

**BOARD OF DIRECTORS**

Shri L Madhusudhana Rao	Chairman
Shri Suresh Chukkapalli	Vice Chairman till 28.09.2005
Shri G Bhaskara Rao	Director
Shri Y Harish Chandra Prasad	Director
Shri M N Nambiar	Director
Shri V K Srinivasan	Director till 01.09.2006
Dr Prasada Rao VDM Ravella	Director
Shri B Anand	Alternate Director to Dr Prasada Rao VDM Ravella
Dr Kilaru Hanumantha Rao	Director till 28.09.2005
Shri Nagarjun Valluripalli	Director & C E O

**COMPANY SECRETARY**

Shri K V R Raju

**GENERAL MANAGER  
(Finance & Accounts)**

Shri Y Srinivasa Rao

**AUDITORS**

M/s P Murali & Co  
Chartered Accountants  
6-3-655/2/3, Somajiguda  
Hyderabad - 500 082  
Andhra Pradesh, India

**REGISTERED OFFICE**

"LANCO HOUSE"  
141, Avenue # 8,  
Raod # 2, Banjara Hills,  
Hyderabad - 500 034.  
Andhra Pradesh, India.

**SOFTWARE DEVELOPMENT  
CENTRE & CORPORATE OFFICE**

5th Floor, My Home Sarovar Plaza,  
5-9-22, Secretariat Road  
Hyderabad - 500 063  
Andhra Pradesh, India

**BANKERS TO THE COMPANY**

State Bank of India  
Oriental Bank of Commerce  
Andhra Bank

**REGISTRARS &  
SHARE TRANSFER AGENTS**

Aarathi Consultants Private Limited  
1-2-285, Domalguda,  
Hyderabad - 500 029.  
Andhra Pradesh, India.



**NOTICE**

Notice is hereby given that the Seventh Annual General Meeting of the Members of Lanco Global Systems Limited will be held at 4.00 P.M. on Friday, 29<sup>th</sup> December, 2006, at Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad-500 004, to transact the following business:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Balance Sheet of the Company as on 31<sup>st</sup> March, 2006 and the Profit and Loss Account for the year ended on that date along with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Sri G Bhaskara Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr Prasada Rao VDM Ravella, who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration. The present Auditors, M/s. P. Murali & Co., Chartered Accountants, Hyderabad retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

By Order of the Board

**For LANCO GLOBAL SYSTEMS LIMITED**

Place : Hyderabad,  
Date : 04.12.2006.

K V R RAJU  
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 instead of himself/herself and the proxy need not be a member of the Company.
2. Form of Proxy, which should be deposited at the Registered Office of the Company duly completed and signed not later than 48 hours before commencement of the meeting, is enclosed.
3. The Register of Members and Share Transfer Books of the Company will be closed from Wednesday, 27<sup>th</sup> December, 2006 to Friday, the 29<sup>th</sup> December, 2006 (both days inclusive).
4. Members are requested to intimate the change of address if any, to the Share Transfer Agents, Aarthi Consultants Private Limited, (Unit: Lanco Global Systems Limited), 1-2-285, Domalguda, Hyderabad - 500 029, Andhra Pradesh, India. Members whose shareholding are in electronic mode are requested to send the intimation for change of address to their respective depository participants.
5. Shareholders seeking any information with regard to accounts are requested to write to the Company at an early date so as to enable the management to keep the information ready.
6. Members attending the Meeting are requested to complete and bring the attendance slip enclosed with the Annual Report and hand over the same, duly signed, at the entrance of the meeting hall.

**ADDITIONAL INFORMATION PRESCRIBED VIDE  
CLAUSE-49 OF THE LISTING AGREEMENT IN  
RESPECT OF DIRECTORS RECOMMENDED  
FOR APPOINTMENT / RE-APPOINTMENT AT  
THE ENSUING ANNUAL GENERAL MEETING****(a) 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 mem-

ber 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.

**(b) 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.

By Order of the Board  
For LANCO GLOBAL SYSTEMS LIMITED

Place : Hyderabad,  
Date : 04.12.2006.

K V R RAJU  
COMPANY SECRETARY

## DIRECTORS' REPORT

To  
The Members

Your Directors have pleasure in presenting the Seventh Annual Report on the business and operations of the Company together with the Audited Accounts for the year ended 31st March 2006.

### FINANCIAL RESULTS (Rupees in Lakhs)

	2005-2006	2004-2005
Income from Operations	3562.94	611.25
Other Income	22.78	2.08
Gross Profit before Interest, Depreciation & Tax	262.97	115.36
Less: Interest	17.75	1.26
Depreciation	59.95	55.08
Provision for Tax	7.15	0.29
Profit after Tax	178.12	58.73
Add: Provision for Deferred Tax Asset	6.37	5.93
Profit after Deferred Tax	184.49	64.66
Balance Brought forward	150.23	85.57
Profit Carried to Balance Sheet	334.72	150.23

During the current year, the Company has generated total revenue of Rs.3585.72 Lakhs as against Rs.613.33 Lakhs in the previous year. The profit after deferred tax during the current year is Rs.184.49 Lakhs as against Rs.64.66 Lakhs in the previous year.

### DEVELOPMENTS DURING THE YEAR AND THEREAFTER

During the year, the Company opened a Branch in Atlanta, State of Georgia, United States of America for expansion of the Company's business in the United States of America.

The Merger of Lanco Global Systems Inc, U.S.A with Lanco Global Systems Limited, India is complete as per the Scheme of Amalgamation approved by the Hon'ble High Court of Andhra Pradesh. The merger has been effected from 01.04.2005. The Annual results for the year for the Company therefore include the performance of Lanco Global Systems Inc. USA for the period 01.04.2005 to 31.03.2006. Pursuant to the Scheme of amalgamation, 1,47,66,667 Equity shares of Rs.10/- each have been allotted to the shareholders of the transferor company. Consequently, the Share Capital of the Company stands increased to Rs. 25,42,36,670.

### DIRECTORS

In accordance with the provisions of Companies Act, 1956 and the Articles of Association of the Company, Shri G Bhaskara Rao and Dr. Prasada Rao VDM Ravella retire by rotation and being eligible, offer themselves for re-appointment.

