

DIRECTORS' REPORT

Dear Members,

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

(Rupees in Lakhs)

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

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

PERFORMANCE REVIEW

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

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

FIXED DEPOSITS

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

DIRECTORS

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

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

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

AUDITORS

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

DIRECTORS' RESPONSIBILITY STATEMENT:

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

- (i) That in the preparation of the annual accounts for the year ended March, 31st 2001, the applicable Accounting Standards have been followed along with proper explanation relating to material departures;
- (ii) That the directors had selected such Accounting Policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) That the directors had prepared the annual accounts on a going concern basis.

EMPLOYEE STOCK OPTION PLAN:

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

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

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

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

1. Company's Philosophy on Corporate Governance:

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

2. Composition and Category of Directors:

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

3. Details of Board Meetings held and Attendance of Directors

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

4. COMMITTEES OF DIRECTORS:

(i) Audit Committee:

(a) Brief description and terms of reference:

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

(b) Composition, Names of Members and Chairperson:

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

The Committee consists of the following members:

1. Mr. M.N.Nambiar
2. Prasad Rao VDM Ravella
3. Mr. Suresh Chukkapalli

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

(c) Meetings and attendance during the year.

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

(ii) Compensation Committee:

(a) Brief description:

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

(b) Composition and other details

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

1. Mr. V.K.Srinivasan
2. Mr.M.N.Nambiar
3. Mr. P.V. Subrahmanyam

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

(iii) Investors Grievance Committee/Share Transfer Committee:

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

1. Mr.L.Madhusudhan Rao
2. Mr.Suresh Chukkapalli

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

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

(b) Name and designation of Compliance Officer

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

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

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

(d) Number of pending share transfers

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

5. REMUNERATION TO DIRECTORS:

(a) Remuneration to Non-executive Directors:

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

(b) Remuneration to Executive Director:

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

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

Notes:

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

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

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

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

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

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

7. Disclosures

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

None.

(b) **Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchange or SEBI or**

any statutory authority, on any matter related to capital markets, during the last one year:

None.

8. Means of Communication:

- (a) Quarterly results are being published in two newspapers as per the Listing norms in Indian Express (English) and Andhra Prabha (Telugu).
- (b) The Management Discussion and Analysis Report forms part of the Directors' Report.

9. General Shareholder Information:

- (a) As indicated in the Notice to our Shareholders, The Annual General Meeting of the Company will be held on 28th, September 2001 at 3.00 P.M at Hotel Green Park, Greenlands, Begumpet, Hyderabad-500016.
- (b) The financial year of the Company is from April 1 to March 31.
- (c) Date of book closure: from September 22, 2001 to September 28, 2001 (both days Inclusive) for the purpose of the Annual General Meeting.
- (d) The shares of the company are listed on:
 - The Hyderabad Stock Exchange Limited (Regional Stock Exchange)
 - The Stock Exchange, Mumbai
 - The Ahmedabad Stock Exchange

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

(e) Stock Code:

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

Stock Code-BSE- LANGLSY Scrip Code No.32368

Stock Code-ASE-LANCOGLO Scrip Code No.32161

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

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

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

g. Registrar & Share Transfer Agents

M/s Aarthi Consultants (p) Ltd
1-2-285, Domalguda,
Hyderabad-500029.
Tel : 7642217, 7638111, 7633716

h. Share Transfer System:

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

i. Distribution of Shareholding:

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

j. Dematerialization of Shares:

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

k. Address for correspondence:

LANCO Global Systems Limited
8-3-993, Lanco Towers, Srinagar Colony,
Hyderabad-500073.

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

(forming part of Director's Report)

A. Indian Software Industry

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

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

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

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

B. Opportunities

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

C. Perceived Threats:

Availability of skilled Personnel

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

Competition

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

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

Exposure to overseas markets

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

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

OTHER PARTICULARS

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

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

NOTES :

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

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

CONSERVATION OF ENERGY:

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

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

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

RESEARCH & DEVELOPMENT:

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

FOREIGN EXCHANGE EARNINGS AND OUTGO:

Foreign Exchange Earnings: Rs.214.47 lakhs (F.O.B Value)

Foreign Exchange outgo: Rs.117.56 Lakhs (Capital goods imports)

Rs. 26.53 Lakhs (Foreign Travel)

ACKNOWLEDGEMENTS

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

For and on behalf of the Board

M.N.NAMBIAR
DIRECTOR

SURESH CHUKKAPALLI
DIRECTOR

Place:Hyderabad
Date:28.06.2001

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

P.MURALIMOCHAN RAO
Partner

Place: Hyderabad
Date : 28th June 2001