



BOARD OF DIRECTORS

| | |
|-------------------------------|--|
| Shri L. Madhusudhan Rao | Chairman |
| Shri G. Bhaskara Rao | Director |
| Shri Y. Harish Chandra Prasad | Director (upto 23.10.2007) |
| Shri M.N. Nambiar | Director |
| Dr. Prasada Rao VDM Ravella | Director |
| Shri B. Anand | Alternate Director to Dr. Prasada Rao VDM Ravella |
| Shri Nagarjun Valluripalli | Director & C.E.O. (upto 20.06.2007) |
| Shri Y. Anand Swaroop | Director & C.E.O. (w.e.f. 20.06.2007) |
| Shri P.G.K. Murthy | Director (w.e.f. 20.06.2007) |
| Shri G. Ramesh | Director (w.e.f. 20.06.2007) |

COMPANY SECRETARY

Shri K.V.R. Raju

VICE PRESIDENT (F&A)

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,
Road # 2, Banjara Hills,
Hyderabad - 500 034.
Andhra Pradesh, India

SOFTWARE DEVELOPMENT
CENTRE & CORPORATE
OFFICE

8-2-293/82/A/796/B,
Road No. 36, Jubilee Hills,
Hyderabad - 500 033.
Andhra Pradesh, India
Tel. : + 91-40-66990000
Fax : + 91-40-66994444
www.lgsglobal.com

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.
Phone : + 91 - 40 - 27634445, 27638111, 27642217, Fax : +91-40-27632184
E-mail : info@aarthiconsultants.com



NOTICE

Notice is hereby given that the Eighth Annual General Meeting of the Members of Lanco Global Systems Limited will be held at 11.00 A.M. on Saturday, 29th December, 2007, at K L N Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, Hyderabad-500 004, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet of the Company as on 31st March, 2007 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 L. Madhsudhan Rao, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri M.N. Nambiar, 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.

SPECIAL BUSINESS

5. **To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.**

"RESOLVED THAT Mr Y Anand Swaroop, who was appointed as an additional director in the board meeting held on 20th June, 2007 and who holds the office of director upto the date of the ensuing Annual General Meeting and in respect of whom a notice under Section 257 of the Companies Act, 1956 has been

received from a shareholder signifying his intention to propose Mr Y Anand Swaroop as a candidate for the office of director, be and is hereby appointed as a director.

6. **To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.**

"RESOLVED THAT Mr P G K Murthy, who was appointed as an additional director in the board meeting held on 20th June, 2007 and who holds the office of director upto the date of the ensuing Annual General Meeting and in respect of whom a notice under Section 257 of the Companies Act, 1956 has been received from a shareholder signifying his intention to propose Mr P G K Murthy as a candidate for the office of director, be and is hereby appointed as a director.

7. **To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.**

"RESOLVED THAT Mr G Ramesh, who was appointed as an additional director in the board meeting held on 20th June, 2007 and who holds the office of director upto the date of the ensuing Annual General Meeting and in respect of whom a notice under Section 257 of the Companies Act, 1956 has been received from a shareholder signifying his intention to propose Mr G Ramesh as a candidate for the office of director, be and is hereby appointed as a director.

8. **To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.**

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 consent of the members of the Company be and is hereby accorded to the appointment of Shri Y Anand Swaroop as Director & Chief Executive Officer of the Company for a period of 3 years effective from 20.06.2007 on the following terms and conditions.

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- a) Salary of Rs.3,00,000/- (Rupees Three Lakhs only) per month
- b) Contribution to Provident Fund as per the rules of the company
- c) Provision of Car and residential Telephone for Office use.

9. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution.

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the existing Articles of Association of the Company be altered in the manner following".

"The Second sentence in Article 83 shall be deleted".

10. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution

"RESOLVED THAT the consent of the Company be and is hereby accorded to the Board of Directors under section 293 (1) (d) of the Companies Act, 1956 to borrow any sum or sums of moneys from time to time notwithstanding that the money or moneys to be borrowed, together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purposes, provided however, the total amount so borrowed shall not exceed Rs.200 crores (Rupees Two hundred crores only)."

11. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution

"RESOLVED THAT the consent of the Company be and is hereby accorded in terms of Section 293 (1) (a) and other applicable

provisions, if any, of the Companies Act, 1956 for mortgaging and/or charging by the Board of Directors of the Company of all the immovable & movable properties of the Company wheresoever situate, both present and future, and whole of the undertaking(s) of the Company and/or conferring power to enter upon and to take possession of assets of the Company in certain events, to or in favour of any Institutions / Banks / Trustees for Debenture holders, Organizations, any other person, to secure Term Loans / Debentures / Deep Discount Bonds / Foreign Currency Convertible Bonds / working capital facilities and other facilities not exceeding Rs.300 crores (Rupees Three hundred crores only) (on first charge basis pari passu with other first charge holders, if any) sanctioned/ to be sanctioned/ lent and advanced/agreed to be lent and advanced / subscribed / to be subscribed by any Institutions/Banks/Organization / Public /any other person to the Company together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, up - front fees, premia on prepayment or on redemption, guarantee commission, remuneration payable to the trustees for the Debenture holders and/or other institutions, costs, charges, expenses and other monies including any increase as a result of devaluation/revaluation/fluctuation in the rates of exchange of foreign currencies involved payable by the company to Banks/ Institutions/ Trustees for the Debenture holders, Organisations, any other person under the loan agreements, debenture trust deeds/letters of sanction / other arrangements etc., entered into/to be entered into by the company in respect of the said term loans/debentures and other facilities.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to finalise with Banks/Institutions/ Trustees for the Debenture holders / Organisations, any other person the documents for creating aforesaid mortgage

and/or the charge and to do all such acts and things as may be necessary for giving effect to the above resolution”.

12. To consider, and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution

“**RESOLVED THAT**, in accordance with the provisions of Sec. 81(1A) and other applicable provisions, if any, of the Companies Act, 1956(including any amendment or re-enactment thereof), Listing agreement entered in to with the Stock Exchanges and the Issue of Foreign Currency Convertible Bonds, Qualified Institution Placements and Ordinary Shares (through Receipt mechanism) Scheme, 1993 and subject to such approvals, consent, permissions, and/or sanctions, as may be necessary, from the Government of India (GOI), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and/or any competent authorities and enabling provisions of the memorandum and Articles of Association of the Company and in accordance with the guidelines issued by the GOI, RBI, SEBI and / or any other competent authorities and clarifications thereof, issued from time to time and subject to all such approvals, permissions, consents and sanctions, as may be necessary and subject to such conditions and modifications, as may be prescribed or imposed by any of them, while granting such approvals, permissions, consents and sanctions, which the Board of Directors of the Company (hereinafter called “the Board” which term shall include any committee constituted / to be constituted by the Board for exercising the powers conferred on the Board) be and is hereby authorized to accept, if it thinks fit and proper in the best interest of the company and the consent of the company be and is hereby accorded to the Board to create, offer, issue and allot Foreign Currency Convertible Bonds(FCCB)/ American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs)/

Singapore Depository Receipts (SDRs) and /or fully/partially convertible Bonds/ Debentures/ Loans and/or Depository Shares/Receipts and/or any other instruments/securities in the nature of Shares/ Debentures / Bonds and or warrants, naked or otherwise, convertible into shares or otherwise, either in registered or bearer forms, and /or any such securities convertible into equity shares of Rs.10/- each for cash at premium, or otherwise (hereinafter referred to as “Financial Instruments”) or any combination of the financial instruments in the International/domestic market through Public Issue, Private Placement, Preferential Allotment, Qualified Institutional placement or through any other mode, as the case may be, from time to time in one or more tranches, whether in India or outside India, with or without premium, whether rupee denominated or denominated in any foreign currency, as may be deemed appropriate by the Board, to Indian Public, Members, promoters, strategic investors, employees, financial institutions, banks, mutual funds, foreign investors, non-resident Indians, foreign institutional investors, Qualified Institutional Buyers, multilateral agencies, venture capital funds, companies, other bodies corporate, other entities or any other person or one or more combinations thereof, on such terms and conditions (including pricing, rate of dividend, amount of premium, if any, at the time of conversions / redemption, manner of conversion/ redemption, conversion/redemption period and matters incidental thereto) as the Board may in its sole discretion decide so that the total amount to be collected by the company shall not exceed Rs.200 Crores.

“**RESOLVED FURTHER THAT** the above shares when issued shall rank pari-passu with the existing equity shares of the company in all respects except that they shall be entitled to pro-rata dividend from the date of allotment”.

“RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate to a committee of directors or any director or the managing director all or any of its powers or authorities or discretion vested in it in terms of this Resolution as permitted by law.”

“RESOLVED FURTHER THAT the issue of the shares / securities shall be deemed to have been made in India/Abroad at the place of issue and shall be governed by the law of the country as applicable and the Board be and is hereby authorized to file such prospectus and other documents as may be required to be filed in India and/or foreign country or countries and to seek the listing of such securities in one or more International and/or Indian Stock Exchanges”.

“RESOLVED FURTHER THAT the board be and is hereby authorized to engage the services of, or appoint solicitors, advocates, legal advisors, merchant bankers, underwriters, guarantors, depositories, custodians and any such other agency (ies) to act as managers, lead managers or in any other capacity or to advise or to certify any matter relating to the Company’s accounts or otherwise, on such terms as to remuneration by way of commission, brokerage, fees or otherwise as the board may in its absolute discretion deem appropriate “.

“RESOLVED FURTHER THAT for the purposes of giving effect to the above resolution the Board be and is hereby authorized on behalf of the company to do all such acts, deeds matters and things, as it may at its discretion deem necessary or desirable for such purposes and to settle any question, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit”.

13. To consider, and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution

“RESOLVED THAT pursuant to Section 372A and all other applicable provisions, if any, of the Companies Act, 1956, and subject to such other approvals and consents, as may be necessary, consent of the Company be and is hereby accorded to the Board of Directors of the Company for investment of the Company’s funds upto Rs.300 Crores to acquire Equity / Preference Shares, Instruments convertible into shares by way of subscription, purchase or otherwise, notwithstanding that the aggregate of the loans, investments so far made in or to be made in and the Guarantees or Securities so far given or to be given to all the Bodies Corporate may exceed the limits prescribed from time to time under the said Section.

FURTHER RESOLVED THAT the Board of Directors of the Company be and is hereby authorised to take such steps as may be necessary for obtaining approvals statutory, contractual or otherwise, in relation to such investment, to settle all matters arising out of and incidental thereto, and to sign and execute all deeds, applications, documents and writings that may be required to be signed, on behalf of the Company, in connection with such investment and generally to do all such acts, deeds and things that may be necessary, proper, expedient or incidental for the purpose of giving effect to the aforesaid resolution.”

By Order of the Board
For LANCO GLOBAL SYSTEMS LIMITED

Place : Hyderabad,
Date : 01.12.2007.

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 Thursday, 27th December, 2007 to Saturday, the 29th December, 2007 (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 as 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.

Explanatory Statement Pursuant to section 173 (2) of the Companies Act, 1956

Item No. 5

During the year Mr Y Anand Swaroop had a long tenure of two decades of service with HCL Infosystems Limited and rose to the level of Vice President. Subsequent to that he worked as Executive Vice President of Indu Group. During the year, he has been appointed as an additional director of your company under Section 260 of the Companies Act, 1956 in the Board Meeting held on June 20, 2007. He shall hold the office of director upto the ensuing Annual General Meeting. A notice under section 257 of the Companies Act, 1956 has been received from a shareholder signifying his intention to propose the candidature of Mr Y Anand Swaroop for the office of Director. The approval of members is required for his appointment as Director.

Except Mr Y Anand Swaroop, being the proposed appointee, to the extent of his appointment, no other director of the company is interested or concerned in the resolution.

Item No. 6

During the year Mr P G K Murthy, a Fellow Member of The Institute of Chartered Accountants of India and The Institute of Company Secretaries of India and Former Managing Director Allbank Finance Limited, has been appointed as an additional director of your company under Section 260 of the Companies Act, 1956 in the Board Meeting held on June 20, 2007. He shall hold the office of director upto the ensuing Annual General Meeting. A notice under section 257 of the Companies Act, 1956 has been received from a shareholder signifying his intention to propose the candidature of Mr P G K Murthy for the office of Director. The approval of members is required for his appointment as Director.

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Except Mr P G K Murthy, being the proposed appointee, to the extent of his appointment, no other director of the company is interested or concerned in the resolution.

Item No. 7

During the year Mr G Ramesh, a great Athlete, Entrepreneur, Philanthropist and a founder President of Delhi Public School in Hyderabad, has been appointed as an additional director of your company under Section 260 of the Companies Act, 1956 in the Board Meeting held on June 20, 2007. He shall hold the office of director upto the ensuing Annual General Meeting. A notice under section 257 of the Companies Act, 1956 has been received from a shareholder signifying his intention to propose the candidature of Mr G Ramesh for the office of Director. The approval of members is required for his appointment as Director.

Except Mr G Ramesh, being the proposed appointee, to the extent of his appointment, no other director of the company is interested or concerned in the resolution.