Shri B Anand has been appointed as an alternate Director to Dr Prasada Rao VDM Ravella.

Shri V K Srinivasan has resigned from his directorship w.e.f. 01.09.2006 due to his preoccupation. The Board wishes to place on record its appreciation of the guidance given by him during his tenure as a director.

### DEPOSITS

The Company has not accepted any deposits falling within the provisions of Section 58A of the Companies Act, 1956 read with Companies (Acceptance of the Deposits) Rules, 1975 during the year under review.

### AUDITORS

M/s P Murali & Co., Chartered Accountants, Auditors of the Company will retire at the conclusion of the Annual General Meeting and are eligible for re-appointment. They have conveyed their willingness to accept re-appointment and confirmed their eligibility under Section 224(1-B) of the Companies Act, 1956.

### PARTICULARS REGARDING CONSERVATION OF ENERGY, RESEARCH & DEVELOPMENT, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

Information pursuant to 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

Basically, the Company is not in Power intensive Sector. The Company uses electric energy for its equipment such as computer terminals, air conditioners, lighting and utilities in the work premises. As an ongoing process, the following measures are undertaken to conserve energy:

- Implementation of viable energy audit proposals.
- Installation of automatic power factor controllers to save maximum demand charges and energy.
- Training front-end operational persons on the opportunities and importance of energy conservation.
- Automation of air conditioners is taken up in all locations.
- Precision temperature controllers are installed in all locations.
- Awareness and training sessions for maintenance personnel were conducted by experts.
- Ergonomic design of Office is made to ensure maximum use of natural resource of sunlight to keep expenses low.
- Optimum usage of air-conditioning equipment is made within the office space.

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- Efforts will be made to provide for intelligent lighting, automatic lighting system based on sensors for optimum use of power.

### RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

The Company's Research & Development investment would primarily focus on Solutions Research and Vertical Focus Research.

Solutions Research would identify new ideas which would enable business process improvement for customers and would be aligned with the business strategy and growth opportunities of the organization.

Vertical Focus would primarily deal with building Centers of Excellence (CoE) around verticals such as financial services, Life sciences, pharma, energy, retail and process / discrete manufacturing. The Company would also setup Research & Development facilities around tools supporting some of the COTS solutions and in the BI space. Specialized process oriented tools to enhance business process performance are ready for deployment.

The Company plans to be a player in niche technologies and lays emphasis in staying current in the new technologies. A significant budget would be set aside for building competencies in the new technologies and also building solutions in the migration space, particularly in the open source solutions.

### FOREIGN EXCHANGE EARNINGS AND OUTGO

Export Plans and Activities relating to exports – Application Management services, Application development, Tool set development, Product development and support activities have been the primary source of revenues to the offshore delivery center and would be the focus for the future with the aid of Value added tools.

Initiatives taken to increase exports – Demonstrating the benefits to the existing client base on the offshore model in terms of Cost savings, 24/7 support, Maturity in delivery processes through CMMI and ISO, State of the art infrastructure, Competency and knowledge base.

Development of new export markets for products and services - Europe and Middle East have been the markets that are being developed through our partners.

Foreign Exchange Earnings : Rs. 6,77,82,345  
Foreign Exchange outgo : Rs. 10,91,665

- For Capital Goods: Rs. 9,73,696  
- For Traveling : Rs. 1,17,969

### PARTICULARS OF EMPLOYEES

Particulars of employees as required under section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975 as amended, forms part of this report. However, in pursuance of proviso (b) (iv) to Section 219(1) of the Companies Act, 1956, this report is being sent to all the shareholders of the Company, excluding the aforesaid information and the said particulars are made available at the registered office of the Company. The members interested in obtaining such particulars may write to the Company Secretary at the registered office of the Company.

### REPORT ON CORPORATE GOVERNANCE

Corporate Governance report is set out as an Annexure to this Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors hereby confirm that:

1. in preparation of annual accounts containing financial statements for the year ended 31st March, 2006 the applicable accounting standards have been followed.
2. the accounting policies are consistently followed and your Directors have applied them to give a true and fair view of the state of affairs of the Company and the profit/loss for that period.
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. the annual accounts have been prepared on a going concern basis.

### ACKNOWLEDGEMENTS

Your Directors would like to express their grateful appreciation for the assistance and cooperation received from the Banks, the Government Authorities and Shareholders during the year under review. Your Directors wish to place on record their sense of appreciation for the sincere services of all employees of the Company.

FOR AND ON BEHALF OF THE BOARD

Place : Hyderabad,  
Date : 04.12.2006.

L MADHUSUDHANA RAO  
CHAIRMAN

## **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.

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(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.

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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 27<sup>th</sup> 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.

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### (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
<b>Total</b>	<b>26</b>	<b>26</b>	<b>0</b>

## 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 27<sup>th</sup> September, 2003 and 28<sup>th</sup> 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 27<sup>th</sup> September, 2003 one special resolution for delisting of Equity shares on the Stock Exchange - Ahmedabad and on 28<sup>th</sup> 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 <sup>th</sup> 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 31<sup>st</sup> March, 2007

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### (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
<b>TOTAL</b>	<b>1425</b>	<b>100</b>	<b>254236670</b>	<b>100</b>

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

S.No.	Category	No. of Shares held	% of shareholding
<b>A.</b>	<b>Promoters' holding</b>		
1.	Promoters		
	- Indian Promoters	172900	0.68
	- Foreign Promoters	4795650	18.86
2.	Persons acting in Concert		
	- Friends & Associates	NIL	NIL
	<b>Sub-Total</b>	<b>4968550</b>	<b>19.54</b>
<b>B.</b>	<b>Non-Promoters' Holding</b>		
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
	<b>Sub-Total</b>	<b>20455117</b>	<b>80.46</b>
	<b>Grand Total</b>	<b>25423667</b>	<b>100.00</b>

**(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 31<sup>st</sup> 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:**

5<sup>th</sup> 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

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**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 31<sup>st</sup> 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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **1. INDUSTRY STRUCTURE AND DEVELOPMENTS**

The global market for offshore IT services and business processes has nearly tripled since 2001. However, a study finds that service providers have so far captured only 10 percent of a \$300 billion opportunity. Over the next five years, the market will grow by an additional \$80 billion. The drivers of future growth are likely to shift somewhat in IT-outsourcing services but will remain largely the same in business processes. Software vendors are now developing strategies to set a foothold in SMB market as it offers significant growth potential in comparison to the saturating enterprise market and represents a still relatively untapped opportunity in areas such as ERP, CRM and SCM. Companies are re-orienting their internal organization structures to cater to the specific and emerging needs of their industry vertical focused customers, as against the traditional horizontal, product category-oriented structures.

