual Report 2012-13

Board of Directors

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

Company Secretary

Ms. Sampada K Joshi

Registered Office

**: 701, 7th Floor, Aditya Trade
Center, Ameerpet, Hyderabad -500 038**

Auditors

M/s. Seshachalam & Co.,
Chartered Accountants
Secunderabad

Bankers

Oriental Bank of Commerce
Mehdipatnam
Hyderabad

Registrars and Share Transfer Agents

XL Softech Systems Ltd
3, Sagar Society, Road No.3,
Banjara Hills,
Hyderabad - 500 034.

NOTICE

Notice is hereby given that the Fourteenth Annual General Meeting of the Company will be held on Saturday, September 28, 2013 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, 2013, 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 himself for reappointment.
3. To appoint a Director in place of Mr. M. Nageswara Rao who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint M/s. Seshachalam & Co, Chartered Accountants, Secunderabad, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS:

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

"RESOLVED THAT Mr. Arun Prasad Kanuri, who was appointed as an Additional Director with effect from August 14th, 2013 on the Board of the Company in terms of Section 260 of the Companies Act, 1956 and provisions in the Articles of Association of the Company and who holds office up to the date of this Annual General Meeting, and in respect of whom a notice has been received from a Member in writing, under Section 257 of the Companies Act, 1956, proposing his candidature for the office of a Director, be and is hereby appointed as a director of the Company."

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

"RESOLVED THAT pursuant to the provisions of 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 01.09.2013, as follows:

1. Salary : Rs. 1,05,000/- 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.

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

"RESOLVED THAT pursuant to the provisions of 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 01.09.2013, as follows:

1. Salary : Rs. 1,00,000/- 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.

8. To consider and thought fit to pass with or without 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 01.09.2013, as follows:

1. Salary : Rs. 1,00,000/- 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. 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

Sd/-

Place : Hyderabad
Dated : 14.08.2013

S. Raghava Rao
Chairman and Managing Director

Notes:

- 1) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ELIGIBLE TO APPOINT A PROXY OR PROXIES WHO CAN ATTEND AND VOTE INSTEAD OF MEMBER AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
- 2) The Proxy Form duly completed must be lodged at the Registered Office of the Company at least 48 hours before the time fixed for the Meeting.
- 3) The Register of Members of the Company will remain closed from Wednesday September 25, 2013 to Saturday, September 28, 2013, both days inclusive, for the purpose of Annual General Meeting
- 4) The members are requested to intimate immediately any change in their address quoting their Registered Folio enabling the Company to address future communication.

5) Members are requested to bring copies of the Annual Report, as no extra copies shall be provided at the Meeting. Shareholders desiring any information as regards to the Audited Accounts are requested to write to the Company at least one week before the Meeting enabling the Chairman to keep the information ready to reply at the meeting.

6) It shall be mandatory for the transferee(s) to furnish copy of PAN Card to the Company/RTAs for registration of transfer of shares for securities market transactions and off market/private transaction involving transfer of shares in physical form of listed companies.

7) As part of Green Initiative in Corporate Governance the Ministry of Corporate Affairs (MCA), Government of India vide its Circular has allowed paperless compliances by Companies *inter alia* stating that if the Company sends official documents to their shareholders electronically, it will be in compliance with the provisions of Section 53 of the Companies Act, 1956. Keeping in view shareholders are requested to update their E-Mail ID with their DP.

8) Explanatory statement pursuant to section 173 (2) of the Companies Act 1956 for Item No.s 5 to 8 is annexed.

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

Item No.5

Sri Arun Prasad Kanuri was appointed as an Additional Director at the meeting of the Board of Directors of the Company held on 14-08-2013. As per the provisions of the Section 260 of the Companies Act, 1956 they hold office up to the date of the ensuing Annual General Meeting. The Board felt that his experience will be of immense use to the Company for effective management and recommended his appointment as Director of the Company.

None of the Directors is interested in his appointment as Director.

Item No.6

The Tenure of Mr. S. Raghava Rao, Chairman cum Managing Director runs from 01st September 2011 to 31st August 2016. 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. 01.09.2013 to 31.08.2016.

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. S. Raghava Rao is in any way concerned or interested in this resolution.

Item No.7

The Tenure of Mr. Ch. Harinath, Executive Director runs from 01st September 2011 to 31st August 2016. 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. 01.09.2013 to 31.08.2016.

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. Ch. Harinath is in any way concerned or interested in this resolution.

PRODUCTS

Dr. R. Krishna Murthy is an
assistant professor and head of the

of the B
JATON

Sd/-

S. Raghava Rao

Chairman and Managing Director

Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Company's FOURTEENTH DIRECTORS' REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2013 and the Auditor's Report thereon

FINANCIAL RESULTS:

Particulars	31.03.2013 Rs	31.03.2012 Rs.
I) INCOME		
a) Income from operations	82,977,246	54,467,583
d) Other Income	288,641	14,33,769
TOTAL	83,265,887	55,901,352
II) EXPENDITURE		
a) Operating Expenses	48,001,349	30,549,289
b) Payments & Benefits To Employees	12,486,364	8,476,614,
c) Administrative Expenses	15,238,318	11,260,151
d) Selling Marketing Expenses	-----	-----
TOTAL	75,726,031	50,286,054
III) PROFIT BEFORE INTEREST AND DEPRECIATION		
Interest	1,02,0706	1,031,227
IV) PROFIT BEFORE DEPRECIATION		
Depreciation	3,001,935	2,653,449
V) PROFIT /(LOSS) BEFORE TAX		
Prior period Expenses	-----	-----
Prior period Incomes	-----	-----
VI) PROVISION FOR TAXATION		
For Current Income Tax	Nil	Nil
For Deferred Tax/Liability (Asset)	(316,686)	105,869
For Fringe Benefit Tax		
PROFIT / (LOSS) AFTER TAX	3,833,899	2,036,491
Basic and Diluted Earnings Per Share	0.74	0.39

Review and Prospects:

The year 2012-13 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 has entered rural market by opening around 50 ISP nodes in all the districts of Andhra Pradesh by March 2013 and in Karnataka about 25 nodes. As of now your Company Under the leadership of your MD, your company is sending video stream for providing IPTV services in USA and other countries. The coming financial year promises to be a good years for your Company and the management is confident of showing better result.

Your company has also started Digital Head end division, your company is importing components and assembling and integrating it in Hyderabad so far your company has successfully executed seven head end in Andhra Pradesh as many more orders are in pipeline, as Government of India has passed a bill in parliament for converting cable TV into digital format in our country by end of 2014, your company has geared up to meet the demand in this segment

Your company has entered into providing of triple play services in gated communities as of now your company has successfully implemented this service in nine gated communities the revenue from this sector is very encouraging , hence your company is targeting another ten complexes in this financial year i.e 10000 households.

All this factors have helped your company to increase its turnover by more than 50% compared to last year this trend will continue this year also and the Board of Directors is confident that your company will show more than 100% growth in financial year 2013-2014.

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. M. Nageswara Rao retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Director's responsibility statement:

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

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so

as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

- (iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The Directors have prepared annual accounts on a Going concern basis

AUDITORS:

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

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

Reply to Auditors Observations, if any:

In respect of note 5 (b) in Annexure to Auditors' Report on Statutory Dues of Income Tax have been paid in due course and those of the Service Tax shall be paid subject to the realization of the same from the Customers.

Code of Conduct:

The Code of Conduct has been circulated to all the members of the Board and Senior Management and the compliance of the same has been affirmed by them. Code of Conduct has also been placed on the website of the Company. A declaration signed by the Managing Director is given in Annexure 1.

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 remuneration in excess of 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, 2013.

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 :
- | | | |
|---|----------------------|-------------------------|
| a) Earnings on account of rendering services | 2012-13
Rs.70,592 | 2011-12
Rs. 5,74,809 |
| b) Used : | | |
| i) For Foreign Travel is | : Nil | Nil |
| ii) On account of Hardware Purchase/VOIP Services | : Rs.56,78,757 | Rs.16,14,722 |

Acknowledgements:

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

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

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

ANNEXURE 1

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

To
The shareholders

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

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 14.08.2013

Sd/-
S. Raghava Rao
Chairman and Managing Director

MANAGEMENT DISCUSSION & ANALYSIS REPORT

[Annexure to Report on Corporate Governance]

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

Overview

Regarding Company Business

In the first half of this financial year we have achieved better results as we have started new segments like Digital Head End division, Triple play services ,rural broadband along with regular internet business this has resulted in higher valuation and revenue for the company and the Board is confident of achieving 100% growth in the finical year 2013-2014

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 Digital Head End and Triple play service which your Company has entered into. The company has applied and awarded the license for digital television M.S.O as per the new guidelines of M.I.B. The company also developed some of the Digital head equipment with the help of the chairman's R&D efforts. The company already achieved significant sales in this section of the business and have major opportunities in the coming digitization phase of Indian cable television industry .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 : 14.08.2013

For and on behalf of the Board of Directors

Sd/-

S. Raghava Rao
Chairman & Managing
Director

Sd/-

R. Krishna Mohan
Director- Finance and
Administration

Corporate Governance (Mandatory Requirements)

1) Company's Philosophy

Corporate Governance is about commitment to values and about ethical business conduct. It is about how an Organization is managed. This includes its corporate and other structures its culture, its policies and the manner in which it deals with various 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 2012-13 has been inserted elsewhere in this annual report .A report in 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	5	1	Yes
Mr. R. Krishna Mohan	Executive Director	Director Finance and Administration	5	5	2	Yes

Mr. M. Nageswara Rao	Independent and Non-Executive Director	Director	5	3	Nil	Yes
Mr. Thomas P. Nicodemus	Independent and Non-Executive Director	Director	5	1	1	No
Mr. V. Satyanarayana	Independent and Non-Executive Director	Director	5	4	1	No

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

Meetings of the Board of Directors

During the financial year 2012-13 the Board of Directors met 5 times on the following dates: 30.04.2012, 31.07.2012, 03.09.2012, 31.10.2012, and 31.01.2013.

3) Audit Committee

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

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

Composition and Other Details

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

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

During the year under review, the Audit Committee met 4 times respectively 30.04.2012, 31.07.2012, 31.10.2012 and 31.01.2013.

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

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

4) Remuneration Committee

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

Composition and other details

Remuneration Committee was constituted with three Independent Directors, viz.

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

The Committee has met once during the year.