Item No. 8

The Board of Directors at their Meeting held on 20th June, 2007 appointed Sri Y Anand Swaroop as Director and Chief Executive Officer of the Company for a period of 3 years with effect from 20.06.2007 with remuneration of Rs.3,00,000 per month plus Provident fund, car and residential telephone for official use, subject to the approval of Members in the General Meeting. Hence, this resolution requires the approval of members.

Except Sri Y Anand Swaroop, none of the Directors is interested or concerned in the said resolution.

As required under Schedule-XIII to the Companies Act, 1956, a Statement of information is given as follows:

STATEMENT OF INFORMATION FORMING PART OF THE EXPLANATORY STATEMENT AS REQUIRED UNDER SCHEDULE XIII TO THE COMPANIES ACT, 1956.

I. GENERAL INFORMATION:

- (1) Nature of industry Information Technology and Information Technology Enabled Services.
- (2) Date or expected date of commencement of commercial production.
Certificate of Commencement of Business was issued on 10.02.1999.
- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus.
Not Applicable.



(4) Financial performance based on given indicators.

| Particulars | (Rs. In Lakhs) | |
|---------------------------------------|--------------------------------------|------------|
| | Audited for the Financial Year ended | |
| | 31.03.2007 | 31.03.2006 |
| Income from Operations & Other Income | 4556.56 | 3585.72 |
| Profit After Tax | 562.05 | 178.12 |

(5) Export performance and net foreign exchange collaborations.

Income from Exports for the Financial Year 2006-2007 is Rs. 1031.36 Lakhs

(6) Foreign investments or collaborators, if any.

During the year 2006-07, there is no foreign investment or collaboration.

II. INFORMATION ABOUT THE APPOINTEE:

(1) Background details

Sri Y Anand Swaroop (42) did his B.E. (Mech.) from Osmania University, Hyderabad. He has worked with HCL Infosystems Limited from 1987 to 2006 and rose to the level of Vice President and during 2006-07, he was Executive Vice President of Indu Group & COO of Retail Infra SBU.

(2) Past remuneration Rs.4,68,000 Per month

(3) Recognition or Awards

Sir Chewing Scholarship – UK, Joseph Rowntree Scholarship – UK and HCL's First among Equals Award – 1989, 1990 & 1991

(4) Job profile and his suitability

The job requires a person, who can bag customers and orders and also has the ability to develop solutions, verticals etc.

Sri Y Anand Swaroop with established track record and contacts along with the requisite technical expertise is considered suitable for the position.

(5) Remuneration proposed

As per the Special Resolution.

(6) Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin).

Generally, in the case of Software industry, for a Company of this size and for a person of this profile, the remuneration payable is much higher. Therefore, the remuneration proposed is well within the industry standards.

(7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any. Nil

III. OTHER INFORMATION:

(1) Reasons for inadequate profits

Because of the constraints of market penetration and competition, the profits are not adequate as defined under Sections 198, 269, 310 & 311 of the Companies Act, 1956 and Schedule-XIII to the Companies Act, 1956.

(2) Steps taken or proposed to be taken for improvement

Plans are afoot to increase the operations and budgets are made for an increased level of turnover and profit for the Financial Year 2007-2008 and subsequent years.

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(3) Expected increase in productivity and profits in measurable terms.

As Budgeted, the Gross Income and Profit after Tax for the Financial Year 2007-2008 are expected to increase by 50% over the actuals for the Financial Year 2006-2007.

IV. DISCLOSURES:

All disclosures as stipulated have been made by way of disclosures in the Notice of Annual General Meeting and the Report on Corporate Governance.

Item No. 9

As per article 83 of the existing articles of association of the company unless otherwise approved by a special resolution of the company in general meeting, the company can have only 9 directors in addition to the 3 nominee directors. The existing sublimit of 3 nominee directors within the total limit of 12 is sought to be removed.

To enhance the effectiveness of the Company and to meet the new challenges, it is imperative that the Company's Board is to be strengthened.

Presently, it is not possible to appoint any director other than nominee director once the total number of non nominee directors crosses 9. To enable the appointment of directors other than nominee directors beyond 9, Article 83 of the Articles of Association of the Company is to be amended in the manner as set out in the resolution. The aforesaid amendment requires approval of the members by special resolution.

Your Directors commend the resolution for your approval. None of the Directors of the Company is, in any way, concerned or interested in the said resolution.

Item No.10

Your company is contemplating some expansion plans and for that purpose some infusion of funds may be required. One of the methods of infusion could be by debt. This borrowing is mainly required for issuing Foreign Currency Convertible Bonds (FCCB) and such other debt. In excess of the FCCB borrowing, the remaining limit could be utilized for further borrowings. Pursuant to the provisions of Section 293 (1) (d) of the Companies Act, 1956, if the Board of Directors borrow money (apart from temporary loans obtained from Company's Bankers in the ordinary course of business) in excess of its paid-up capital and free reserves, approval of the members is required to be obtained. The existing borrowing power of the Board of Directors of the Company may not be sufficient to complete the expansion being contemplated. Hence, the resolution is proposed to be passed under Section 293 (1) (d) of the Companies Act, 1956 to obtain the consent of the members to enable the Board of Directors to borrow upto Rs.200 crores apart from temporary loans obtained from Company's Bankers in the ordinary course of business. Hence the resolution is proposed for members' approval.

None of the Directors of the Company is concerned or interested in the resolution.

Item No.11

While sanctioning / subscribing to the term loans / debentures / bonds, the lenders require the properties of the Company to be mortgaged in favour of the lenders to secure the repayment of their



loans, debentures, bonds alongwith interest, additional interest etc. Under provisions of section of 293 (1) (a) of the Companies Act, 1956 the consent of the members is required to be obtained to sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company. Hence, to enable the Board of Directors to mortgage or charge the properties of the Company in favour of the lenders, the sanction of the members under section 293(1) (a) of the Companies Act, 1956 is sought. Hence the resolution is proposed for members' approval.

As per the provisions of the Section 192A of the Companies Act, 1956 read with The Companies (passing of the resolution by Postal Ballot) Rules, 2001, this resolution must be transacted through postal ballot. Hence, members are requested to send their assent/dissent to designate address thorough the Postal Ballot Form being sent separately. The postal ballot form and business reply cover will be forwarded to the members separately.

None of the Directors of the Company is concerned or interested in the resolution.

Item No.12

In order to meet the fund requirements in respect of expansion and potential acquisitions, if any, the Company proposes to issue, offer and allot equity shares of Rs.10/- each / preference shares / convertible warrants, debentures, bonds, as the case may be, for cash at a price to be determined by the Board of directors or the Committee, as the case may be, in consultation with the merchant bankers appointed by the Company, to such persons including the existing members, employees, promoter group and their associates, non-resident Indians, foreign institutional investors, mutual funds, financial institutions, Qualified Institutional Buyers, companies, banks, other entities, authorities or any other person or one or more combinations thereof and list its equity shares in one or more of the recognized stock exchanges in India and / or abroad, as may be decided in consultation with the merchant bankers appointed for this purpose upto an amount of Rs.200 Crores. The new equity shares, if any, so issued and allotted are to rank pari passu in all respects with the existing equity shares of the Company.

It is proposed to pass Resolution(s) to enable the Board to issue further shares, debenture, bonds and warrants, as more fully described in the resolution up to the amount as stated above. The detailed terms and conditions of the issue, the categories of offers and the quantum will be determined in consultation with the Advisors and the Lead Managers.

Hence, the enabling resolution is being proposed to give adequate flexibility and discretion to the Board to finalize the terms in consultation with the Lead Managers or such authorities as may be required to be consulted in accordance with the established practices. The shares when issued will be listed on Stock Exchanges as may be decided by the Board.

Consent of the members is being sought by a Special Resolution pursuant to the provisions of Section 81(1A) and other applicable provisions of the Companies Act, 1956

The Special Resolution as set out in the Notice, if passed will have the effect of allowing the Board to issue and allot shares/bonds or other financial instruments to the entities/persons on the terms and conditions as may be decided by the Board. The Board will be authorized to take all steps necessary for implementing this resolution.

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No Director is interested in the said Resolution except to the extent of their subscription, directly or indirectly, to equity shares, if and when issued.

The Board recommends passing of the special resolution, for this purpose.

The proposed business is in the best interest of the Company and its shareholders.

Item No.13

As per the provisions of Section 372A of the Companies Act, 1956, the Board of Directors can make investments, give loan, guarantee or provide security upto 60% of the paid up capital and free reserves or 100% of its free reserves, whichever is more. It is likely that the investments of the Company may cross this limit and it requires the approval of the members by special resolution. Hence members may kindly consider and give their approval to the special resolution for an investment limit not exceeding Rs.300 Crores.

No Director is interested or concerned in the said Resolution. The Board recommends passing of the special resolution, for this purpose.

By Order of the Board of Directors
For LANCO GLOBAL SYSTEMS LIMITED

Place: Hyderabad,
Date : 01.12.2007.

(K V R RAJU)
COMPANY SECRETARY



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) Mr L Madhusudhana Rao

Shri L Madhusudhana Rao (41) did his M Tech (Mech. Design) and M S (Indl.Engg.) in USA. He worked in Meadours Products of Michigan, Wagganer Brighten Corporation, Exotic Rubber & Plastics in USA. He is a prominent industrialist. He has got rich experience in Power industry, Infrastructure etc. He is the Chairman of Lanco Group of Companies. He is on the Board of Directors of Lanco Electric Utility Limited, Lanco Group Limited, Clarion Power Corporation Ltd., Lanco Industries Ltd., Lanco Infratech Ltd., Lanco Net Ltd., Rithwik Energy Systems Ltd., Aban Power Company Ltd., Lanco Kondapalli Power Private Ltd., Lanco Amarakantak Power Private Ltd., Lanco Green Power Private Ltd., Pragdisa Power Private Ltd., Chamba Hydro Power Private Ltd., Chatari Hydro Power Private Ltd., Dharmashala Hydro Power Private Ltd., Parvat Hydro Power Private Ltd., Lanco Property Management Company Pvt. Ltd., Lanfin Ventures Private Ltd., Lanco Energy Private Ltd., Ravi Hydro Electric Private Ltd., Himachal Hydro Power Private Ltd., Jubilee Hydro Power Private Limited, Lanco Anpara Power Private Limited, Lanco Hills Technology Park Private Limited, Nagarjuna Power Corporation Limited and Occidental Power Private Ltd. He is the Chairman of Shareholders' / Investors' Grievance Committee of Lanco Global Systems Limited. He is also Chairman of Management Committee of Lanco Infratech Limited and Lanco Amarakantak Power Private Limited. He is a member of Audit Committee of Nagarjuna Power Corporation Limited and Lanco Amarakantak Power Private Limited. He is a member of Project Management Committee of Nagarjuna Power Corporation Limited and Lanco Amarakantak Power Private Limited. He is also a member of Remuneration Committee of Lanco Industries Limited. He is a Member of prominent Industry and Business Associations. He holds 5,13,960 equity shares of Rs.10/- each in the Company.

(b) Mr. M.N. Nambiar

Mr. M.N. Nambiar (67), as a Member of the Indian Revenue Service, served with distinction in the Income Tax department. He rose to the position of Chief Commissioner of Income Tax, Andhra Pradesh, Hyderabad. During his career in the Income Tax Department he was associated with various functions at different levels. He is a director on the Board of Core Projects and Technologies Limited and a member of Audit Committee and Remuneration Committee of that Company. He is the Chairman of Audit Committee and a member of Remuneration and Compensation Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

(c) Mr Y Anand Swaroop

Mr Y Anand Swaroop (42) is a graduate in Mechanical Engineering from Osmania University. He has worked with HCL Infosystems Limited from 1987 to 2006 and rose to the level of Vice President and during 2006-07, he was Executive Vice President of Indu Group & COO of Retail Infra SBU. While he was with HCL Infosystems Limited, worked in the field of IT – Hardware & Solution sales for 17 years working across diverse technology projects providing end-to-end solutions and distribution module business (mobile hand sets for 2 years). He is the recipient of Sir Chewing Scholarship – UK, Joseph Rowntree Scholarship – UK and HCL's First among Equals Award – 1989, 1990 & 1991.

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As the information by way of a brief resume and nature of expertise in specific functional areas has already been furnished in the statement of information annexed to the item-7 of explanatory statement, to avoid duplication, the balance information only, pertaining to Directorships / Memberships of Committees, is furnished hereunder.

He is on the Board of Directors of Southern Online Biotechnologies Limited. He is also Chairman of Audit Committee and a member of Remuneration Committee and Shareholders' / Investors' Grievance Committee of Southern Online Biotechnologies Limited and Share Allotment Committee and Shareholders' / Investors' Grievance Committee of Lanco Global Systems Limited. He is also President for the Forum for street children. He does not hold any equity shares in the Company.

(d) Mr P G K Murthy

Mr P G K Murthy (65) is a Fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He is a retired General Manager from Allahabad Bank. He is a former Managing Director of Allbank Finance Limited. During his career he worked in all facets of banking, finance etc.

He is a member of Audit Committee and Remuneration & Compensation Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

(e) Mr G Ramesh

Mr G Ramesh (44) is a BE (Mech) from R V College of Engineering, Bangalore. He is an outstanding sportsman. He is a founder President of Biomass Energy Developers Association, AP, Vidyanand Educational Society, AP and a Member of Andhra Mahila Sabha Obul Reddy Public School. He is a first generation entrepreneur and initiated many ventures which are first of their kind in Andhra Pradesh. During his career he worked in all facets of industry, education, finance etc.

