



Inspiring growth

Lanco Global Systems Ltd.

SECOND ANNUAL REPORT

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BOARD OF DIRECTORS

Mr.L.Rajagopal	Chairman
Mr.L.Madhusudhan Rao	Director
Mr.Suresh Chukkapalli	Director
Mr.M.N.Nambiar	Director
Mr.V.K.Srinivasan	Director
Mr.Prasad Rao VDM Ravella	Director
Dr.Kilaru Hanumantha Rao	Director
Mr.Alyque Padamsee	Director (up to 27-07-2001)
Mr.P.V.Subrahmanyam	CEO & Director (up to 15-06-2001)

Dy. GENERAL MANAGER
(Finance & Accounts)

Mr. Y. Srinivasa Rao

COMPANY SECRETARY

Ms. Susmita Dash

AUDITORS

M/s.Mogili Sridhar & Co.,
Chartered Accountants
6-3-655/2/3, 1st Floor
Somajiguda
Hyderabad - 500 082.

REGISTERED OFFICE

"LANCO HOUSE"
141, Avenue # 8, Banjara Hills
Hyderabad - 500 034
Andhra Pradesh, India.

**SOFTWARE DEVELOPMENT
CENTRE & CORPORATE OFFICE**

LANCO Global Systems Ltd.
8-3-993, Lanco Towers
Srinagar Colony,
Hyderabad - 500 073

BANKERS TO THE COMPANY

- | | |
|---|---|
| 1. Global Trust Bank Limited
S.D.Road, Secunderabad. | 2. Bank of Baroda,
M.G.Road, Secunderabad. |
|---|---|

**REGISTRAR &
SHARE TRANSFER AGENT**

Aarthi Consultants Pvt. Ltd
1-2-285, Domalguda,
Hyderabad - 500 029

NOTICE

NOTICE is hereby given that the Second Annual General Meeting of Members of the Company will be held on Friday, the 28th day of September, 2001 at 3.00 P.M. at Hotel Green Park, Greenlands, Begumpet, Hyderabad - 500 016 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet of the company as on 31-03-2001 and Profit And Loss Account for the year ended on that date along with the Directors' Report and Auditor's Report thereon.
2. To appoint a Director in place of Mr. L. Rajagopal who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Suresh Chukkapalli who retires by rotation and being eligible, offers himself for re-appointment.
4. To reappoint the Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting .The present Auditors M/s. Mogili Sridhar & Co., Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment.

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 Dr. Kilaru Hanumantha Rao be and is hereby appointed as Director of the Company whose period of office shall be liable to determination by retirement of Directors by rotation."

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 Sec.163 of the Companies Act, 1956, the Company hereby approves that the register of members and share transfer books, instead of being kept at the registered office of the Company, be kept at the office of the Company's Registrar and Share Transfer Agent, M/s. Aarthi Cohsultants Pvt Limited, Hyderabad and other statutory registers be kept at the Corporate Office situated at 8-3-993, Lanco Towers, Srinagar Colony, Hyderabad."

By order of the Board of Directors

Place: Hyderabad
Date: 27-07-2001

SUSMITA DASH
COMPANY SECRETARY

NOTES:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on poll, instead of himself. The proxy need not be a member of the Company.
2. Proxies, in order to be effective, must be received at the Registered Office of the company, not later than 48 hours before the commencement of the meeting.
3. The Register of the members and Share transfer books will remain closed from 22nd September 2001 to 28th September 2001 (both days inclusive).
4. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of special business is annexed hereto.

5. Members/ Proxies are requested to bring their copies of Annual Report to the meeting and the attendance slip duly filled in for attending the meeting.
6. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to send their queries to the Company atleast seven days before the date of the meeting, so that the information required by them may be made available at the meeting.
7. The shareholders are requested to intimate immediately any change in the address registered with the Company. Shareholders holding shares in identical order of names in more than one folio are requested to write to the Company enclosing the share certificates to enable the Company to consolidate their holding in one folio.
8. Trading in the equity shares of the Company is compulsorily in dematerialised form for all investors. The ISIN (International Securities Identification Number) allotted to the Company's equity shares is INE425B 01019.
9. The members who hold shares in dematerialised form are requested to bring their client ID and DPID numbers for easy identification of attendance at the meeting.
10. Members are requested to send all communications relating to shares to the Company's Share Transfer Agents (physical and electronic) at the following address:

Aarthi Consultants Pvt. Limited
(Unit: Lanco Global Systems Ltd)
1-2-285, Domalguda, Hyderabad - 500 029.

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

ITEM NO. 5

Dr. Kilaru Hanumantha Rao was appointed as Additional Director of the Company by the Board at its meeting held on 17th December, 2000 under Section 260 of the Companies Act, 1956 and he holds office as Director upto the date of the ensuing Annual General Meeting. In this regard, the company has received a notice under section 257 of the Companies Act 1956 from a shareholder along with the requisite deposit signifying his intention to propose Dr. Kilaru Hanumantha Rao for the office of the Directors.

None of the Directors except Dr. Kilaru Hanumantha Rao to the extent of his appointment is interested in this resolution.

The resolution is placed before the members for their consideration and approval.

ITEM NO 6

In July 2000 the Company issued 26,70,000 equity shares of Rs. 10/- each for cash at par aggregating Rs. 2,67,00,000/- with the result that the Company has to now keep the register of members and share transfer books at the office of its Registrar and Share transfer agent that is AARTHI CONSULTANTS PRIVATE LIMITED and other statutory registers in the Corporate Office of the Company at 8-3-993, Lanco Towers, Srinagar Colony, Hyderabad -73.

Since maintenance of register of the members, share transfer books and other statutory registers at a place other than the Registered office requires the approval of shareholders by way of passing the Special Resolution as set out at Item No 6 of the notice is recommended to the shareholders for their approval.