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

Executive Directors

Sl. No	Name of the Executive Director	Elements of the Remuneration
1	S. Raghava Rao	Rs 1,05,000/-
2	Ch. Harinath	Rs 1,00,000/-
3	R. Krishna Mohan	Rs 1,00,000/-

5) Share Transfer Committee

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

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

6) Investors' Grievance Committee

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

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

The functions of the Committee include:

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

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

The Committee focuses on strengthening investor relations.

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, 2013 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 2012-13:

Sl. No	Nature	Number			
		2012-13		2011-12	
		Received	Attended	Received	Attended

1	Dematerialization/ Rematerialization	Nil	Nil	Nil	Nil
2	Loss of shares/Duplicate Certificate	Nil	Nil	Nil	Nil
3	Split	Nil	Nil	Nil	Nil
4	Transfer of shares	Nil	Nil	Nil	Nil
5	Others	Nil	Nil	Nil	Nil

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

c) Members may contact Secretarial Circle of the Company for their queries, if any, at Telephone No. + 91 40 -66416882 and Fax No. + 91 40-66416890.

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

Financial Year	Date	Venue	Time
2009-10	December 23, 2010	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2010-11	September 30, 2011	701, 7 th Floor, Aditya Trade Centre, Ameerpet, Hyderabad-500 038	11.00 AM
2011-12	September 29, 2012	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

The Annual General Meeting of the Company will be held on September 29, 2013 at 11.00 a.m. at Registered Office, **701, 7th Floor, Aditya Trade Center, Ameerpet, Hyderabad – 500 038.**

a) Financial calendar for the year 2013-14 (tentative):

Financial Calendar

- i) Financial reporting for the quarter ending 30th June 2013 : August 15, 2013
- ii) Financial reporting for the Quarter ending September 30, 2013 : November 15, 2013
- iii) Financial reporting for the quarter ending December 31, 2013 : February 15, 2014
- iv) Financial reporting for the year ending March 31, 2014 : May 30, 2014

- b) Dates of book closure for AGM: September 25, 2013 to September 28, 2013 for the financial year 2012-13 (both days inclusive)

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

f) Listing Details

The Shares of the Company are Listed on the Bangalore Stock Exchange. The listing fee for the period 2012-13 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 31-3-2013 and liquidity**

	CDSL	NSDL
Fully paid up shares	488214	2052586

Distribution of Shareholding as on March 31, 2013

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

Pattern of Shareholding as on March 31, 2013

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

DECLARATION

- n) Address for correspondence : City Online Services Limited
701, 7th Floor, Aditya Trade Center,
Ameerpet, Hyderabad -500038
 Tel- 040-66416882, 6883, 6894
 Fax-040-66416890
- o) Contact Person : Mr.R.Krishna Mohan
 E-mail : rkmohan@cityonlines.com
 Website : www.cityonlines.com
- p) The Company's Registrars are : M/s X L Softech Systems Limited
 Road No. 2
 Sagar Society
 Banjara Hills
 Hyderabad- 500034
 Tel - 040-23553214
 Fax -040-23553214
- Contact Person : Mr. Ramprasad

As a measure to ensure the integrity of the financial statements and to provide assurance to the Board of Directors in fulfilling its fiduciary duties, the Company has constituted an Audit Committee. The functions of the Audit Committee include:

1. Reviewing the adequacy of internal control systems and the internal audit reports and their compliance therewith.
2. Overseeing the Company's financial reporting process and the disclosure of financial information and ensuring that the financial statements are free from material errors and misstatements.
3. Recommending the appointment or removal of auditors and the fee payable to them and also approval for payment for any other services rendered by them.

In compliance 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 who

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

DECLARATION

To
The Members of City Online Services Limited

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

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 14.08.2013

Sd/-
S. Raghava Rao
Chairman and Managing Director

Non Mandatory Requirements

a) Chairman of the Board

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

b) Shareholders Rights\

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, 2013 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 obtained and explanations given to me, the Company has complied with the Mandatory requirements contained in the said Clause of the Listing Agreement.

For Ch. Veeranjanyulu & Associates
Company Secretaries

Sd/-

Place : Hyderabad

Date: 14.08.2013

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, 2013, 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

Sd/-

S. Raghava Rao
Chairman & Managing Director

Place: Hyderabad
Date: 14.08.2013

INDEPENDENT AUDITORS' REPORT

**TO THE MEMBERS OF
City Online Services Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of **City Online Services Limited** ("the Company"), which comprise the Balance Sheet as at March 31, 2013, the Statement of Profit and Loss and Cash Flow Statement for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act 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, 2013;

- (b) in the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date and
- (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

- 1. As required by the Companies (Auditor's Report) Order, 2003("the Order") issued by the Central Government in terms of Section 227(4A) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
- 2. As required by Section 227(3) of the Act, 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 it appears from our examination of those books.
 - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - (d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards referred to in Section 211(3C) of the Act.
 - (e) On the basis of the written representations received from the directors as on March 31, 2013 taken on record by the Board of Directors, none of the directors is disqualified as on March 13, 2013 from being appointed as a director in terms of Section 274(1)(g) of the Act.

For Seshachalam & Co
Chartered Accountants
Registration No. 003714S

T.Bharadwaj
Partner
Membership No.201042

Hyderabad, May 30, 2013

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

(i) In respect of its fixed assets:

- (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of the fixed assets.
- (b) The fixed assets were physically verified during the year by the Management in accordance with a programme of verification which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals.
- (c) There was no disposal of the fixed assets of the Company during the year.