He is Chairman of Robo Silicon Limited and Chairman and Managing Director of Roshni Powertech Limited. He is a member of Audit Committee and Remuneration & Compensation Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

By Order of Board
For LANCO GLOBAL SYSTEMS LIMITED

Place : Hyderabad,
Date : 01.12.2007.

(K V R RAJU)
COMPANY SECRETARY



DIRECTORS' REPORT

To

The Members

Your Directors have pleasure in presenting the Eighth Annual Report on the business and operations of the Company together with the Audited Accounts for the year ended 31st March 2007.

(Rupees in Million)

| FINANCIAL RESULTS | Year ended March 31 | | |
|---|----------------------|--------------------|--------|
| | 2007 CONSOLIDATED | 2007 STANDALONE | 2006 |
| Income from Operations | 780.76 | 453.89 | 356.29 |
| Other Income | 1.76 | 1.76 | 2.28 |
| Gross Profit before Interest, Depreciation & Tax | 115.81 | 82.84 | 25.92 |
| Less: Interest | 4.97 | 4.98 | 1.40 |
| Depreciation | 23.10 | 19.54 | 6.00 |
| Provision for Tax | 2.12 | 2.12 | 0.71 |
| Profit after Tax | 85.62 | 56.20 | 17.81 |
| Add: Provision for Deferred Tax Asset | - 0.56 | -0.56 | 0.64 |
| Profit after Deferred Tax | 85.06 | 55.65 | 18.45 |
| Balance Brought forward | 33.47 | 33.47 | 15.02 |
| Profit Carried to Balance Sheet | 118.53 | 89.12 | 33.47 |

For the year ended March 31, 2006, only stand alone figures are given, since there were no subsidiaries to your Company during that year. During the year ended March 31, 2007, Techorbit Inc., USA and Global It Inc., USA, the subsidiaries of erstwhile Lanco Global Systems Inc. have become wholly owned subsidiaries to your Company w.e.f. 01.10.2006 and 01.01.2007 respectively, consequent upon merger of erstwhile Lanco Global Systems Inc. with your Company. During the year, your Company has generated a consolidated total revenue of Rs.782.52 Mn. as against stand alone total revenue of Rs. 455.66 Mn. During the year ended March 31, 2006, your Company has generated total revenue of Rs.358.57 Mn. The consolidated profit after deferred tax during the year ended March 31, 2007 is Rs.85.06 Mn. as against stand alone profit of Rs.55.65 after deferred tax. During the year ended March 31, 2006, your Company has generated a profit of Rs.18.45 Mn. after deferred tax. To strengthen the financial position of the Company, your directors do not recommend any dividend for the year.

DEVELOPMENTS DURING THE YEAR AND THEREAFTER

During the year, the Company shifted its Branch in Edison, USA to Princeton, New Jersey, USA for diversification of its business in the United States of America. Software Development Centre & Corporate Office of your Company in India has also been shifted to 8-2-293/82/A/796/B, Road No.36, Jubilee Hills, Hyderabad 500 033.

During the current year Mr K Tejesh Kumar and others have made a public announcement on June 28, 2007 pursuant to the provisions of Securities and Exchange Board of India (Substantial acquisition of shares and takeovers) Regulations, 1997, for acquisition of 20% stake from public consequent upon share purchase agreement entered into by them with the existing promoters of the Company. Draft Letter of Offer to the shareholders has been filed with SEBI and SEBI is yet to clear the same.

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DIRECTORS

During the year Mr Anand Swaroop, Mr P G K Murthy and Mr G Ramesh have been appointed as additional directors of your company. They shall hold the office of director upto the date of the ensuing Annual General Meeting. They being eligible offer themselves for re appointment.

During the year Mr Nagarjun Valluripalli has resigned as Director and Chief Executive Officer of the Company and the same has been accepted by your Board w.e.f. 20.06.2007. Shri Y Harishchandra Prasad has resigned from his directorship w.e.f. 23.10.2007. The Board wishes to place on record its appreciation of their services to the Company during their tenure as directors.

Mr Anand Swaroop has been appointed as Director and Chief Executive Officer of your company w.e.f. 20.06.2007. Shri L Madhusudhan Rao and Mr. M.N. Nambiar retire by rotation and being eligible, offer themselves for re-appointment.

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, is as follows:

CONSERVATION OF ENERGY

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.
- 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.

| | | In Rs. |
|---------------------------|---|--------------|
| Foreign Exchange Earnings | : | 10,31,36,269 |
| Foreign Exchange outgo | : | 66,36,660 |
| for Capital Goods | : | 52,68,469 |
| for Traveling | : | 13,68,191 |

DISCLOSURE ON COMPANY'S EMPLOYEES STOCK OPTION SCHEME 2005

The required information relating to the Employees Stock Option Scheme pursuant to Clause 12 of the SEBI (ESOS / ESPS) Guidelines 1999 is enclosed at Annexure-I

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

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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 Annexure - II to this Report.

MANAGEMENT DISCUSSION & ANALYSIS

Detailed Report on Management Discussion & Analysis is set out as Annexure to this Report.

NOTE ON PARTICULARS REQUIRED AS PER SECTION 212 OF THE COMPANIES ACT, 1956

As per Section 212 of the Companies Act, 1956, we are required to attach the directors' report, balance sheet, and profit and loss account of the subsidiaries. Your Company has applied to the Government of India for an exemption from such attachment when we present the audited consolidated financial statements in the annual report. Your Company believes and it is a globally accepted view that the consolidated accounts present a full and fair picture of the state of affairs and the financial condition. The Government of India has granted exemption from complying with Section 212. Accordingly, the annual report does not contain the financial statements of these subsidiaries. However, statements pursuant to Section 212 of the Companies Act, 1956 related to subsidiary companies given elsewhere in this report. The Annual Accounts of the Subsidiary Companies and the related detailed information will be made available to the Holding and Subsidiary Companies' investors seeking such information at any point of time. The Annual Accounts of the Subsidiary Companies will also be kept for inspection by any investor at the Corporate Office of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors hereby confirm:

1. that in preparation of annual accounts containing financial statements for the year ended 31st March, 2007 the applicable accounting standards have been followed.
2. that 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. that 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 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 : 01.12.2007

L MADHUSUDHANA RAO
CHAIRMAN

Annexure - I
Details of Stock options Pursuant to SEBI Guidelines

| | Description | |
|-------|---|---|
| A | Options granted during the year | Nil |
| B | The pricing formula | The options issued by the Employee Stock Option Trust were at Par Value |
| C | Options vested during F.Y 2006-07 | 1,02,555 |
| D | Options exercised during F.Y. 2006-07 | 1,01,055 |
| E | The total number of shares arising as a result of exercise of options | 1,01,055 |
| F | Options lapsed during the F.Y. 2006-07 | 1,62,830 |
| G | Variation of terms of options | NIL |
| H | Money realized by exercise of options | Rs. 10,10,550 |
| I | Total number of options in force as on 31-03-2007 | 1,11,015 |
| J | Employee wise details of options granted to | |
| (i) | Senior managerial personnel | NIL |
| (ii) | Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year | NIL |
| (iii) | Identified employees who were granted option, during any one year equal to or exceeding 1% of the issued capital(excluding outstanding warrants and conversions) o the company at the time of grant | NIL |
| K | Diluted earnings per share(EPS) pursuant to issue of shares on exercise of option calculated in accordance with (Accounting Standard (AS) 20 Earning per share) | Rs. 2.19/- The ESOP scheme is administered through ESOP Trust, so there is no impact on EPS |
| L | Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed | The ESOP scheme is administered through ESOP Trust so there is no impact on the profits and EPS |

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| | | |
|---|--|-----|
| M | Weighted average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock | N.A |
| N | A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted average information | N.A |

Note:

The company established the ESOP Trust with an intention to create an Employee Stock Option Plan. The shares were issued to ESOP Trust at par. The trust re-issued the options, to be converted into shares, to the employees at par.

ANNEXURE II

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

At the end of financial year 2006-07, the Board consisted of 6 directors and it has got an appropriate mix of executive and non-executive directors. There are 5 non-executive directors, including 2 independent directors.

b) Board Meetings

12 Board Meetings were held during the year 2006-2007. The dates on which the Meetings were held are as following :

| | |
|------------|------------|
| 04.06.2006 | 11.11.2006 |
| 27.06.2006 | 04.12.2006 |
| 26.07.2006 | 29.12.2006 |
| 09.08.2006 | 30.01.2007 |
| 28.09.2006 | 30.01.2007 |
| 26.10.2006 | 07.02.2007 |

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 2006-2007 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 |
|-----------------------------|---------------------------|--|---|--|--|--------------------------------|------------------------|
| Sri L Madhusudhan Rao | Non-Executive | Chairman | 9 | NIL | 1 | 5 | Yes |
| Sri G Bhaskara Rao | Non-Executive | Director | 10 | 1 | 8 | 10 | Yes |
| Sri Y Harish Chandra Prasad | Non-Executive | Director | 1 | NIL | NIL | 6 | Yes |
| Sri M N Nambiar | Non-Executive Independent | Director | NIL | NIL | NIL | 6 | Yes |
| Sri V K Srinivasan | Non-Executive Independent | till 1.09.2006 | NIL | NIL | NIL | 3 | No |
| Dr Prasada Rao VDM Ravella | Non-Executive Independent | Director | 1 | NIL | NIL | 1 | No |
| Sri G Venkatesh Babu | Non-Executive Independent | Alternate Director to Dr Prasada Rao VDM Ravella | 8 | NIL | 5 | 1 | No |
| Sri Nagarjun Valluripalli | Executive | Director & CEO | 1 | NIL | 1 | 6 | No |
| Sri B Anand | Non-Executive Independent | Alternate Director to Dr Prasada Rao VDM Ravella | 3 | NIL | 1 | 5 | No |

**C) Directors seeking re-appointment**

Shri L Madhusudhan Rao and Sri M.N. Nambiar retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re appointment.

During the year Shri Y. Anand Swaroop, Shri G Ramesh and Shri P G K Murthy have been appointed as additional directors w.e.f. 20-06-2007 and they hold the office of directorship only upto the date of the ensuing Annual General Meeting of the Company. They, being eligible offer themselves for re-appointment. During the year Shri Y Anand Swaroop has also been appointed as Director and Chief Executive Officer of the Company with effect from 20.06.2007 in place of Shri Nagarjun Valluripalli, who has resigned as such. The appointment of the Director and Chief Executive Officer is subject to the approval of Members at the ensuing general meeting.

Sri Y Anand Swaroop

Sri Y Anand Swaroop (42) is a graduate in Mechanical Engineering. He had a long tenure of two decades with H C L Infosystems Limited and rose to the level of Vice President. Subsequent to that he worked as Executive Vice President of Indu Group. He is a director on the Board of Southern Online Bio-Technologies Limited. He is the Chairman of Audit Committee and a member of Remuneration Committee and Shareholders / Investors Grievance Committee of Southern Online Bio-Technologies Limited. He does not hold any equity shares in the Company.

Sri P G K Murthy

Sri P G K Murthy (65) is a Fellow member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. He is former General Manager of Allahabad Bank and Managing Director of Allbank Finance Limited. He is also a member of Audit Committee and Remuneration and Compensation Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

Sri G Ramesh

Sri G Ramesh, (44) did his B. Tech. in Mechanical Engineering. He has rich experience as an industrialist and is an outstanding sportsman and a founder of prominent educational institutions in Hyderabad. He is the Chairman and Managing Director of Roshni Powertech Limited and he is also chairman of Robo Silicon Limited, Rodasi Projects Private Limited and Rhombus Exim Private Limited. He is a Member of several reputed institutions. He is the Founder President of Bio-Mass Energy Development Association and Vidyananda Educational Society, which has promoted Delhi Public School in Hyderabad. He is also a member of Andhra Mahila Sabha Obul Reddy Public School, Jubilee Hills, Hyderabad. He is also a member of Audit Committee and Remuneration and Compensation Committee of Lanco Global Systems Limited. He doesn't 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.

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 3 Non Executive Directors.

5 Audit Committee Meetings were held during the year 2006-2007. The dates on which the Meetings were held are as follows:

27.06.2006, 26.07.2006, 26.10.2006, 4.12.2006 and 30.01.2007

The attendance record of the Directors during the year 2006-2007 is given below:

| Name | Designation | Number of Meetings attended |
|--|--------------------|------------------------------------|
| Sri M N Nambiar | Chairman | 5 |
| Dr Prasada Rao VDM Ravella (along with the attendance of his alternate director) | Member | 5 |
| Sri G Bhaskara Rao from 08.09.2006 | Member | 3 |
| Sri V K Srinivasan till 01.09.2006 | Former Member | 2 |

The Meetings of the Audit Committee were attended by the Head of Finance and 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 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 one time on 27th June, 2006. Their attendance during the year is given below:

| Name | Designation | Number of Meetings attended during the year |
|----------------------------------|-------------|---|
| Sri V K Srinivasan till 1.9.2006 | Chairman | 1 |
| Sri M N Nambiar | Member | NIL |
| Dr Prasada Rao VDM Ravella | Member | 1 |

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, 2007 are given below:

| Name | Sitting Fee in Rs. | Shares held |
|--|--------------------|-------------|
| Sri L Madhusudhan Rao | 2500 | 513960 |
| Sri G Bhaskara Rao | 6000 | 600 |
| Sri Y Harish Chandra Prasad | 2500 | 100 |
| Sri M N Nambiar | 4500 | NIL |
| Sri V K Srinivasan | 3000 | NIL |
| Dr Prasada Rao VDM Ravella | 1000 | NIL |
| Sri G Venkatesh Babu, Alternate Director to Dr Prasada Rao VDM Ravella | 1500 | NIL |
| Sri B Anand, Alternate Director to Dr Prasada Rao VDM Ravella | 4000 | 7000 |

Remuneration to Director & CEO

Details of remuneration paid to Shri Nagarjun Valluripalli, Director & CEO during the year 2006-07 are given below:

| Particulars | In Rupees |
|--------------------|------------------|
| Salary | 22,58,400 |
| Contribution to PF | 1,41,600 |
| Perks | 24,812 |
| Total | 24,24,812 |

Shri Nagarjun Valluripalli was on contractual service.