An advance copy of the special resolution set out under Item No 6 of the Company's Notice, and which is proposed to be passed at this meeting has been delivered at the Office of the Registrar of Companies, Andhra Pradesh, Hyderabad, as required by the said section 163.

None of the Directors is concerned or interested in the passing of this resolution.

ADDITIONAL INFORMATION ON DIRECTORS RECOMMENDED FOR APPOINTMENT/RE-APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING.

Mr. L. Rajagopal

Mr.L.Rajagopal, (37) Mechanical Engineer (B.Tech) is one of the promoters of the LANCO Group that has an asset base of US\$ 350 million (RS. 1600 Crore). He is also the chairman of Lanco Infratech Limited, Lanco Kondapalli Power Private Limited, Lanco Net Limited, Lanco Kalahasthi Castings Limited and Lanco Solutions Inc, USA. He is Vice Chairman of Lanco Industries Limited and Managing Director of Third Millennium Investments Limited.

Mr. L.Rajagopal is also a Member of the Confederation of Indian Industry, Federation of Andhra Pradesh Chambers of Commerce & Industry, Builder's Association of India, Pig Iron Manufacturers Association of India, All India Manufacturers Association, All India Institute of Management and Indo German Chamber of Commerce.

Mr.L.Rajagopal promoted Lanco Infratech Ltd,(formerly Lanco Constructions Ltd) to undertake infrastructure and engineering projects such as Dams, Highways, Pipelines, High rise constructions,Roads & Bridges etc.

He also promoted and established Lanco Industries Ltd with a capacity to produce 90,000 TPA of Pig Iron in a record time of 11 months in 1994. A cement plant was set up in 1996 to produce 90,000 TPA. He promoted Lanco Kondapalli Power Private Limited, the only short gestation power project in Andhra Pradesh which commenced production in June 2000.

Mr. Suresh Chukkapalli

Mr. Suresh Chukkapalli, (39) is an Engineering Graduate. He was president of the Guntur District Automobile Association during 1990-93. He also served as a Member of Zonal Railway Users' Consultative Committee. He is currently a Member of Confederation of India Industry and Director on Board of Lanco Industries Limited, Lanco Projects Limited, Lanco Net Limited and Frontline Constructions Limited.

Dr.Kilaru Hanumantha Rao

Dr Kilaru Hanumantha Rao,(53) is a fellow Member of American College of Emergency Physicians .He is one of the major investors in the Lanco Group Companies and is currently serving in various hospitals in the United States. Dr.Kilaru Hanumantha Rao is a visiting faculty in Provena Saint Joseph Medical Center and served as President of Kurnool Medical College Alumni of North America from 1986-1991.

By order of the Board of Directors

Place: Hyderabad

Date: 27-07-2001

SUSMITA DASH

COMPANY SECRETARY

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Second Annual Report along with the audited accounts of the company for the Year Ended 31st March, 2001.

(Rupees in Lakhs)

FINANCIAL RESULTS	2000-2001	1999-00
Turnover	317.42	4.35
Other Income	16.40	—
Depreciation	25.67	0.03
Operating & Admin Exp.	76.52	1.29
Preliminary Exp.	4.54	0.07
Net Profit	9.62	0.95

The year 2000-2001 has been a very significant year for the IT industry in India. Most IT companies including your company have been dependent on business inflows from the US. The slowdown in the US economy has therefore affected Indian IT companies. Most companies in the US have deferred their investments in IT and have also become very price sensitive. Revenues from onsite placements have fallen, as these companies are preferring to outsource their projects directly. This has called for a shift in the marketing initiatives. It has also created a situation wherein IT companies in India have cut down on their Human Resources and staffing and have initiated measures to control expenses. It has become imperative for Indian IT companies to look for and develop new markets like Europe, Middle East etc.

PERFORMANCE REVIEW

The Company has been primarily involved in offering Information Technology solutions, products and services. During the year the company could generate revenues of Rs.317.42 Lakhs and a net profit of Rs.9.62 Lakhs. This year too, LGSL's focus was on building up a good management team and hiring of skilled resources in its areas of expertise. The company

also made efforts to step up marketing efforts in USA and UK and also succeeded in bagging new projects from clients, predominantly in the US. The company successfully developed and beta tested two products developed internally - LANCOPAY, a utility bill payment system and Hyper LANCO, a knowledge management tool. The company is looking at marketing these products in the domestic markets primarily. During the year the company bagged new software development projects from companies such as Metalogic Solutions, Inc, Revlon, World Fuel Services Corporation, Stam, Inc., etc. The company has also initiated discussions with a number of premier IT companies to explore possibilities of joint ventures and thereby enhance market reach.

FIXED DEPOSITS

The company has not accepted any deposits so far. There was no deposit that was claimed and remained unpaid by the Company as on 31st March, 2001.

DIRECTORS

During the Year Dr. Kilaru Hanumantha Rao was appointed as Additional Director whose term will come to an end at the ensuing Annual General Meeting unless appointed as Director by the shareholders. In this regard, the company has received a notice is under section 257 of the Companies Act, 1956 from a shareholders along with the requisite deposit signifying his intention to propose Dr. Kilaru Hanumantha Rao for the office of Directors.

Mr. P.V.Subrahmanyam who was the CEO & Director during the year under report resigned subsequently from the services of the Company and the Board accepted the same w.e.f. 15th June, 2001. Your Directors are in the process of identifying a suitable person for the vacated post.

Mr. L. Rajagopal and Mr. Suresh Chukkapalli, Directors retire by rotation and being eligible offer themselves for re-appointment. Your Directors recommend their re-appointment.

AUDITORS

M/s Mogili Sridhar & Co, Chartered Accountants, Hyderabad will retire at the conclusion of the forthcoming Annual General Meeting and have confirmed their eligibility and willingness to accept the Office for the financial year 2001-2002, if re-appointed.