In the purchase process cost saving continues to remain the key criterion for most offshore companies, there has been some varied additions to the list in the past few years. Workforce flexibility, faster time-to-market and gaining additional skills have also become common reasons.

The total IT global spending will amount to a staggering \$1.12 trillion at a growth Data monitor, a research firm puts the size of the IT services market (including applications, infrastructure, consulting and BPO services) at \$513bn in 2005.

#### **India IT Spending Forecast by Segment**

IDC's top predictions for the Indian IT market for 2006 are:

Software: Application Life Cycle Management Software (32%), Security Software (29%), Content Applications (24%), BI Software (24%), System Management Software (20%), Network Management Software (20%), Information and Data Management Software (20%).

IT Services: Application management (32%), software deployment and support services (29%), network consulting and integration services (24%), IT outsourcing (23%).

Outsourcing services to outgrow technology product services (stand alone) in 2006 and will contribute largest chunk (24%) to the Indian IT services market. IDC believes that, with the emergence of end-to-end operators in the services space and with more confidence on outsourcing service providers, end-users are awarding more contracts with long-term perspectives in mind.

#### **North America IT Spending in 2006**

The industry outlook is nearly unchanged according to IDC

- Fifty-two percent of respondents to a survey conducted have a positive outlook for their industry in 2006, which is slightly behind last year's 54%.IT Spending Growth Slows As Firms Show Caution
- North American enterprises plan to increase budgets by 3.2% in 2006 -down from a projected 3.9% at this time last year.
- Major shifts are the finance and insurance industries, which expect budget growth to nearly, triple, while the public sector expects spending growth to tumble. The Business Becomes a Key IT Priority
- Improving IT efficiency is the most important operational theme for IT shops in 2006, Hardware Investment will take IT Spending Priority
- Security and Web applications will dominate spending on new software. Firms Will Attempt to Control Services Spend
- Consulting and systems integration will dominate the IT services budget. Staffing will account for 40% of IT budgets.

**ERP:**

The enterprise resource planning market will grow 7.7% worldwide and the Supply Chain Management market will grow 6.8% worldwide through 2009, Gartner reports. Federal spending on enterprise resource planning (ERP) is projected to grow 33 percent between the current fiscal year and 2010, when the market is expected to hit \$7.7 billion. The market's expansion through 2010 will slightly outpace the federal information technology market's overall growth rate, according to the firm. It projects a 6 percent compound annual growth rate for the federal ERP sector. The anticipated growth should benefit systems integrators, which are often involved in the consulting or implementation phases of an ERP project. Lines of business initiatives in areas such as human resources and financial management to be among the main areas of ERP activity.

**Outsourcing Development in the US**

IT Outsourcing (ITO) is the key growth engine of the tech economy US market for IT outsourcing (ITO) services will reach \$103 billion in 2006, representing a 9% year over-year growth. Add to that an additional \$40 billion to \$50 billion in business process outsourcing (BPO) spend by US enterprises 2005 was characterized by selective sourcing, multi-vendor deals, price pressures from global delivery models, and growing hype around insourcing. In 2006, we will instead see a move towards:

- The mid-market enters the outsourcing fray (Firms with 100 to 4,999 employees constitute 43% of IT spending in the US, yet they lag in their adoption of outsourcing).

**2. OUTLOOK AND OPPORTUNITIES**

1. Continuous improvement of our work products, processes, and services coupled with innovation is at the center of our endeavors
2. Lanco Global Systems Ltd. (LGSL) will approach the market as an industry-focused technology and process solutions provider. Also, the average sized LGSL engagement will be much larger and strategic than the current average LGSL engagement. This approach will also ensure that we will start building industry specific solutions which will enable us to sell higher up the value chain and build long term and strategic relationship with our customers.
3. LGSL' competency will be built in areas such as strategic planning, operational consulting, implementations, change management, and training services. LGSL's core competency will be extended into implementation, upgrades, application support, and outsourcing for IT as well as business processes for its clients. A superior professional services organization must effectively provide all of the above services to clients in specific Industry Vertical to create and enhance service differentiators over time.
4. LGSL will collaborate often with its business partners and their field sales forces in the "go to market" Strategy. LGSL will also initiate a comprehensive corporate wide Marketing Strategy to Manage Growth in Dynamic, Technology and Process intensive Global Markets.
5. LGSL will embark on a mature delivery structure for project engagements, including relationship management and project controls being conducted by the group's most experienced consultants in leadership positions.
6. Enhanced Offshore Delivery and Support Project Growth.

Offshore development projects would be a major source of business growth. LGSL would achieve this through the focus on selling value added services through in-house frameworks which concentrate on accelerated project delivery, Knowledge management and Total quality management. AMS services – Offshore support in the technologies would be taken up with defined processes and SLAs aiming at improved response and resolution times and customer satisfaction

The operating results for Q3 of 2005 confirmed the results of these observations. Going forward, an Executive Management Board will be formed as noted below to carry out the execution of a Transformation of LGSL to a well recognized and respected Information Technology and Process Outsourcing Enterprise:

- a. Re-align the existing structure of LGSL into 5 vertical industry segments including Chemical, Life Sciences, Government Services, Telecommunications and Financial Services/Healthcare.
  - b. Enable LGSL to expand its service offerings and grow its size by utilizing the LGSL's offshore development and support capabilities to enhance go to market service offerings.
  - c. Reorganize the Sales, Presales and delivery operation into a "Vertical Business Unit" model, and in a way that promotes the company's brand as an industry-focused technology and process-outsourcing provider.
  - d. Facilitate improved Revenue, gross and operating margins with an eye towards more explosive profitability growth.
7. Improve the company's partnering position with clients in such a way as to earn larger, more important projects with higher services rates.
8. Line of Business (ERP, OSI, Process Consulting and KPO) will be a distinct horizontal for the Industry Segments to leverage a particular focus of the company based on the Client engagement. It will offer pre-sales, competency development and delivery services.

