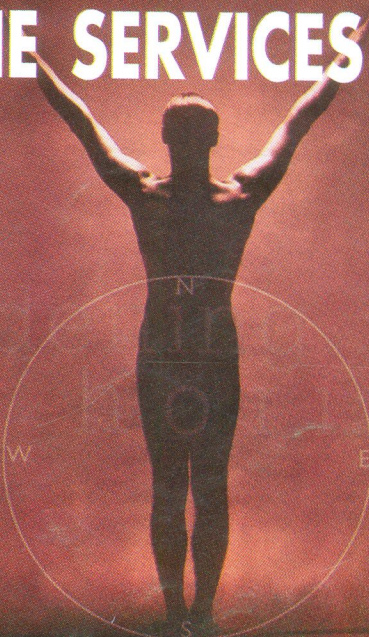


3rd
Annual Report
2000-2001

We
get
you
there.
Faster.

SOUTHERN ONLINE SERVICES LIMITED



Your Friendly Neighbourhood Internet Service Provider



PROMOTERS



REGISTERED OFFICE

SOUTHERN ONLINE SERVICES LIMITED

BOARD OF DIRECTORS :

C.M.RAMESH
Chairman

N.SATISH KUMAR
Managing Director.

K.RADHA KRISHNA
Director.

B.SREEDHARA REDDY
Director.

B.H.R.BALAJI
Director.

REGISTERED OFFICE :

3A, 3rd Floor, Samrat Complex,
Office Block, Saifabad,
HYDERABAD – 500 004.

AUDITORS :

M/s. UMMAREDDY & ASSOCIATES.
Chartered Accountants.
Jabbar Apartments,
Begumpet,
HYDERABAD - 16

BANKERS :

Central Bank of India,
Corporate Finance Branch,
Koti, HYDERABAD.

REGISTRARS :

SINDHU CORPORATE SERVICES PVT LTD,
18A, (NEW No 492) East Marredpally,
SECUNDERABAD – 500 026.

SOUTHERN ONLINE SERVICES LIMITED

NOTICE

Notice is hereby given that the Third Annual General Meeting of the Members of the Company will be held on Thursday, the 27th September 2001 at 11.30 A.M. at Golden Triangle, Nanakram Guda, Lingampally Mandal, Ranga Reddy Dist. to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Balance Sheet as on 31st March 2001 and Audited Profit & Loss Account for the year ended on that date together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Mr. B. Sreedhara Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. B.H.R.Balaji, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Ummareddy & Associates, Chartered Accountants, Hyderabad as Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting at a remuneration as may be fixed by the Board of Directors of the Company.

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 pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII (as amended from time to time) to the said Act, the consent of the Company be and is hereby accorded to the appointment of Mr. N.Satish Kumar as the Managing Director of the Company for a period of 5 years with effect from 28th May 2001, on the following terms and conditions :

- I. Salary Rs.1,00,000/- (Rupees One Lakh only) per month.
- II. Commission
1% of the amount of Net Profit before taxes (but after charging all expenses including depreciation and managerial compensation) as appearing in the Audited Annual Accounts for each Financial Year of the Company, unless otherwise decided by the Board for any financial Year, subject however, that the total remuneration (i.e., salary, perquisites and commission) in any one financial year shall not exceed the limits prescribed from time to time under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may, for the time being, be in force.
- III. Perquisites
Perquisites as follows will be paid and / or provided in addition to salary, subject however that the amount of perquisites, if taxable as per Income Tax Act, 1961, shall be restricted to total remuneration as per Part II of Schedule XIII to the Companies Act, 1956, as applicable from time to time.

Part - A

- a) Medical Reimbursement
Reimbursement of medical expenses actually incurred for self and family including dependent mother and father, subject to a ceiling of one month's salary per year or 3 months' salary in a block of 3 years.
- b) Leave Travel Concession
For self and family including dependent father and mother, to and from any place in India, once in a year

SOUTHERN ONLINE SERVICES LIMITED

in accordance with the rules of the Company.

- c] Club Fees
Fees of Club subject to a maximum of 2 clubs will be allowed, provided that no admission or life membership fees shall be paid.

Part – B

- a] Provident Fund
Company's contribution to Provident Fund as per the scheme of the Company.
- b] Pension / Superannuation Fund
Company's contribution to Pension / Superannuation Fund in accordance with the scheme of the Company.

(Note: The contribution towards Provident Fund and Pension / Superannuation Fund will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.)

- c] Gratuity
As per the rules of the Company, payable in accordance with the approved fund at a rate not exceeding one-half month's salary for each completed year of service.

Part – C

- a] Car
Use of Company's car with driver for business purposes.
- b] Telephone
Free Telephone / Communication facilities at residence for business purposes.
- IV. Other Benefits
Leave
On full pay and allowances as per rules of the Company, but not more than one month's leave for every 11 months of service. Leave not availed of shall be allowed to be encashed at the end of the tenure and the same will not be included in the computation of the ceiling on perquisites.
- V. Overall Remuneration
The aggregate of salary, commission and perquisites in any financial year shall not exceed the limits prescribed from time to time under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may be, for the time being, in force. In case of any doubt / discrepancy / clarification that may arise with respect to payment of remuneration in excess of that entitled under Section II of Part II of Schedule XIII to the Companies Act, 1956, but not exceeding the overall limits prescribed under the Act, the same shall be determined and decided by the Board.
- VI. Minimum Remuneration
In the event of loss or inadequacy of profits, in any financial year during the currency of tenure of service, the payment of salary, commission, perquisites and other allowances shall be governed by the limits prescribed under section II of Part II of Schedule XIII to the Companies Act, 1956, including any statutory modification or re-enactment thereof, as may be for the time being in force.
- VII. Three month's notice shall be required on either side for termination of services.