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors wish to state as per Sub-section 2AA of Section 217 of the Companies Act, 1956

- (i) That in the preparation of the annual accounts for the year ended March, 31st 2001, the applicable Accounting Standards have 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) That the directors had prepared the annual accounts on a going concern basis.

EMPLOYEE STOCK OPTION PLAN:

The Company has created an Employee Welfare Trust by name "LANCO FOUNDATION" to implement the Employee Stock Option Plan and allotted 9,90,650 shares

to the Trust. The following are the details of Stock Options granted etc.

- Options granted - 100502
- The pricing formula - Market price on the date of joining
- Options Vested - 0
- Options exercised - 0
- Total No.of Options in force -100502
- Employee wise details of options granted to senior Managerial personnel: 80000

COMPLIANCE OF CODE OF CORPORATE GOVERNANCE AS PER CLAUSE 49 OF THE LISTING AGREEMENT.

1. Company's Philosophy on Corporate Governance:

Your Company believes that Corporate Governance is a continuous process of accountability to the various intermediaries involved, wherein the company's core promoters and its Associates accept the responsibilities that come with ownership. The company also believes that it has a responsibility to the society, of which it is an integral part. As part of this belief, your company will be transparent and accessible to the investors and general public.

2. Composition and Category of Directors:

To have a more professional outlook, your Company is having more number of Independent Directors than promoter Directors. There are 4 promoter directors and 5 independent Directors. The Chairman is also a Non-Executive Director.

3. Details of Board Meetings held and Attendance of Directors

Name of the Director	No. of Board Meetings Held & Attended	
	HELD	ATTENDED
L. RAJAGOPAL	9	7
L. MADHUSUDHAN RAO	9	5
SURESH CHUKKAPALLI	9	9
V.K. SRINIVASAN	9	9
M.N. NAMBIAR	9	3
ALYQUE PADAMSEE	9	1
PRASAD RAO VDM RAVELLA	9	1
DR. KILARU HANUMANTHA RAO	2	2
P.V.SUBRAHMANYAM	9	8

4. COMMITTEES OF DIRECTORS:
(i) Audit Committee:
(a) Brief description and terms of reference:

The terms of reference of the Audit Committee are comprehensive and covers the matters specified for Audit Committee under the Listing Agreements with Stock Exchanges.

(b) Composition, Names of Members and Chairperson:

A qualified and an independent Audit Committee consisting of three members was constituted on 27-10-2000.

The Committee consists of the following members:

- Mr. M.N.Nambiar
- Prasad Rao VDM Ravella
- Mr. Suresh Chukkapalli

Mr.M.N.Nambiar was elected as the Chairman of the Committee.

(c) Meetings and attendance during the year.

Two meetings of the Audit Committee were held on 15th June, 2001 and 27th July, 2001 and two members of the Committee attended the meetings.

(ii) Compensation Committee:
(a) Brief description:

A Compensation Committee was set up in August 2000, to evaluate compensation and benefits for employees under Employee Stock Option Plan as approved by shareholders.

(b) Composition and other details

A Compensation Committee has been constituted with three Independent Directors, viz.,

- Mr. V.K.Srinivasan
- Mr.M.N.Nambiar
- Mr. P.V. Subrahmanyam

During the year, the Committee met one time to consider and approve the Employee Stock Option Scheme and two members were present at the meeting. At present the committee consists of two members, Mr. V.K. Srinivasan and Mr. M.N. Nambiar.

(iii) Investors Grievance Committee/Share Transfer Committee:

The Board of Directors designated an "Investor Grievance Committee" as a measure of good corporate governance and to strengthen the investor relations, on 03-02-2000. The following Directors of the company have been constituted as members of the above committee:

- Mr.L.Madhusudhan Rao
- Mr.Suresh Chukkapalli

(a) Name of the Non-executive Director heading the Committee

The Committee functions under the Chairmanship of Mr.Suresh Chukkapalli, a non-executive and independent Director.

(b) Name and designation of Compliance Officer

Ms.Susmita Dash, Company Secretary, has been appointed as Compliance Officer with effect from 27th July, 2001, to succeed Mr.M.S.Khan who resigned from the post of Company Secretary on 30th June, 2001.

(c) Status of investor complaints received during the financial year 2000-01

Nature of Complaint	Received	Cleared
Status of applications lodged during public issue	7314	7314
Change/Correction of address	5	5
Non-receipt of Share Certificates	17	17
Non-receipt of share certificate after transfer	1	1
Non -receipt of refund orders.	3	3
Non-receipt of fully-paid stickers	16	16
Correspondence/query relating to NSDL	20	20
Receipt of securities for endorsement of fully paid stickers	2	2
Queries regarding payment of allotment money	2	2
Any other Complaints	18	18
Total	7398	7398

(d) Number of pending share transfers

There were no share transfers pending as at the end of the financial year.

5. REMUNERATION TO DIRECTORS:

(a) Remuneration to Non-executive Directors:

Presently, the non-executive Directors do not receive any remuneration from the Company and are paid sitting fees for attending the meetings of the Board and Committees thereof.

(b) Remuneration to Executive Director:

The details of remuneration paid to Executive Director during the financial year 2000-01, are given below:

Name of the Executive Director	All elements of remuneration package i.e., salary, allowances and perquisites (Rs. In lakhs)	Fixed component and performance linked incentives along with performance criteria (Rs. in lakhs)	Service contracts, notice period, severance fees	Stock Option details (whether issued at a discount as well as the period over which accrued and over which exercisable)
Mr. P.V. Subrahmanyam	13.92	----	Please see Note (i)	Please see Note (ii)

Notes:

(i) Mr. P.V.Subrahmanyam was appointed as Chief Executive Officer and Director of the company for a period of five years with effect from 03.02.2000. He resigned from the Board and thereby from the services of the company with effect from 15.06.2001

(ii) Mr. P.V.Subrahmanyam was issued options under Employee Stock Option Scheme. Since he resigned before the vesting period, the options granted to him lapsed.