### **3. SEGMENT WISE OR PRODUCT WISE PERFORMANCE AND DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE**

The Company operates in one segment only. During the year 2005 – 2006 the company improved its performance. Revenues during 2005-2006 have increased to Rs.3585.72 Lakhs as compared to Rs.613.33 Lakhs in the previous year, representing an increase of Rs.2972.39 Lakhs. The company's focus around Business Intelligence has improved the revenue stream by 20% from the previous year. ERP Implementations and roll-outs in verticals such as discreet manufacturing have seen a significant growth. The growth from the existing customer base has been at 30% compared to the previous year.

### **4. RISKS AND CONCERNS**

- Rising elements of cost, and countering the wage inflation averaging 10-15 per cent annually is a concern in the IT sector, however, companies are able to leverage declines in telecom and other overhead costs, and increase in productivity gains and economies of scale to sustain the cost arbitrage
- Skilled manpower, considered as a key to offshore success, has remained one of the key concerns and challenges for the country's IT sector and to add attrition of skilled employees both onsite and off-shore is one of the growing concern.
- Having apt IT and management skills, in fact, is assuming an ever-greater importance, in the current day environment. The company has laid out a strategy to build world class competencies through internal trainings, lateral recruitments, employee retention practices and competency development plans in the new dimension technologies.
- A growing concern on data protection and intellectual property rights amongst the customer base is being addressed through the security policies and business continuity procedures.

### **5. MATERIAL DEVELOPMENTS IN HUMAN RELATIONS / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED**

The company continues to focus on competency development activities such as training programs, induction and

orientation, skill enhancement programs and on the job work shops to build the necessary skill sets for on-time and defect free delivery. Career development plans laid out for every employee help in identifying the path that employees aspire to pursue. The company has carried out over 3 man days of training per employee during the year.

The company had 205 permanent employees at the end of the financial year 2005-2006.

## **6. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

The company, with regard to internal control systems and their adequacy, has put in place effective systems and their strict implementation to ensure that assets and interests of the company are safeguarded. Checks and balances are in place to determine the accuracy and reliability of accounting data.

The company has internal audit, an independent appraisal function to examine and evaluate the adequacy and effectiveness of the company's internal control system. It appraises, periodically, its activities and audit findings to the audit committee, statutory auditors and the management.

Internal audit ensures that systems are designed and implemented with adequate internal controls, commensurate with the size and operations; transactions are executed in accordance with the company's policies and authorizations; assets are safeguarded and deployed in accordance with company's policies and authorizations; adequacy of internal controls in all existing policies and procedures of the company.

## **7. CAUTIONARY STATEMENT**

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may constitute forward looking statement with in the meaning of applicable laws and regulations. Actual results might differ marginally or materially from those either expressed or implied.

For and on behalf of the Board

Place : Hyderabad  
Date : 04.12.2006

L MADHUSUDHANA RAO  
Chairman

## AUDITORS' REPORT

To  
The Members,  
**LANCO GLOBAL SYSTEMS LIMITED.**

We have audited the attached Balance Sheet of LANCO GLOBAL SYSTEMS LIMITED as at 31st March , 2006 and also the Profit & Loss Account for the period ended on the date annexed thereto and the cash flow statement for the period ended on that date. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis of our opinion .

As required by the Companies (Auditors Report) Order 2003, and as amended by the Companies (Auditor's Report) (Amendment)) Order 2004 issued by the Central Government of India in terms of the sub-section(4A) of section 227 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.

Further to our comments in the Annexure referred to above, we report that :

- I. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our Audit ;
- II. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books ;
- III. The Balance Sheet & Profit & Loss Account dealt with by this report are in agreement with the books of account ;
- IV. In our opinion, the Balance Sheet & Profit & Loss Account dealt with by this report comply with the Accounting standards referred to in sub-section (3C) of Section 211 of Companies Act, 1956 ;
- V. On the basis of written representations received from the Directors, as on 31st March , 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March , 2006 from being appointed Director in terms of clause(g) of sub-section(1) of section 274 of the Companies Act, 1956
- VI. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India ;
  - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March , 2006;
  - (b) In the case of the Profit & Loss Account, of the Profit for the period ended on that date;

AND

  - (c) In the case of the Cash Flow, of the cash flows for the period ended on that date ;

For P MURALI & CO.  
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD  
DATE : 04-12-2006

P MURALI MOHANA RAO  
PARTNER

## **ANNEXURE TO THE AUDITORS' REPORT**

- I. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets.  
(b) As explained to us, the fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies between the book records and the physical inventory have been noticed on such verification.  
(c) The Company has not disposed off substantial part of the Fixed Assets during the year.
- II. The Company has no Inventory. Hence this clause is not applicable.
- III. (a) The Company has not Granted any loans, secured or unsecured to Companies, Firms or other Parties covered in the register maintained U/s. 301 of the Companies Act, 1956.  
(b) As the Company has not granted any loans, the clause of whether the rate of interest & other terms and conditions on which loans have been granted to parties listed in the register maintained under section 301 is prejudicial to the interest of company, is not applicable.  
(c) As no loans are granted by company, the clause of receipt of interest & principal amount from parties, is not applicable to the company.  
(d) No loans have been granted to Companies, Firms & other parties listed in the register U/s. 301 of the Companies Act, 1956, hence overdue amount of more than rupees one lac does not arise and the clause is not applicable.  
(e) The company has taken loans, unsecured from companies, and other Parties covered in the register maintained U/s. 301 of the Companies Act, 1956. The total amount involved amounting to Rs 300.00 Lacs from one party.  
(f) As the company has taken loan from Mr Nagarjun Valluripalli, parties listed in the register maintained U/s 301 and the terms and conditions of the same are not prejudicial to the interest of company.  
(g) The repayment of interest & principal amount to parties is regular.
- IV. In our opinion and according to the information and explanations given to us, there are generally adequate internal control systems commensurate with the size of the company and the nature of its business with regard to purchase of fixed assets and for sale of goods and services. There is no continuing failure by the company to correct any major weaknesses in internal control.
- V. (a) In our opinion and according to the information and explanation given to us, the company has entered into contracts with M/s Lanco Kondapalli Power Pvt Ltd., for the SAP implementation and premises has been taken on lease from Mr Nagarjun Valluripalli and the registers as per Section 301 of the Companies Act, 1956 have been made by the company in respect of the party during the financial year.  
(b) According to the information and explanations given to us, as such contracts or arrangements made by the Company, at a reasonable price having regard to the prevailing market prices at the relevant time.
- VI. The Company has not accepted any deposits from the public and hence the applicability of the clause of directives issued by the Reserve Bank of India and provisions of section 58A and 58AA or any other relevant provisions of the Act and the rules framed there under does not arise. As per information and explanations given to us the order from the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal has not been received by the Company.
- VII. In our opinion, the company is having internal audit system, commensurate with its size and nature of its business.