(ii) In respect of its inventory:

- (a) As explained to us, the inventories were physically verified during the year by the Management at reasonable intervals.
 - (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.
 - (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.
- (iii) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items purchased are of special nature and suitable alternative sources are not readily available for obtaining comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of inventory and fixed assets and the sale of goods and services. During the course of our audit, we have not observed any major weakness in such internal control system.

(iv) In our opinion, the Company has an adequate internal audit system commensurate with the size and the nature of its business.

(v) According to the information and explanations given to us in respect of statutory dues:

- (a) The Company has generally been regular in depositing undisputed dues, including Provident Fund, Income-tax, Sales Tax, Service Tax, Custom Duty and other material statutory dues applicable to it, with the appropriate authorities.

- (b) There were no undisputed amounts payable in respect of Provident Fund, Income-tax, Sales Tax, Service Tax, Custom Duty and other material statutory dues in arrears as at March 31, 2013 for a period of more than six months from the date they became payable, except as given below:

Statute	Nature of Dues	Period to which the amount relates	Amount involved
Income Tax Act, 1961	Income Tax	2012-13	2,69,150
Finance Act, 1994	Service Tax	2011-12	16,09,013

- (c) There were no dues of Provident Fund, Income-tax, Sales Tax, Service Tax and Custom Duty which have not been deposited as on March 31, 2013 on account of disputes.

- (vi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to banks, financial institutions.
- (vii) In our opinion, and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained.
- (viii) In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet, we report that funds raised on short-term basis have not been used during the year for long- term investment.
- (ix) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no material fraud on the Company has been noticed or reported during the year.
- (x) Having regard to the nature of the Company's business / activities, clauses 4(iii), (v), (vi) (viii),(x),(xii),(xiii),(xiv),(xv),(xiii), (xix) and (xx)of CARO are not applicable.

For Seshachalam & Co
Chartered Accountants
Registration No. 003714S

T.Bharadwaj
Partner
Membership No.201042

Hyderabad, May 30, 2013

City Online Services Limited

Balance Sheet as at March 31, 2013

₹		₹	
Particulars	Note	As at 31st March 2013	As at 31st March 2012
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital	3	56,098,330	56,098,330
(b) Reserves and surplus	4	(14,779,759)	(18,613,658)
(2) Non-current liabilities			
(a) Long term borrowings	5	729,879	1,496
(b) Long term provisions	6	530,000	439,718
(c) Deferred tax liabilities (Net)	7	(193,143)	123,543
(3) Current liabilities			
(a) Short-term borrowings	8	7,808,804	7,014,111
(b) Trade payables	9	9,889,954	5,976,728
(c) Other current liabilities	10	15,011,036	8,148,465
(d) Short term provisions	11	328,531	219,912
Total		75,423,634	59,408,646
II. ASSETS			
(1) Non-Current Assets			
(a) Fixed assets			
(i) Tangible assets	12	32,500,728	28,878,548
(b) Non-current investments	13	50,000	-
(d) Long term loans and advances	14	2,492,017	2,773,672
(2) Current assets			
(a) Inventories	15	4,695,174	5,074,311
(b) Trade receivables	16	20,915,380	11,109,875
(c) Cash and bank balances	17	7,001,723	4,083,873
(d) Short-term loans and advances	18	7,691,900	7,436,703
(e) Other current assets	19	76,711	51,664
Total		75,423,634	59,408,646
Accompanying notes to the financial statements	1 to 36		
The notes are an integral part of these financial statements. This is the Balance Sheet referred to in our report of even date.			
For Seshachalam & Co Chartered Accountants		For and on behalf of the Board of Directors	
T. Bharadwaj Partner		S. Raghava Rao Chairman and Managing Director	
		R. Krishna Mohan Director	
Place: Hyderabad			
Date: May 30, 2013			

City Online Services Limited

Statement of Profit and Loss for the year ended March 31, 2013

Particulars	Note	For the year ended March 31, 2013	For the year ended March 31, 2012
Revenue from operations	20	82,977,246	54,467,583
Other income	21	288,641	1,433,769
Total revenue		83,265,887	55,901,352
Expenses:			
Operating Expenses	22	48,001,349	30,549,289
Employee benefits expenses	23	12,486,364	8,476,614
Finance cost	24	1,020,706	1,031,227
Depreciation	12	3,001,935	2,653,449
Other expenses	25	15,238,318	11,260,150
Total expenses		79,748,673	53,970,730
Profit Before Tax		3,517,214	1,930,622
Tax expense			
-Current tax		-	-
-Deferred tax	7	(316,686)	105,869
Profit for the year		3,833,899	2,036,491
Earnings per equity share - ` 10			
Basic and diluted		0.74	0.39
Accompanying notes to the financial statements	1 to 36		

The notes are an integral part of these financial statements.

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

For Seshachalam & Co
Chartered Accountants

For and on behalf of the Board of Directors

T. Bharadwaj
Partner

S. Raghava Rao
Chairman and Managing Director

R. Krishna Mohan
Director

Place: Hyderabad
Date: May 30, 2013

City Online Services Limited

Notes forming part of financial statements

1. Corporate Information:

City Online Services Limited ('the Company') is domiciled in India and incorporated under the provisions of The Companies Act, 1956. The company is engaged in the business of providing internet and intranet; data centre solutions, custom Wi-Fi solutions and managed services.