6. General Body Meetings:
(a) Location and time of the First Annual General Meeting of the Company:

The First Annual General Meeting of the Company was held on 19th July, 2000 at 11.30 A.M. at "LANCO HOUSE", 141, Avenue # 8, L.V.Prasad Marg, Banjara Hills, Hyderabad-34.

(b) Information on Directors seeking appointment / re-appointment as required under Clause 49VI(A) of the Listing Agreement with Stock Exchanges:

This information is provided in the Notes appended to the Explanatory Statement under the heading "Additional information on Directors recommended for appointment / re-appointment at the ensuing Annual General Meeting".

7. Disclosures

(a) **Disclosures on materially significant related party transactions i.e., transaction of the Company of material nature with its promoters, the Directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large:**

None.

(b) **Details of non-compliance by the Company, 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 one year:

None.

8. Means of Communication:

(a) Quarterly results are being published in two newspapers as per the Listing norms in Indian Express (English) and Andhra Prabha (Telugu).

(b) The Management Discussion and Analysis Report forms part of the Directors' Report.

9. General Shareholder Information:

(a) As indicated in the Notice to our Shareholders, The Annual General Meeting of the Company will be held on 28th, September 2001 at 3.00 P.M at Hotel Green Park, Greenlands, Begumpet, Hyderabad-500016.

(b) The financial year of the Company is from April 1 to March 31.

(c) Date of book closure: from September 22, 2001 to September 28, 2001 (both days Inclusive) for the purpose of the Annual General Meeting .

(d) The shares of the company are listed on:

- The Hyderabad Stock Exchange Limited (Regional Stock Exchange)
- The Stock Exchange, Mumbai
- The Ahmedabad Stock Exchange

The listing fees for all the years have been paid to all stock exchanges where the company's shares are listed.

(e) Stock Code:

Stock Code- HSE-LAGLOB Scrip Code- No.6426

Stock Code-BSE- LANGLSY Scrip Code No.32368

Stock Code-ASE-LANCOGLO Scrip Code No.32161

(F) MONTHLY HIGH AND LOW STOCK QUOTATIONS DURING THE YEAR UNDER REVIEW

Month & Year	BSE Price (Rs.)		HSE Price (Rs.)	
	High	Low	High	Low
Oct-2000	18.50	6.10	19.50	10.90
Nov-2000	32.90	12.50	35.15	13.00
Dec-2000	35.40	21.00	32.20	21.80
Jan-2001	24.15	15.00	24.00	13.40
Feb-2001	17.50	13.45	17.60	13.00
Mar-2001	14.50	11.90	15.10	10.20

Note : Shares of the company are not regularly traded in Ahmedabad Stock Exchange. Therefore the monthly high & low stock quotation have not been furnished

g. Registrar & Share Transfer Agents

M/s Aarthi Consultants (p) Ltd

1-2-285, Domalguda,

Hyderabad-500029.

Tel : 7642217, 7638111, 7633716

h. Share Transfer System:

The shareholders are advised to contact the Registrar and Share Transfer Agents at their address for effecting transfer of shares both in physical and electronic form.

i. Distribution of Shareholding:

The promoters along with their Associates are holding 74.34% of the Paid-up Equity and the General Public holds the remaining.

j. Dematerialization of Shares:

The Shares are traded in Dematerialised form only and are regularly quoted on the Mumbai, and Hyderabad Stock Exchanges.

k. Address for correspondence:

LANCO Global Systems Limited

8-3-993, Lanco Towers, Srinagar Colony,

Hyderabad-500073.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

(forming part of Director's Report)

A. Indian Software Industry

The IT Software and Services industry in India grossed an annual revenue of Rs. 37,760 crore during the year 2000-01 according to the annual industry survey released by NASSCOM. The survey further highlighted the fact that the industry had grown by 55% during 2000-01, up from Rs. 24,350 crore in 1999-2000. Out of this software exports grossed a total of Rs. 28,350 crore, around 75% of the total revenue.

The IT Industry in India has come a long way and has grown exponentially. It has constantly evolved and moved up the value chain in order to be competitive in the global markets. Indian software companies are constantly striving to stay abreast of global technology trends and have been able to match the exacting requirements of clients across the world. Indian companies have also been in the forefront in adopting quality standards. More than 250 Indian software companies, have already acquired ISO 9000 certification. India currently has 27 companies that have received SEI CMM Level 5 certification.

The most important reason for clients to favour Indian software companies has been the cost-effective solutions and services provided by a vast

pool of educated, trained manpower. Indian software talent is now sought the world over.

B. Opportunities

The company is involved in IT solutions, services and products. Globalisation has helped the company look at international markets aggressively. The company is planning to foray into new markets like Europe and Australia and is in the process of establishing strategic partnerships in these regions. The company views the changing market scenario positively and expects that a lot of companies abroad will now prefer to outsource their IT requirements from Indian companies. The company has offices in the USA and UK. The company will also benefit through its presence in UK and USA and will try and tap new clients and opportunities. The company expects that there will be more opportunities in the area of e-solutions, financial services, Insurance and telecom areas and is ideally placed to exploit opportunities in these domains due to the expertise it has built up over the years. The company also expects that there will be greater business opportunities from new markets like Europe, Australia and the Middle East.

C. Perceived Threats:

Availability of skilled Personnel

The main input for creating quality IT solutions, products and services of international standards is quality IT talent. This is also important for timely execution of projects. In such a situation it is highly crucial for a company to hire, train, motivate and retain skilled manpower. The company is constantly seeking to create an ideal atmosphere where professionals are attracted to join and are motivated to give their best.