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- VIII. In respect of the Company, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section(1) of section 209 of the Companies Act, 1956.
- IX. a) The Company is regular in depositing statutory dues including PF, Income Tax, and any other statutory dues with the appropriate authorities and at the last of the financial year there were no amounts outstanding which were due for more than 6 months from the date they became payable.
- b) According to the information and explanations given to us, no undisputed amounts are payable in respect of P.F, Income Tax and any other Statutory dues as at the end of the period, for a period more than six months from the date they became payable.
- X. The Company has been registered for a period of not less than 5 years, and the company has no accumulated losses at the end of the financial year and the company has not incurred cash losses in this financial year and in the immediately preceding financial year.
- XI. According to information and explanations given to us, the Company has not defaulted in repayment of dues to financial Institutions or banks .
- XII. According to the information and explanations given to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities and hence the applicability of the clause regarding maintenance of adequate documents in respect of loans does not arise.
- XIII. This clause is not applicable to this Company as the Company is not covered by the provisions of special statute applicable to Chit Fund in respect of Nidhi/Mutual Benefit Fund/Societies.
- XIV. According to the information and explanations given to us, the company is not dealing or trading in shares, securities, Debentures and other investments and hence the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order 2003, are not applicable to the Company.
- XV. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from Banks or Financial Institutions, and hence the applicability of this clause regarding terms and conditions which are prejudicial to the interest of the company does not arise.
- XVI. According to the information and explanations given to us, the company has obtained Term Loan from State Bank of India and being used for the purpose for which it has been obtained.
- XVII. According to the information and explanations given to us, no funds are raised by the company on short- term basis. Hence the clause of short-term funds being used for long-term investment does not arise.
- XVIII. According to the information and explanations given to us, the Company has not made any preferential allotment of Shares to parties and Companies covered in the Register maintained under section 301 of the Companies Act, 1956 and hence the applicability of the clause regarding the price at which shares have been issued and whether the same is prejudicial to the interest of the Company does not arise.
- XIX. According to the information and explanations given to us, the company does not have any debentures and hence the applicability of the clause regarding the creation of security or charge in respect of debentures issued does not arise.
- XX. According to information and explanations given to us, the company has not raised money by way of public issues during the year, hence the clause regarding the disclosure by the management on the end use of money raised by Public Issue is not applicable.
- XXI. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under audit.

For P MURALI & CO.  
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD  
DATE : 04-12-2006

P MURALI MOHANA RAO  
PARTNER



**BALANCE SHEET AS ON 31ST MARCH, 2006**

PARTICULARS	Schedule	As on 31.03.2006 (Rupees)	As on 31.03.2005 (Rupees)
<b>I SOURCES OF FUNDS</b>			
<b>1. Share Holders Funds</b>			
(a) Share Capital	1	254,176,370	106,494,200
(b) Reserves & Surplus	2	34,971,671	16,273,175
<b>2. Loan funds</b>			
(a) Secured Loans	3	11,703,836	192,454
(b) Unsecured Loans	4	30,653,976	-
<b>3. Deferred Tax Liability</b>			
		2,342,212	2,978,964
<b>TOTAL</b>		<b><u>333,848,065</u></b>	<b><u>125,938,793</u></b>
<b>II APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets</b>			
(a) Gross Block	5	123,778,480	51,244,133
(b) Less Depreciation		29,695,881	22,985,731
(c) Net Block		94,082,599	28,258,402
(d) Capital Work in progress including Advances		152,797,227	47,937,410
<b>2. Investments</b>			
		20,000,000	20,000,000
<b>3. Current Assets, Loans &amp; Advances</b>			
(a) Sundry Debtors	6	84,333,141	30,531,256
(b) Cash and Bank Balances	7	1,093,749	3,118,506
(c) Loans & Advances	8	27,381,690	15,588,521
Less: Current Liabilities & Provisions	9	45,982,818	19,803,255
Net Current Assets		66,825,762	29,435,028
<b>4. Miscellaneous Expenditure</b>			
(to the extent not written off or adjusted)	10	142,477	307,953
<b>TOTAL</b>		<b><u>333,848,065</u></b>	<b><u>125,938,793</u></b>

Notes on Balance Sheet and Profit & Loss Account 13

As per our Report Attached  
For P MURALI & CO.  
CHARTERED ACCOUNTANTS

FOR AND ON BEHALF OF THE BOARD of  
**LANCO GLOBAL SYSTEMS LIMITED**

P MURALI MOHAN RAO  
PARTNER

L MADHUSUDHANA RAO  
CHAIRMAN

NAGARJUN VALLURIPALLI  
DIRECTOR & C E O

PLACE : HYDERABAD  
DATE : 04-12-2006

Y SRINIVASA RAO  
G.M-F&A

K V R RAJU  
COMPANY SECRETARY

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006**

PARTICULARS	Schedule	Year Ended 31.03.2006 (Rupees)	Year Ended 31.03.2005 (Rupees)
<b>INCOME</b>			
Export		353,367,873	61,124,638
Domestic		2,925,687	-
Other Income		2,278,443	208,805
<b>TOTAL</b>		<b><u>358,572,003</u></b>	<b><u>61,333,443</u></b>
<b>EXPENDITURE</b>			
Personnel Cost		283,702,642	33,731,749
Interest & Financial Charges	11	1,774,672	125,642
Operating & Administration Expenses	12	48,407,258	15,454,786
Depreciation		5,995,410	5,507,566
Written off Expenses		165,476	611,455
<b>TOTAL</b>		<b><u>340,045,458</u></b>	<b><u>55,431,198</u></b>
Profit / (Loss) before tax		18,526,545	5,902,245
Provision for Tax		509,329	28,764
Provision for FBT Tax		205,472	-
Profit / (Loss) after tax		17,811,744	5,873,481
'Provision for Deferred Income Tax Assets		636,752	592,430
Profit After deferred Tax		18,448,496	6,465,911
Balance Brought forward		15,023,175	8,557,264
Profit Carried to Balance Sheet		33,471,671	15,023,175

Notes on Balance Sheet and Profit & Loss Account 13

Earnings Per Share Basic & Diluted

0.73

0.61

As per our Report Attached

For P MURALI & CO.