Use of estimates

The preparation of financial statements in conformity with Indian GAAP requires management to make estimates and assumptions that affect the balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported year. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The financial statements of the Company have been prepared on accrual basis under the historical cost convention in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of The Companies Act, 1956. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year.

b) Revenue Recognition

Revenue is recognized on accrual basis to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Income from the services is recognized when the services are rendered in accordance with the terms agreed.

c) Depreciation

Depreciation is provided on assets which are put to use during the year using Straight Line Method on pro-rata basis in accordance with the schedule XIV of the Companies Act, 1956. Individual Fixed Assets costing Rs.5,000 and below are fully depreciated in the year of purchase.

d) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost includes all expenses incurred to bring the inventory to its present location and condition. Cost is determined on a weighted average basis.

e) Valuation of Fixed Assets:

Tangible Assets:

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes any directly attributable costs incurred to bring the assets for its intended use.

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

City Online Services Limited

f) Foreign currency Transactions

Transactions in foreign currencies are translated at the exchange rates prevailing on the dates of transactions and the exchange gains/losses on settlements during the year, are charged to Statement of Profit and Loss. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the date of Balance sheet. Exchange gains/losses including those relating to fixed assets are dealt with in the Statement of Profit and Loss.

g) Investments

Investments are classified as Long Term and Current Investments. Long Term investments are carried at cost less provision for diminution in value, if any which is other than temporary in the value of such investments. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the Statement of profit and loss.

h) Employee Benefits

The estimated liability for employee benefits, both short and long term, for present and past services which are due as per the terms of employment are recorded in accordance with Accounting Standard (AS) 15 "Employee Benefits". A brief description of the employee benefits are as follows:

Gratuity:

The Company has an obligation towards gratuity, a defined retirement benefit plan covering all eligible employees. The plan provides for lump sum payment in accordance with the Payment of Gratuity Act, 1972 to vested employees on retirement, death while in employment or on separation. Vesting occurs on completion of five years of service. The Company accounts for the liability for future Gratuity benefits on the basis of an independent actuarial valuation.

Provident Fund:

All eligible employees of the Company are entitled to receive benefits under the Provident Fund, a defined contribution plan to which both the employee and employer contribute monthly at a determined rate and the Company has no further obligation.

i) Earnings Per Share

The Company reports basic and diluted earnings per share in accordance with Accounting Standard (AS) 20, Earnings Per Share. Basic earnings per equity share are computed by dividing the net profit for the year attributable to the Equity Shareholders by the weighted average number of equity shares outstanding during the year.

City Online Services Limited

j) Taxation

Current Tax is the amount of tax payable on taxable income for the period determined in accordance with the provisions of Income Tax Act, 1961.

Deferred Tax - Deferred tax resulting from "timing differences" between book profit and taxable profit is accounted for using the tax rates and laws that have been enacted or substantially enacted as on the balance sheet date. Deferred tax assets are recognized only to the extent that there is a virtual certainty that such assets will be realized in future. Deferred tax assets and liabilities are offset if such items relate to taxes on income levied by the same governing tax laws and the Company has a legally enforceable right for such set off. Deferred tax assets are reviewed at each Balance Sheet date for their realisability.

k) Impairment of Assets

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment, if any such indication exists; the recoverable amount of the assets is estimated. The recoverable amount is the greater of the asset's net selling price and value in use, which is determined, based on the estimated future cash flow discounted to their present values. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

l) Provisions, Contingent Liabilities and Contingent assets

The company recognizes provisions when there is present obligation as a result of past event and it is probable that there will be an outflow of resources embodying economic benefits and reliable estimate can be made of the amount of the obligation. A disclosure for Contingent liabilities is made in the notes on accounts when there is a possible obligation or a present obligation where it is not probable that an outflow of resources embodying economic benefits will be required or a reliable estimate cannot be made. Contingent assets are neither recognized nor disclosed in the financial statements.

3 Share capital

Particulars	₹		₹	
	As at		As at	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Equity shares of ` 10 each	7,700,000	77,000,000	7,700,000	77,000,000
	7,700,000	77,000,000	7,700,000	77,000,000
Issued				
Equity shares of Rs.10 each	7,000,000	70,000,000	7,000,000	70,000,000
Subscribed and called up				
Equity shares of Rs.10 each	6,925,000	69,250,000	6,925,000	69,250,000
Paid Up Capital				
Equity shares of Rs.10 each, fully paid-up	5,164,700	51,647,000	5,164,700	51,647,000
Share Forfeiture Account				
Equity shares of Rs.10 each, fully paid-up	1,760,300	4,451,330	1,760,300	4,451,330
Total	6,925,000	56,098,330	6,925,000	56,098,330

(a) Reconciliation of share capital

Particulars	As at		As at	
	Number	Amount	Number	Amount
Balance at the beginning of the year	5,164,700	51,647,000	5,164,700	51,647,000
Add: Issued during the year	-	-	-	-
Less: Bought back during the year	-	-	-	-
Balance at the end of the year	5,164,700	51,647,000	5,164,700	51,647,000

(b) Rights, preferences and restrictions attached to shares

Equity Shares : The company has one class of equity shares having a face value of Rs.10 per share. Each shareholder is eligible for one vote per share held.