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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 was headed by a Non-Executive Director.

Sri L Madhusudhan Rao - Chairman
Sri Nagarjun Valluripalli - Member

(ii) The Name and Designation of Compliance Officer

The Name and Designation of the Compliance Officer of the Company upto 15.5.2006 was Sri C Krishna Kumar, Company Secretary and is presently Sri K V R Raju, Company Secretary.
Email : investor.services@lgsglobal.com

(iii) Details of requests/complaints received, resolved and pending during the year 2006-2007

| Nature of Complaint | Received | Resolved | Pending |
|------------------------------|----------|----------|----------|
| Duplicate Share Certificates | 3 | 3 | 0 |
| Others | 3 | 3 | 0 |
| Total: | 6 | 6 | 0 |

6. GENERAL BODY MEETINGS**(i) Location and time, where last three AGMs held:**

| Year | Location | Date | Time |
|---------|--|--------------------|-----------|
| 2003-04 | Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, 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, Hyderabad. | September 28, 2005 | 3.00 P.M. |
| 2005-06 | Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, Hyderabad. | December 29, 2006 | 4.00 P.M. |

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

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

On 28th September, 2005 one special resolution for increase of remuneration of Shri Nagarjun Valluripalli, Director & CEO was 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.5 of the Schedule 14 (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 have 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. The vacancy in the Remuneration and Compensation Committee caused by the resignation of Shri V K Srinivasan has been filled up in the current year. This year the company has unqualified financial statements.
- j) In the preparation of the consolidated financial statements the company has adopted certain principle in line with interpretation given by International Financial Reporting Standards. The same has been disclosed in the notes to the consolidated financial statements and have also been explained in the Directors' Report.

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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.lsglobal.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 Corporate Governance Report.

10. GENERAL SHAREHOLDERS INFORMATION

(i) Eighth Annual General Meeting

| | |
|-----------------|--|
| - Date and Time | Saturday, 29 th December, 2007 at 11 A.M. |
| - Venue | KLN Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, Hyderabad. |

(ii) Financial Calendar for the Year 2007-08 (tentative)

| Tentative Schedule | | |
|--------------------|---|----------------------------|
| 1. | Financial reporting for the quarter ended June 30, 2007 | Before end July, 2007 |
| 2. | Financial reporting for the half year ending September 30, 2007 | Before end October, 2007 |
| 3. | Financial reporting for the quarter ending December 31, 2007 | Before end January, 2008 |
| 4. | Financial reporting for the year ending March 31, 2008 | Before end April, 2008 |
| 5. | Annual General Meeting for the year ending March 31, 2008 | Before end September, 2008 |

(iii) **Book Closure Dates** : 27.12.2007 to 29.12.2007 (both days inclusive)

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

(v) **Listing on Stock Exchanges** : Hyderabad and Mumbai. The Company has paid the listing fee for the period ending 31st March, 2008

**(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, 2006 to March, 2007 is furnished below.

| The Stock Exchange, Mumbai Share Prices (In Rs.) | | | BSE Sensex | |
|--|-------|-------|------------|-----------|
| Month | High | Low | High | Low |
| Apr. '06 | 78.65 | 55.10 | 12,102.00 | 11,008.43 |
| May '06 | 61.10 | 44.25 | 12,671.11 | 9,826.91 |
| June '06 | 61.30 | 37.25 | 10,626.84 | 8,799.01 |
| July '06 | 45.40 | 32.00 | 10,940.45 | 9,875.35 |
| Aug. '06 | 45.20 | 37.00 | 11,794.43 | 10,645.99 |
| Sept. '06 | 43.00 | 33.15 | 12,485.17 | 11,444.18 |
| Oct. '06 | 42.00 | 33.05 | 13,075.85 | 12,178.83 |
| Nov. '06 | 42.30 | 33.00 | 13,799.08 | 12,937.30 |
| Dec. '06 | 44.50 | 30.10 | 14,035.30 | 12,801.65 |
| Jan. '07 | 43.00 | 31.70 | 14,325.92 | 13,303.22 |
| Feb. '07 | 38.10 | 26.00 | 14,723.88 | 12,800.91 |
| Mar. '07 | 37.85 | 20.55 | 13,386.95 | 12,316.10 |

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@aarthiconsultants.com

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(ix) Share Transfer System

The shareholders are advised to contact the Registrars and Share Transfer Agents at their address for effecting transfer of shares or other matters related to shares held in physical mode.

(x) (a) Distribution of Shareholding as on March 31, 2007 :

| Nominal Value of Shareholding (in Rs) | No. of Shareholders | Percentage | No. of Shares | Percentage |
|---------------------------------------|---------------------|------------|-----------------|------------|
| Up to 5,000 | 1556 | 77 | 292083 | 1.15 |
| 5,001 - 10,000 | 197 | 10 | 152883 | 0.6 |
| 10,001 – 20,000 | 118 | 6 | 184621 | 0.73 |
| 20,001 – 30,000 | 33 | 2 | 79968 | 0.31 |
| 30,001 – 40,000 | 15 | 1 | 50225 | 0.2 |
| 40,001 – 50,000 | 21 | 1 | 97431 | 0.38 |
| 50,001 – 1,00,000 | 35 | 2 | 249136 | 0.98 |
| 1,00,001 and above | 59 | 3 | 24317320 | 95.65 |
| TOTAL | 2034 | 100 | 25423667 | 100 |

(b) Distribution of Shareholding by Ownership as on March 31, 2007 :

| Category code | Category of shareholder | Number of share holders | Total number of shares | Number of shares held in dematerialized form | Total share holding as a percentage of total number of shares | |
|---------------|---|-------------------------|------------------------|--|---|----------------------------|
| | | | | | As a percentage of (A+B)[1] | As a percentage of (A+B+C) |
| (A) | Shareholding of Promoter and Promoter Group | | | | | |
| (1) | Indian | | | | | |
| a. | Individuals/Hindu Undivided Family | 16 | 7078422 | 1168855 | 27.84 | 27.84 |
| b. | Central Government/State Government(s) | 0 | 0 | 0 | 0 | 0 |
| c. | Bodies Corporate | 2 | 558500 | 531000 | 2.20 | 2.20 |
| d. | Financial Institutions/ Banks | 0 | 0 | 0 | 0 | 0 |
| | Others :- | 0 | 0 | 0 | 0 | 0 |
| e. | Mutual Funds | 0 | 0 | 0 | 0 | 0 |
| f. | Trusts | 0 | 0 | 0 | 0 | 0 |
| | Sub Total (A)(1) | 18 | 7636922 | 1699855 | 30.04 | 30.04 |
| (2) | Foreign | | | | | |
| a. | Individuals (Non Resident Individuals/ Foreign Individuals) | 0 | 0 | 0 | 0 | 0 |
| b. | Bodies Corporate | 1 | 4795650 | 0 | 18.86 | 18.86 |
| c. | Institutions | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|-----|--|------|----------|---------|--------|--------|
| | Others | 0 | 0 | 0 | 0 | 0 |
| d. | Overseas Corporate Bodies | 0 | 0 | 0 | 0 | 0 |
| e. | Foreign Companies | 2 | 8860000 | 0 | 34.85 | 34.85 |
| | Sub Total (A)(2) | 3 | 13655650 | 0 | 53.71 | 53.71 |
| | Total Shareholding of Promoter and Promoter Group (A)=(A)(1)+(A)(2) | 21 | 21292572 | 1699855 | 83.75 | 83.75 |
| (B) | Public Shareholding | | | | | |
| (1) | Institutions | 0 | 0 | 0 | 0 | 0 |
| a. | Mutual Funds/UTI | 0 | 0 | 0 | 0 | 0 |
| b. | Financial Institutions/ Banks | 0 | 0 | 0 | 0 | 0 |
| c. | Central Government/State Government(s) | 0 | 0 | 0 | 0 | 0 |
| d. | Venture Capital Funds | 0 | 0 | 0 | 0 | 0 |
| e. | Insurance Companies | 0 | 0 | 0 | 0 | 0 |
| f. | Foreign Institutional Investors | 0 | 0 | 0 | 0 | 0 |
| g. | Foreign Venture Capital Investors | 0 | 0 | 0 | 0 | 0 |
| | Others :- | | | | | |
| h. | Foreign Companies | 0 | 0 | 0 | 0 | 0 |
| | Sub Total (B)(1) | 0 | 0 | 0 | 0 | 0 |
| (2) | Non-Institutions | 0 | 0 | 0 | 0 | 0 |
| a. | Bodies Corporate | 128 | 1143326 | 1143326 | 4.50 | 4.50 |
| b. | Individuals | 0 | 0 | 0 | 0 | 0 |
| | i. Individual shareholders holding nominal share capital upto Rs.1 lakh | 1822 | 908663 | 819616 | 3.57 | 3.57 |
| | ii. Individual shareholders holding nominal share capital in excess of Rs.1 lakh | 31 | 1112541 | 1058808 | 4.38 | 4.38 |
| | Others | 0 | 0 | 0 | 0 | 0 |
| c. | Non Resident Individuals | 15 | 76599 | 76599 | 0.30 | 0.30 |
| d. | Overseas Corporate Bodies | 0 | 0 | 0 | 0 | 0 |
| e. | Trusts | 1 | 881624 | 881624 | 3.47 | 3.47 |
| f. | Employees | 0 | 0 | 0 | 0 | 0 |
| g. | Clearing Members | 15 | 8342 | 8342 | 0.03 | 0.03 |
| | Sub Total (B)(2) | 2012 | 4131095 | 3988315 | 16.25 | 16.25 |
| | Total Public Shareholding (B)=(B)(1)+(B)(2) | 2012 | 4131095 | 3988315 | 16.25 | 16.25 |
| | Total (A)+(B) | 2033 | 25423667 | 5688170 | 100.00 | 100.00 |
| (C) | Shares held by Custodians and against Depository Receipts have been issued | 0 | 0 | 0 | 0 | 0 |
| | Grand Total (A)+(B)+(C) | 2033 | 25423667 | 5688170 | 100.00 | 100.00 |

(xi) Dematerialization of Shares and Liquidity

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

As on 31st March, 2007, 56,88,170 equity shares representing 22.37 %age of paid up capital of the Company have been dematerialized.

(xii) Outstanding convertible instruments

As of March 31, 2007, 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 : +91-40-23540699

Corporate Office:

8-2-293/82/A/796/B
Road No.36, Jubilee Hills
Hyderabad 500 033, A P
Phone No.040-6699 0000
Fax No. 040-6699 4444
Email : investor.services@lgsglobal.com
Website: www.lgsglobal.com

II. NON-MANDATORY REQUIREMENTS

CHAIRMAN OF THE BOARD

The Chairman of the Company was 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 : 01.12.2007

L MADHUSUDHANA RAO
CHAIRMAN



Declaration on Code of Conduct

This is to confirm that the Board has laid down a code of conduct for all Board members and senior management personnel of the company. The code of conduct has also been posted on the website of the company. It is further confirmed that all directors and senior management personnel of the company have affirmed compliance with the Code of Conduct of the company for the financial year ended on March 31, 2007, as envisaged in clause 49 of the listing agreement with stock exchanges.

Place : Hyderabad,
Date : 01.12.2007

Y. Anand Swaroop
Director & CEO

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members of
Lanco Global Systems Limited
Hyderabad

We have read the report of the Board of Directors on Corporate Governance and have examined the relevant records relating to compliance condition of corporate governance of Lanco Global Systems Limited ("the company") for the year ended 31st March, 2007 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.

