

REPORT ON CORPORATE GOVERNANCE

I. MANDATORY REQUIREMENTS

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The basic philosophy of corporate governance of the company is to achieve business excellence and enhance shareholder value keeping in view the interest of all stake-holders. The company stands by transparency in all its dealings and strict regulatory compliance.

2. BOARD OF DIRECTORS

a) *Composition*

The Board comprises of 7 directors. The Board consists of appropriate mix of executive and non-executive directors. There are 6 non-executive directors, including 3 independent directors.

b) *Board Meetings*

9 Board Meetings were held during the year 2005-2006. The dates on which the Meetings were held are 23.04.2005, 27.06.2005, 11.07.2005, 29.07.2005, 26.08.2005, 21.10.2005, 14.12.2005, 30.01.2006 and 28.03.2006.

Agenda papers along with detailed notes were circulated to the Directors in advance for each of these meetings. All relevant information, as required was placed before the Board from time to time.

None of the non-executive directors has any pecuniary or material relationship or transaction with the Company.

7th Annual Report 2005-2006

(i) The details of the Directors on the Board of the Company for the year 2005-2006 are given below:

Name	Category	Designation	Number of Memberships in Boards of other Public Limited Companies	Only Chairmanship in Committees of Boards of other Companies	Only Membership in Committees of Boards of other Companies	No. of Board meetings attended	Attendance at last AGM
Shri L Madhusudhana Rao	Non-Executive	Presently Chairman. Upto 27.6.2005 Chairman & Whole Time Director	9	NIL	NIL	5	Yes
Shri Suresh Chukkapalli	Non-Executive Independent	Vice Chairman till 28.9.2005. Retired as a director on 28.9.2005 and not reappointed	2	NIL	NIL	5	Yes
Shri G Bhaskara Rao	Non-Executive	Director	9	3	5	9	Yes
Shri Y Harish Chandra Prasad	Non-Executive	Director	6	2	5	4	Yes
Shri M N Nambiar	Non-Executive Independent	Director	NIL	NIL	NIL	8	Yes
Shri V K Srinivasan	Non-Executive Independent	Director till 01.09.2006	NIL	NIL	NIL	9	Yes
Dr Prasada Rao VDM Ravella	Non-Executive Independent	Director	1	NIL	NIL	2	No
Dr Kilaru Hanumantha Rao	Non-Executive Independent	Director till 28.9.2005. Retired as a director on 28.9.2005 and not reappointed	NIL	NIL	NIL	NIL	No
Shri G Venkatesh Babu	Non-Executive Independent	Alternate Director to Dr Prasada Rao VDM Ravella	5	NIL	NIL	1	No
Sri Nagarjun Valluripalli	Executive	Director & C E O	1	1	1	8	Yes

C) Directors seeking re-appointment

Shri G Bhaskara Rao and Dr Prasada Rao VDM Ravella, Directors, retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

Sri G Bhaskara Rao

Sri G Bhaskara Rao, (52) did his M. Tech. in (Mech. Design). He has rich experience in Engineering, Technology, Construction, Power, Administration and Management etc. He has traveled extensively through out the world. He is a Director on the Boards of Lanco Electric Utility Limited, Lanco Group Limited, Clarion Power Corporation Ltd., Lanco Industries Ltd., Lanco Infratech Ltd., Rithwik Energy Systems Ltd., Aban Power Company Ltd., Vamshi Industrial Power Ltd., Lanco Kondapalli Power Private Ltd., Lanco Amarkantak Power Private Ltd., Lanco Green Power Private Ltd., Himavat Power Private Ltd., Pragdisa Power Private Ltd., Chamba Hydro Power Private Ltd., Chatari Hydro Power Private Ltd., Dharmashala Hydro Power Private Ltd., Diyothal Hydro Power Private Ltd., Parvat Hydro Power Private Ltd., Coral Orchids Private Ltd., Garnet Grooves Private Ltd., Lanco Property Management Company Pvt. Ltd., Lanfin Ventures Private Ltd., Lanfin Trustee Private Ltd., Lanco Hydro Energies Private Ltd., Ravi Hydro Electric Private Ltd., Himachal Hydro Power Private Ltd., Uranus Infratech Pvt Ltd., Saffire Farms Pvt. Ltd., Chobia Hydro Power Pvt. Ltd., Lanco Hills Technology Park Pvt. Ltd., Lanco Energy Pvt. Ltd., Jupiter Infratech Pvt. Ltd., Mercury Project Pvt. Ltd., Emerald Orchids Pvt. Ltd. and Occidental Power Private Ltd. He is also a partner in M/s S V Contractors. He is a Member of several reputed institutions. He is also a member of Audit Committee of Lanco Global Systems Limited, Lanco Industries Ltd., Vamshi Industrial Power Limited, Aban Power Co. Ltd, Lanco Infratech Ltd., Lanco Amarkantak Power Pvt Ltd and a member of Management Committee of Lanco Amarkantak Power Pvt Ltd and a member of Share Allotment Committee of Lanco Amarkantak Power Pvt Ltd and Lanco Global Systems Ltd. He holds 600 equity shares of Rs.10/- each in the Company and a member of Shareholders'/Investors' Grievance Committee of Lanco Industries Limited.

