

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

(i) The details of the Directors on the Board of the Company for the year 2004-2005 are given below:

Name	Category	Designation	Number of membership in Boards of other Public Companies	Only Chairmanship in Committees of Boards of Other Companies	Only Membership in Committees of Boards of Other Companies
Sri L. Madhusudhan Rao	Executive	Chairman & Whole-time Director	9	NIL	2
Sri Suresh Chukkapalli	Non-Executive Independent	Vice Chairman	4	NIL	NIL
Sri G. Bhaskara Rao	Non-Executive	Director	10	5	5
Sri Y. Harish Chandra Prasad	Non-Executive	Director	5	2	5
Sri M.N. Nambiar	Non-Executive Independent	Director	NIL	NIL	NIL
Sri V.K. Srinivasan	Non-Executive Independent	Director	NIL	NIL	NIL
Dr Prasada Rao VDM Ravella	Non-Executive Independent	Director	2	NIL	NIL
Dr Kilaru Hanumantha Rao	Non-Executive Independent	Director	NIL	NIL	NIL

(ii) Meetings & Attendance during the year

5 Board Meetings were held during the year 2004-2005. The dates on which the Meetings were held are as follows:

29.04.2004, 29.07.2004, 15.10.2004, 31.01.2005 and 29.03.2005

The attendance of each Director at Board Meetings during the year 2004-2005 and the last A.G.M is given below:

Name	Number of Board Meetings attended	Attendance at the last A.G.M.
Sri L. Madhusudhan Rao	5	Yes
Sri Suresh Chukkapalli	5	Yes
Sri G. Bhaskara Rao	5	Yes
Sri Y. Harish Chandra Prasad	5	Yes
Sri M.N. Nambiar	3	Yes
Sri V.K. Srinivasan	5	Yes
Dr Prasada Rao VDM Ravella	NIL	No
Dr Kilaru Hanumantha Rao	NIL	Yes

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.

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

3. AUDIT COMMITTEE
(i) Brief descriptions of terms of reference

The Audit Committee consists of only Non-Executive Independent 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 statement is 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.

(ii) Composition

The Audit Committee comprises of the following Four Non-Executive Independent Directors.

Sri M.N. Nambiar	-	Chairman
Sri Suresh Chukkapalli	-	Member
Dr. Prasada Rao VDM Ravella	-	Member
Sri V.K. Srinivasan	-	Member

(iii) Meetings & Attendance during the year

5 Audit Committee Meetings were held during the year 2004-2005. The dates on which the Meetings were held are as follows:

29.04.2004, 29.07.2004, 15.10.2004, 31.01.2005 and 29.03.2005

The attendance record of the Directors during the year 2004-2005 is given below:

Name	No. of Meetings held during the year	Number of Meetings attended during the year
Sri M.N. Nambiar	5	3
Sri Suresh Chukkapalli	5	5
Dr Prasada Rao VDM Ravella	5	NIL
Sri V.K. Srinivasan	5	5

The Meetings of the Audit Committee were attended by the Head of Finance and Internal Auditors and Statutory Auditors as Invitees. The Quarterly and Annual audited financials of the Company were reviewed by the Audit Committee before consideration and approval by the Board of Directors. The Committee reviewed the adequacy of Internal Control Systems and Internal Audit Reports and the various compliances.

4. REMUNERATION & COMPENSATION COMMITTEE

Composition and terms of reference

The Remuneration & Compensation Committee consists of the following three Non-Executive Independent Directors. Remuneration & Compensation Committee determines Compensation and Benefits for Executive Directors.

Sri V.K. Srinivasan	-	Chairman
Sri M.N. Nambiar	-	Member
Sri Suresh Chukkapalli	-	Member

5. SHAREHOLDERS'/ INVESTORS' GRIEVANCE COMMITTEE

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

The Committee is headed by a Non-Executive Independent Director.

Sri Suresh Chukkapalli	-	Chairman
Sri L. Madhusudhan Rao	-	Member

(ii) The Name and Designation of Compliance Officer

The Name and Designation of the Compliance Officer of the Company is Sri C. Krishnakumar, Company Secretary.

