

REPORT ON CORPORATE GOVERNANCE

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.

1. BOARD OF DIRECTORS

A *The Board of Directors of the Company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the Board of Directors comprising of non-executive directors. In case the Company has an executive chairman, at least half of the Board should comprise of independent directors.*

The details of the Directors on the Board of the Company for the year 2002-2003 are given below:

Name	Category	Designation	Number of membership in Boards of other public Companies
Sri L. Rajagopal	Non-Executive	Chairman	9
Sri L. Madhusudhan Rao	Executive	Whole-Time Director	11
Sri Suresh Chukkapalli	Non-Executive Independent	Vice Chairman	6
Sri Y. Harish Chandra Prasad *	Non-Executive	Director	4
Sri M.N. Nambiar	Non-Executive Independent	Director	NIL
Sri V.K. Srinivasan	Non-Executive Independent	Director	NIL
Dr Prasada Rao VDM Ravella	Non-Executive Independent	Director	3
Dr Kilaru Hanumantha Rao	Non-Executive Independent	Director	NIL

* appointed to the Board with effect from 16-10-2002.

B. *All pecuniary relationship or transactions of the non-executive directors vis a vis the Company should be disclosed in the Annual Report.*

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

II. AUDIT COMMITTEE

A qualified and independent Audit Committee shall be set up having a minimum of three independent non-executive directors as members. The role of the Audit Committee shall include the following:

- **Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.**
- **Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for repayment for any other services.**
- **Receiving with management the annual financial statements before submission to the Board.**

The Audit Committee of the Board of Directors reviews, acts and reports to the Board of Directors with respect to various auditing and accounting matters, including the recommendation for appointment of our independent auditors, the scope of the annual audits, fees to be paid to the independent auditors, the performance of our independent auditors and other accounting practices.

The Audit Committee comprises of the following three non-executive directors. The Audit Committee reviews the quarterly and yearly financial results with the Management before being submitted to the Board for its consideration and approval.

Sri M.N. Nambiar	- Member
Sri Suresh Chukkapalli	- Member
Dr Prasada Rao VDM Ravella	- Member

Name	Number of Meetings held during the year	Number of Meetings attended during the year
Sri Suresh Chukkapalli	5	5
Sri M.N. Nambiar	5	4
Dr Prasada Rao VDM Ravella	5	1

III. REMUNERATION OF DIRECTORS

- A. *The remuneration of the non-executive directors shall be decided by the Board of Directors.*

No remuneration was paid to the non-executive directors during the year 2002-2003.

- B. *Appropriate disclosures on the remuneration of directors have to be made in the section on the corporate governance of the annual report;*

The remuneration Committee was reconstituted with three non-executive directors viz., Sri V.K. Srinivasan, Sri M.N. Nambiar and Sri Suresh Chukkapalli, as Members.

The Wholtime Director was appointed on a remuneration of Rs.10,000/- per month as per the recommendation of the Committee, which was approved by the Board subject to the approval of Members in the General Meeting.

IV. BOARD PROCEDURE

- A. *The Board of Directors of a Company shall meet at least four times a year, with a maximum time gap of four months between any two meetings.*

5 Board Meetings were held during the year 2002-2003. The dates on which the meetings were held are as follows:

19-04-2002, 23-07-2002, 23-08-2002, 16-10-2002 and 27-01-2003.

Agenda papers along with detailed notes were circulated to the Directors in advance for each of these meetings. All relevant information, as recommended by the SEBI Committee on Corporate Governance as well as items required under Clause 49 of the Listing Agreement were placed before the Board from time to time.

The attendance record of the Directors during the year 2002-2003 is given below:

Name	Number of meetings attended
Sri L. Rajagopal	3
Sri L. Madhusudhan Rao	3
Sri Suresh Chukkapalli	5
Sri Y. Harish Chandra Prasad *	NIL
Sri M.N. Nambiar	4
Sri V.K. Srinivasan	1
Dr Prasada Rao VDM Ravella	1
Dr Kilaru Hanumantha Rao	NIL

* appointed to the Board with effect from 16-10-2002.