For and on behalf of the Board

CM. Ramesh
Chairman

Place: Hyderabad
Date : 27.06.2001.

SOUTHERN ONLINE SERVICES LIMITED

Southern Online
We get you there. Faster.

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy instead of himself / herself and such proxy need not be a member of the company. Proxy forms to be valid shall be lodged with the company not less than 48 hours before the meeting.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 25.09.2001 to 27.09.2001 (both days inclusive).
4. The Members are requested to intimate any change in their address quoting their Registered Folio.
5. The Members are requested to bring Annual Report to the Meeting and are also requested to send their queries, if any, on the adoption of accounts well in advance, so as to enable to place relevant records and information at the time of Annual General Meeting.

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

ITEM No.5:

Mr. N. Satish Kumar was appointed as Executive Director of the Company in the third Extra Ordinary General Meeting held on 5th January 2000 for a period of five years w.e.f 05.01.2000. Since then his contribution to the growth of the Company is exemplary. His relentless pursuit of contribution aided the Company to reach greater heights.

As Mr. N. Satish Kumar is a man of innovation with strategic planning and futuristic vision, the Board of Directors, at their meeting held on 28th May 2001, appointed him as the Managing Director of the Company for a period of five years on the terms and conditions as set out in the notice.

Except Mr. N. Satish Kumar, no other Director is concerned or interested in the above Resolution. Your Directors, therefore, commend the Resolution for your approval.

For and on behalf of the Board

Place: Hyderabad
Date : 27.06.2001.

CM. Ramesh
Chairman

SOUTHERN ONLINE SERVICES LIMITED**DIRECTORS' REPORT**

Dear Members,

Your Directors have pleasure in presenting the Third Annual Report together with the Audited Accounts of the company for the year ended 31st March 2001.

Financial Results

The highlights of the financial performance are summarized below :

Particulars	(Rs. in Lakhs)	
	Year Ended March 31, 2001	Year Ended March 31, 2000
Total Income	332.12	202.54
Operating Profit	139.09	61.63
Less: Depreciation	58.94	20.46
Less: Misc. Expenditure written off.	9.40	0.45
Net Profit carried forward to Balance Sheet	64.25	40.71

Internet Scenario in India

The Net has virtually become a household name in India. In a splash of time, Internet in India has come to be viewed as the most vital medium for information, entertainment, communication and the sole means for electronic commerce.

Today, everywhere one looks, the signs of Internet's arrival and adoption loom large. And as the Internet proliferates, so will e-commerce and e-business - this is now a universally recognized fact. Therefore a boost in the expansion of the Internet in the country will not only help India become a vital part of the emerging global economy, it will also enable its citizens to avail the benefits of the web enabling experience.

Though we still lag behind stalwarts like China, Japan and Taiwan in terms of Internet usage yet the gradual quickening in the pace of India's Internet growth can be judged by the India Internet Log Book 2000, which reports over 1.8 million subscribers (and more than 5.5 million users). And the estimated figure by 31 December 2003 is a whopping 50 million!

(Source:Nasscom)

Internet Survey

A survey indicates that India's Internet subscribers increased - from a meagre 0.7 million subscribers in November 1998 to over 1.8 million subscribers by 31 December 2000.

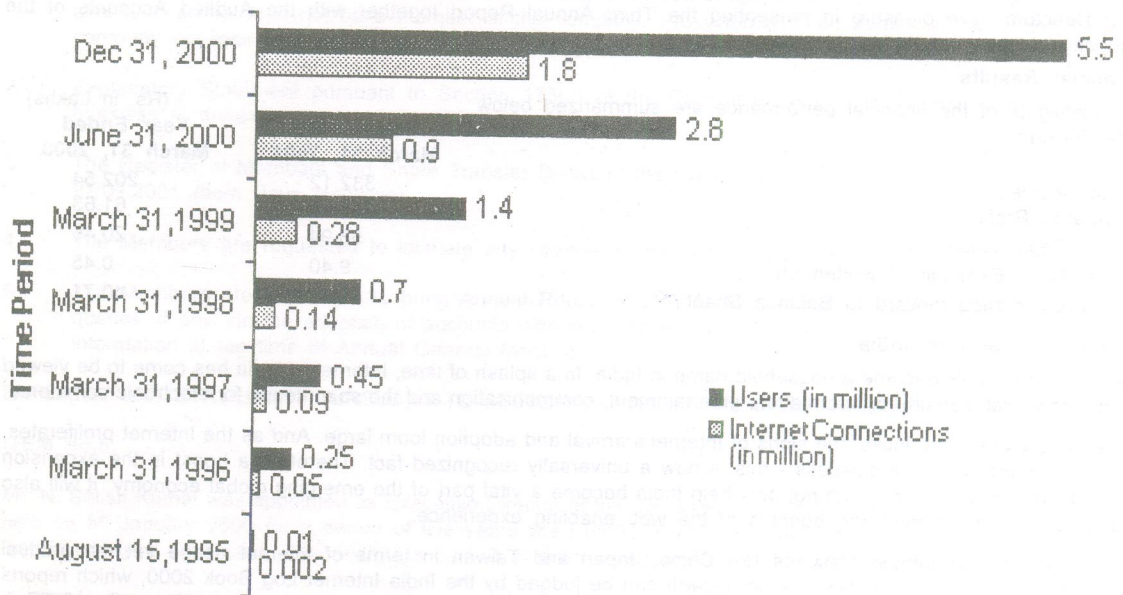
This significant boost to the country's Internet plans can be accounted to the Government, which has announced several landmark decisions that have helped increase Internet penetration in India.