(iii) Details of requests/complaints received, resolved and pending during the year 2004-2005

Nature of Complaint	Received	Resolved	Pending
Change of Address	2	2	0
Duplicate Share Certificates	3	3	0
Others	3	3	0
Total:	8	8	0

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

Year	Location	Date	Time
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.
2002-03	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 27, 2003	3.00 P.M.
2003-04	Surana Udyog Auditorium, The Federation of Andhra Pradesh Chambers of Commerce and Industry, Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad.	September 28, 2004	3.00 P.M.

(ii) Whether Special Resolutions were passed through Post Ballot last year.

No.

(iii) Persons who conducted the Postal Ballot exercise.

Not Applicable.

(iv) Whether any Special Resolution is proposed to be conducted through postal ballot.

No

(v) Procedure for postal ballot.

Not Applicable

7. DISCLOSURES

There are no materially significant related party transactions having potential conflict with the interests of the Company at large.

There is no Accounting treatment different from the prescribed Accounting standards.

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.

8. MEANS OF COMMUNICATION

The Company's Quarterly, Half Yearly and Annual financial results are up loaded on the EDIFAR website maintained by National Informatics Center (NIC).

The same are generally published in the Business Standard (In English) and Andhra Bhoomi (In Telugu) News Papers.

As required by the Listing Agreement, the Management Discussion and Analysis Report is provided elsewhere in the Annual Report.

9. GENERAL SHAREHOLDERS INFORMATION

(i) **Annual General Meeting**

- | | |
|-----------------|--|
| - Date and Time | September 28, 2005 at 3.00 P.M. |
| - Venue | Surana Udyog Auditorium,
The Federation of Andhra Pradesh Chambers of Commerce and Industry,
Federation House, 11-6-841, Red Hills, P.B.14, Hyderabad-500 004. |

(ii) **Financial Calendar for the Year 2005-06 (tentative)**

Tentative Schedule		
1.	- Financial reporting for the quarter ended June 30, 2005	Before end July, 2005
2.	- Financial reporting for the half year ending September 30, 2005	Before end October, 2005
3.	- Financial reporting for the quarter ending December 31, 2005	Before end January, 2006
4.	- Financial reporting for the year ending March 31, 2006	Before end April, 2006
5.	- Annual General Meeting for the year ending March 31, 2006	Before end September, 2006

- | | | |
|---------------------------------------|---|--|
| (iii) Book Closure Dates | : | 24.09.2005 to 28.09.2005 (both days inclusive) |
| (iv) Dividend Payment Date | : | Not Applicable |
| (v) Listing on Stock Exchanges | : | The Hyderabad Stock Exchange Limited, Hyderabad
The Stock Exchange, Mumbai. |

The Company has paid the listing fee for the period ending 31st March, 2006

(vi) Stock Code:

S.No.	Exchange	Code
1.	Hyderabad Stock Exchange	Stock Code : HSE -LAGLOB Scrip Code No. : 6426
2.	Bomaby Stock Exchange	Stock Code : BSE - LANGLSY Scrip Code No. : 532368

(vii) Stock Market Price Data relating to Equity Shares listed in the Hyderabad Stock Exchange & The Stock Exchange, Mumbai.

(In Rs.)

The Stock Exchange, Mumbai		
Month	High	Low
April '04	5.30	3.00
May '04	7.50	3.02
June '04	6.48	4.50
July '04	6.00	5.13
August '04	9.25	7.00
September '04	9.45	5.56
October '04	10.76	6.24
November '04	10.45	7.32
December '04	9.80	7.22
January '05	11.82	8.42
February '05	11.15	8.07
March '05	24.90	8.00

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) Stock Performance in comparison to broad-based indices such as BSE Sensex, etc.,

The Price of the Equity Share of the Company broadly moved in tandem with the said indices.