B. Company further agrees that a director shall not be a member in more than 10 committees or act as chairman of more than five committees across all companies in which he is a director.

None of the Directors of our Company was member in more than 10 committees nor acted as chairman of more than five committees across all companies in which they were directors. Details of Board memberships positions occupied by the Directors, across all companies, have been given at the beginning of the section.

V. MANAGEMENT

A. Management discussion and analysis report shall form part of the Annual Report to the shareholders

IT SCENARIO

Despite an economically challenging environment that characterized global markets, the export-oriented software and services sector logged in 26 percent growth during 2002-03. It was a creditable performance marked by a hike in software and services exports and a major jump in IT-enabled services/BPO activity.

IT software and services exports accounted for the bulk of revenues generated by the sector, with

revenues increasing from Rs. 36,500 crore in 2001-02 to Rs. 47,500 crore during 2002-03.

The economic downturn that has been sweeping the worldwide markets contributed in large part to the overall reduction in momentum of the Indian software and services sector. While it substantially slowed down the IT services segment within software exports, it interestingly beefed up the growth of the IT-enabled services/BPO market. Increased outsourcing by US companies to cut costs and improve bottom lines, improved India's prospects in the export market.

Some of the major trends in global IT spending during 2002-03 were as follows:

- stepped up offshore spending. Global companies increased their software development outsourcing to low cost offshore centres such as India.
- strategic outsourcing. A number of leading international companies began opting for long term strategic outsourcing rather than small, medium-term projects.
- enhanced focus on ROI. With Return on Investment issues bagging centre stage global companies have been focusing on maintenance and enhancement of existing applications rather than new projects.
- vendor consolidation. Customers are preferring to deal with a smaller number of vendors to simplify project management.

Trends in Indian software and services exports : Indian software and services export witnessed the following trends:

- Indian companies increased their share of global IT spend. The software industry's software exports share of the overall global market rose to 1.9 percent in 2001-02, up from 1.5 percent in 2000-01.
- While Indian software and services companies began looking at ways to increase penetration in new geographies such as Europe and Asia Pacific, the country's share of software exports to Europe actually declined during 2002-03 on account of lowered IT spend by companies in this market.

- ICT multinationals operating in the Indian market hiked their share within the software exports segment—both in the areas of IT services and IT-enabled services/BPO.
- Indian IT vendors expanded their verticals focus to include verticals such as healthcare, retailing and utilities.
- Indian companies entered into high value segments such as systems integration, package implementation, IT outsourcing and IT consulting in an effort to scale up.

Future opportunities for Indian IT software and services companies :

A fresh wave of opportunities is sweeping the Indian software industry and key players are gearing up to tap into this emerging potential. The outlook for the Indian software services industry is bright on account of the following reasons:

- Offshoring: Owing to a successfully offshore delivery model, a major offshoring opportunity is likely to open up for Indian software and services vendors. While currently, around 40 companies have offshored amounts of more than US\$ 20 million to India, the figures are expected to rise significantly.
- Work relocation: Large global systems integration majors such as IBM Global services are expanding their presence in India to take advantage of the country's cost and manpower strengths.
- Traditional service lines: There is significant opportunity for Indian companies in existing services lines such as application outsourcing and custom application development where the country has a 14-16 percent market share.
- New service lines: Non traditional service lines such as packaged software installation and support, IS/R&D outsourcing, etc. are now being offshored to India.

PERCEIVED THREATS

The global phenomenon by the major customers to consolidate the vendors to a select few is one

of the threats. The company is trying to ward off these threats by developing niche strengths in verticals like finance and logistics and in technology like web.

Customers are becoming more conscious about quality and are looking for international quality certifications like ISO and CMM. Though the Company is an ISO 9001 company, it is yet to receive CMM certification. The Company has already made significant progress towards CMM certification and expects to receive the CMM Level 5 certification.

STRATEGIES OF THE COMPANY

The Company would continue to develop as quality niche player. Because of the focus on quality and timely delivery, the Company has been able to get fortune 500 clients like BASF and GE.

Instead of spreading thin, the Company would continue to focus on marketing effort towards select few, clients where chances of success are high.