PLACE : HYDERABAD
DATE : 01.12.2007

For P MURALI & CO.
CHARTERED ACCOUNTANTS

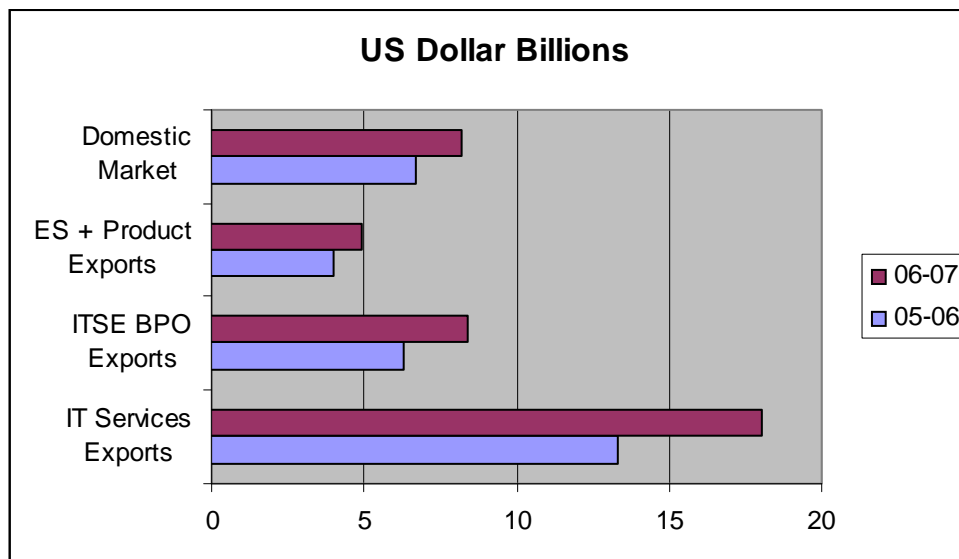
P MURALI MOHANA RAO
PARTNER

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENT

I. Overview of Indian information Technology (IT) industry:

As per the NASSCOM survey, the Indian IT-ITES industry (including the domestic market) recorded an overall growth of 30.7% as against a projected growth of 27%, clocking revenues of USD 39.6 billion in FY 06-07 up from USD 30.3 billion in FY 05-06. The software and service export segment grew by 33% to register revenues of USD 31.4 billion in FY 06-07 up from USD 23.6 billion in FY 05-06. The domestic segment grew by 23% to register revenues of USD 8.2 billion in FY 06-07 up from USD 6.7 billion. Within the export segment, IT services export has grown by 35.5% to clock revenues of USD 18 billion; while ITES-BPO exports were up by 33.5% registering revenues of USD 8.4 billion. Engineering services and products exports registered revenues of USD 4.9 billion, growing at 23% in FY 06-07.



The industry's employee base was over 1.6 million with about 315000 jobs added during 2006-07. The total direct employment in the Indian IT-ITES sectors estimated to have grown by over a million during last 6 years, from 284000 in FY 99-2000 to 1621000 in FY 06-07.

II. 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 Limited (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

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.

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It will offer pre-sales, competency development and delivery services.

III. 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 2006 – 2007 the company improved its performance. Revenues during 2006-2007 have increased to Rs.4556.56 Lakhs as compared to Rs. 3585.72 Lakhs in the previous year, representing an increase of Rs.970.84 Lakhs. ERP Implementations and roll-outs in verticals such as discreet manufacturing have seen a significant growth.

IV. 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.

V. 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 238 permanent employees at the end of the financial year 2006-2007.

VI. 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.

VII. 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.

On behalf of the Board

Place:Hyderabad
Date :01.12.2007

L Madhusudhan Rao
Chairman

* * *

AUDITORS' REPORT

To
The Members,
LANCO GLOBAL SYSTEMS LTD

We have audited the attached Balance Sheet of LANCO GLOBAL SYSTEMS LTD as at 31st March, 2007 and also the Profit & Loss Account for the year ended on the date annexed thereto and the cash flow statement for the year 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, 2007 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March , 2007 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, 2007;
 - (b) In the case of the Profit & Loss Account, of the Profit for the year ended on that date;
- And**
- (c) In the case of the Cash Flow, of the cash flows for the year ended on that date ;

For PMURALI & CO.,
Chartered Accountant

Place : Hyderabad
Date : 27-06-2007

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. 670.00 lacs from three parties.
- (f) As the Company has taken loans from Lanco Group Limited, Lanco Infratech Ltd, Nagarjuna Valluripalli from parties listed in the register maintained under section 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 modified the terms and conditions of the Lease deed entered with 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 the contracts or arrangements

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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,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.
- 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 PF, 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 Accountant

Place : Hyderabad
Date : 27-06-2007

P. MURALI MOHANA RAO
Partner

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BALANCE SHEET AS AT 31ST MARCH, 2007

| Particulars | Schedule | AS AT 31-03-2007 (Rupees) | AS AT 31-03-2006 (Rupees) |
|---|----------|---------------------------------|---------------------------------|
| I SOURCES OF FUNDS | | | |
| 1. Share Holders Funds | | | |
| (a) Share Capital | 1 | 254,219,670 | 254,176,370 |
| (b) Reserves & Surplus | 2 | 90,619,010 | 34,971,671 |
| 2. Loan funds | | | |
| (a) Secured Loans | 3 | 26,178,203 | 11,703,836 |
| (b) Unsecured Loans | 4 | 198,072,575 | 30,653,976 |
| 3. Deferred Tax Liability | | 2,899,814 | 2,342,212 |
| TOTAL | | 571,989,272 | 333,848,065 |
| II APPLICATION OF FUNDS | | | |
| 1. Fixed Assets | | | |
| (a) Gross Block | 5 | 131,630,231 | 123,778,480 |
| (b) Less Depreciation | | 49,162,643 | 29,695,881 |
| (c) Net Block | | 82,467,588 | 94,082,599 |
| (d) Capital Work in progress including Advances | | 222,445,503 | 152,797,227 |
| 2. Investments | | 163,654,000 | 20,000,000 |
| 3. Current Assets, Loans & Advances | | | |
| (a) Sundry Debtors | 6 | 98,675,165 | 84,333,141 |
| (b) Cash and Bank Balances | 7 | 881,221 | 1,093,749 |
| (c) Loans & Advances | 8 | 71,994,606 | 27,381,690 |
| Less: Current Liabilities & Provisions | 9 | 68,967,238 | 45,982,818 |
| Net Current Assets | | 102,583,754 | 66,825,762 |
| 4. Miscellaneous Expenditure (to the extent not written off or adjusted) | 10 | 838,427 | 142,477 |
| TOTAL | | 571,989,272 | 333,848,065 |

Notes on Balance Sheet and Profit & Loss Account 14

As per our Report Attached

for PMURALI & CO
CHARTERED ACCOUNTANTS

PMURALI MOHAN RAO
PARTNER

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

G.BHASKARA RAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & C.E.O

PLACE: HYDERABAD
DATE : 27-06-2007

Y.SRINIVASA RAO
VICE PRESIDENT (F & A)

K.V.R.RAJU
COMPANY SECRETARY



PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

| Particulars | Schedule | Year Ended 31-03-07 (Rupees) | Year Ended 31-03-06 (Rupees) |
|---|----------|------------------------------------|------------------------------------|
| INCOME | | | |
| Export | | 437,530,155 | 353,367,873 |
| Domestic | | 16,363,743 | 2,925,687 |
| Other Income | 11 | 1,762,590 | 2,278,443 |
| TOTAL | | 455,656,488 | 358,572,003 |
| EXPENDITURE | | | |
| Personnel Cost | | 290,511,315 | 283,702,642 |
| Interest & Financial Charges | 12 | 5,399,187 | 1,774,672 |
| Operating & Administration Expenses | 13 | 81,664,538 | 48,407,258 |
| Depreciation | | 19,538,382 | 5,995,410 |
| Written off Expenses | | 214,050 | 165,476 |
| TOTAL | | 397,327,472 | 340,045,458 |
| Profit / (Loss) before tax | | 58,329,016 | 18,526,545 |
| Provision for Tax | | 1,700,105 | 509,329 |
| Provision for FBT | | 423,970 | 205,472 |
| Profit / (Loss) after tax | | 56,204,941 | 17,811,744 |
| Provision for deferred Tax Asset/(Liability) | | (557,602) | 636,752 |
| Profit After deferred Tax | | 55,647,339 | 18,448,496 |
| Balance Brought forward | | 33,471,671 | 15,023,175 |
| Profit Carried to Balance Sheet | | 89,119,010 | 33,471,671 |
| Notes on Balance Sheet and Profit & Loss Account | 14 | | |
| Earnings Per Share Basic & Diluted | | 2.19 | 0.73 |

As per our Report Attached

for **PMURALI & CO**
CHARTERED ACCOUNTANTS

PMURALI MOHAN RAO
PARTNER

PLACE: HYDERABAD
DATE : 27-06-2007

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

G.BHASKARA RAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & C.E.O

Y.SRINIVASA RAO
VICE PRESIDENT(F & A)

K.V.R.RAJU
COMPANY SECRETARY

8th Annual Report 2006-2007

SCHEDULES ANNEXED TO AND FORMING PART OF ACCOUNTS

| Particulars | AS AT 31-03-2007 (Rupees) | AS AT 31-03-2006 (Rupees) |
|---|---------------------------------|---------------------------------|
| SCHEDULE - I | | |
| SHARE CAPITAL | | |
| Authorised | 400,000,000 | 260,000,000 |
| 4,00,00,000 Equity Shares of Rs.10/- each | | |
| Previous | | |
| 2,60,00,000 Equity Shares of Rs.10/- each | | |
| Issued & Subscribed | | |
| 25,423,667 Equity Shares of Rs.10/- each | 254,236,670 | 254,236,670 |
| Less: Allotment Money Acrears | 17,000 | 60,300 |
| TOTAL | 254,219,670 | 254,176,370 |
| SCHEDULE - 2 | | |
| RESERVES & SURPLUS | | |
| Investment Subsidy | 1,500,000 | 1,500,000 |
| Surplus in Profit & Loss Account | 89,119,010 | 33,471,671 |
| TOTAL | 90,619,010 | 34,971,671 |
| SCHEDULE - 3 | | |
| SECURED LOANS | | |
| Working Capital SBI | 18,532,096 | 10,747,633 |
| Term Loan SBI | 7,646,107 | 956,203 |
| TOTAL | 26,178,203 | 11,703,836 |
| SCHEDULE - 4 | | |
| UNSECURED LOANS | | |
| Unsecured Loans | 198,072,575 | 30,653,976 |
| TOTAL | 198,072,575 | 30,653,976 |

SCHEDULE - 5
FIXED ASSETS

| S NO. | DESCRIPTION OF ASSET | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | | |
|----------|-------------------------|-----------------------------|---------------------------------|---------------------------------|-----------------------------------|--------------------|-----------------|--|------------------------------|---------------------|---------------------|------------|
| | | Cost As at 01-04-2006 | Additions During the year | Deletions During the year | Total Cost as at 31-03-2007 | upto 31-03-2006 | For the Year | Deletions of Depreciation for the year | Total as at 31-03-2007 | as at 31-03-2007 | as at 31-03-2007 | |
| 1. | Good will | 61,317,995 | | | 61,317,995 | | | | 12,263,599 | 12,263,599 | 49,054,396 | 61,317,995 |
| 2. | Computers | 27,779,058 | 7,592,334 | | 35,371,392 | 18,818,597 | 4,263,651 | | 4,263,651 | 23,082,248 | 12,289,144 | 8,960,461 |
| 3. | Furniture & Fixtures | 16,832,177 | 67,160 | | 16,899,337 | 5,719,708 | 1,066,927 | | 1,066,927 | 6,786,635 | 10,112,702 | 11,112,469 |
| 4. | Airconditioners | 1,358,500 | | | 1,358,500 | 378,328 | 64,529 | | 64,529 | 442,857 | 915,643 | 980,172 |
| 5. | Electricals | 5,238,803 | | 264,464 | 4,974,339 | 1,248,070 | 243,577 | 71,620 | 243,577 | 1,420,027 | 3,554,312 | 3,990,733 |
| 6. | Office Equipments | 3,582,160 | 106,213 | | 3,688,373 | 577,402 | 173,188 | | 173,188 | 750,590 | 2,937,783 | 3,004,758 |
| 7. | Vehicles | 1,150,48 | | | 1,150,482 | 559,067 | 109,296 | | 109,296 | 668,363 | 482,119 | 591,415 |
| 8. | Assets at US Branch | 6,519,305 | 350,508 | | 6,869,813 | 2,394,709 | 1,353,615 | | 1,353,615 | 3,748,324 | 3,121,489 | 4,124,596 |
| | TOTAL | 123,778,480 | 8,116,215 | 264,464 | 131,630,231 | 29,695,881 | 19,538,382 | 71,620 | 49,162,643 | 82,467,588 | 94,082,599 | |

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| Particulars | AS AT 31-03-2007 (Rupees) | AS AT 31-03-2006 (Rupees) |
|---|---------------------------------|---------------------------------|
| SCHEDULE - 6 | | |
| SUNDRY DEBTORS | | |
| Sundry Debtors (Unsecured and Considered good) | 98,675,165 | 84,333,141 |
| TOTAL | <u>98,675,165</u> | <u>84,333,141</u> |
| SCHEDULE - 7 | | |
| CASH & BANK BALANCES | | |
| Cash in hand | 37,981 | 12,461 |
| Cash at Bank | 843,240 | 1,081,288 |
| TOTAL | <u>881,221</u> | <u>1,093,749</u> |
| SCHEDULE - 8 | | |
| LOANS & ADVANCES | | |
| Pre-paid Expenses | 1,983,924 | 3,016,730 |
| Advance for Expenses & Recoverable | 59,498,798 | 11,678,690 |
| Deposits | 1,698,191 | 2,774,770 |
| LGSL Foundation (Trust) | 8,813,693 | 9,911,500 |
| TOTAL | <u>71,994,606</u> | <u>27,381,690</u> |
| SCHEDULE - 9 | | |
| CURRENT LIABILITIES & PROVISIONS | | |
| Outstanding Expenses & Provisions | 61,743,503 | 41,980,141 |
| Other Liabilities | 7,223,735 | 4,002,677 |
| TOTAL | <u>68,967,238</u> | <u>45,982,818</u> |
| SCHEDULE - 10 | | |
| MISCELLANEOUS EXPENDITURE | | |
| Preliminary Expenses | 838,427 | 142,477 |
| TOTAL | <u>838,427</u> | <u>142,477</u> |



