



CityOnline

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FOURTH ANNUAL REPORT

2002 - 2003

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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. T. A. Choudary	:	Nominee Director (APIDC)
Mr. D. Sivarama Prasad	:	Director
Mr. Thamos. P. Nicodamus	:	Director
Mr. M. Nageswara Rao	:	Director

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

Asst. Company Secretary : Rama Krishna Paruchuri

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
Hussaini Alam
Koka Bazaar
Hyderabad-500064

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

**Registrars and
Share Transfer Agents** : XL Softech Systems Ltd
3, Sagar Society, Road No.3,
Banjara Hills,
Hyderabad 500 034.

Notice is hereby given that the Fourth Annual General Meeting of the Company will be held on Tuesday, September 30, 2003 at 11.00 AM at the Registered Office of the Company at #G1, 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, 2003, 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. D. Sivarama Prasad, who retires by rotation and being eligible, offers him-self for reappointment.
3. To appoint a Director in place of Mr. Thamous P. Nicodamus, 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.

By order of the Board

Place : Hyderabad
Dated : September 2, 2003

Rama Krishna Paruchuri
Asst. Company Secretary



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 Thursday, September 25, 2003 to Tuesday, September 30, 2003, 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.

Dear Members

Your Directors have pleasure in presenting the Company's FOURTH DIRECTOR'S REPORT together with the Audited Accounts of the Company for the Year ended March 31, 2003 and the Auditor's Report thereon

Financial Results:

Particulars	31.03.2003	(Rs. In Lakhs) 31.03.2002
Income from operation	180.25	191.10
Income from software development	Nil	9.90
Other Income	3.11	4.04
Total Income	183.36	205.04
Expenditure (before Interest & Depreciation)	185.63	177.53
Profit before Interest and Depreciation	(2.27)	27.51
Interest	15.28	13.81
Profit before depreciation	(17.55)	13.69
Depreciation	27.44	24.11
Profit / Loss before Tax	(44.99)	(10.42)
Provision for Taxation	Nil	0.22
Profit /Loss after Tax	(44.99)	(10.65)
Balanced carried to Balance Sheet	(50.55)	(5.56)

Review and Prospects

During the Year 2002-03, your company has downsized its activities in software division due to sluggish conditions that prevailed in the software industry. There is a decline in the income from operations due to poor market conditions and price reduction in the ISP business. Despite adverse conditions, your company performed reasonably good.

Your company is expanded its network in the entire state of Andhra Pradesh with 3 branches at nodal towns like Vijayawada, Guntur, Ongole apart from corporate office at Hyderabad catering the needs of the Twin cities of Hyderabad, Secunderabad.

Your company is rapidly expanding its corporate clientele base in Bangalore and is also planning to expending in other parts of karnataka.

The Board of Directors are confident to achieve better results for 2003-04 as the outlook for the forth coming year is promising from all the fronts with the revival of economy globally. As a result of which, new companies and MNCs are coming up in India in the areas of software development and IT enabled services especially BPO.

Your company is endeavoring to implement innovative marketing strategies to tap the semi urban internet users where potential is increasing by setting up branches in different districts in Andhra Pradesh and Karnataka.

Dialup and Lease Line Services: -

Your Company has quite as good number of customer in dialup and ISDN segments. And also bagged leased line orders from reputed corporate customers.

Co-locations Server

Your Company has also been rendering dedicated and collocation server Services and has completed the projects bagged from reputed customers in this segment

Dedicated Server

Under this segment your company will have a committed Bandwidth along with a server, which will be provided by your company

Web hosting/ designing

Your company has rendering web-hosting services to various customers by informing them the advantage of hosting their sites from your Company. Your Company has announced lucrative packages in this segment for customers.

FTP Services

Your company has already started and providing FTP download access service at its Registered Office for various customers to download files (data), which is not possible though dial up connectivity

Fixed 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. D. Sivarama Prasad and Mr. Thamous P. Nicodamus 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 reply to the Auditors report that

- a) The Company has set up Internal Monitoring committee and the said committee is looking after purchase of all Capital items and its usage.
- b) The Company has recruited highly professional/Technical-qualified persons to look after Internal control systems. The Company operations are very less and the Management has taken care of Internal Audit themselves. However for the coming financial year Internal Auditor will be appointed
- c) Company has undisputed amount payable in respect of Income tax Rs. 3.35 Lakhs, Service Tax 2.89 Lakhs and professional tax 0.11 Lakhs outstanding as at 31-03-2003 from the date they become payable. This occurred due to decrease in turnover, which was because of reduction in bandwidth prices payable to us. However our operating expenditure remain unaltered. We have taken steps to reduce the operating expense to manageable levels and have planned to clear all the statutory dues before 31-10-2003
- d) The Company has made payments to provident fund authorities with some delays due to financial problems there after the payments was done subsequently.

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, 2003

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	:	2002-03	2001-02
			US\$	US\$
a)	Earnings	:	Nil	54,900
b)	Used	:		
i)	For Foreign Travel is	:	Nil	Nil
ii)	On Account of Licenses & Registration	:	2,500	2500
iii)	On account of Hardware purchase	:	3,750	Nil
iv)	On account of Bandwidth charges	:	37,496	56500
			Rs.21.21 Lakhs	Rs.28.20 Lakhs

Acknowledgement:

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

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

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

For and on behalf of the Board of Directors

Place : Hyderabad
Date : September 2, 2003

S. Raghava Rao
Chairman and Managing Director

MANAGEMENT DISCUSSION & ANALYSIS REPORT**[Annexure to Report on Corporate Governance]**

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

Overview**Regarding Company Business**

In the first half of this financial year there was a slight increase in the customer base for example Leased line customers went-up. But this is not reflected in the overall turnover due to decrease in bandwidth prices. In the later of the Financial Year we were able to rope in a good number of reputed software development and BPO companies both at Hyderabad and Bangalore. We are happy to inform you that most of deals were closed in the month of March 2003 and the same can be seen from the first quarter of 2003-04 Financial Year. For example in Bangalore we are providing 3.5 Mbps bandwidth to M/s Kshema Technologies from April 2003 and this is likely to increase to 9 Mbps in later part of the Year.

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 on IT industry globally we our-self are finding a good opportunity ahead as the number of new customers both in software development and BPO are coming to Hyderabad and Bangalore. This new customers are potential new clients. The Management is making efforts to attract the customers for our fold and also our existing customers are increasing

Threats

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

Particulars		(Rs. In Lakhs)	
		Projections	Actuals
		2002-03	2002-03
Sales & Other Income	:	1132.59	183.36
Total Expenses	:	480.28	185.63
Profit/Loss before Income-Tax	:	554.5	(44.99)
Profit/Loss after Income Tax	:	311.61	(44.99)
Dividend	:	175.00	Nil
Share Capital	:	700.00	493.09
Reserves & Surplus	:	386.45	Nil
Earnings Per Share (Rs.)	:	4.45	Nil
Book Value (Rs.)	:	15.04	
Book value (for Rs. 10/- paid up)	:		8.74
Book value (for Rs. 5/- paid up)	:		4.37
Book value (for Rs. 2.5/- paid up)	:		2.18

As the Company was not able to mobilize the entire amount in the public issue and as you are aware there are still dues to be collected from the shareholders as a result of it we were not able to set infrastructure as mentioned in the prospectus.