CHARTERED ACCOUNTANTS

FOR AND ON BEHALF OF THE BOARD of

**LANCO GLOBAL SYSTEMS LIMITED**

P MURALI MOHAN RAO  
PARTNER

L MADHUSUDHANA RAO  
CHAIRMAN

NAGARJUN VALLURIPALLI  
DIRECTOR & C E O

PLACE : HYDERABAD  
DATE : 04-12-2006

Y SRINIVASA RAO  
G.M-F&A

K V R RAJU  
COMPANY SECRETARY

**SCHEDULE ANNEXED TO AND FORMING PART OF ACCOUNTS**

PARTICULARS	As at 31-03-2006 (Rupees)	As at 31-03-2005 (Rupees)
<b>SCHEDULE - I</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
26,000,000 Equity Shares of Rs. 10/- each	<u>260,000,000</u>	<u>260,000,000</u>
<b>Issued &amp; Subscribed Capital</b>		
25,423,667 Equity Shares of Rs. 10/- each	<u>254,236,670</u>	106,570,000
Less: Allotment Money Arrears	<u>60,300</u>	75,800
<b>TOTAL</b>	<u><u>254,176,370</u></u>	<u><u>106,494,200</u></u>
<b>SCHEDULE - 2</b>		
<b>RESERVES &amp; SURPLUS</b>		
Investment Subsidy	<u>1,500,000</u>	1,250,000
Surplus in Profit & Loss Account	<u>33,471,671</u>	15,023,175
<b>TOTAL</b>	<u><u>34,971,671</u></u>	<u><u>16,273,175</u></u>
<b>SCHEDULE - 3</b>		
<b>SECURED LOANS</b>		
Term Loan - SBI	<u>956,203</u>	-
Working Capital - SBI	<u>10,747,633</u>	-
Vehicle Finance	-	192,454
<b>TOTAL</b>	<u><u>11,703,836</u></u>	<u><u>192,454</u></u>
<b>SCHEDULE - 4</b>		
<b>UNSECURED LOANS</b>		
Loan from Nagarjun V	<u>29,960,046</u>	-
Interest accrued and Due	<u>693,930</u>	-
<b>TOTAL</b>	<u><u>30,653,976</u></u>	<u><u>-</u></u>

**SCHEDULE : 5  
FIXED ASSETS**

(Rupees)

S. No.	DESCRIPTION OF ASSET	GROSS BLOCK			DEPRECIATION			NET BLOCK			
		Cost As at 01-04-2005	Additions During the Year	Deletions During the Year	Total Cost as at 31-03-2006	up to 01-04-2005	For the Year	Deletion of Depreciation for the year	Total as at 31-03-2006	as at 31-03-2006	as at 31-03-2005
1	Good will	--	61,317,995	--	61,317,995	--	--	--	--	61,317,995	--
2	Computers	24,200,988	5,062,829	1,484,760	27,779,057	16,069,513	4,061,506	1,312,422	18,818,597	8,960,460	8,131,475
3	Furniture & Fixtures	16,796,889	35,288	--	16,832,177	4,655,248	1,064,460	--	5,719,708	11,112,469	12,141,641
4	Airconditioners	1,358,500	--	--	1,358,500	313,799	64,529	--	378,328	980,172	1,044,701
5	Electricals	4,898,804	340,000	--	5,238,804	1,009,669	238,401	--	1,248,070	3,990,734	3,889,135
6	Office Equipments	2,528,395	1,086,005	32,240	3,582,160	444,128	136,202	2,928	577,402	3,004,758	2,084,267
7	Vehicles	1,460,557	130,000	440,075	1,150,482	493,374	144,496	78,803	559,067	591,415	967,183
8	Assets at US Branch	6,519,305	--	--	6,519,305	2,108,893	285,816	--	2,394,709	4,124,596	4,410,412
<b>TOTAL</b>		57,763,438	67,972,117	1,957,075	123,778,480	25,094,624	5,995,410	1,394,153	29,695,881	94,082,599	32,668,814

	As at 31-03-2006 (Rupees)	As at 31-03-2005 (Rupees)
<b>SCHEDULE - 6</b>		
<b>SUNDRY DEBTORS</b>		
(Unsecured and Considered good)		
(a) Over six months old	-	-
(b) Other Debts	84,333,141	30,531,256
<b>TOTAL</b>	<b>84,333,141</b>	<b>30,531,256</b>
<b>SCHEDULE - 7</b>		
<b>CASH &amp; BANK BALANCES</b>		
Cash in hand	12,461	19,589
Cash at Bank	1,081,288	3,098,917
<b>TOTAL</b>	<b>1,093,749</b>	<b>3,118,506</b>
<b>SCHEDULE - 8</b>		
<b>LOANS &amp; ADVANCES</b>		
Staff Advances	921,290	1,268
Pre-paid Expenses	2,095,440	599,994
Advance for Expenses & Recoverable	11,495,490	2,685,850
FBT Advance Tax	183,200	-
Deposits	2,774,770	2,389,909
LGSL Foudation (Trust)	9,911,500	9,911,500
<b>TOTAL</b>	<b>27,381,690</b>	<b>15,588,521</b>
<b>SCHEDULE - 9</b>		
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
Outstanding Expenses & Provisions	41,980,141	3,060,009
Other Liabilities	4,002,677	16,743,246
<b>TOTAL</b>	<b>45,982,818</b>	<b>19,803,255</b>
<b>SCHEDULE - 10</b>		
<b>MISCELLANEOUS EXPENDITURE</b>		
Preliminary Expenses	142,477	307,953
<b>TOTAL</b>	<b>142,477</b>	<b>307,953</b>