LANCO GLOBAL SYSTEMS LIMITED

| Particulars | Year Ended 31-03-2007 (Rupees) | Year Ended 31-03-2006 (Rupees) |
|--|--------------------------------------|--------------------------------------|
| SCHEDULE - 11 | | |
| Other Income | | |
| Other Income | 650,568 | 9,033 |
| Foreign Exchange Fluctuation Profit | 1,112,022 | 2,269,410 |
| TOTAL | 1,762,590 | 2,278,443 |
| SCHEDULE - 12 | | |
| INTEREST & FINANCIAL CHARGES | | |
| Bank Charges | 423,744 | 366,622 |
| Interest on Working Capital | 1,693,258 | 488,027 |
| Interest on Term Loan A/c | 818,713 | 130,848 |
| Interest on Unsecured Loans | 2,406,467 | 781,629 |
| Interest on Others | 57,005 | 7,546 |
| TOTAL | 5,399,187 | 1,774,672 |
| SCHEDULE - 13 | | |
| OPERATING & ADMINISTRATION EXPENSES | | |
| Communication Expenses | 9,942,276 | 10,809,841 |
| Repairs and Office Maintenance | 5,733,625 | 2,755,236 |
| Rent | 20,534,029 | 10,142,622 |
| Rates, Taxes & Insurance | 11,951,326 | 2,697,041 |
| Business Development Exp | 8,285,021 | 3,740,013 |
| Electricity Charges | 3,442,515 | 1,977,066 |
| Travelling & Conveyance | 10,129,043 | 5,150,923 |
| Printing & Stationery | 340,268 | 338,204 |
| Staff Recruitment Charges | 1,261,406 | 1,101,802 |
| Computer Rentals | 888,105 | 866,367 |
| Consultancy Charges | 4,756,169 | 5,837,877 |
| Directors Remuneration | 2,424,812 | 1,916,786 |
| Iso Survival Audit fee | 531,814 | - |
| Audit Fee | 44,896 | 44,896 |
| Misc.Exp | 1,215,989 | 1,028,584 |
| Loss on sale of Assets | 183,244 | - |
| TOTAL | 81,664,538 | 48,407,258 |

SCHEDULE - 14
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 :

- (i) 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 in accordance with Sub-section (2A) of Section 217 of the Companies Act , 1956 read with Companies (Particulars of Employees) Rule 1975 as amended , forms part of this report. However, in pursuance of proviso(b)(vi) 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 | Director's Remuneration : | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
| | | 24,24,812/- | 19,16,786/— |

| | | | |
|---|---------------------------------|----------------------------------|-----------------------------------|
| 3 | Auditor's Remuneration : | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
| | Audit Fee | 44,896/- | 44,896/- |

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. Related Party Transactions

During the year 2006 -07 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 Govt. of India, wherever necessary.

| Sl. No. | Name of the Related Party | Nature of Relation | Nature of transaction | Date of Board Approval | Brief terms |
|---------|---------------------------|--------------------|---|--|--|
| 1 | Lanco Infratech Limited | Common Directors | Temporary financial accommodation of Rs 55.00 Lakhs from Lanco Infratech Ltd | 06-04-2006 | Interest Free |
| 2 | Mr Nagarjun Valluripalli | Director & CEO | Annual enhancement of lease rent by 5% for the premises belonging to the Director & CEO | Resolution by circulation dated 07-11-2006 | @ 5% annual enhancement of rent and the initial period has been enhanced to 5 years from 3yrs. |
| 3 | Lanco Group Limited | Common Directors | Temporary financial accommodation of Rs. 110 Lakhs from Lanco Group Limited | 04.12.2006 | At Bank Rate of Interest |
| 4 | Mr Nagarjun Valluripalli | Director & CEO | Unsecured Loan of Rs.111.52 lakhs (USD 2.5 lakhs) taken by Lanco Global Systems Inc. USA, from the Director & CEO | 04.12.2006 | Interest Free |
| 5 | Mr Nagarjun Valluripalli | Director & CEO | Unsecured Loan of Rs. 373.75 lakhs (USD 8,57,411) from Mr.Nagarjun Valluripalli, Director & CEO | 30.01.2007 | Interest Free |
| 6 | Lanco Group Limited | Common Directors | Temporary financial accommodation of Rs. 20 Lakhs from Lanco Group Limited. | 07.02.2007 | At Bank Rate of Interest |

6. The Company has debited the amount of Rs. 1,22,63,599/- towards the one fifth Goodwill written off for the year 2006-07 being the goodwill arising on merger of Lanco Global Systems Inc.

7. All Investments are unquoted Equity Shares.

8. Capital Work in Progress of Rs. 22,24,45,503/- (previous year Rs.15,27,97,227/-) towards the Capitalised Software & Product Development Cost.

| | | |
|--------------------------------------|---------------------------|----------------------------|
| 9. Expenditure in Foreign Currency : | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
| Foreign Travelling | 13,68,191/- | 1,17,969/- |



LANCO GLOBAL SYSTEMS LIMITED

10. Foreign Exchange inflow and out go as reported by the Company to Government of India and as certified by Management.

| | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
|---|---------------------------|----------------------------|
| Foreign Exchange Inflow | 10,31,36,269/- | 6,77,82,345/- |
| Foreign Exchange out go (Capital Expenditure) | 52,68,469/- | 9,73,696/- |

11. The receivables have been considered at the actual rate at which the amount is realized and accordingly loss from Foreign Exchange fluctuation and Integral transactions of Rs. 11,12,022/- (net) has been reflected in Profit and Loss Account for the Year.
12. There are no dues to SSI Units outstanding for more than 30 days.
13. Confirmations were obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.
14. In accordance with Accounting Standard 22 (AS 22) issued by the ICAI, the Company has accounted for deferred income tax during the year. The deferred income tax provision for the current year amounts to Rs. 5,57,602/- towards deferred income tax liability. (Previous year Rs.6,36,752/- towards deferred income tax assets.).
15. Techorbit Inc., and Gobal IT Inc., have become wholly owned subsidiaries of Lanco Global Systems Inc, which had been merged during the year into Lanco Global Systems Limited pursuant to the order of The Honourable High Court of A.P and consequently the wholly owned subsidiaries of earstwhile Lanco Glboal Systems Inc., have now become wholly owned subsidiaries of Lanco Global Systems Limited.
16. The Term Loan Amounting to Rs. 200 Lacs and Working Capital Facility of Rs. 290 Lacs are secured against hypothecation of fixed assets present and future and personal guarantee fo Shri V. Nagarjun, Director & CEO and collateral security of Flat No 501 & 502 at My Home Sarovar Plaza, Secretariat Road, Admeasuring 11,633 Sq.Fts owned by Sri. V.Nagarjun
17. Previous years figures have been regrouped wherever necessary.
18. The figures have been rounded off to the nearest rupee.

SIGNATURES TO SCHEDULES 1 TO 14

As per our report of even date
For PMURALI & CO.,
CHARTERED ACCOUNTANTS

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

PMURALI MOHANARAO
PARTNER

BHASKARARAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & CEO

PLACE : HYDERABAD
DATE : 27-06-2007

Y.SRINIVASA RAO
VICE PRESIDENT (F & A)

K.V.R. RAJU
COMPANY SECRETARY

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2007

| | (Rs. In lakhs) | |
|---|------------------|-----------------|
| | Current Year | Previous Year |
| A. CASH FLOW FROM OPERATING ACTIVITIES : | | |
| Net profit before taxation, and extraordinary items | 583.29 | 185.26 |
| Adjustments for : | | |
| Deprecation | 195.38 | 46.01 |
| Foreign Exchange Fluctuation profit | 0.00 | (16.97) |
| Loss on Sale of Assets | 1.83 | - |
| Interest expenses | 53.99 | 15.76 |
| Written off Expenses | 2.14 | 1.65 |
| Operating Profit before working capital changes | 836.63 | 231.72 |
| Trade and other receivables | (589.55) | (762.04) |
| Trade payables | 286.45 | 451.96 |
| Cash generated from operations | 533.53 | (78.38) |
| Interest paid | (51.82) | (8.82) |
| NET CASH FLOW OPERATING ACTIVITIES | 481.71 | (87.20) |
| B. CASH FLOW FROM INVESTING ACTIVITIES : | | |
| Purchase of Fixed Assets including Capital Work-in-progress | (777.54) | (257.00) |
| Pre-operative & Project Expenses | (1445.64) | |
| NET CASH USED IN INVESTING ACTIVITIES | (2223.18) | (257.00) |
| C. CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of Share Capital | 0.43 | 0.16 |
| Investment Subsidy | 0.00 | 2.50 |
| Unsecured Loan | 1672.01 | 299.60 |
| Proceeds from Term Loans | 66.90 | 9.56 |
| Net Proceeding from HP Loans | 0.00 | 1.92 |
| NET CASH USED IN FINANCING ACTIVITIES | 1739.34 | 309.90 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (2.13) | (34.30) |
| Cash and Cash equivalents Opening Balance | 10.94 | 45.24 |
| Cash and Cash equivalents Closing Balance | 8.81 | 10.94 |

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

G.BHASKARA RAO YANAND SWAROOP
DIRECTOR DIRECTOR & C.E.O

PLACE: HYDERABAD
DATE : 27-06-2007

Y.SRINIVASA RAO K.V.R.RAJU
VICE PRESIDENT (F & A) 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, 2007. 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 27th June 2007 to the members of the company.

Place : Hyderabad
Date : 27.06.2007

For P. MURALI & CO
CHARTERED ACCOUNTANTS

P. MURALI MOHAN RAO
PARTNER



Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

State Code

Registration No. -

Balance Sheet

Date

Date Month Year

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

Public Issue

Rights Issue

Bonus Issue

Private Placement

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

Total Liabilities

Total Assets

Sources of Funds Paid - Up Capital

Reserves & Surplus

Secured Loans

Un-Secured Loans/Deferred Tax Liability

Application of Funds
Net Fixed Assets

Investments

Net Current Assets

Misc. Expenditure

Accumulated Losses

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

Turnover

Total Expenditure

Profit/ Loss Before Tax

Profit/ Loss After Tax

Earning Per Share in Rs.

Dividend rate %

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

Item Code No. (ITC Code) -

Product Description

**AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF
LANCO GLOBAL SYSTEMS LIMITED ON THE CONSOLIDATED FINANCIAL
STATEMENTS OF LANCO GLOBAL SYSTEMS LIMITED AND ITS SUBSIDIARIES**

We have examined the attached Consolidated Balance Sheet of LANCO GLOBAL SYSTEMS LIMITED ('the Company') and its wholly owned subsidiaries TECHORBIT INC. USA and GLOBAL IT INC. USA as at 31st March , 2007 and the Consolidated Profit & Loss Account for the year ended on the date annexed thereto and Consolidated Cash flow Statement for the period ended on that date. These Consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these Consolidated 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 prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of its subsidiaries TECHORBIT INC. USA and GLOBAL IT INC as at 31st March , 2007. These financial statements have been audited by other auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries is based solely on the report of the other auditors.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries included in the consolidated financial statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Company and its subsidiaries, we are of the opinion that the said consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India.

- (a) in the case of the Consolidated balance Sheet, of the consolidated state of affairs of the company and its subsidiaries as at 31st March, 2007.
- (b) In the case of the Consolidated Profit and Loss Account of the consolidated results of operations of the Company and its subsidiaries for the year then ended and
- (c) In the case of the Consolidated cash flows Statement, of the consolidated Cash flows of the company and its subsidiaries for the year then ended.