(c) Shareholders holding more than five percent of paid up share capital

Name of the shareholder	As at		As at	
	Number of Shares	% Held	Number of Shares	% Held
Equity share of ` 10 each S. Raghava Rao	502,000	9.72	502,000	9.72

4. Reserves and surplus

Particulars	₹	₹
	As at March 31, 2013	As at March 31, 2012
Investment Subsidy :		
Opening balance	400,000	400,000
Add: Additions / transfers during the year	-	-
Less: Utilisations / transfers during the year	-	-
Balance at the end of the year	400,000	400,000
Surplus in the statement of Profit and Loss		
Balance at the beginning of the year	(19,013,658)	(21,050,149)
Add: Profit for the year	3,833,899	2,036,491
Balance at the end of the year	(15,179,759)	(19,013,658)
Total	(14,779,759)	(18,613,658)

5. Long-term borrowings

Particulars	As at March 31, 2013		As at March 31, 2012	
	Non-current	Current	Non-current	Current
Term Loans				
From Banks				
Secured	729,879	373,404	1,496	-
Total	729,879	373,404	1,496	-

Loan	Security	Terms of Repayment	Applicable Interest rate	Period of maturity (Months)	No. of installments due	As at 31 March, 2013 (Non-current + Current)
Oriental Bank of Commerce	Hypothecation of asset financed	Monthly Instalments	11.10%	36	30	9,96,133
Bajaj Financial Services Limited	Hypothecation of asset financed	Monthly Instalments	Interest free	18	13	1,07,150

6. Long term provisions

Particulars	As at March 31, 2013	As at March 31, 2012
Provision for employee benefits (Refer note 27)		
Gratuity	530,000	439,718
Total	530,000	439,718

7. Deferred tax

The Components of deferred liability are as follows:

Particulars	As at 31 March, 2012	As at 31 March, 2011
Deferred tax liability		
Depreciation	(167,343)	123,543
	(167,343)	123,543
Deferred tax assets		
Employee benefits	25,800	-
	25,800	-
Deferred tax liability	(193,143)	123,543

8 Short-term borrowings

Particulars	₹	₹
	As at March 31, 2013	As at March 31, 2012
Loans Repayable on Demand		
From Banks		
Secured (Refer note below)	7,058,804	7,014,111
From Others		
Unsecured	750,000	-
Total	7,808,804	7,014,111

Note

Loans	Security
Oriental Bank of Commerce	Secured by first charge on fixed assets, hypothecation of stock, book debts and further secured by personal guarantee of Directors.

9. Trade payables

Particulars	As at March 31, 2013	As at March 31, 2012
Trade payables	9,889,954	5,976,728
Total	9,889,954	5,976,728

10. Other current liabilities

Particulars	As at March 31, 2013	As at March 31, 2012
Current maturities of long-term debt	373,404	-
Other Payables		
Statutory Remittances	8,443,966	6,986,472
Franchisee Deposits	325,742	418,759
Advance from Customers	5,867,924	743,234
Total	15,011,036	8,148,465

11. Short term provisions

Particulars	As at March 31, 2013	As at March 31, 2012
Others:		
Provision for expenses	328,531	219,912
Total	328,531	219,912

12 Tangible Assets

Particulars	As at March 31, 2013	As at March 31, 2012
Opening Balance	59,369,569	59,035,220
Add: Additions	6,624,116	385,349
Less: Disposals	-	51,000
Gross Block of Tangible Assets at the year end	65,993,685	59,369,569
Less: Depreciation		
Opening Depreciation	30,491,021	27,837,572
Current Year Depreciation	3,001,935	2,653,449
Depreciation on deductions	-	-
	33,492,957	30,491,021
Total	32,500,728	28,878,548

City Online Services Limited
Notes forming part of the Financial Statements

12. Fixed Assets

Particulars	Gross Block - at cost				Depreciation		Net Block	
	Balance as at April 01, 2012	Additions	Disposals	Balance as at March 31, 2013	Balance as at April 01, 2012	For the Year 2013	Balance as at March 31, 2013	Balance as at March 31, 2012
Tangible Assets:								
Plant and machinery	37,905,895	4,864,981	-	42,770,876	16,486,711	1,753,076	18,239,787	21,419,184
Furniture and fixtures	6,793,365	337,662	-	7,131,027	3,395,894	432,477	3,828,371	3,397,471
Electrical and office equipment	2,940,900	-	-	2,940,900	2,488,105	139,693	2,627,798	452,795
Computers	11,681,168	64,305	-	11,745,473	8,114,071	603,227	8,717,298	3,567,097
Vehicles	48,238	1,357,168	-	1,405,406	6,240	73,464	79,704	41,998
Total	59,369,566	6,624,116	-	65,993,682	30,491,022	3,001,935	33,492,957	28,878,544
Previous year	59,035,220	385,349	51,000	59,369,566	27,837,572	2,653,449	30,491,021	31,197,645

13 Non-Current Investments

	₹	₹
Particulars	As at March 31, 2013	As at March 31, 2012
National savings certificates [5 Bonds (31.03.2012: Rs Nil) of Rs. 10,000 each]	50,000	-
Total	50,000	-