Dr. Prasada Rao VDM Ravella

Dr. Prasada Rao VDM Ravella (56) is a NRI director. He took his Medical Degree from Guntur Medical College and General Practice Residency from Ravenswood Hospital, Chicago, IL, USA. He is a member of Medical Association, Chicago Medical Society. He holds State of Illinois Medical License and Drug Enforcement Agency License. From 1980 to 1995 he worked in different capacities in Lincoln West Hospitals, Chicago, IL, USA. He is on the Board of Directors of Millennium Finance Ltd. He is also a member of Audit Committee, Remuneration and Compensation Committee and Share Allotment Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

d) Board Committees

To enable better management of the affairs of the Company, the Board delegates certain matters to Committees of the Board set up for the purpose. The proceedings of the meetings of the Committees are circulated to the Board.

3. AUDIT COMMITTEE

(i) Brief descriptions of terms of reference

The Audit Committee consists of only Non-Executive Directors and discharges all the responsibilities statutorily prescribed.

The functions of the Audit Committee include:

Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

Recommending the appointment and removal of external auditor, fixation of their audit fee and also approval for repayment for any other services.

7th Annual Report 2005-2006

Reviewing with management the quarterly and annual financial statements before submission to the Board.

Reviewing the adequacy of Internal Control Systems and Internal Audit Reports, and their compliance thereof etc. Company Secretary is the Secretary of the Committee.

(ii) **Composition, Meetings & Attendance during the year**

The Audit Committee comprises of 4 Non Executive Directors.

6 Audit Committee Meetings were held during the year 2005-2006. The dates on which the Meetings were held are as follows:

23.04.2005, 29.07.2005, 26.08.2005, 21.10.2005, 30.01.2006 and 28.03.2006

The attendance record of the Directors during the year 2005-2006 is given below:

Name	Designation	Number of Meetings attended
Sri M.N. Nambiar	Chairman	5
Dr Prasada Rao VDM Ravella	Member	1
Sri V.K. Srinivasan	Member	6
Sri Suresh Chukkapalli till 28.9.2005	Former Member	3

The Meetings of the Audit Committee were attended by the Head of Finance and Internal Auditors and Statutory Auditors as Invitees. The Quarterly and Annual audited financials of the Company were reviewed by the Audit Committee before consideration and approval by the Board of Directors. The Committee reviewed the adequacy of Internal Control Systems and Internal Audit Reports and the various compliances.

4. REMUNERATION & COMPENSATION COMMITTEE

Remuneration & Compensation Committee recommends to the Board Compensation and Benefits for Executive Directors and such other matters as may be referred to it by the Board from time to time. This Committee consists of the following Independent Directors. During the year the Committee met 4 times. Their attendance during the year is given below:

Name	Designation	Number of Meetings attended
Sri V K Srinivasan	Chairman	4
Sri M N Nambiar	Member	3
Dr Prasada Rao VDM Ravella w.e.f. 21.10.2005	Member	1
Sri Suresh Chukkapalli upto 28.09.2005	Former Member	3

Directors' Remuneration Policy

Non Executive Directors are not paid any remuneration other than sitting fee for the meetings attended by them. There are no performance linked incentives payable to any of the directors. At present, the company does not have any stock option plan as part of remuneration package for any director.

Remuneration of the Executive Director comprises of fixed component only.