Competition

With increasing number of players in the country across the years IT companies have found the competition levels increasing. Further, they are also facing competition from new players like China, Japan and Korea. The key factor separating one company from the other is the quality of manpower it has and the quality of work it produces. LANCO Global is making all efforts to staff its offices in USA, UK and India with the best

talent available and has been able to earn the confidence of its clients. This will help the company to approach new clients and also help in procuring repeat business from existing clients.

Exposure to overseas markets

The economic slowdown in the USA has affected most software companies in India in the recent months due to a predominantly USA-centric business model. The USA slowdown affected IT budgets across a majority of the companies in the USA. The company has already taken steps to see that there is no over dependence on a particular market. It is making efforts to explore new markets.

On the whole, the company has been actively involved in the IT arena and will continue to aggressively look for and pursue opportunities for growth and increased revenues. It will also try to build up strong brand equity in the markets that it is active in. The company will seek to achieve this by forming strategic alliances, improving the quality of manpower, and strengthening its offshore development center at Hyderabad and by stepping up its marketing efforts in the UK and USA. The Indian software industry is expected to maintain its phenomenal rate of growth in the coming years and LANCO Global is all set to be a part of this success story. One out of every four global giants still outsources IT requirements to India. This speaks volumes of the confidence that overseas companies place on Indian IT companies. The company will capitalize on this in the future too.

OTHER PARTICULARS

None of the employees except P.V. Subrahmanyam have drawn remuneration of Rs.12,00,000/- per annum or Rs.1,00,000/- per month or above during the financial year. Therefore, the details as required to be reported under the amended Section 217 (2A) of the Companies Act, 1956 read with the companies (Particular of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March 2001 are as follows :

Name	Age (in Years)	Qualification	Date of Employment	Designation	Remuneration Rs.(In lakhs)	Experience (In years)	Last Employment
P.V. Subrahmanyam	45	M.Tech (CS)	3rd Feb, 2000	CEO & Director	13.92	21 years	Satyam Computer Services Limited

NOTES :

1. Remuneration includes all elements of remuneration package i.e., salary allowances and perquisite.
2. The above appointment and the remuneration are pursuant to provisions of section 269 and other applicable provisions of the Companies Act, 1956 and subject to approval of Central Government.

THE PARTICULARS AS DESCRIBED UNDER SECTION 217(1) (e) OF THE COMPANIES ACT, 1956, READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES 1988, ARE AS FOLLOWS:-

CONSERVATION OF ENERGY:

The operations of your Company are not energy intensive. However, adequate measures have been taken to reduce energy consumption by using energy- efficient computer terminals and other equipments

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

The Company's business demands constant absorption of and adaptation to changing technologies to stay competitive in the rapidly changing world. The Company's software development center is constantly absorbing, adapting and deploying new technologies.

RESEARCH & DEVELOPMENT:

In a world of rapidly changing and advancing technologies your company has laid strong emphasis on research and development and used it as a driver to move up the value chain. The focus has been on building expertise in select domains and by investing on upgrading of skills. These are expected to give substantial benefits to the company in the future.

FOREIGN EXCHANGE EARNINGS AND OUTGO:

Foreign Exchange Earnings:	Rs.214.47 lakhs (F.O.B Value)
Foreign Exchange outgo:	Rs.117.56 Lakhs (Capital goods imports)
	Rs. 26.53 Lakhs (Foreign Travel)

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation and gratitude for the timely support and assistance rendered by the Global Trust Bank Ltd., and Bank of Baroda Ltd. Your Directors also wish to place on record their appreciation for the valuable services rendered by the executives, Officers and Staff.

For and on behalf of the Board

M.N.NAMBIAR
DIRECTOR

SURESH CHUKKAPALLI
DIRECTOR

Place:Hyderabad
Date:28.06.2001

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To,
The Members,
M/s. **LANCO GLOBAL SYSTEMS LTD.**
Hyderabad.

We have examined the compliance of conditions of Corporate Governance by M/s LANCO Global Systems Limited for the year ended 31st March 2001 as stipulated in clause 49 of the Listing Agreement of the same company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementations thereof, adopted by the company for ensuring the compliance of conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanation given to us:

We certify that the company has complied with conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are pending for a period exceeding one month against the company as per records maintained by the Share Transfer/Investors Grievance Committee.

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 **MOGILI SRIDHAR & CO.,**
Chartered Accountants

P.MURALIMOHAN RAO
Partner

Place: Hyderabad
Date : 28th June 2001

AUDITORS' REPORT

To
The Members,
M/s. **LANCO GLOBAL SYSTEMS LTD.**
Hyderabad.

We have audited the attached Balance Sheet of M/s. **Lanco Global Systems Ltd.** as at 31st March, 2001 and also the Profit & Loss Account of the Company for the year ended on that date annexed thereto and report that:

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose, in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to the comments in the Annexure referred to in the paragraph above:
 - (a) 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.
 - (b) In our opinion, proper books of account have been kept by the company as required by law so far as appears from our examination of the books.

- (c) The Balance Sheet and the Profit & Loss Account dealt with by this report are in agreement with the books of accounts.
- (d) In our opinion, and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account comply with the accounting standards referred to in section 211 (3C) of the Companies Amendment Act, 1999.
- (e) None of the Directors is disqualified from being appointed as Director of the Company under section 274 (1) (g) of the Companies Amendment Act, 2000.
- (f) In our opinion and to the best of our information and according to the explanations 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:
 - (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2001 and
 - (ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date.

For **MOGILI SRIDHAR & CO.,**
Chartered Accountants

Place : Hyderabad
Date : 28-06-2001.