14 Long Term Loans & Advances

Particulars	As at March 31, 2013	As at March 31, 2012
Tax deducted at source	2,492,017	2,773,672
Total	2,492,017	2,773,672

15 Inventories

Particulars	As at March 31, 2013	As at March 31, 2012
Stock in Trade - Lower of cost and net realisable value	4,695,174	5,074,311
Total	4,695,174	5,074,311

16 Trade receivables

Particulars	As at March 31, 2013	As at March 31, 2012
Outstanding for a period exceeding six months	9,116,409	-
Others	11,798,971	11,109,875
Total	20,915,380	11,109,875

17 Cash and bank balances

Particulars	As at March 31, 2013	As at March 31, 2012
Cash and cash equivalents		
Cash on hand	97,123	3,101,295
Balances with banks		
- in current accounts	4,161,276	739,254
	4,258,398	3,840,548
Other bank balances		
Margin money deposits with banks with maturity period more than 3 months but less than 12 months	2,743,325	243,325
	2,743,325	243,325
Total	7,001,723	4,083,873

18. Short-term loans and advances
Unsecured, considered good

Particulars	As at March 31, 2013	As at March 31, 2012
Loans and Advances to employees		
Salary Advances	142,974	121,000
Security Deposits	2,688,507	2,681,703
Prepaid Expenses	3,634,000	3,634,000
Advance for expenses	1,226,419	1,000,000
Total	7,691,900	7,436,703

19. Other current assets
Unsecured, considered good

Particulars	As at March 31, 2013	As at March 31, 2012
Interest accrued on fixed deposits	76,711	51,664
Total	76,711	51,664

City Online Services Limited
Notes forming part of the Financial Statements

20. Revenue from operations

	₹	₹
Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Income from internet services	70,703,978	50,677,202
Income from VOIP services	1,963,849	2,433,774
Income from sales	10,309,419	1,356,607
Total	82,977,246	54,467,583

21. Other income

Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Excess provisions written back	57,090	405,894
Rental income	172,150	363,000
Interest received	27,830	94,153
Miscellaneous income	31,571	570,722
Total	288,641	1,433,769

22. Operating Expenses

Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Bandwidth charges	31,335,745	23,264,117
Repairs and maintenance	834,009	413,534
VOIP activation charges	534,700	363,626
Generator maintenance	66,893	78,161
Electricity charges	2,273,878	1,829,989
Rent networking	1,811,457	1,835,274
Cost of sales	5,587,308	1,122,654
Other operating expenses	5,557,359	1,641,935
Total	48,001,349	30,549,289

23. Employee benefits expense

Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Salaries and related costs	12,073,015	8,187,221
Contribution to provident fund	152,952	82,080
Gratuity	86,000	47,000
Staff welfare	174,397	160,313
Total	12,486,364	8,476,614

City Online Services Limited

Notes forming part of the Financial Statements

24. Finance costs

Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Interest expense on		
Term borrowings	57,962	31,233
Working capital borrowings	852,591	898,109
Bank and other finance charges	110,153	101,885
Total	1,020,706	1,031,227

25. Other expenses

Particulars	For the Year ended March 31, 2013	For the Year ended March 31, 2012
Rent	1,700,444	1,659,021
Director's remuneration	2,961,520	2,926,520
Sales Commission	1,912,562	1,243,990
Insurance	29,721	82,509
Rates and taxes	1,175,557	301,243
Auditors' remuneration:		
Statutory audit	250,000	105,450
Tax audit	50,000	50,000
Travelling and conveyance	1,300,294	1,355,632
Legal and professional charges	490,133	367,740
Advertisement expenses	136,855	32,690
Communication cost	612,241	614,381
Bad Debts written off	1,496,638	946,753
Printing and stationery	251,931	135,238
Interest on statutory payments	205,311	191,863
Maintenance expenses	742,518	437,773
Business Promotion expenses	166,223	73,202
Freight charges	1,212,476	299,571
Miscellaneous expenses	543,894	436,575
Total	15,238,318	11,260,150

City Online Services Limited

26. Contingent Liabilities

Particulars	₹	₹
	As at 31 March, 2013	As at 31 March, 2012
Performance Guarantee	24,00,000	24,00,000

27. Employee Benefit Plans:

Particulars	As at 31 March, 2013	As at 31 March, 2012
Components of Employer Expenses:		
Current service Cost	597,000	47,000
Interest cost	36,000	29,000
Expected return on plan assets	-	-
Net actuarial (gain)/loss to be recognised	(547,000)	5,000
Total expense recognised in the statement of profit and loss account	86,000	81,000
Net Asset / (Liability) Recognized in Balance Sheet:		
Defined benefit obligation	530,000	445,000
Fair value of plan assets at the end of the year	-	-
	530,000	445,000
Change in Defined Benefit Obligations (DBO):		
Present value of DBO at beginning of year	-	-
Interest cost	-	-
Current service cost	-	-
Benefits paid	-	-
Actuarial (gain)/losses on obligations	-	-
Present value of DBO at the end of year	-	-
Change in Fair Value of Plan Assets during the Year:		
Planned assets at beginning of the year	-	-
Expected return on planned assets	-	-
Contributions	-	-
Benefit paid	-	-
Actuarial gain/(loss) on plan assets	-	-
Fair Value of plan assets at the end of the year	-	-

City Online Services Limited

	₹	₹
Movement in Balance Sheet:		
Opening liability	445,000	364,000
Expenses as above	86,000	81,000
Contribution paid	-	-
Closing liability	530,000	445,000
Defined Benefit Plan - Gratuity Assumptions		
Discount rate	8.00%	8.00%
Expected rate of return on planned assets	6.00%	6.00%
Salary escalation rate	6.00%	6.00%
Attrition rate	0.00%	0.00%

28. Segment Information

The Company's operations predominantly consist only of business of providing internet and intranet, data centre solutions. Hence, there are no reportable segments under Accounting Standard – 17 "Segment Reporting" (AS-17).