R.POMURALI & CO.,
CHARTERED ACCOUNTANTS.,

Place : Hyderabad
Date : 27-06-2007

P.MURALI MOHANRA
PARTNER



LANCO GLOBAL SYSTEMS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2007

| Particulars | Schedule | ASAT | ASAT |
|--|----------|------------------------|------------------------|
| | | 31-03-2007 (Rupees) | 31-03-2006 (Rupees) |
| I SOURCES OF FUNDS | | | |
| 1. Share Holders Funds | | | |
| (a) Share Capital | 1 | 254,219,670 | 254,176,370 |
| (b) Reserves & Surplus | 2 | 118,406,549 | 34,971,671 |
| 2. Loan funds | | | |
| (a) Secured Loans | 3 | 26,178,203 | 11,703,836 |
| (b) Unsecured Loans | 4 | 205,391,206 | 30,653,976 |
| 3. Deferred Tax Liability | | 2,899,814 | 2,342,212 |
| TOTAL | | 607,095,442 | 333,848,065 |
| II APPLICATION OF FUNDS | | | |
| 1. Fixed Assets | | | |
| (a) Gross Block | 5 | 214,432,288 | 123,778,480 |
| (b) Less Depreciation | | 52,728,651 | 29,695,881 |
| (c) Net Block | | 161,703,637 | 94,082,599 |
| (d) Capital Work in progress including Advances | | 222,445,503 | 152,797,227 |
| 2. Investments | | 20,000,000 | 20,000,000 |
| 3. Current Assets, Loans & Advances | | | |
| (a) Sundry Debtors | 6 | 541,461,077 | 84,333,141 |
| (b) Cash and Bank Balances | 7 | 27,497,101 | 1,093,749 |
| (c) Loans & Advances | 8 | 98,941,202 | 27,381,690 |
| Less: Current Liabilities & Provisions | 9 | 465,791,505 | 45,982,818 |
| Net Current Assets | | 202,107,875 | 66,825,762 |
| 4. Miscellaneous Expenditure (to the extent not written off or adjusted) | 10 | 838,427 | 142,477 |
| TOTAL | | 607,095,442 | 333,848,065 |

Notes on Balance Sheet and Profit & Loss Account 14

for PMURALI & CO
CHARTERED ACCOUNTANTS

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

PMURALI MOHAN RAO
PARTNER

G.BHASKARA RAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & C.E.O

PLACE: HYDERABAD
DATE : 27-06-2007

Y.SRINIVASA RAO
VICE PRESIDENT(F & A)

K.V.R.RAJU
COMPANY SECRETARY

LANCO GLOBAL SYSTEMS LIMITED

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

| Particulars | Schedule | Year Ended 31-03-07 (Rupees) | Year Ended 31-03-06 (Rupees) |
|--|----------|------------------------------------|------------------------------------|
| INCOME | | | |
| Export | | 764,397,400 | 353,367,873 |
| Domestic | | 16,363,743 | 2,925,687 |
| Other Income | 11 | 1,762,590 | 2,278,443 |
| TOTAL | | 782,523,733 | 358,572,003 |
| EXPENDITURE | | | |
| Personnel Cost | | 533,871,601 | 283,702,642 |
| Interest & Financial Charges | 12 | 6,054,028 | 1,774,672 |
| Operating & Administration Expenses | 13 | 131,535,155 | 48,407,258 |
| Depreciation | | 23,104,390 | 5,995,410 |
| Written off Expenses | | 214,050 | 165,476 |
| TOTAL | | 694,779,224 | 340,045,458 |
| Profit / (Loss) before tax | | 87,744,509 | 18,526,545 |
| Provision for Tax | | 1,700,105 | 509,329 |
| Provision for FBT | | 423,970 | 205,472 |
| Profit / (Loss) after tax | | 85,620,434 | 17,811,744 |
| Provision for deferred Tax Asset/(Liability) | | (557,602) | 636,752 |
| Profit After deferred Tax | | 85,062,832 | 18,448,496 |
| Balance Brought forward | | 33,471,671 | 15,023,175 |
| Profit Carried to Balance Sheet | | 118,534,503 | 33,471,671 |
| Notes on Balance Sheet and Profit & Loss A/c | 14 | | |
| Earnings Per Share Basic & Diluted | | 3.35 | 0.73 |

for PMURALI & CO
CHARTERED ACCOUNTANTS

PMURALI MOHAN RAO
PARTNER

PLACE: HYDERABAD
DATE : 27-06-2007

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

BHASKARA RAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & C.E.O

Y.SRINIVASA RAO
VICE PRESIDENT(F&A)

K.V.R.RAJU
COMPANY SECRETARY

SCHEDULES ANNEXED TO AND FORMING PART OF ACCOUNTS

| PARTICULARS | AS AT 31-03-2007 (Rupees) | As at 31-03-2006 (Rupees) |
|--|--|--|
| SCHEDULE - I SHARE CAPITAL | | |
| Authorised 4,00,00,000 Equity Shares of Rs.10/- each | <u>400,000,000</u> | <u>260,000,000</u> |
| Previous 2,60,00,000 Equity Shares of Rs.10/- each | | |
| Issued & Subscribed 25,423,667 Equity Shares of Rs.10/- each | 254,236,670 | 254,236,670 |
| Less: Allotment Money Acreas | 17,000 | 60,300 |
| Total | <u><u>254,219,670</u></u> | <u><u>254,176,370</u></u> |
| SCHEDULE - 2 RESERVES & SURPLUS | | |
| Investment Subsidy | 1,500,000 | 1,500,000 |
| Surplus in Profit & Loss Account | 118,534,503 | 33,471,671 |
| Foreign Exchange Fluctuation Reserve | (1,627,954) | |
| Total | <u><u>118,406,549</u></u> | <u><u>34,971,671</u></u> |
| SCHEDULE - 3 SECURED LOANS | | |
| SBI - Working Capital | 18,532,096 | 10,747,633 |
| SBI Term Loan A/c | 7,646,107 | 956,203 |
| Total | <u><u>26,178,203</u></u> | <u><u>11,703,836</u></u> |
| SCHEDULE - 4 UNSECURED LOANS | | |
| Unsecured Loans | 205,391,206 | 30,653,976 |
| Total | <u><u>205,391,206</u></u> | <u><u>30,653,976</u></u> |

**SCHEDULE - 5
FIXED ASSETS**

(RUPEES)

| S NO. | DESCRIPTION OF ASSET | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|----------|-------------------------|-----------------------------|---------------------------------|---------------------------------|-----------------------------------|--------------------|-------------------|--|------------------------------|---------------------|---------------------|
| | | Cost As at 01-04-2006 | Additions During the year | Deletions During the year | Total Cost as at 31-03-2007 | upto 31-03-2006 | For the Year | Deletions of Depreciation for the year | Total as at 31-03-2007 | as at 31-03-2007 | as at 31-03-2007 |
| 1. | Good will | 61,317,995 | 76,671,167 | | 137,989,162 | | 15,080,687 | | 15,080,687 | 122,908,475 | 61,317,995 |
| 2. | Computers | 27,779,058 | 7,592,334 | | 35,371,392 | 18,818,597 | 4,263,651 | | 23,082,248 | 12,289,144 | 8,960,461 |
| 3. | Furniture & Fixtures | 16,832,177 | 67,160 | | 16,899,337 | 5,719,708 | 1,066,927 | | 6,786,635 | 10,112,702 | 11,112,469 |
| 4. | Airconditioners | 1,358,500 | | | 1,358,500 | 378,328 | 64,529 | | 442,857 | 915,643 | 980,172 |
| 5. | Electricals | 5,238,803 | | 264,464 | 4,974,339 | 1,248,070 | 243,577 | 71,620 | 1,420,027 | 3,554,312 | 3,990,733 |
| 6. | Office Equipments | 3,582,160 | 106,213 | | 3,688,373 | 577,402 | 173,188 | | 750,590 | 2,937,783 | 3,004,758 |
| 7. | Vehicles | 1,150,48 | | | 1,150,482 | 559,067 | 109,296 | | 668,363 | 482,119 | 591,415 |
| 8. | Assets at US Branch | 6,519,305 | 350,508 | | 6,869,813 | 2,394,709 | 1,353,615 | | 3,748,324 | 3,121,489 | 4,124,596 |
| 9. | Assets at Subsidiaries | | 6,130,890 | | 6,130,890 | | 748,920 | | 748,920 | 5,381,970 | |
| | TOTAL | 123,778,480 | 90,918,272 | 264,464 | 214,432,288 | 29,695,881 | 23,104,390 | 71,620 | 52,728,651 | 161,703,637 | 94,082,599 |

LANCO GLOBAL SYSTEMS LIMITED

| PARTICULARS | AS AT 31-03-2007 (Rupees) | As at 31-03-2006 (Rupees) |
|---|---------------------------------|---------------------------------|
| SCHEDULE - 6 | | |
| SUNDRY DEBTORS | | |
| Sundry Debtors (Unsecured and Considered good) | 541,461,077 | 84,333,141 |
| Total | <u><u>541,461,077</u></u> | <u><u>84,333,141</u></u> |
| SCHEDULE - 7 | | |
| CASH & BANK BALANCES | | |
| Cash in hand | 37,981 | 12,461 |
| Cash at Bank | 27,459,120 | 1,081,288 |
| Total | <u><u>27,497,101</u></u> | <u><u>1,093,749</u></u> |
| SCHEDULE - 8 | | |
| LOANS & ADVANCES | | |
| Pre-paid Expenses | 1,983,924 | 3,016,730 |
| Advance for Expenses & Recoverable | 86,445,394 | 11,678,690 |
| Deposits | 1,698,191 | 2,774,770 |
| LGSL Foundation (Trust) | 8,813,693 | 9,911,500 |
| Total | <u><u>98,941,202</u></u> | <u><u>27,381,690</u></u> |
| SCHEDULE - 9 | | |
| CURRENT LIABILITIES & PROVISIONS | | |
| Outstanding Expenses & Provisions | 458,567,770 | 41,980,141 |
| Other Liabilities | 7,223,735 | 4,002,677 |
| Total | <u><u>465,791,505</u></u> | <u><u>45,982,818</u></u> |
| SCHEDULE - 10 | | |
| MISCELLANEOUS EXPENDITURE | | |
| Preliminary Expenses | 838,427 | 142,477 |
| Total | <u><u>838,427</u></u> | <u><u>142,477</u></u> |

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| PARTICULARS | Year Ended 31-03-2007 (Rupees) | Year Ended 31-03-2006 (Rupees) |
|--|--------------------------------------|--------------------------------------|
| SCHEDULE - 11 | | |
| Other Income | | |
| Other Income | 650,568 | 9,033 |
| Foreign Exchange Fluctuation Profit | 1,112,022 | 2,269,410 |
| Total | 1,762,590 | 2,278,443 |
| SCHEDULE - 12 | | |
| INTEREST & FINANCIAL CHARGES | | |
| Bank Charges | 1,078,585 | 366,622 |
| Interest on Working Capital Facility | 1,693,258 | 488,027 |
| Int On SBI Term Loan A/c | 818,713 | 130,848 |
| Interest on Unsecured Loans | 2,406,467 | 781,629 |
| Interest on Others | 57,005 | 7,546 |
| Total | 6,054,028 | 1,774,672 |
| SCHEDULE - 13 | | |
| OPERATING & ADMINISTRATION EXPENSES | | |
| Communication Expenses | 10,139,961 | 10,809,841 |
| Repairs and Office Maintenance | 35,109,724 | 2,755,236 |
| Rent | 21,722,801 | 10,142,622 |
| Rates, Taxes & Insurance | 11,951,326 | 2,697,041 |
| Business Development Exp | 21,051,176 | 3,740,013 |
| Electricity Charges | 3,442,515 | 1,977,066 |
| Travelling - Conveyance | 13,529,789 | 5,150,923 |
| Printing & Stationery | 340,268 | 338,204 |
| Staff Recruitment Charges | 1,261,406 | 1,101,802 |
| Computer Rentals | 888,105 | 866,367 |
| Consultancy Charges | 7,697,329 | 5,837,877 |
| Directors Remuneration | 2,424,812 | 1,916,786 |
| Iso Survival Audit Fee | 531,814 | - |
| Audit Fee | 44,896 | 44,896 |
| Misc.Exp | 1,215,989 | 1,028,584 |
| Loss on sale of Assets | 183,244 | - |
| Total | 131,535,155 | 48,407,258 |

SCHEDULE - 14
NOTES ON CONSOLIDATED ACCOUNTS

SIGNIFICANT ACCOUNTING POLICIES TO THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

- A.** The consolidated financial statements relate to LANCO GLOBAL SYSTEMS LIMITED. (“ the Company”) has prepared the Consolidated Financial Statements, by consolidating its accounts with that of its wholly owned subsidiaries TECHORBIT INC, U.S.A and GLOBAL IT INC, U.S.A in accordance with the Statements of Accounting standards on “ Consolidated Financial Statements (AS 21) issued by the Institute of Chartered Accountants of India (ICAI) The Consolidated Financial Statements have been prepared under the historical cost convention, on the accrual basis of accounting and comply with the mandatory accounting standards and statemnets issued by the ICAI. The consolidated financial statements have been prepared on the following basis:
- (i) The financial statements of the Company and it subsidiary company are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balance and intra-group transactions resulting in unrealised profits or losses in accordance with Accounting Standard (AS) 21 --“Consolidated Financial Statements” issued by the Institute of Chartered Accountants of India.
 - (ii) In case of Foreign subsidiaries, revenue items and Assets and Liabilities are consolidated at the Foreign Exchange rates prevailing at the end of the year.
 - (iii) The difference between the cost of investment in the subsidiaries, over the net assets at the time of acquisition of shares in the subsidiaries is recognised in the financial statements as Goodwill.
 - (iv) Minority interest’s share is not there as the company is holding 100 % Equity Shares
 - (v) As for as possible, the consolidate financial statements are prepared using uniform accountnig policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company’s separate financial statements.

NOTES ON ACCOUNTS TO CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT :

Global IT Inc. USA, and Techorbit Inc. USA subsidiary companies have been considered in the consolidated financial Statements. As required by Accounting Standard (AS – 23) on Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India, the carrying amount of Investments in Associates at the biginning of the year have been restated by applying “ equity Method “ of accounting from the date of acquisition of the associates and corresponding adjustments has been made to the retained earnings at the beginning of the year after eliminating unrealised profits, if any.