Nasscom Internet survey conducted in 68 cities / towns in India in January 2001 (accounting for over 92 percent of the total Internet users in the country) on Internet Usage Trends and came up with some interesting findings:

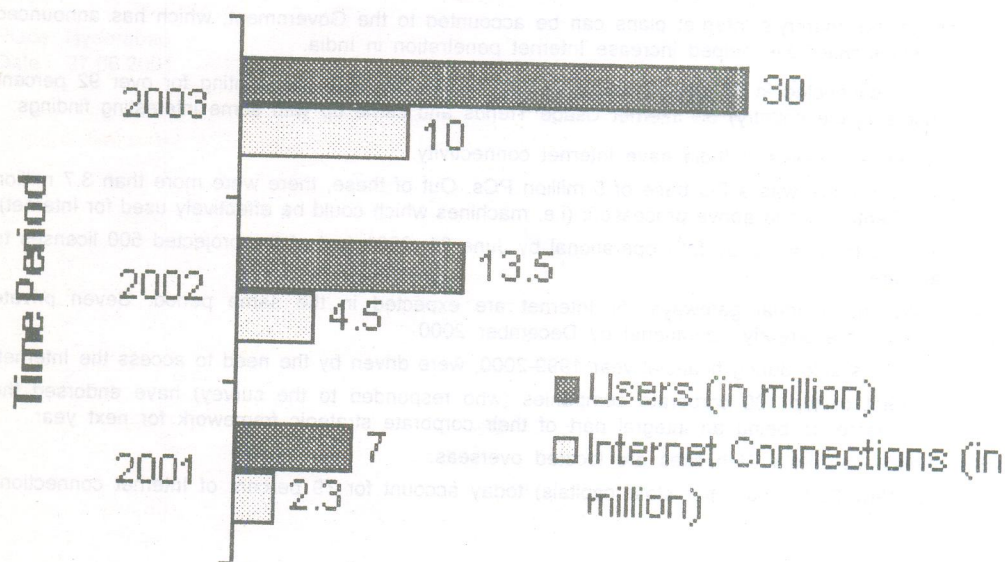
- More than 200 cities and towns in India have Internet connectivity.
- As of December 2000, there was a PC base of 5 million PCs. Out of these, there were more than 3.7 million machines that had Pentium I and above processors (i.e. machines which could be effectively used for Internet).
- More than 120 private ISPs would be fully operational by June 31, 2001 (out of the projected 500 licenses to be given by that date).
- At least 12 private international gateways for Internet are expected in the same period. Seven private international gateways are already operational by December 2000.
- Over 81 percent of PCs sold during financial year 1999-2000, were driven by the need to access the Internet.
- More than 86 percent of top 100 corporate companies (who responded to the survey) have endorsed the Internet and e-commerce as being an integral part of their corporate strategic framework for next year.
- 91 percent of India's corporate Web sites are located overseas.
- The capital cities (New Delhi and other state capitals) today account for 79 percent of Internet connections across the country.

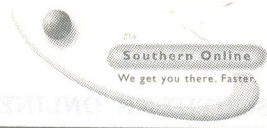
(Source:Nasscom)

India--Growth of Internet



India--Growth of Internet (Projections)





SOUTHERN ONLINE SERVICES LIMITED

Review and Prospects

Since the commencement of commercial operations on 11th May 1999, as a front ranking Internet Service Provider in Andhra Pradesh, your Company expanded its network the entire state with 4 branches at nodal towns like Karimnagar, Kakinada, Vijayawada and Khammam apart from the corporate office at Hyderabad catering the needs of the twin cities of Hyderabad and Secunderabad.

Your Company's performance during the Year 2000-01 has been satisfactory. Your Company continued its rapid growth. Gross revenue has grown to Rs. 332.12 Lakhs from Rs. 202.54 Lakhs registering a growth rate of 64 %. Profit after tax for the year under review is Rs. 64.25 Lakhs as compared to Rs. 40.71 Lakhs, an increase of 58% over previous year.

Your Company has planned to establish its operations at different districts in Andhra Pradesh.

Your Company is also providing Internet through Wireless Technology and also through Cable Technology.

Dial up and Lease Line Services:

Your Company has got 7000 customers in Dial-up segment and around 100 Corporate Customers in leased line and web-hosting segment which include prestigious customers like TATA Cellular Ltd, Osmania University, GVK Industries, Muffakham Jah College of Engineering & Technology, Foerster Bhupati International, B2B Software Technologies Ltd etc.,

Colocation Server

Your Company has also been rendering dedicated and co location server services and has completed the projects bagged from reputed customers in this segment.

Ex: GATI Cargo, J S Soft Merchants

Dedicated Server

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

Corporate e' Mail

In this segment corporate customers can avail number of e-mail ids under their prime account of your Company. In this segment your Company is already serving TATA Communications Ltd.

Ex: cybermaintenance.com, sindhusoft.com, krssl-stock.com.

Web hosting /Designing

Your Company has already started and 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.

Ex: realestateinap.com, apforensiclab.com, acb-op.org.

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 through Dial up connectivity.

EX: millennium, apcmp(a.p.cyclone mitigation project), e-logic (medi trans), mediland (medical transcription)

Software Development

Your Company has successfully completed two development and implementation projects from TATA Communications Ltd and CMC Ltd and also agreed to develop and implement few more projects for TATA Communications LTD. On-line billing software module has been developed successfully for TATA Communications LTD.