P. MURALI MOHANA RAO
Partner

ANNEXURE TO THE AUDITORS' REPORT

- (a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The management has carried out a physical verification of fixed assets and as explained to us, no serious discrepancies have been noticed on such verification.
- (b) None of the fixed assets have been revalued during the current year.
- (c) The company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained U/S 301 of the Companies Act, 1956.
- (d) The company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the register maintained U/S 301 of the Companies Act, 1956.
- (e) The company has not granted any loans and advances in the nature of loans to any party.

- (f) The company has not accepted any deposits from the public.
- (g) The company does not have arrears of Provident fund dues.
- (h) As at last day of the financial year, there were no outstanding undisputed amounts payable in respect of Income tax, Wealth Tax, Sales Tax, Customs Duty and Excise duty for a period of more than six months from the date on which they become payable.
- (i) No personal expenses have been charged to revenue accounts during the year under audit.
- (j) The company is not a Sick Industrial Company within the meaning of clause (o) of sub section (1) of Section 3 of the Sick Industrial Companies (Special Provision) Act, 1985.
- (k) As the company does not have stock hence clauses (iii), (iv), (v), (vi), (x), (xi), (xii), (xiv), (xv) and (xvi) are not applicable to the company.

For **MOGILI SRIDHAR & CO.,**
Chartered Accountants

P. MURALI MOHANA RAO
Partner

Place : Hyderabad
Date : 28-06-2001.

BALANCE SHEET AS AT 31st MARCH, 2001

	SCHEDULE	As on 31-03-2001 Rs.	As on 31-03-2000 Rs.
I. SOURCES OF FUNDS			
1. Shareholders Funds			
a) Share Capital	1	10,64,72,000	2,50,07,000
b) Share Application Money		--	4,70,62,000
c) Reserves and Surplus	2	10,57,740	95,035
2. Loan Funds			
a) Secured Loans	3	1,35,31,220	3,50,000
		<u>12,10,60,960</u>	<u>7,25,14,035</u>
II. APPLICATION OF FUNDS			
1. Fixed Assets			
a) Gross Block	4	4,89,06,475	38,76,032
b) Less Depreciation		25,69,871	3,223
c) Net Block		4,63,36,604	38,72,809
d) Capital Work in progress including Advances		3,04,28,395	18,06,858
e) Pre-operative Expenses		--	47,88,871
2. Investments			
		2,00,00,000	--
3. Current Assets, Loans and Advances			
a) Sundry Debtors	5	52,44,784	4,35,000
b) Cash and Bank Balances	6	10,62,787	3,42,29,539
c) Loans and Advances	7	2,11,23,621	2,92,77,309
Less : Current Liabilities and Provisions	8	49,42,153	22,22,023
a) Net Current Assets		2,24,89,039	6,17,19,825
4. Miscellaneous Expenditure			
(to the extent not written off or adjusted)	9	18,06,922	3,25,672
		<u>12,10,60,960</u>	<u>7,25,14,035</u>

Notes on Balance Sheet and Profit & Loss Account

12

 As per our report attached
For Mogili Sridhar & Co.,
 Chartered Accountants

 For and on behalf of the Board
 for **LANCO GLOBAL SYSTEMS LIMITED**
P. Murali Mohana Rao
 Partner

Sri Suresh Chukkapalli
 Director

Sri M.N. Nambiar
 Director

 Place : Hyderabad,
 Date : 28th June 2001.

Sri Y. Srinivasa Rao
 Dy. G.M. (Finance & Accounts)

Sri M.S. Khan
 Company Secretary

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

SCHEDULE	As on 31-03-2001 Rs.	As on 31-03-2000 Rs.
INCOME		
Export	2,38,51,859	4,35,000
Domestic	78,90,300	--
Other Income	16,39,777	--
	<u>3,33,81,936</u>	<u>4,35,000</u>
EXPENDITURE		
Personnel Cost	1,96,88,100	1,93,595
Interest & Financial Charges	10 20,58,460	5,906
Operating & Administration Expenses	11 76,52,376	1,29,573
Depreciation	25,66,648	3,223
Written off Expenses	4,53,647	7,668
	<u>3,24,19,231</u>	<u>3,39,965</u>
Profit/ (Loss) before Tax	9,62,705	95,035
Provision for Tax	--	--
Profit/(Loss) after Tax	9,62,705	95,035
Balance brought forward	95,035	--
Balance Carried to Balance Sheet	10,57,740	95,035
Notes on Balance Sheet and Profit & Loss Account	12	

As per our report attached
For Mogili Sridhar & Co.,
 Chartered Accountants

For and on behalf of the Board
 for **LANCO GLOBAL SYSTEMS LIMITED**

P. Murali Mohana Rao
 Partner

Sri Suresh Chukkapalli
 Director

Sri M.N. Nambiar
 Director

Place : Hyderabad,
 Date : 28th June 2001.

Sri Y. Srinivasa Rao
 Dy. G.M. (Finance & Accounts)

Sri M.S. Khan
 Company Secretary

LANCO GLOBAL SYSTEMS LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF ACCOUNTS

	As at 31-03-2001 Rs.	As at 31-03-2000 Rs.
SCHEDULE - 1		
SHARE CAPITAL		
Authorised Capital 1,10,00,000 Shares Rs.10/- each	<u>11,00,00,000</u>	<u>11,00,00,000</u>
Issued & Subscribed Capital 1,06,57,000 Equity Shares of Rs. 10/- each	<u>10,65,70,000</u>	--
Previous Year 25,00,700 Equity Shares of Rs. 10/- each	--	2,50,07,000
Less : Allotment Money Arrears	<u>98,000</u>	--
	<u>10,64,72,000</u>	<u>2,50,07,000</u>
SCHEDULE - 2		
RESERVES & SURPLUS		
Surplus in Profit & Loss Account up to the previous year	95,035	--
Surplus in Profit & Loss Account during the year	9,62,705	95,035
	<u>10,57,740</u>	<u>95,035</u>
SCHEDULE - 3		
SECURED LOANS		
Term Loan with Bank	1,20,00,000	--
Vehicle Finance	15,31,220	3,50,000
	<u>1,35,31,220</u>	<u>3,50,000</u>
SCHEDULE - 5		
Sundry Debtors		
(Unsecured and Considered good)		
(a) Over six months old	3,15,189	--
(b) Other Debts	49,29,595	4,35,000
	<u>52,44,784</u>	<u>4,35,000</u>