B. Disclosures must be made by the management to the Board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the Company at large.

During 2002-03, no transactions of material nature had been entered into by the Company with the Management or their relatives that may have a potential conflict with interests of the Company.

VI. SHAREHOLDERS

A In the case of appointment of a new director or re-appointment of a director, the shareholders must be provided with the following information :

- a brief resume of the director
- nature of his expertise in specific functional areas
- names of companies in which the person also holds the directorship

The notice for the Annual General Meeting complied with this requirement.

- B. A Board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressing of shareholders and complaints like transfer of shares, non receipt of balance sheet, non receipt of declared dividends, etc. This committee shall be designated as 'shareholders/ investors grievance committee.'**

The administrative and Shareholders/Investors Grievance Committee administered the following:

- redress shareholder and investor's complaints etc. relating to transfer of shares, non receipt of balance sheet, non receipt of declared dividends
- consolidate and sub-divide share certificates
- approve transmission and issue of duplicate/ fresh share certificate

The composition of the Shareholders/ Investors Grievances Committee is as follows :

Sri L. Madhusudhan Rao - Member

Sri Suresh Chukkappalli - Member

- C. The Board of the Company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents so as to expedite the process of share transfers.**

The Board has delegated the power of share transfer to Registrars and Share Transfer Agents who processes share transfers.

VII. COMPLIANCE

A certification shall be obtained from the auditors of the Company regarding compliance of conditions of corporate governance as stipulated and the same sent to the shareholders along with the directors' report which is sent annually to all the shareholders of the Company.

The certificate obtained from our statutory Auditors M/s Mogili Sridhar & Co., Chartered Accountants appears in the Annual Report.

VIII. GENERAL MEETINGS

Details on Annual General Meetings (AGM) :

1.1. Location and time, where last three AGMs held:

Year	Location	Date	Time
1999-00	Registered Office of the Company at 141, Avenue # 8, L.V.Prasad Marg, Banjara Hills, Hyderabad.	July 19, 2000	11.30 A.M.
2000-01	Hotel Green Park, Greenlands, Begumpet, Hyderabad.	September 28, 2001	3.00 P.M.
2001-02	K.L.N. Prasad Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 27, 2002	4.00 P.M.

1.2. Whether Special Resolutions were put through Post Ballot last year.

No.

1.3. Persons who conducted the Postal Ballot exercise.

Not Applicable.

1.4. Are Polls proposed to be conducted through Postal Ballot this year.

No resolutions requiring postal ballot for matters as required under Clause 4 of the Companies (Passing of Resolutions by Postal Ballot) Rules, 2001 have been placed for Shareholders' approval at the Meeting.

Attendance of Directors at AGMs during the last financial year:

Name	AGM during the last financial year
Sri L. Rajagopal	No
Sri L. Madhusudhan Rao	No
Sri Suresh Chukkapalli	Yes
Sri Y. Harish Chandra Prasad *	—
Sri M.N. Nambiar	Yes
Sri V.K. Srinivasan	Yes
Dr Prasada Rao VDM Ravella	No
Dr Kilaru Hanumantha Rao	No

* appointed to the Board with effect from 16-10-2002.

IX. GENERAL SHAREHOLDERS INFORMATION

The following information would be useful to our shareholders :

Sl.No.	Information	
1.	Annual General Meeting - Date and Time - Venue	September 27, 2003 at 3.00 P.M. Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B. No.14, Hyderabad – 500 004.
2.	Financial Calender - Financial reporting for the quarter ended June 30, 2003 - Financial reporting for the half year ending September 30, 2003 - Financial reporting for the quarter ending December 31, 2003 - Financial reporting for the year ending March 31, 2004 - Annual General Meeting for the year ending March 31, 2004	(Tentative schedule) Before end July, 2003 Before end October, 2003 Before end January, 2004 Before end April, 2004 Before end September, 2004

3.	Book Closure Date (both days inclusive)	25-09-2003 to 27-09-2003
4.	Dividend Payment Date	Not Applicable
5.	Listing on Stock Exchanges at :	Hyderabad, Mumbai and Ahmedabad. The Company has paid the listing fee for the period ending 31 st March, 2004
6.	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
7.	Demat ISIN Number - for NSDL & CDSL	INE 425B 01019.