The Company also developed customized CRM (Customer Relation Management) Project for internal purpose of the Company. This project is suitable to the nature of ISP business and helps in identifying and giving appropriate solution to the Internet users apart from generating various reports.

SOUTHERN ONLINE SERVICES LIMITED

Company's Tie-ups

Your Company has entered a tie-up with Intel as a business partner. As a business partner of Intel group your Company has been getting updated reports about new Intel Technologies from time to time.

Your Company has also entered a prestigious tie-up with CMC Ltd to provide solutions to upcoming ISPs as well as corporate customer segment and with KTL for identifying wide customers to the Company.

Your Company has been serving the corporate customers through Wireless Technology and also providing Internet Service through Cable Technology for both individual and corporate segments.

Your Company has entered an agreement with M/s.Micromap Satcom Pvt. Ltd., a lucknow based 'C' category ISP, to provide complete cable technology solutions on turnkey basis. Your Company also tied up with DotCC Ltd, a Malaysian based company, for providing domain names to the customers.

International Gateway

Your Company presently provides Internet services as a licensed ISP via our own Internet Satellite Earth Station and also has a redundancy through Videsh Sanchar Nigam Ltd (VSNL).

The international gateway provides various benefits like:

- Quality of service
- Committed speed
- Direct link
- Uninterrupted services
- Can handle large number of subscriber base
- Easy to upgrade
- Can support multiple services (ATM, Frame Relay, DSL, ADSL and much more services) as and when Govt. permits.

Directors

Mr. C.M.Ramesh has tendered his resignation from the office of Managing Director of your Company effective 28th May 2001 and he is continuing as Chairman of the Board. Mr. N.Satish Kumar has been appointed as Managing Director of the Company, effective from that date.

Pursuant to Article 48 of the Articles of Association of the Company, Mr. B. Sreedhara Reddy, Director and Mr. B.H.R.Balaji, Director are liable to retire by rotation at the ensuing Annual General Meeting and being eligible, offered themselves for re-appointment.

Directors' Responsibility Statement

As required under Section 217 (2AA), which was introduced by the Companies (Amendment) Act, 2000 your Directors confirm that:

- i) In the preparation of the annual accounts, the applicable accounting standards have been followed.
- ii) The Directors have 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 as on 31st March 2001 and of the profit or loss of the company for the year ended 31st March 2001.
- iii) The Directors have 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 the annual accounts on a going concern basis.

SOUTHERN ONLINE SERVICES LIMITED

Auditors

M/s Ummareddy & Associates, Chartered Accountants, the Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and being eligible, offered themselves for reappointment.

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 Ltd. and Bangalore Stock Exchange Ltd.

Fixed Deposits

The Company has not invited/accepted any fixed deposits from the public in terms of Section 58A of the Companies Act, 1956.

Personnel

None of the employees is covered under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

Information as per Section 217 (1) (e) of the Companies Act, 1956

Your Company has no activity relating to conservation of energy or technology absorption. During the year 2000 - 01, there are no foreign exchange earnings. However there was foreign exchange outflow of Rs. 29.66 Lakhs towards traveling, bandwidth and technical know-how charges.

Acknowledgement

Your Directors wish to place on record, 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 technology growth during the year. Your Directors would like to thank all the shareholders who have reposed faith in the Company.

Your Directors also thank the Government of India, Government of Andhra Pradesh, Dept. of Information Technology, BSNL, Dept. of Telecommunications, VSNL, AP Transco, Central Bank of India and other Governmental Agencies for their support during the year and look forward to their continued support.

For and on behalf of the Board

Place : Hyderabad
Date : 27.06.2001.

CM. Ramesh
Chairman

SOUTHERN ONLINE SERVICES LIMITED

AUDITORS' REPORT

To
The Members of
Southern Online Services Limited

We have audited the attached Balance Sheet of **M/s. SOUTHERN ONLINE SERVICES LTD, HYDERABAD**, as at 31st March, 2001 and the Profit & Loss Account annexed thereof for the year ended on that date and report that :

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
2. In our opinion, proper books of accounts as required by law have been kept by the company so far as it appears from our examination of such books;
3. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account submitted to us;
4. In our opinion, the Profit & Loss Account and the Balance Sheet comply with the accounting standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956;
5. On the basis of written representations received from all the Directors as on 31.3.2001, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31.3.2001 for being appointed as Director in terms of Clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956;
6. In our opinion and to the best of our information and according to the explanation given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view;

a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2001;

AND

b) In the case of the Profit and Loss Account, of the Profit for the year ended on that date.

- 7) As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks of books and records of the Company as we considered appropriate and according to the information and explanations given to us during the course of audit, we further state on the matters specified in paragraphs 4 and 5 of the said order that:
 - 7.1) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets of the Company have been physically verified by the management at reasonable intervals and no material discrepancies have been noticed on such verification.
 - 7.2) None of the fixed assets has been revalued during the year.
 - 7.3) The physical verification has been conducted by the management at reasonable intervals in respect of the stock. The procedure of physical verification of stock followed by the management is reasonable and adequate in relation to the size of the Company and the nature of its business.
 - 7.4) No material discrepancies have been noticed on physical verification between physical stock as compared to book records.
 - 7.5) On the basis of our examination of stock records we are of the opinion that the valuation of stocks is fair and proper in accordance with normally accepted accounting principles and is on the same basis as in the preceding year.
 - 7.6) The Company has not taken any loans or advances from the companies, firms or any parties listed in the Register maintained under Section 301 of the Companies Act, 1956, (1 of 1956) and / or from the companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.