**SCHEDULE - 4
FIXED ASSETS SCHEDULE AS ON 31st MARCH, 2001**

SL. NO.	NAME OF THE ASSET	GROSS BLOCK			DEPRECIATION			NET BLOCK	
		COST As at 01-04-2000	ADDITIONS During the Year	TOTAL Cost as at 31-03-2001	UPTO 01-04-2000	DEP. FOR THE YEAR	TOTAL AS AT 31-03-2001	AS at 31-03-2001	AS AT 31-03-2000
1	Computers	15,19,649	1,98,22,884	2,13,42,533	2,025	17,03,607	17,05,632	1,96,36,901	15,17,624
2	Furniture & Fixtures	56,930	1,62,09,445	1,62,66,375	30	4,42,899	4,42,929	1,58,23,445	56,900
3	Airconditioners	9,58,000	3,80,000	13,38,000	374	58,638	59,012	12,78,988	9,57,626
4	Electricals	1,12,000	46,72,237	47,84,237	44	98,799	98,843	46,85,394	1,11,956
5	Office Equipment	5,67,474	14,03,180	19,70,654	233	69,290	69,523	19,01,131	5,67,241
6	Vehicles	6,61,979	25,42,697	32,04,676	517	1,93,415	1,93,932	30,10,744	6,61,462
	TOTAL	38,76,032	4,50,30,443	4,89,06,475	3,223	25,66,648	25,69,871	4,63,36,604	38,72,809

	As at 31-03-2001 Rs.	As at 31-03-2000 Rs.
SCHEDULE - 6		
Cash & Bank Balances		
Cash in hand	2,497	6,528
Cash in Bank	10,60,290	3,42,23,011
	<u>10,62,787</u>	<u>3,42,29,539</u>
Rs. 10,60,290 includes US \$ 5058 @ Rs. 46.45 with PNC Bank, USA.		
SCHEDULE - 7		
Loans & Advances		
Staff Advances	10,21,335	7,57,042
Pre-paid Expenses	2,13,500	--
Advance for Expenses	--	21,08,519
Advance Recoverable	1,73,33,669	2,51,58,248
Deposits	25,55,117	12,53,500
	<u>2,11,23,621</u>	<u>2,92,77,309</u>
SCHEDULE - 8		
Current Liabilities & Provisions		
Creditors for Expenses	9,86,334	9,67,503
Creditors for Capital Goods	3,96,613	7,71,202
Other Liabilities	69,507	59,968
Outstanding Expenses & Provisions	34,89,699	4,23,350
	<u>49,42,153</u>	<u>22,22,023</u>
SCHEDULE - 9		
Miscellaneous Expenses		
Preliminary Expenses	23,004	30,672
Public Issue Expenses	17,83,918	2,95,000
	<u>18,06,922</u>	<u>3,25,672</u>

	As at 31-03-2001 Rs.	As at 31-03-2000 Rs.
SCHEDULE - 10		
Interest & Financial Charges		
Interest on Term Loan	16,50,671	--
Interest on Vehicle Loans	1,77,236	--
Bank Charges	2,30,553	5,906
	<u>20,58,460</u>	<u>5,906</u>

	As at 31-03-2001 Rs.	As at 31-03-2000 Rs.
SCHEDULE - 11		
Operational & Administrative Expenses		
Communication Expenses	8,84,792	16,796
Repairs and Office Maintenance	15,16,973	26,594
Rent	17,01,609	40,000
Rates, Taxes & Insurance	4,74,045	--
Business Development Exp.	8,08,088	--
Electricity Charges	6,50,818	25,442
Travelling & Conveyance	11,07,935	8,147
Printing & Stationery	3,00,259	2,454
Miscellaneous Expenses	2,07,857	10,140
	<u>76,52,376</u>	<u>1,29,573</u>

SCHEDULE - 12
NOTES ANNEXED TO AND FORMING PART OF THE ACCOUNTS AS ON 31ST MARCH, 2001
1. Significant Accounting Policies

- (a) The financial Statements are prepared under the historical cost convention in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.
- (b) Fixed Assets are stated at cost less depreciation. Cost of acquisition is inclusive of freight, duties, installation expenses and other incidental expenses.
- (c) Depreciation on Fixed Assets is provided on pro-rata basis at Straight Line Method at the rates specified in the schedule XIV of the Companies Act 1956.
- (d) Investments are valued at cost.
- (e) Preliminary Expenses and Public Issue Expenses are charged to revenue over a period of five years.
- (f) No provision for gratuity to employees has been made as no employee has put in the qualifying service for entitlement of this benefit.
- (g) Capital work in progress of Rs. 304.28 lakhs (Previous Year Rs. 18.07 lakhs) is in respect of product development and advances made to suppliers towards capital goods. This will be capitalised on completion of the project.
- (h) Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transaction. Current assets and liabilities denominated in foreign

currency are translated at the rate of exchange as at balance sheet date.