8. Stock Market Data :

(In Rs.)

The Stock Exchange, Mumbai		
Month	High	Low
April' 02	22.45	13.25
May' 02	18.40	12.55
June' 02	19.80	11.50
July' 02	17.70	10.50
August' 02	13.50	13.00
September' 02	12.50	9.50
October' 02	11.00	9.20
November' 02	—	—
December' 02	15.00	11.00
January' 03	13.50	8.50
February' 03	13.90	11.00
March' 03	10.65	7.25

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

9.	Stock Performance in comparison to broad-based indices such as BSE Sensex, BSE 200, Nifty	The Price of the Equity Share of the Company broadly moved in tandem with the said indices.
10.	Registrars & Share Transfer Agents	Aarthi Consultants Pvt. Ltd 1-2-285, Domalguda, Hyderabad – 500 029.
11.	Share Transfer System	The shareholders are advised to contact the Registrars and Share Transfer Agents at their address for effecting transfer of shares both in physical and electronic form.

12. Details of queries/complaints received and resolved during the year 2002-2003.

Nature of Complaint	Received	Resolved
Change of Address	5	5
Name Correction	1	1
I/B for Duplicate share certificate	2	2
Other Complaints	3	3
Total:	11	11

The complaints had been attended to within 7 days from the date of receipt of the complaint, as communicated by our Share Transfer Agents & Registrars, M/s Aarthi Consultants Pvt., Ltd.

13. Distribution of Shareholding as of March 31, 2003 :

Nominal Value of Shareholding (in Rs.)	No. of Shareholders	Percentage	No. of shares	Percentage
Up to 5,000	1382	83.66	278266	2.61
5,001 - 10,000	130	7.84	90417	0.85
10,001 - 20,000	39	2.36	67510	0.63
20,001 - 30,000	16	0.97	37100	0.35
30,001 - 40,000	3	0.18	10850	0.10
40,001 - 50,000	3	0.18	14078	0.13
50,001 - 1,00,000	24	1.45	196451	1.84
1,00,001 and above	55	3.33	9962328	93.49
TOTAL	1652	100.00	10657000	100.00

14. Categories of Shareholding as on March 31, 2003 :

Sl. No.	Category	No. of Shares held	% of shareholding
A.	Promoter's holding		
1.	Promoters		
	- Indian Promoters	422900	3.97
	- Foreign Promoters	4795650	45.00
2	Persons acting in Concert		
	Friends & Associates	1459500	13.70
	Sub-Total	6678050	62.66

Sl. No.	Category	No. of Shares held	% of shareholding
B.	Non-Promoters Holding		
3	Institutional Investors	NIL	NIL
4	Others		
	- Private Corporate Bodies	483931	4.54
	- Indian Public	2179915	20.46
	- NRIs / OCBs	324454	3.04
	- Any other (Trusts)	990650	9.30
	Sub-Total	3978950	37.34
	Grand Total	10657000	100.00

15.	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 any depository participant.
16.	Outstanding convertible instruments	As of March 31, 2003, there are no outstanding convertible instruments.
17.	Members can contact us at our registered office and corporate office:	<p>Registered Office: Lanco House, 141, Avenue # 8, L.V. Prasad Marg, Banjara Hills, HYDERABAD – 500 034. Phone # +91-40-2354 0697, 701 Fax # +91-40-2354 0699</p> <p>Corporate Office: 8-3-993, Lanco Towers, Srinagar Colony, Hyderabad – 500 073. Phone # +91-40-55511161-62 Fax # +91-40-2375 5413 Website: www.lancoglobal.com</p>

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members,
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, 2003 as stipulated in clause 49 of the listing agreement of the said company with the Stock Exchanges.

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

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

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

For MOGILI SRIDHAR & CO.,
CHARTERED ACCOUNTANTS

P. MURAL MOHAN RAO
PARTNER

Place : Hyderabad,
Date : 30-07-2003.