SOUTHERN ONLINE SERVICES LIMITED

- 7.7 The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956, or to companies under the same management within the meaning of the Section 370 (1B) of the Companies Act, 1956.
- 7.8 In our opinion there are adequate internal control procedures commensurate with the size of the company and the nature of the business with regard to the purchase of plant and machinery, equipment and other assets and with regard to the services rendered.
- 7.9 The company has not accepted any deposits from the public and consequently the provisions of Section 58-A of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975 are not applicable.
- 7.10 The Company has Internal Audit system commensurate with its size and nature of its business.
- 7.11 According to the information and explanations given to us, maintenance of cost records has not been prescribed by the Central Government under Section 209 (1) (d) of the Companies Act, 1956, for any of the activities of the Company.
- 7.12 According to the information and explanations given to us the provisions of Employee State Insurance Act are not applicable to the Company and the Company is in general regular in remitting the Provident Fund amounts with appropriate authorities.
- 7.13 In our opinion and according to the information and explanations given to us, the transactions of purchases made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs. 50,000/- or more in respect of each party have been made at prices and terms which are reasonable, having regard to the prevailing market prices or the prices at which transactions for similar goods or materials have been made with other parties.
- 7.14 According to the information and explanations given to us and as per the records of the company examined by us, there are no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty which have remained outstanding as at 31st March, 2001 for a period of more than six months from the date they became payable.
- 7.15 According to the information and explanations given to us and as per the records of the Company examined by us, personal expenses of employees or Directors have not been charged to revenue account, other than those payable under contractual obligations in accordance with generally accepted business practice.
- 7.16 The Company is not a Sick Industrial Company within the meaning of the clause (o) of the Sub Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
- 7.17 The Company has a reasonable system of allocating man-hours utilized to the relative jobs, commensurate with its size and nature of its business.
- 7.18 There is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of the Company and the nature of its business.

for **UMMAREDDY & ASSOCIATES**

Chartered Accountants

A.KOTESWARA RAO

Partner

Place : Hyderabad.

Date : 27.06.2001.

SOUTHERN ONLINE SERVICES LIMITED

BALANCE SHEET AS AT 31ST MARCH, 2001

Description	Schedule No.	As at 31.03.2001 (Rs.)	As at 31.03.2000 (Rs.)
I. SOURCES OF FUNDS :			
1. Shareholders' Funds :			
a. Share Capital	1	53,603,000	40,200,000
b. Reserves and Surplus	2	10,496,284	4,071,330
2. Loan Funds :			
a. Secured Loans	3	7,144,446	-
b. Unsecured Loans	4	2,027,057	-
TOTAL :		<u>73,270,787</u>	<u>44,271,330</u>
II. APPLICATION OF FUNDS :			
1. Fixed Assets :			
a. Gross Block	5	48,169,873	29,723,393
b. Less : Depreciation		7,940,264	2,046,391
c. Net Block		40,229,609	27,677,002
d. Capital Work in Progress	6	-	6,444,755
2. Investments			
		-	-
3. Current Assets, Loans and Advances :			
Less : Current Liabilities & Provisions :	7	30,470,808	14,022,582
Net Current Assets	8	2,781,975	4,054,895
		27,688,833	9,967,687
4. Miscellaneous Expenditure (to the extent not written off or adjusted)			
	9	5,352,345	181,886
TOTAL :		<u>73,270,787</u>	<u>44,271,330</u>
Notes forming part of Accounts	14		

AS PER OUR REPORT OF EVEN DATE

FOR AND ONBEHALF OF THE BOARD

for **UMMAREDDY & ASSOCIATES**
Chartered Accountants

A. KOTESWARA RAO
Partner

C.M. RAMESH
Chairman

N. SATISH KUMAR
Managing Director

Place : Hyderabad.
Date : 27.06.2001

K. RADHA KRISHNA
Finance Director

SOUTHERN ONLINE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2001

Description	Schedule No.	Year ended 31.03.2001 (Rs.)	Year ended 31.03.2000 (Rs.)
I. INCOME			
Internet and related Services,		29,533,695	20,069,258
Sale of Computer Hardware,		2,839,980	-
Other Income		838,607	184,380
TOTAL :		33,212,282	20,253,639
II. EXPENDITURE			
Purchases		2,035,816	-
Personnel Cost	10	4,807,793	1,402,904
Operating & Administrative Expenses:	11	7,324,533	6,999,813
Financial Expenses	12	1,371,831	2,313,943
Marketing Expenses	13	3,763,338	3,373,786
Sub Total		19,303,310	14,090,446
Operating Profit		13,908,972	6,163,193
Depreciation		5,893,873	2,046,391
Miscellaneous expenditure written off		940,144	45,472
Profit Before Tax		7,074,955	4,071,330
Provision for Taxation		650,000	-
Profit After tax		6,424,955	4,071,330
Add : Profit Brought forwarded		4,071,330	4,071,330
Profit available for Appropriation		10,496,284	4,071,330
Less : Transferred to General Reserve		10,000,000	-
Profit Transferred to Balance Sheet		496,284	4,071,330