## 7th Annual Report 2005-2006

	As at 31-03-2006 (Rupees)	As at 31-03-2005 (Rupees)
<b>SCHEDULE - 11</b>		
<b>INTEREST &amp; FINANCIAL CHARGES</b>		
Interest on Term Loan	130,848	40,722
Interest on Working Capital	488,027	-
Interest on Vehicle Loans	7,546	23,358
Interest on Unsecured Loans	781,629	-
Bank Charges	366,622	61,562
<b>TOTAL</b>	<b>1,774,672</b>	<b>125,642</b>

<b>SCHEDULE - 12</b>		
<b>OPERATING &amp; ADMINISTRATION EXPENSES</b>		
Communication Expenses	10,809,841	3,538,202
Repairs and Office Maintenance	2,755,236	2,232,083
Rent	10,142,622	2,812,320
Rates, Taxes & Insurance	2,697,041	261,480
Business Development Exp	3,740,013	730,870
Electricity Charges	1,977,066	1,591,833
Travelling & Conveyance	5,150,923	880,984
Printing & Stationery	338,204	207,299
CMMITraining Fee	-	1,004,335
Staff recruitment Charges	1,101,802	516,258
Professional Charges	5,837,877	157,216
Computer Rentals	866,367	-
Directors Remuneration	1,916,786	120,000
Project Related Expenses	6,023	5,130
Audit Fee	44,896	44,080
Miscellaneous Expenses	1,022,561	381,357
Foreign Exchange Fluctuation Loss	-	971,339
<b>TOTAL</b>	<b>48,407,258</b>	<b>15,454,786</b>

## **SCHEDULE - 13**

### **NOTES FORMING PART OF THE ACCOUNTS**

#### **A. SIGNIFICANT ACCOUNTING POLICIES**

##### **General :**

- (i) These accounts are prepared on the historical cost basis and on the accounting principles of a going concern.
- (ii) Accounting policies not specifically referred to otherwise are consistent and in consonance with generally accepted accounting principles.

##### **Revenue Recognition :**

- (i) Income from software development is accounted for on the basis of Software developed and billed to clients on acceptance and/or on the basis of man days/man hours as per the terms of contract.
- (ii) Revenue from professional services consist primarily of revenue earned from services performed on a 'time and material' basis. The related revenue is recognised as and when the services are performed.
- (iii) Revenue from software development services includes revenue from time and material and fixed price contracts are recognised as related services are performed.
- (iv) Revenue on fixed price contracts is recognised in accordance with percentage of completion and method of account.
- (v) Revenue is not recognised on the grounds of prudence, until realised in respect of liquidated damages, delayed payments as recovery of the amounts are not certain.

##### **Foreign Exchange Transaction :**

- (i) Realised gains & loss in foreign exchange transactions are recognised in Profit & Loss Account.
- (ii) Transactions in foreign currency will be recorded at the rates of exchange prevailing on the date of the transaction. Current assets and liabilities denominated in foreign currency will be translated at the rate of exchange as at Balance Sheet date.

##### **Investments :**

Investments are stated at cost i.e. cost of acquisition, inclusive of expenses incidental to acquisition wherever applicable.

##### **Fixed Assets :**

Fixed assets are stated at cost less accumulated depreciation. Cost of acquisition of fixed assets is inclusive of freight, duties, taxes and incidental expenses thereto.

##### **Depreciation and Amortisation :**

- (i) Depreciation is provided on straight line method on pro-rata basis and at the rates and manner specified in the Schedule XIV of the Companies Act, 1956.
- (ii) Preliminary Expenses are amortised over the period of 5 years.

**Capital Work-in-Progress :**

The Capital Work-in-Progress includes cost of Fixed Assets under installation, advances for Capital Goods and unallocated expenditure.

**Taxation :**

The current charge for income tax is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax asset and liability is recognised for future tax consequences attributable to the timing differences that result between the profit offered for income tax and the profit as per the financial statements. Deferred tax asset & liability are measured as per the tax rates/laws that have been enacted or substantively enacted by the Balance Sheet date.

**Earning Per Share:**

The earning considered in ascertaining the companies earning per share comprise net profit after tax. The number of shares used in computing basic earning per share is the weighted average number of shares outstanding during the year.

**Gratuity :**

The provision for Gratuity and leave Encashment is calculated as per accrual method and included in current liability & provision.

**B. NOTES ON ACCOUNTS**

1. Particulars of employees as required under section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975 as amended, forms part of this report. However, in pursuance of proviso (b) (iv) to Section 219(1) of the Companies Act, 1956, this report is being sent to all the shareholders of the Company, excluding the aforesaid information and the said particulars are made available at the registered office of the Company. The members interested in obtaining such particulars may write to the Company Secretary at the registered office of the Company.

2. Directors' Remuneration	:	Current Year (Rs.)	Previous Year (Rs.)
		19,16,786/-	1,20,000/-
3. Auditors' Remuneration	:	Current Year (Rs.)	Previous Year (Rs.)
Audit Fee		44,896/-	44,080/-

4. The Company is engaged in the development of Computer Software and services. The production and sale of such software and services cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and the information as required under Paragraphs 3 and 4C of Part II of Schedule VI to the Companies Act, 1956.



5. (i) The transferor Company, Viz. Lanco Global Systems Inc is a foreign company, incorporated under the Georgia Business Corporation Code, U.S.A. The transferor Company provides Information Technolgy Solutions and Business Process Outsourcing and is engaged in the Business in U.S.A.
- (ii) Appointed date of Amalgamation is 01-04-2005.
- (iii) The pooling of interests method of accounting as directed by the Hon'ble High Court of Andhra Pradesh is followed.
- (iv) As per the Hon'ble High Court of Andhra Pradesh Order dated 03.08.2006 having Company pition No.1128 of 2006, the Company has as per Scheme of Amalgamation of Lanco Global Systems Limited with Lanco Global Systems Inc. two shares of Lanco Global Systems Limited have been issued for every three shares of share holder of Lanco Global Systems Inc.