As this is the first year of adoption of Accounting Standard (AS 23) on Accounting for Investments in Associates in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India, figures for the previous year are therefore not comparable to that extent.

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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. however in case of 100 % subsidiaries have been reflected in the Foreign Exchange Fluctuation Reserve 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 :

- (i) 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 in accordance with Sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rule 1975 as amended, forms part of this report. However, in pursuance of proviso(b)(vi) 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 Director's Remuneration :

| <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
|---------------------------|----------------------------|
| 24,24,812/- | 19,16,786/- |

3 Auditor's Remuneration :

| | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
|-----------|---------------------------|----------------------------|
| Audit Fee | 44,896/- | 44,896/- |

- 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.

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5. Related Party Transactions

During the year 2006 -07 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 Govt. of India, wherever necessary.

| Sl. No. | Name of the Related Party | Nature of Relation | Nature of transaction | Date of Board Approval | Brief terms |
|---------|---------------------------|--------------------|---|--|---|
| 1 | Lanco Infratech Limited | Common Directors | Temporary financial accommodation of Rs 55.00 Lakhs from Lanco Infratech Ltd | 06-04-2006 | Interest Free |
| 2 | Mr Nagarjun Valluripalli | Director & CEO | Annual enhancement of lease rent by 5% for the premises belonging to the Director & CEO | Resolution by circulation dated 07-11-2006 | @ 5% annual enhancement of rent and the initial period has been enhanced to 5 years from 3 yrs. |
| 3 | Lanco Group Limited | Common Directors | Temporary financial accommodation of Rs. 110 Lakhs from Lanco Group Limited | 04.12.2006 | At Bank Rate of Interest |
| 4 | Mr Nagarjun Valluripalli | Director & CEO | Unsecured Loan of Rs.111.52 lakhs (USD 2.5 lakhs) taken by Lanco Global Systems Inc. USA, from the Director & CEO | 04.12.2006 | Interest Free |
| 5 | Mr Nagarjun Valluripalli | Director & CEO | Unsecured Loan of Rs. 373.75 lakhs (USD 8,57,411) from Mr.Nagarjun Valluripalli, Director & CEO | 30.01.2007 | Interest Free |
| 6 | Lanco Group Limited | Common Directors | Temporary financial accommodation of Rs. 20 Lakhs from Lanco Group Limited. | 07.02.2007 | At Bank Rate of Interest |

6. The Company has debited the amount of Rs. 1,22,63,599/- towards the one fifth Goodwill written off for the year 2006-07 being the goodwill arising on merger of Lanco Global Systems Inc.
7. All Investments are unquoted Equity Shares.
8. Capital Work in Progress of Rs. 22,24,45,503/- (previous year Rs.15,27,97,227/-) towards the Capitalised Software & Product Development Cost.
9. Expenditure in Foreign Currency :
- | | | |
|--------------------|---------------------------|----------------------------|
| | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
| Foreign Travelling | 13,68,191/- | 1,17,969/- |



10. Foreign Exchange inflow and out go as reported by the Company to Government of India and as certified by Management.

| | <u>Current Year (Rs.)</u> | <u>Previous Year (Rs.)</u> |
|---|---------------------------|----------------------------|
| Foreign Exchange Inflow | 10,31,36,269/- | 6,77,82,345/- |
| Foreign Exchange out go (Capital Expenditure) | 52,68,469/- | 9,73,696/- |

11. The receivables have been considered at the actual rate at which the amount is realized and accordingly loss from Foreign Exchange fluctuation and Integral transactions of Rs. 11,12,022/- (net) has been reflected in Profit and Loss Account for the Year.
12. There are no dues to SSI Units outstanding for more than 30 days.
13. Confirmations were obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.
14. In accordance with Accounting Standard 22 (AS 22) issued by the ICAI, the Company has accounted for deferred income tax during the year. The deferred income tax provision for the current year amounts to Rs. 5,57,602/- towards deferred income tax liability. (Previous year Rs.6,36,752/- towards deferred income tax assets.).
15. Techorbit Inc., and Gopal IT Inc., have become wholly owned subsidiaries of Lanco Global Systems Inc, which had been merged during the year into Lanco Global Systems Limited pursuant to the order of The Honourable High Court of A.P and consequently the wholly owned subsidiaries of erstwhile Lanco Global Systems Inc., have now become wholly owned subsidiaries of Lanco Global Systems Limited.
16. The Term Loan Amounting to Rs. 200 Lacs and Working Capital Facility of Rs. 290 Lacs are secured against hypothecation of fixed assets present and future and personal guarantee of Shri V. Nagarjun, Director & CEO and collateral security of Flat No 501 & 502 at My Home Sarovar Plaza, Secretariat Road, Admeasuring 11,633 Sq.Fts owned by Sri. V.Nagarjun
17. Previous years figures have been regrouped wherever necessary.
18. The figures have been rounded off to the nearest rupee.

SIGNATURES TO SCHEDULES 1 To 14

As per our report of even date
For **PMURALI & CO.,**
CHARTERED ACCOUNTANTS

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

PMURALI MOHANA RAO
PARTNER

G.BHASKARA RAO
DIRECTOR

Y.ANAND SWAROOP
DIRECTOR & CEO

PLACE : HYDERABAD
DATE : 27-06-2007

Y.SRINIVASARAO
VICE PRESIDENT (F&A)

K.V .R. RAJU
COMPANY SECRETARY

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LANCO GLOBAL SYSTEMS LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st March, 2007.

(Rupees in Lakhs)

| | CURRENT YEAR | Previous Year |
|---|------------------|-----------------|
| A. CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net profit before taxation, and extraordinary Items | 877.45 | 185.26 |
| Adjustments for: | | |
| Depreciation | 231.04 | 46.01 |
| Foreign Exchange Fluctuation profit | 0.00 | (16.97) |
| Loss on Sale of Assets | 1.83 | |
| Interest expenses | 60.54 | 15.76 |
| Written off Expenses | 2.14 | 1.65 |
| Operating Profit before working capital changes | 1173.00 | 231.72 |
| Trade and other receivables | (5326.43) | (762.06) |
| Trade payables | 4294.25 | 451.96 |
| Cash generated from operations | 140.82 | (78.38) |
| Interest paid | (58.37) | (8.82) |
| NET CASH FLOW OPERATING ACTIVITIES | 82.45 | (87.20) |
| B. CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchase of Fixed Assets including Capital | | |
| Work-in-progress | (1621.83) | (257.00) |
| Pre-operative & Project Expenses | (9.10) | |
| NET CASH USED IN INVESTING ACTIVITIES | (1630.93) | (257.00) |
| C. CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Proceeds from Issue of Share Capital | 0.43 | 0.16 |
| Investment Subsidy | 0.00 | 2.50 |
| Unsecured Loan | 1745.19 | 299.60 |
| Proceeds from Term Loans | 66.90 | 9.56 |
| Net Proceeding from HP Loans | 0.00 | (1.92) |
| NET CASH USED IN FINANCING ACTIVITIES | 1812.52 | 309.90 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 264.03 | (34.30) |
| Cash and Cash equivalents Opening Balance | 10.94 | 45.24 |
| Cash and Cash equivalents Closing Balance | 274.97 | 10.94 |

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

G.BHASKARA RAO
DIRECTOR

YANAND SWAROOP
DIRECTOR & C.E.O

PLACE: HYDERABAD
DATE : 27-06-2007

Y.SRINIVASA RAO
VICE PRESIDENT(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, 2007. 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 27th June 2007 to the members of the company.

Place : Hyderabad
Date : 27.06.2007

For P. MURALI & CO
CHARTERED ACCOUNTANTS

P. MURALI MOHAN RAO
PARTNER

Statement pursuant to Section 212 of the Companies Act, 1956,
related to subsidiary companies

| Name of the subsidiary companies | | Global IT Inc | Techorbit Inc |
|----------------------------------|---|---|---|
| Sr. no | Particulars | | |
| 1. | Financial year | 31-03-2007 | 31-03-2007 |
| 2. | Shares of the subsidiary held by the Company on the above date: | | |
| a) | Number and face value | 1,00,000/ \$0.10 | 1,00,000/\$0.10 |
| b) | Extent of holding | 100% | 100% |
| 3 | The net aggregate of profit/(loss) of the subsidiary for the above financial year so far as they concern the members of the Company and is not dealt with in the accounts of the Company: | | |
| a) | For the financial year ended on 31 st March, 2007 | N.A | N.A |
| b) | For the previous financial year of the subsidiaries since it became a subsidiary | N.A | N.A |
| 4 | The net aggregate of profit/(loss) of the subsidiary for the above financial year so far as they concern the members of the Company and is dealt with in the accounts of the Company: | | |
| a) | For the financial year ended on 31 st March, 2007 | \$ 239712 | \$499737 |
| b) | For the previous financial year of the subsidiaries since it became a subsidiary | N.A | N.A |
| 5. | Change in the holding company's interest in the subsidiaries between the end of the financial year of the subsidiary and the end of the holding Company's financial year. | Not applicable as financial year coincides with that of the holding company | Not applicable as financial year coincides with that of the holding company |
| 6 | Material changes which have occurred between the end of the aforesaid financial year of the subsidiaries and the end of the holding company's financial year in respect: a) the subsidiaries fixed assets b) its investments c) money lent by the subsidiary company d) the money borrowed by it for any purpose other than that of meeting current liabilities | As the financial year of both holding and subsidiary companies coincide, there are no particulars to furnish. | As the financial year of both holding and subsidiary companies coincide, there are no particulars to furnish. |

Statement pursuant to exemption received under Section 212 (8) of the Companies Act, 1956 relating to subsidiary companies

In Rupees

| S.No | Description | Techorbit Inc | Global IT Inc |
|------|------------------------|---------------|---------------|
| a) | Capital | 435,900 | 4,35,900 |
| b) | Reserves & Surplus | 40,309,809 | 56,405,852 |
| c) | Total Assets | 175,179,187 | 330,507,052 |
| d) | Total Liabilities | 175,179,187 | 330,507,052 |
| e) | Details of Investments | Nil | Nil |
| f) | Turnover | 212,144,643 | 146,032,385 |
| g) | Profit Before Taxation | 21,783,535 | 10,449,046 |
| h) | Provision for Taxation | NIL | NIL |
| i) | Profit after taxation | 21,783,535 | 10,449,046 |
| j) | Proposed Dividend | NIL | NIL |
| k) | Reporting Currency | USD (\$) | USD (\$) |

As required under para (iii) of the Approval letter dated 22nd October 2007 issued by the Ministry of Company Affairs, India Rupee equivalent to the foreign currency figures, have been given based on the exchange rate as on 31-03-2007 (US \$ 1 = INR 43.59)



Consolidated Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

State Code

Registration No. -

Balance Sheet

Date

Date Month Year

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

Public Issue

Rights Issue

Bonus Issue

Private Placement

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

Total Liabilities

Total Assets

Sources of Funds Paid - Up Capital

Reserves & Surplus

Secured Loans

Un-Secured Loans/Deferred Tax Liability

Application of Funds

Net Fixed Assets

Investments

Net Current Assets

Misc. Expenditure

Accumulated Losses

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

Turnover

Total Expenditure

Profit/ Loss Before Tax

+ - Profit/ Loss After Tax

Earning Per Share in Rs.

Dividend rate %

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

Item Code No. (ITC Code) -

Product Description



LANCO GLOBAL SYSTEM LIMITED

Regd. Office : "Lanco House", 141, Avenue #8, Road #2,
Banjara Hills, Hyderabad - 500 034, Andhra Pradesh, INDIA

ATTENDANCE SLIP

8th Annual General Meeting - 29th December, 2007

DP Id* _____

Regd. Folio No. _____

Client Id* _____

I certify that I am a ** member/proxy for the member of the Company. I hereby record my presence at the 8th Annual General Meeting of the Company at KLN Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad - 500 004 at 11.00am Saturday the 29th day of December, 2007.

**Member/Proxy's Name in Black Letters

**Member's/Proxy's Signature

Note: Member/ Proxy must bring the Attendance Slip to the Meeting and hand it over signed, at the registration counter.

* Applicable for Investors holding shares in Electronic Form

** Strike out whichever is not applicable



LANCO GLOBAL SYSTEM LIMITED

Regd. Office : "Lanco House", 141, Avenue #8, Road #2,
Banjara Hills, Hyderabad - 500 034, Andhra Pradesh, INDIA

PROXY FORM

8th Annual General Meeting - 29th December, 2007

DP Id* _____

Regd. Folio No. _____

Client Id* _____

I/We _____
of _____ being a member members of

LANCO GLOBAL SYSTEMS LIMITED hereby appoint _____
of _____ or failing him/her _____
of _____ as my / our proxy to vote for me/ us on my / our behalf at 8th Annual General Meeting of the company to be held at KLN Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad - 500 004 at 11.00am on Saturday, the 29th day of Decemember, 2007.

Signed this _____ day of _____, 2007

Signature of the Proxy
Attested

Please
Affix Re1/-
Revenue
Stamp

Signature of Member

Signature

Note: 1. Proxy need not be a member.
2. Proxy Form, complete in all respects, should reach the Registered office of the Company not later than 48 hours before the commencement of the meeting.

*Applicable for Investors holing shares in Electronic Form.