AS PER OUR REPORT OF EVEN DATE

FOR AND ONBEHALF OF THE BOARD

for **UMMAREDDY & ASSOCIATES**
Chartered Accountants

A. KOTESWARA RAO
Partner

C.M. RAMESH
Chairman

N. SATISH KUMAR
Managing Director

Place : Hyderabad.
Date : 27.06.2001

K. RADHA KRISHNA
Finance Director

SOUTHERN ONLINE SERVICES LIMITED

Schedules forming part of the Balance Sheet

Description	As at 31.03.2001 (Rs.)	As at 31.03.2000 (Rs.)
1. Share Capital :		
Authorised :		
60,00,000 Equity Shares of Rs.10/- each.	<u>60,00,000</u>	<u>60,00,000</u>
Issued, Subscribed & Paid-up :		
53,60,300 Equity Shares of Rs.10/- each fully paid up (out of which 13,40,300 Shares are allotted during the year)	<u>53,60,300</u>	<u>40,20,000</u>
Total :	<u><u>53,60,300</u></u>	<u><u>40,20,000</u></u>
2. Reserves & Surplus :		
Profit & Loss A/c	496,284	4,071,330
General Reserve	10,000,000	
TOTAL :	<u><u>10,496,284</u></u>	<u><u>4,071,330</u></u>
3. Secured Loans :		
Term Loan from Central Bank Of India, Koti, Hyderabad. (Secured by hypothecation of EDP Equipment and equitable mortgage of Land & Building of Directors.)	<u>7,144,446</u>	-
TOTAL :	<u><u>7,144,446</u></u>	<u><u>-</u></u>
4. Un Secured Loans :		
a) Loans from Directors	-	-
b) Loans from Others		
Central Bank of India, Koti, Hydeabad	1,517,057	-
Refundable Deposits from Dealers	510,000	-
TOTAL :	<u><u>2,027,057</u></u>	<u><u>-</u></u>

SOUTHERN ONLINE SERVICES LIMITED

5. Fixed Assets :

S.No.	Assets	GROSS BLOCK			DEPRECIATION			NET BLOCK	
		As at 01.04.200	Additions during the year	As at 31.03.2001 year	Upto 31.03.2000	For the year	Upto 31.03.2001	As at 31.03.2001	As at 31.03.2000
1.	EDP Equipment	28,020,457	17,078,728	45,099,185	1,964,277	5,776,049	7,740,326	37,358,859	26,056,180
2.	Office Equipment	734,083	432,323	1,166,406	41,850	41,917	83,767	1,082,639	692,323
3.	Furniture & Fixtures	968,853	935,428	1,904,281	40,264	75,907	116,171	1,788,110	928,589
	TOTAL	29,723,393	18,446,480	48,169,873	2,046,391	5,893,873	7,940,264	40,229,609	27,677,092
	Previous Year	10,752,130	18,971,263	29,723,393	-	2,046,391	2,046,391	27,677,002	10,752,130

SOUTHERN ONLINE SERVICES LIMITED

Description	As at 31.03.2001 (Rs.)	As at 31.03.2000 (Rs.)
6. Capital Work in Progress :		
Balance from Previous Year	6,444,755	870,382
Add: Current Year Expenditure	-	5,574,373
	<u>6,444,755</u>	<u>6,444,755</u>
Less: Transferred to EDP Equipment	6,444,755	-
	-	-
TOTAL :	<u><u>-</u></u>	<u><u>6,444,755</u></u>
7. Current Assets , Loans & Advances :		
A. Current Assets:		
a) Sundry Debtors		
Debts outstanding for a period exceeding six months	14,775,804	1,426,785
Other Debts	<u>4,683,516</u>	<u>5,272,770</u>
	19,459,320	6,699,555
b) Pre-paid Expenses		1,194,664
		170,498
c) Tax Deducted at Source.		
d) Cash and Bank Balances		
Cash on Hand	344,500	410,678
Balances with Scheduled Banks		
- on Current Accounts	265,010	306,430
- Short Term Deposits	<u>4,512,646</u>	<u>4,040,920</u>
	5,122,157	4,758,027
e) Deposits		
Telephone Deposits	1,658,884	1,538,884
Other Deposits	<u>559,660</u>	<u>43,432</u>
	2,218,544	1,582,316
f) Stock of CDs.		300,000
		-
B. Loans and Advances:		
a) Advances for Capital Goods		1,410,987
b) Advances to Suppliers		
c) Advances to Staff		594,639
		330,714
TOTAL :	<u><u>30,470,808</u></u>	<u><u>14,022,582</u></u>
8. Current Liabilities & Provisions :		
Sundry Creditors for Capital Goods	1,358,807	3,321,284
Sundry Creditors for Expenses	1,394,058	
Outstanding Liabilities	29,110	733,611
	<u>2,781,975</u>	<u>4,054,895</u>
TOTAL :	<u><u>2,781,975</u></u>	<u><u>4,054,895</u></u>
9. Miscellaneous Expenditure :		
(to the extent not written off or adjusted)		
a) Preliminary Expenses	181,886	227,358
Less: Written Off During the year	<u>45,472</u>	<u>45,472</u>
	136,414	181,886
b) Deferred Revenue Expenses.	6,110,603	
Less: Written Off During the year	<u>894,672</u>	
	5,215,931	-
TOTAL :	<u><u>5,352,345</u></u>	<u><u>181,886</u></u>