(ix) Registrars & Share Transfer Agents

Aarthi Consultants Private Limited,
 1-2-285, Domalguda,
 Hyderabad – 500 029, A.P. India.
 Phone : +91-40-27634445, 27638111
 Fax : +91-40-27632184
 Email : hyd2_aarcons@sancharnet.in

(x) Share Transfer System

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

(xi) (a). Distribution of Shareholding by size class as of March 31, 2005:

Nominal Value of Shareholding (in Rs.)	No. of Shareholders	Percentage	No. of Shares	Percentage
Up to 5,000	1236	82.68	245345	2.30
5,001 - 10,000	112	7.49	81291	0.76
10,001 - 20,000	53	3.55	85778	0.80
20,001 - 30,000	28	1.87	68111	0.64
30,001 - 40,000	7	0.47	24549	0.23
40,001 - 50,000	3	0.20	13128	0.12
50,001 - 1,00,000	18	1.20	146555	1.38
1,00,001 and above	38	2.54	9992243	93.76
TOTAL	1495	100.00	10657000	100.00

(b). Distribution of Shareholding by Ownership as on March 31, 2005:

S.No.	Category	No. of Shares held	% of shareholding
A.	Promoter's holding		
1.	Promoters		
	- Indian Promoters	172900	1.62
	- Foreign Promoters	4795650	45.00
2.	Persons acting in Concert		
	- Friends & Associates	NIL	NIL
	Sub-Total	4968550	46.62
B.	Non-Promoters Holding		
3.	Institutional Investors	NIL	NIL
4.	Others		
	- Private Corporate Bodies	2190596	20.55
	- Indian Public	1000550	9.39
	- NRIs / OCBs	1506654	14.14
	- Any other (Trusts)	990650	9.30
	Sub-Total	5688450	53.38
	Grand Total	10657000	100.00

(xii) 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.

(xiii) Outstanding convertible instruments

As of March 31, 2005, there are no outstanding convertible instruments.

(xiv) Address for Correspondence

Registered Office:

"Lanco House", 141, Avenue # 8, Road # 2,
Banjara Hills, Hyderabad- 500 034. A.P. India.
Phone: +91-40-23540695, 701
Fax : +91-40-23540699

Corporate Office:

"Lanco Towers", 8-3-993, Srinagar Colony,
Hyderabad - 500 073. A.P. India.
Phone: +91-40-23755403, 55511161, 62
Fax : +91-40-23755413
Website: www.lancoglobal.com

II. NON-MANDATORY REQUIREMENTS

1. CHAIRMAN OF THE BOARD

The Chairman of the Company was a Wholetime Director of the Company during the year and hence this provision is not applicable.

2. REMUNERATION COMMITTEE

All the requirements of the Remuneration Committee have been complied.

3. SHAREHOLDER RIGHTS

The Quarterly, Half Yearly and Annual Results were displayed on the EDIFAR website maintained by National Informatics Center (NIC).

4. POSTAL BALLOT

There are no items requiring approval through postal ballot and hence this item is not applicable.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

IT SCENARIO

IT services and software continue to be the mainstay of Indian IT-ITES, remaining unchanged in fiscal 2005 as compared to fiscal 2004. Exports account for a majority share of the segment revenue, the offshore-service-delivery with US and Western Europe as the key markets. Accompanying the remarkable performance in exports, is the steady growth in domestic demand, which further contributes to this segment's standing in the Indian IT-ITES industry.

IT services and software exports grew from US\$ 7.1 billion in 2002-03 to US\$ 9.2 billion in FY 2003-04 – a growth of over 30 percent over the previous year. Export revenues are expected to reach US\$ 12.2 billion by 2004-05.

In IT-services-exports, during 2003-04, project-oriented services (including IT consulting, System Integration and Custom Application Development and Maintenance) grew by 19 percent, IT Outsourcing grew by 27 percent and Support and Training, by 65 percent.

THE GLOBAL SCENARIO

Global IT-ITES spending is expected to grow at a CAGR of 7.9 percent over 2004-08. IT spending, comprising amounts spent on hardware, software and IT services is forecast to grow at a CAGR of 6.3 percent over the same period. ITES-BPO is expected to grow at a significantly higher CAGR of over 11 percent over the same period.