### 6. Related Party Transactions

During the year 2005-06 the Company has entered into some transactions, Which can be deemed as related party transactions. All these matters have been approved by the Board and the Government of India, Wherever necessary.

Sl. No.	Name of the Related Party	Nature of Relation	Nature of transaction	Date of Board Approval	Breif terms	Status
1.	Sri Nagarjun Valluripalli	Director & CEO	Unsecured loan of Rs.3Crores from Director& CEO	11-07-2005	At an interest rate of not more than that charged by Bank	Outstanding
2.	Lanco Kondapalli Power Pvt. Ltd.	A Private Limited Company, where comman directors are there	SAP implementa-tion for Lanco Kondapalli by the company	14-12-2005	Rs.26 lakhs only	Under Implemen-tation
3.	Sri Nagarjun Valluripalli	Director & CEO	Taking on Lease of premises belonging to the Director & CEO,	28-03-2006	@ Rs.25/- per sft. per month	Lease is in existence
4.	Sri Nagarjun Valluripalli	Director & CEO	Unsecured Loan of Rs.111.52 Lakhs (USD2.5Lakhs)from the Director & CEO	04-12-2006	Interest Free	Outstanding



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31-03-2006.**

	<b>(Rs. In lakhs)</b>	
	<b>Current Year</b>	<b>Previous Year</b>
<b>A .CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net profit before taxation, and extraordinary Items	<b>185.26</b>	59.02
Adjustments for:		
Depreciation	<b>46.01</b>	55.08
Foreign Exchange Fluctuation Profit	<b>(16.97)</b>	-
Interest expenses	<b>15.76</b>	1.26
Written off Expenses	<b>1.65</b>	6.11
Operating Profit before working capital changes	<b>231.72</b>	121.47
Trade and other receivables	<b>(762.06)</b>	(128.82)
Trade payables	<b>451.96</b>	31.61
Cash generated from operations	<b>(78.38)</b>	24.26
Interest paid	<b>(8.82)</b>	(1.26)
<b>NET CASH FLOW OPERATING ACTIVITIES</b>	<b>(87.20)</b>	23.00
<b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of Fixed Assets including Capital Work-in-progress	<b>(257.00)</b>	(16.54)
Pre-operative & Project Expenses	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(257.00)</b>	(16.54)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from Issue of Share Capital	<b>0.16</b>	0.00
Investment Subsidy	<b>2.50</b>	2.50
Unsecured Loan	<b>299.60</b>	0.00
Proceeds from Term Loans	<b>9.56</b>	(10.15)
Net Proceeding from HP Loans	<b>(1.92)</b>	1.92
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>309.90</b>	(5.73)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34.30)</b>	0.73
Cash and Cash equivalents as at (Opening Balance)	<b>45.24</b>	30.45
Cash and Cash equivalents as at (Closing Balance)	<b>10.94</b>	31.18

FOR AND ON BEHALF OF THE BOARD of  
**LANCO GLOBAL SYSTEMS LIMITED**

L MADHUSUDHANA RAO  
CHAIRMAN

NAGARJUN VALLURIPALLI  
DIRECTOR & C E O

PLACE : HYDERABAD  
DATE : 04-12-2006

Y SRINIVASA RAO  
G.M-F&A

K V R RAJU  
COMPANY SECRETARY

To  
The Board of Directors  
Lanco Global Systems Limited

We have examined the attached Cash Flow Statement of Lanco Global Systems Limited for the year ended 31st March, 2006. The Statement has been prepared by the company in accordance with the requirement of Clause 32 of listing agreement with Stock Exchange and is based on and in agreement with the corresponding Profit & Loss Account and Balance Sheet of the Company covered by our report of 4th December, 2006 to the members of the company.

for P MURALI & CO.  
CHARTERED ACCOUNTANTS

PLACE : HYDERABAD  
DATE : 04-12-2006

(P MURALI MOHANA RAO)  
PARTNER

**Balance Sheet Abstract and Company's General Business Profile**

I. Registration Details

State Code. 

0	1
---	---

Registration No. 

0	1	-	3	0	9	9	6
---	---	---	---	---	---	---	---

Balance Sheet Date 

3	1
---	---

0	3
---	---

2	0	0	6
---	---	---	---

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue  

		N	I	L			
--	--	---	---	---	--	--	--

Rights Issue  

		N	I	L			
--	--	---	---	---	--	--	--

Bonus Issue  

		N	I	L			
--	--	---	---	---	--	--	--

Private Placement  

		1	4	7	6	6	6
--	--	---	---	---	---	---	---

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

Total Liabilities  

		3	3	3	8	4	8
--	--	---	---	---	---	---	---

Total Assets  

		3	3	3	8	4	8
--	--	---	---	---	---	---	---

Sources of Funds

Paid - Up Capital  

		2	5	4	1	7	6
--	--	---	---	---	---	---	---

Reserves & Surplus  

		3	4	9	7	1	
--	--	---	---	---	---	---	--

Secured Loans  

		1	1	7	0	4	
--	--	---	---	---	---	---	--

Un-Secured Loans/Deferred Tax Liability  

		3	2	9	9	6	
--	--	---	---	---	---	---	--

Application of Funds

Net Fixed Assets  

		2	4	6	8	8	0
--	--	---	---	---	---	---	---

Investments  

		2	0	0	0	0	0
--	--	---	---	---	---	---	---

Net Current Assets  

		6	6	8	2	6	
--	--	---	---	---	---	---	--

Misc. Expenditure  

					1	4	2
--	--	--	--	--	---	---	---

Accumulated Losses  

		N	I	L			
--	--	---	---	---	--	--	--

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

Turnover  

		3	5	6	2	9	4
--	--	---	---	---	---	---	---

Total Expenditure  

		3	4	0	0	4	5
--	--	---	---	---	---	---	---

Profit/ Loss Before Tax (+/-)  

+				1	8	5	2	7
---	--	--	--	---	---	---	---	---

Profit/ Loss After Tax (+/-)  

+				1	7	8	1	2
---	--	--	--	---	---	---	---	---

Earnings Per Share in Rs.  

0	.	7	3
---	---	---	---

Dividend rate %  

N	A
---	---

V. Generic Names of Three Principal Products / Services of Company (as per monetary terms)

Item Code No.

(ITC Code) 

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				
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--