SOUTHERN ONLINE SERVICES LIMITED

Schedules forming part of the Profit and Loss Account

Description	Year ended 31.03.2001 (Rs.)	Year ended 31.03.2000 (Rs.)
10. Personnel Cost :		
Salaries	4,642,957	1,309,674
Staff Welfare	164,836	93,229
TOTAL :	4,807,793	1,402,904
11. Operating & Administrative Expenses :		
Lease Line Rentals	2,430,837	4,504,331
Telephone, Mobile & Pager Expenses	1,183,567	720,100
Electrical Charges	611,441	293,937
Rent , Rates & Taxes	579,311	196,945
Travelling & Conveyance Expenses	582,070	520,245
Office Maintenance	443,753	175,994
Printing & Stationery	136,146	216,521
Postage & Telegrams	49,435	8,460
Security Service	75,626	63,525
Membership, Books & Periodicals	114,344	163,425
Insurance	201,521	26,013
Professional Charges	168,250	15,800
General Expenses	52,586	29,554
Secretarial Expenses	121,984	-
Staff Recruitment Expenses	27,951	15,526
Vehicle Maintenance & Hire Charges.	-	29,439
AGM & Board Meeting Expenses	162,489	-
Floppys and CDs	341,222	-
Audit Fee	42,000	20,000
TOTAL :	7,324,533	6,999,813
12. Financial Expenses :		
Interest on Term Loan	1,286,933	1,978,723
Bank Charges	84,898	335,220
TOTAL :	1,371,831	2,313,943
13. Marketing Expenses :		
Advertisements	828,010	2,877,786
Comissions & Discounts	2,760,363	-
Business Promotion	174,965	483,000
Seminars	-	13,000
TOTAL :	3,763,338	3,373,786

SOUTHERN ONLINE SERVICES LIMITED

14. SIGNIFICANT ACCOUNTING POLICIES :

1. Basis of Preparation of Financial Statements:

- A. Financial Statements have been prepared under the historical cost convention and in accordance with generally accepted Accounting Principles and Provisions of the Companies Act, 1956 as applicable to the Company.
- B. Accounting Policies not specifically referred to otherwise are consistent and consonance with Generally Accepted Accounting Principles followed by the Company.

2. Revenue Reorganization :

- a) **Dial Up Services:** Internet Access are provided to the customers for a specified Number of Hours either based up on the advances received or, billed to the customers, which is to be utilized within a specified period. The Company recognizes revenue based on the bills raised on customer at the time of facilitating the Internet access.
- b) **Leased Line Services:** Leased Line Services are provided to the customers for a specified period of time. The Company recognizes revenue in year of raising the Invoices on the customers.
- c) **Web hosting and Co-location Services:** These services are provided to the customers for a specified period of time. The company recognizes revenue in the year of raising invoices on the customers.
- d) **FTP Services:** Income from File Transfer Protocol (FTP) Server up loading and down loading charges recognized after the services have been completed and billed to the customers.

3. Fixed Assets:

Fixed assets are stated at the cost of acquisition less accumulated depreciation, direct costs are capitalized until the assets are ready to put to use. These costs include installation cost, duties, taxes and other allocated expenses including finance cost relating to specified borrowing incurred during the construction period.

4. Capital Work-in-Progress:

Advances paid towards the acquisition of Fixed Assets, the cost of Assets not put to use before the year end are disclosed under capital Work-in-Progress.

5. Depreciation:

Depreciation on Fixed Assets has been provided on Straight Line Method as per the rates mentioned in Schedule XIV of the Companies Act, 1956.

6. Miscellaneous Expenditure:

- a) **Preliminary Expenses:** Expenditure (to the extent not written off or adjusted) incurred in connection with formation of the Company has been amortized over a period of 5 years. Expenditure incurred in connection with the increase of authorized capital has been amortized over a period of 5 years.
- b) **Public Issue Expenses:** Expenditure incurred in connection with the Public Issue of Rs.134 Lakhs has been amortized over a period of 5 years.
- c) **Deferred Revenue Expenses:** Processing Fee incurred in connection with obtaining Gateway facilities has been amortized over a period of 10 years.
- d) **Technical - Know - How:** Expenditure incurred in connection with Technical know-how has been amortized over a period of 10 years.
- e) **Software Expenditure:** Expenditure incurred in connection with RBS billing software and data entry software has been amortized over a period of 10 years.

7. Contingent Liabilities:

No liability was provided for in respect of Contingent liability but only mentioned by way of notes on accounts.

II. NOTES ON ACCOUNTS:

1. Managerial Remuneration:

- A. Managerial Remuneration paid to the Chairman and Managing Director and Whole Time Directors.

	2000-2001	1999-2000
Salaries & Allowances	Rupees 20,02,600	Rupees 4,62,000
Other Perquisites	NIL	2,99,940

- B. No computation of Profit U/section 350 of the Companies Act, 1956 has been given Since no commission is paid to Directors.

SOUTHERN ONLINE SERVICES LIMITED

2. Auditors Remuneration :	2000-2001	1999-2000
	Rupees	Rupees
For Statutory Audit	20,000	15,000
For Tax Audit	16,000	3,000
For Other Services	4,000	2,000
	<u>40,000</u>	<u>20,000</u>
	=====	=====
3. Contingent Liabilities not provided for :	2000-2001	1999-2000
	Rupees	Rupees
Counter Guarantee given to Bankers in respect of guarantees issued by the Bankers in favour of the President of India, acting through the Telegraph Authority.	20,00,000	20,00,000
	<u>20,00,000</u>	<u>20,00,000</u>
	=====	=====

4. Current Liabilities and Provisions :

Current Liabilities include Rs. NIL due to the Chairman (Previous year Rs. 2,44,500/-) and Rs. 1,14,160/- to the other Directors (Previous year Rs.1, 08,160/-)