Details of sitting fee paid during the year and their holding of equity shares of Rs.10/- each in the Company as on March 31, 2006 are given below:

Name	Sitting Fee Rs.	Shares held
Sri L Madhusudhana Rao	2500	100
Sri Suresh Chukkapalli	5500	NIL
Sri G Bhaskara Rao	4500	600
Sri Y Harish Chandra Prasad	2000	100
Sri M N Nambiar	7500	NIL
Sri V K Srinivasan	19500	NIL
Dr Prasada Rao VDM Ravella	1500	NIL
Dr Kilaru Hanumantha Rao	NIL	100
Sri G Venkatesh Babu, Alternate Director to Dr Prasada Rao VDM Ravella	500	NIL

Remuneration to Director & CEO

Details of remuneration paid to Shri Nagarjun Valluripalli, Director & CEO during the year 2005-06 are given below:

Particulars	In Rupees
Salary	17,17,067
Contribution to PF	1,09,600
Perks	61,119
Total	18,87,786

Shri Nagarjun Valluripalli was appointed as Director & CEO for a period of 3 years from 27th June, 2005 and he is on contractual service.

5. SHAREHOLDERS'/ INVESTORS' GRIEVANCE COMMITTEE

(i) Constitution and Composition

Shareholders'/ Investors' grievance committee has been constituted to look into and redress the grievances of the shareholders and investors pertaining to transfer of shares, non-receipt of Annual Reports etc.

The Committee is headed by a Non-Executive Director.

Sri L Madhusudhana Rao - Chairman
Sri Nagarjun Valluripalli - Member

Sri Suresh Chukkapalli, an erstwhile Independent Director, who retired as a director on 28.9.2005, was Chairman of the Shareholders' / Investors' Grievance Committee till that date.

(ii) The Name and Designation of Compliance Officer

The Name and Designation of the Compliance Officer of the Company during the year is Sri C Krishna Kumar, Company Secretary and presently Sri K V R Raju, Company Secretary.

(iii) Details of requests/complaints received, resolved and pending during the year 2005-2006

Nature of Complaint	Received	Resolved	Pending
Change of Address	11	11	0
Duplicate Share Certificates	1	1	0
Others	14	14	0
Total	26	26	0

6. GENERAL BODY MEETINGS

(i) Location and time, where last three AGMs held:

Year	Location	Date	Time
2002-03	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 27, 2003	3.00 P.M.
2003-04	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 28, 2004	3.00 P.M.
2004-05	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 28, 2005	3.00 P.M.

(ii) Whether any Special Resolutions passed in the previous three AGMs

Yes. Special Resolutions were passed at the AGMs held on 27th September, 2003 and 28th September, 2005. No special resolution that requires approval through Postal Ballot was passed during the previous three years. No special Resolution which requires approval through Postal Ballot is proposed to be conducted at the ensuing AGM.

On 27th September, 2003 one special resolution for delisting of Equity shares on the Stock Exchange - Ahmedabad and on 28th September, 2005 one special resolution for increase of remuneration of Shri Nagarjun Valluripalli, Director & CEO were passed.

7. DISCLOSURES

a) Related Party Transactions: There were no materially significant related party transactions having potential conflict with the interests of the Company at large. However, transactions with the Related Parties are disclosed in note No.6 of the Schedule 13(B) to the Accounts in the Annual Report.

b) Accounting Treatment: There is no Accounting treatment different from the prescribed Accounting standards.

c) Risk Management: The Board regularly discusses the significant business risks identified by the management and the mitigation process being taken up. A detailed note on the risk identification and mitigation is included in Management Discussion and Analysis, annexed to the Directors' Report.

d) Strictures and Penalties: There has not been any non-compliance by the Company and there are no penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

e) Compliance: At every Board Meeting statements of compliance with all laws and regulations as certified by the Director & CEO /Chief Operating Officer and the Company Secretary are placed for review by the Board. The Board considers all materially important show causes / demand notices received from statutory authorities and the steps / action taken by the Company in this regard. The Board reviews the compliance of all the applicable laws and gives appropriate directions, wherever necessary.

f) Code of Conduct: The Board of Directors have laid down a “Code of Conduct” (Code) for all the Board members and the senior management of the Company, and the Code has been posted on the website of the Company. Annual declaration is obtained from every person covered by the Code.

g) CEO and Head of Finance Certification: The CEO and Head of Finance have given certificates to the Board as contemplated in Clause 49 of the Listing Agreement.

h) Mandatory Requirements: All the Mandatory requirements as to Corporate Governance have been complied with.

i) Non Mandatory Requirements: Board has constituted a Remuneration and Compensation Committee, the details of which are given in Para 4 of this report. This year the company has unqualified financial statements.