2. Earnings in foreign exchange during the year (FOB Value) on account of software development services including US Branch is Rs. 214.47 lakhs (Previous Year Rs. 4.35 lakhs).
3. The Company does not have any outstanding liability for a period of more than 30 days for a sum of rupees exceeding one lakh in respect of small scale industrial undertaking.
4. Particulars of employees in accordance with Sub-Section (2A) of section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rule 1975 is given below:

Name	Age (in Years)	Qualification	Date of Employment	Designation	Remuneration Rs. (In lakhs)	Experience (In years)	Last Employment
P.V. Subrahmanyam	45	M.Tech (CS)	3rd Feb, 2000	CEO & Director	13.92	21 years	Satyam Computer Services Limited

6. C.I.F. Value of imports on account of Capital Goods is Rs. 117.56 lakhs (Previous year Rs. Nil)
7. Expenditure in foreign currency:

	Rs. In lakhs	
	Year Ended 31st March	
	2001	2000
i) Travelling Expenses	26.53	Nil
8. As the company was registered with STPI as 100% EOU, No provision is made for Income Tax
9. Figures for the corresponding year ended March 31, 2000 wherever necessary have been regrouped, recast, rearranged to conform to those of the current year.

Signatures to Schedules 1 to 12

As per our report attached
For Mogili Sridhar & Co.,
Chartered Accountants

For and on behalf of the Board
for **LANCO GLOBAL SYSTEMS LIMITED**

P. Murali Mohana Rao
Partner

Sri Suresh Chukkapalli
Director

Sri M.N. Nambiar
Director

Place : Hyderabad,
Date : 28th June 2001.

Sri Y. Srinivasa Rao
Dy. G.M. (Finance & Accounts)

Sri M.S. Khan
Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31-03-2001	Current Year Rs.	Previous Year Rs.
A. Cash Flow from operating activities		
Net Profit Before Tax and extraordinary items	9.62	0.95
Adjustments for:		
Depreciation	25.67	0.03
Interest Income	(16.08)	--
Profit on Sale of Investments (Net)	(0.29)	--
Interest expenses	16.51	--
Written off Expenses	4.54	0.08
Operating Profit before working capital changes	39.96	1.06
Trade and other receivables	33.44	(297.12)
Inventories	--	--
Trade Payables	21.94	22.22
Cash generated from operations	95.34	(273.84)
Interest paid	(11.25)	--
Prior Period Adjustment for expenses	--	--
NET CASH FLOW OPERATING ACTIVITIES	84.09	(273.84)
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets including Capital Work-in progress	(688.62)	(56.83)
Pre-operative & Project Expenses	--	(47.89)
Purchase of Investments	(200.00)	--
Interest Received	16.08	--
Cost of investments	(30.00)	--
NET CASH USED IN INVESTING ACTIVITIES	(902.54)	(104.72)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Share Capital	344.03	720.69
Public Issue Expenses	(19.35)	(2.95)
Proceeds from Sale of Investments	30.29	--
Preliminary Expenses	--	(0.38)
Proceeds from Term Loans	120.00	--
Net Proceedings from HP Loans	11.81	3.50
NET CASH USED IN FINANCING ACTIVITIES	486.78	720.86
NET INCREASE IN CASH AND CASH EQUIVALENTS	(331.67)	342.30
Cash and Cash equivalents as at (Opening Balance)	342.30	--
Cash and Cash equivalents as at (Closing Balance)	10.63	342.30

For and on behalf of the Board

Sri Suresh Chukkapalli
Director

Sri M.N. Nambiar
Director

Place : Hyderabad,
Date : 28th June 2001.

SCHEDULE - VI
PART - IV

To

The Board of Directors

M/s Lanco Global Systems Limited

We have examined the attached Cash Flow Statement of Ms Lanco Global Systems Limited for the year ended 31st March, 2001. The Statement has been prepared by the company in accordance with the requirements of Clause 32 of Listing Agreement with Stock Exchanges and is based on and in agreement with the corresponding Profit & Loss Account and Balance Sheet of the Company covered by our report of 28th June, 2001 to the members of the company.

for **MOGILI SRIDHAR & CO.,**
CHARTERED ACCOUNTANTS

(P. MURALI MOHANA RAO)
PARTNER

PLACE : HYDERABAD

DATE : 28-06-2001

**SCHEDULE - VI
PART - IV**

BALANCE SHEET ABSTRACT AND COMPANY BUSINESS PROFILE

I. Registration Details :

Registration No. 3 0 9 9 6

State Code : 0 1

Balance Sheet Date 3 1
Date

0 3
Month

2 0 0 1
Year

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue
2 6 7 0 0

Right Issue
N I L

Bonus Issue
N I L

Private Placement
7 7 0 3

III. Position of Mobilisation and Development of Funds (Amount in Rs. Thousands)

Total Liabilities
1 2 1 0 6 1

Total Assets
1 2 1 0 6 1

SOURCES OF FUNDS

Paid-up Capital
1 0 6 4 7 2

Reserves & Surplus
1 0 5 8

Secured Loans
1 3 5 3 1

Unsecured Loans
N I L

APPLICATION OF FUNDS

Net Fixed Assets
* 7 6 7 6 5

Investments
2 0 0 0 0

Net Current Assets
2 2 4 8 9

Misc. Expenditure
1 8 0 7

Accumulated Losses
N I L

* Net Fixed Assets includes capital work-in-progress.

IV. Performance of the Company (Amount in Rs. Thousands)

Turnover
3 3 3 8 2

Total Expenditure
3 2 4 1 9

Profit/Loss before Tax (+/-)
9 6 3

Profit/Loss after Tax (+/-)
9 6 3

Earning per share in Rs.
0. 0 9

Dividends Rate %
N I L

V. Generic Name of Three Principal Product/Services of Company (as per monetary terms) :

Item Code No. :
8 5 2 4 9 0 9 - 1 0

Product Description
S O F T W A R E S E R V I C E S



8-3-993, Lanco Towers,
Srinagar Colony,
Hyderabad - 500 073.
www.lancoglobal.com