5. Preliminary Expenses include Registration Charges for increasing the Authorised Share Capital.
6. Deferred Revenue Expenses include Public Issue Expenses, Technical know how and Billing Software Expenditure.
7. In the opinion of Board of Directors the Sundry Debtors are expected to relaise at 100%.
8. Balances appearing under different accounts of Debtors, Creditors, Loans and Advances are subject to confirmation from the parties.
9. Previous year figures have been regrouped / reclassified / rearranged wherever necessary for better comparison with current year figures.
10. Cash and Bank Balances include Rs. 45,12,646/- representing fixed deposits lodged with Banker as margin money against guarantees issued by them (Previous year Rs. 40,40,920/-).
11. The Company is engaged in the Business of providing Internet Service and other related Services. The rendering of such services is not capable of being expressed in any generic unit and hence it is not possible to give the quantitative details of sales and information as required under paragraphs 3, 4C and 4D of Part II of Schedule - VI to the Companies Act, 1956. In respect of Trading Division the Quantitative details are as follows:

S.NO	DESCRIPTION	PURCHASE		SALE		CLOSING STOCK	
		Qty	Value Rs.	Qty	Value Rs.	Qty	Value Rs.
01.	Lease Line Modems	31	13,51,816	31	18,91,980	NIL	NIL
02.	HTU-E1/N/AC	2	1,92,000	2	2,59,200	NIL	NIL
03.	HTU-E1/N/AC/V35	2	2,04,000	2	2,88,100	NIL	NIL
04.	PRESTIGE 153X	6	2,88,000	6	4,00,700	NIL	NIL

AS PER OUR REPORT OF EVEN DATE

FOR AND ONBEHALF OF THE BOARD

for **UMMAREDDY & ASSOCIATES**
Chartered Accountants

A. KOTESWARA RAO
Partner

C.M. RAMESH
Chairman

N. SATISH KUMAR
Managing Director

Place : Hyderabad.
Date : 27.06.2001

K. RADHA KRISHNA
Finance Director

SOUTHERN ONLINE SERVICES LIMITED

CASH FLOW FOR THE YEAR ENDED 31ST MARCH 2001

Year Ended
31.03.2001

I CASH FLOW FROM OPERATIONS	
Profit as per Profit & Loss Account before Taxation & Extraordinary items	6,424,955
ADD : Adjustments for	5,893,873
A Depreciation	940,144
B. Preliminary Expenses Written off	
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	13,258,972
ADD / LESS : Adjustments for Working Capital	(13,695,993)
A Increase / Decrease in other Current Assets	(2,388,103)
B. Increase / Decrease in Loan & Advances	(1,272,920)
C. Increase / Decrease in Current Liabilities	
CASH GENERATED FROM OPERATIONS	(16,084,096)
NET CASH FROM OPERATING ACTIVITIES - "A"	(4,098,045)
II CASH FLOW FROM INVESTING ACTIVITIES	(12,001,725)
A. Purchase of Fixed Assets	(6,110,603)
B. Preliminary Expenses	
NET CASH USED IN INVESTING ACTIVITIES - "B"	(18,112,328)
III CASHFLOW FROM FINANCING ACTIVITIES	13,403,000
A. Proceeds of Shares Issue	7,144,446
B. Secured Loans	2,027,056
C. Un Secured Loans	
Net Cash used in Financing Activities - "C"	22,574,502
Net Increase in Cash or Cash Equivalents (A+B+C)	364,129
Opening Cash & Bank Balances	4,758,027
ADD : Net increase in Cash & Cash Equivalents	364,129
Closing Cash & Bank Balances as on 31.03.2001.	5,122,157

For and on behalf of the Board

Place: Hyderabad
Date : 27.06.2001

C.M. RAMESH
Chairman

N. SATISH KUMAR
Managing Director

K.RADHA KRISHNA
Director Finance

Auditors' Certificate

We have verified the above Cash Flow Statement of SOUTHERN ONLINE SERVICES LIMITED derived from Audited Financial Statements for the year ended 31st March 2001, and found the same in accordance therewith, and also with the reequirement of Clause 32 of the Listing Agreements with the Stock Exchanges.

for **Ummareddy & Associates**
Chartered Accountants

A.KOTESWARA RAO
Partner

Place : Hyderabad
Date : 27.06.2001

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details		
Registration Number		30463
State Code Number		01
Balance Sheet Date		31 st March 2001
II. Capital Raised During the Year (Amount in Rs Thousands)		
Public Issue		13403
Right Issue		NIL
Bonus issue		NIL
Private Placement		NIL
III. Position of Mobilization and Deployment of Funds (Amount in Rs Thousands)		
Total Liabilities		73271
Total Assets		73271
Sources of Funds		
Paid-up Capital		53603
Reserves & Surplus		10496
Secured Loans		7144
Unsecured Loans		2027
Application of Funds		
Net Fixed Assets		40230
Investments		NIL
Net Current Assets		27689
Miscellaneous Expenditure		5352
Accumulated Losses		NIL
IV. Performance of Company (Amount in Rs Thousands)		
Turnover		33212
Total Expenditure		26137
Profit /Loss Before Tax +(-)		7075
Profit /Loss After Tax +(-)		6425
Earnings per Share in Rs		1.20
Dividend Rate %		NIL
V. Generic Names of Three principal products/ services of Company (as per monetary terms)		
Item Code No. (ITC Code)		NIL
Product Description		Internet Service Providers

For and on behalf of the Board of Directors

C. M. RAMESH
Chairman

N. SATISH KUMAR
Managing Director

Place : Hyderabad
Date : 27.06.2001

K. RADHA KRISHNA
Finance Director