8. MEANS OF COMMUNICATION

As per clause 51 of the Listing Agreement, the Company’s financial results, quarterly shareholding pattern and Compliance Reports on Corporate Governance are uploaded on the EDIFAR website (www.sebiedifar.nic.in) maintained by National Informatics Centre (NIC). The said financial results and also press releases are posted on Company’s website: www.lgsglobal.com. Presentations, if any, made to institutional investors or to the analysts are also placed on the website of the Company.

The same are generally published in the Business Standard (In English) and Andhra Bhoomi (In Telugu) News Papers.

9. MANAGEMENT DISCUSSION & ANALYSIS

As required by the Listing Agreement, the Management Discussion and Analysis Report is annexed to the Directors’ Report.

10. GENERAL SHAREHOLDERS INFORMATION

(i) Seventh Annual General Meeting

- Date and Time	Friday, 29 th December, 2006 at 4 P.M.
- Venue	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad

(ii) Financial Calendar for the Year 2006-07 (tentative)

Tentative Schedule		
1.	- Financial reporting for the quarter ending June 30, 2006	before end July, 2006
2.	- Financial reporting for the half year ending September 30, 2006	before end October, 2006
3.	- Financial reporting for the quarter December 31, 2006	before end January, 2007
4.	- Financial reporting for the year ending March 31, 2007	before end April, 2007
5.	- Annual General Meeting for the year ending March 31, 2007	before end September, 2007

(iii) **Book Closure Dates** : 27.12.2006 to 29.12.2006 (both days inclusive)

(iv) **Dividend Payment Date** : Not Applicable

(v) **Listing on Stock Exchanges** : Hyderabad and Mumbai. The Company has paid the listing fee for the period ending 31st March, 2007

7th Annual Report 2005-2006

(vi) Stock Code:

S. No.	Exchange	Code
1.	Hyderabad Stock Exchange	Stock Code : HSE-LAGLOB Scrip Code No. : 6426
2.	Bombay Stock Exchange	Stock Code : BSE-LANCOGLO Scrip Code No. : 532368

(vii) Stock Market Data

Monthly High/Low of Market price of the Company's shares traded in BSE and performance in comparison to BSE Sensex during the period from April, 2005 to March, 2006 is furnished below.

The Stock Exchange, Mumbai Share Prices (In Rs.)			BSE Sensex	
Month	High	Low	High	Low
April '05	23.00	14.15	6649.42	6118.42
May '05	44.10	17.90	6772.74	6140.97
June '05	71.00	30.85	7228.21	6647.36
July '05	45.15	35.15	7708.59	7123.11
August '05	46.00	33.95	7921.39	7537.50
September '05	57.70	35.25	8722.17	7818.90
October '05	42.30	34.00	8821.84	7656.15
November '05	39.30	34.10	9033.99	7891.23
December '05	43.50	36.90	9442.98	8769.56
January '06	96.65	42.15	9945.19	9158.44
February '06	80.10	56.55	10422.65	9713.51
March '06	63.75	46.75	11356.95	10344.26

Note: During the year, the shares of the Company were not traded in The Hyderabad Stock Exchange Limited. Hence, the monthly high & low stock quotations in respect of the same are not furnished.

(viii) Registrars & Share Transfer Agents

Aarathi Consultants Private Limited, whose address is given below, has been appointed as Registrar & Share Transfer Agent of the Company for looking after the work related to share registry.

Aarathi Consultants Private Limited,
1-2-285, Domalguda,
Hyderabad – 500 029. A.P. India.
Phone : +91-40-27634445, 27638111, 27642217
Fax : +91-40-27632184
Email : info@aarathiconsultants.com

(ix) Share Transfer System

The Board has authorized the Registrar to approve transfer / transmission / transposition of shares.