The ITES-BPO industry generated total revenues of US\$ 3.9 billion in 2003-04, representing a growth of around 45.3 percent over the previous year. The sector is expected to touch revenues of around US\$ 5.7 billion by the end of 2004-05, at a growth rate of 44.4 percent.

INDIAN ITES-BPO EXPORTS BY KEY SERVICE LINES – BETWEEN 2003-2005

The global-financial services-vertical remained the largest user of Indian ITES-BPO services, followed by telecom, healthcare and airline segments.

Customer care and support services were the main revenues earners within the ITES-BPO export market accounting for 38 percent of the industry's employee base and a third of its revenues. Other leading service-lines were Finance (revenue contribution of 23 percent), Administration (15 percent) and content development (15 percent).

HR ITES-BPO recorded growth, with Indian players moving beyond just benefits and payroll outsourcing to higher-end ITES-BPO engagements.

Customer analytics and CRM, legal transcription support, Knowledge Process Outsourcing and Financial Process Outsourcing (FPO) emerged as new, high-potential service lines for ITES-BPO companies.

IT users targeted their enterprise application software spending on ERP, CRM, SCM and Business Intelligence packages during 2004.

While the ERP market in India generated revenues of around US\$ 60 million in 2003-04, the domestic market for CRM applications during 2004 was estimated to be around US\$ 16.5 million in India. The SCM solutions segment achieved a turnover of US\$ 16.5 million in 2004, while BI software market in the country was valued at US\$ 22 million.

KEY TRENDS FORECAST FOR GLOBAL IT-ITES BETWEEN 2005-08

Emerging geographies such as Central and Eastern Europe, China and India are expected to drive demand.

Enterprise level innovation focused on mainstream business applications with an emphasis on ease-of-use computing is expected to be in place.

Emphasis on cost reduction and increased process focus in the IT business services segments to drive increased leverage of the offshore model is expected to be in place.

Increased adoption of off-shore outsourcing as organizations adapt to the global sourcing phenomenon is expected to be in place.

OPPORTUNITIES, THREATS, RISKS AND CONCERNS

The company's strategy towards growth in the future would focus around the following services:

- Professional Services Engagements

The Company would concentrate on partnerships globally to help address customers pressing demand for resources. The domains in which talent would be sought would be primarily in the ERP and Business Intelligence and Data warehousing domains.

- Global ERP implementations and roll-outs

The Company will concentrate on winning ERP Implementation Accounts in the domestic markets. Simultaneously efforts would be on to win overseas ERP Consultancy Projects.

- Enhance Offshore Delivery and Support Project Growth

Offshore development projects would be a major source of business growth. The Company would achieve this through the focus on selling value added services through our in-house frameworks which concentrate on accelerated project delivery and enhanced performance in the ERP areas. 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.

- Vertical focus – Verticals in Financial services, Life sciences, Energy and Manufacturing would be aimed to grow consulting base and business strategy.

Build Industry specific templates – Industry specific templates around the verticals would be built to provide ready, off the shelf solutions to Small and Medium customers.

- Setting up new offices to be a global player.

The Company plans to setup offices in Middle-East, Europe and Asia pacific through local partners.

- The Company plans to expand the foot print within existing customers through new service offerings in the new dimension technologies and value added services.

- The Company plans to identify companies for Mergers and Acquisitions to accelerate inorganic growth.

- The Company plans to setup BPO operations in the domains of Finance, Customer support, HR and legal services.

- Setting up of Testing facilities - Test Program Management, Automation and Regression Testing, Performance Benchmarking, Web Testing are the services which would be provided through the testing facilities.

Skilled manpower, considered as a key to offshore success, has remained one of the key concerns and challenges for the country's IT sector. 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.

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.

COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE

To
The Members,
M/s. 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 M/s Lanco Global Systems Limited ("the company") for the year ended 31st March, 2005 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 the above mentioned Listing Agreement.

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

For P. MURALI & CO.,
CHARTERED ACCOUNTANTS

P. MURALI MOHANA RAO
PARTNER

PLACE : HYDERABAD,
DATE : 29.07.2005.