During the year, the company's business has been carried out in India. The conditions prevailing in India being uniform, no separate geographical disclosures are considered necessary. There are no other reportable segments.

29. Related Party Disclosures

- a) Related party disclosures, as required by AS-18, "Related Party Disclosure" is given below.

Names of the related parties and nature of relationship:

Name of the Related Party	Nature of Relationship
Key Managerial personnel	Ch. Harinath
Key Managerial personnel	S.Raghava Rao
Key Managerial personnel	R. Krishna Mohan

- b) **Transactions with related parties:**

Particulars	For the year ended 31 March, 2013	For the year ended 31 March, 2012
Managerial Remuneration:		
S Raghva Rao	10,99,000	10,92,000
R Krishna Mohan	10,22,520	9,94,520
Ch Harinath	8,40,000	8,40,000

30. Leases:

Lease arrangements where the risks and rewards incidental to ownership of an asset substantially vests with the lessor, are recognised as operating lease. Lease rentals under operating lease are recognised in the statement of profit and loss on a straight-line basis.

31. Earnings per share:

Particulars	For the year ended 31 March, 2013	For the year ended 31 March, 2012
Profit after tax	38,33,899	2,036,491
Basic and diluted	0.74	0.39
Weighted average number of shares outstanding	51,64,700	51,64,700
Face value per share (Rs.)	10	10

32. Earnings in foreign currency

Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
Bandwidth income	70,592	5,74,809
	70,592	5,74,809

33. Expenditure in foreign currency

Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
VOIP Minutes / Purchases	56,78,757	16,14,722
	56,78,757	16,14,722

34. There is no balance confirmation available for the receivables and payables outstanding as on March 31, 2013 and such balances are subject to confirmation.

35. The principal amount remaining unpaid as at March 31, 2013 in respect of enterprises covered under "Micro, Small and Medium Enterprises Development Act, 2006" (MSMEDA) is Rs. Nil.

In respect of transactions with "Suppliers" who constitute Micro, Small and Medium Enterprises under Micro, Small and Medium Enterprises Development Act, 2006 disclosures relating to interest paid/payable are not applicable.

36. Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure.

For and on behalf of the Board

S. Raghava Rao

R. Krishna Mohan

Chairman and Managing Director

Director

Place: Hyderabad

Date: May 30, 2013

	₹	₹
Particulars	For the year ended March 31, 2013	For the year ended March 31, 2012
A. Cash flow from operating activities		
Profit before tax	3,517,214	1,930,622
Adjustment for:		
Interest expense	57,962	31,233
Depreciation	3,001,935	2,653,449
Bad debts written off	1,496,638	946,753
Operating loss before working capital changes	8,073,749	5,562,057
Changes in Working Capital :		
Decrease / (increase) in Inventories	379,137	(2,008,283)
Increase in Sundry Debtors	(11,302,144)	(2,757,216)
Increase in loans and advances	(255,197)	(8,876,234)
(Increase)/decrease in other current assets	(25,047)	7,528,867
Increase in Current liabilities	3,913,226	2,305,249
Increase/(decrease) in Provisions	198,901	(6,067,977)
Increase in Current liabilities	6,489,167	7,225,888
Cash Used in Operating activities	7,471,793	2,912,352
Direct taxes refund / (paid)	281,655	(183,532)
Net Cash Used in Operating activities (A)	7,753,448	2,728,820
B. Cash flow from investing activities		
Purchase of fixed assets	(6,624,116)	(385,349)
Purchase of investments	(50,000)	-
Proceed from sale of fixed assets	-	51,000
Net Cash Used in Investing activities (B)	(6,674,116)	(334,349)
C. Cash flow from financing activities		
Proceeds from short term borrowings	794,693	543,586
Proceeds from long term borrowings	1,101,787	1,496
Interest paid	(57,962)	(31,233)
Net Cash from Financing activities (C)	1,838,518	513,849
D. Net increase in cash and cash equivalents (A+B+C)	2,917,850	2,908,320
E. Cash and Cash Equivalents		
at the beginning of the year	4,083,873	1,175,557
at the end of the year	7,001,723	4,083,873
The cash flow statement is prepared in accordance with the indirect method stated in Accounting Standard 3 on Cash Flow Statement' and presents the Cash Flows by Operating , Investing and Financing activities.		
For Seshachalam & Co	For and on behalf of the Board of Directors	
Chartered Accountants		
T. Bharadwaj	S. Raghava Rao	R. Krishna Mohan
Partner	Chairman and Managing Director	Director
Place: Hyderabad		
Date: May 30, 2013		