(x) (a) Distribution of Shareholding as on March 31, 2006 :

Nominal Value of Shareholding (in Rs.)	No. of Shareholders	Percentage	No. of Shares	Percentage
Up to 5,000	1108	77.75	2212270	0.87
5,001 - 10,000	132	9.26	1000960	0.39
10,001 – 20,000	58	4.07	945910	0.37
20,001 – 30,000	22	1.54	519740	0.20
30,001 – 40,000	10	0.70	344410	0.14
40,001 – 50,000	14	0.98	664670	0.26
50,001 – 1,00,000	26	1.82	1983350	0.78
1,00,001 and above	52	3.86	246565360	96.98
TOTAL	1425	100	254236670	100

(b) Distribution of Shareholding by Ownership as on March 31, 2006 :

S.No.	Category	No. of Shares held	% of shareholding
A.	Promoters' holding		
1.	Promoters		
	- Indian Promoters	172900	0.68
	- Foreign Promoters	4795650	18.86
2.	Persons acting in Concert		
	- Friends & Associates	NIL	NIL
	Sub-Total	4968550	19.54
B.	Non-Promoters' Holding		
3.	Institutional Investors	NIL	NIL
4.	Others		
	-Private Corporate Bodies	1396280	5.49
	-Indian Public	8448262	33.23
	-NRIs / OCBs	257320	1.01
	-Foreign Corporate Bodies	8860000	34.85
	-Any other (Trusts)	990650	3.90
	-Clearing Members	502605	1.98
	Sub-Total	20455117	80.46
	Grand Total	25423667	100.00

(xi) Dematerialization of Shares and Liquidity

Since the Company has entered into an agreement with both the depositories namely NSDL and CDSL for dematerialization of its shares, the shareholders of the company have the choice to dematerialize their shares and keep them in dematerialized form with either of the depository participants.

As on 31st March, 2006, 46,56,660 equity shares representing 43.70 %age of paid up capital of the Company have been dematerialized.

(xii) Outstanding convertible instruments

As of March 31, 2006, there are no outstanding convertible instruments.

(xiii) Address for Correspondence

Registered Office:

"Lanco House", 141, Avenue # 8
Road # 2, Banjara Hills
Hyderabad- 500 034. A.P. India.
Phone : +91-40-4009 0400
Fax : +91-40-2354 0699

Corporate Office:

5th Floor, , My Home Sarovar Plaza
5-9-22, Secretariat Road
Hyderabad – 500063, A P
Phone No.040-6699 0000
Fax No. 040-6699 4444
Email:raju.kvr@lgsglobal.com
Website: www.lgsglobal.com

II. NON-MANDATORY REQUIREMENTS

CHAIRMAN OF THE BOARD

The Chairman of the Company was a Whole time Director of the Company with effect from June 27, 2005 and hence this provision is not applicable till that date. However, even subsequently the Company has not paid any amount towards the maintenance of his office or reimbursement of any expenses incurred in performance of his duties.

For and on behalf of the Board

Place : Hyderabad
Date : 04.12.2006.

L MADHUSUDHANA RAO
CHAIRMAN

Declaration on Code of Conduct

This is to confirm that the Board has laid down a code of conduct for all Board members and senior management personnel of the company. The code of conduct has also been posted on the website of the company. It is further confirmed that all directors and senior management personnel of the company have affirmed compliance with the Code of Conduct of the company for the financial year ended on March 31, 2006, as envisaged in clause 49 of the listing agreement with stock exchanges.

Place : Hyderabad
Date : 04.12.2006

Nagarjun Valluripalli
Director & C E O

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members of
Lanco Global Systems Limited
Hyderabad

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to compliance condition of corporate governance of Lanco Global Systems Limited ("the company") for the year ended 31st March, 2006 as stipulated in clause 49 of the listing agreement of the said company with the Stock Exchanges.

The compliance of the conditions of the corporate governance is the responsibility of the management. Our examination, conducted in the manner described in the Guidance note on "Certification of Corporate Governance" issued by the Institute of Chartered Accountants of India was limited to procedures and implementation thereof adopted by the company for ensuring compliance with the conditions of Corporate Governance. Our examination was neither an audit nor was it conducted to express an opinion on the financial statements of the company.

In our opinion and to the best of our information and explanations given to us and on the basis of our examination described above, the company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For P MURALI & CO.
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD
DATE : 04.12.2006

P MURALI MOHANA RAO
PARTNER