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**Lanco Global Systems Limited**

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**SEVENTH ANNUAL REPORT**

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## LANCO GLOBAL SYSTEMS LIMITED

### BOARD OF DIRECTORS

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

### COMPANY SECRETARY

Shri K V R Raju

### GENERAL MANAGER (Finance & Accounts)

Shri Y Srinivasa Rao

### AUDITORS

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

### REGISTERED OFFICE

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

### SOFTWARE DEVELOPMENT CENTRE & CORPORATE OFFICE

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

### BANKERS TO THE COMPANY

State Bank of India  
Oriental Bank of Commerce  
Andhra Bank

### REGISTRARS & SHARE TRANSFER AGENTS

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





## LANCO GLOBAL SYSTEMS LIMITED

### NOTICE

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

### **ORDINARY BUSINESS**

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

### **NOTES :**

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

By Order of the Board

**For LANCO GLOBAL SYSTEMS LIMITED**

Place : Hyderabad,  
Date : 04.12.2006.

K V R RAJU  
COMPANY SECRETARY

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

(a) Sri G Bhaskara Rao

Sri G Bhaskara Rao, (52) did his M. Tech. in (Mech. Design). He has rich experience in Engineering, Technology, Construction, Power, Administration and Management etc. He has traveled extensively through out the world. He is a Director on the Boards of Lanco Electric Utility Limited, Lanco Group Limited, Clarion Power Corporation Ltd., Lanco Industries Ltd., Lanco Infratech Ltd., Rithwik Energy Systems Ltd., Aban Power Company Ltd., Vamshi Industrial Power Ltd., Lanco Kondapalli Power Private Ltd., Lanco Amarkantak Power Private Ltd., Lanco Green Power Private Ltd., Himavat Power Private Ltd., Pragdisa Power Private Ltd., Chamba Hydro Power Private Ltd., Chatari Hydro Power Private Ltd., Dharmashala Hydro Power Private Ltd., Diyothal Hydro Power Private Ltd., Parvat Hydro Power Private Ltd., Coral Orchids Private Ltd., Garnet Grooves Private Ltd., Lanco Property Management Company Pvt. Ltd., Lanfin Ventures Private Ltd., Lanfin Trustee Private Ltd., Lanco Hydro Energies Private Ltd., Ravi Hydro Electric Private Ltd., Himachal Hydro Power Private Ltd., Uranus Infratech Pvt Ltd., Saffire Farms Pvt. Ltd., Chobia Hydro Power Pvt. Ltd., Lanco Hills Technology Park Pvt. Ltd., Lanco Electric Pvt. Ltd., Jupiter Infratech Pvt. Ltd., Mercury Field Pvt. Ltd., Emerald Orchids Pvt. Ltd. and Occidental Power Private Ltd. He is also a partner in M/s S V Contractors. He is a Member of several reputed institutions. He is also a member of Audit Committee of Lanco Global Systems Limited, Lanco Industries Ltd., Vamshi Industrial Power Limited, Aban Power Co. Ltd, Lanco Infratech Ltd., Lanco Amarkantak Power Pvt Ltd and a mem-

ber of Management Committee of Lanco Amarkantak Power Pvt Ltd and a member of Share Allotment Committee of Lanco Amarkantak Power Pvt Ltd and Lanco Global Systems Ltd. He holds 600 equity shares of Rs.10/- each in the Company and a member of Shareholders'/Investors' Grievance Committee of Lanco Industries Limited.

(b) Dr. Prasada Rao VDM Ravella

Dr. Prasada Rao VDM Ravella (56) is a NRI director. He took his Medical Degree from Guntur Medical College and General Practice Residency from Ravenswood Hospital, Chicago, IL, USA. He is a member of Medical Association, Chicago Medical Society. He holds State of Illinois Medical License and Drug Enforcement Agency License. From 1980 to 1995 he worked in different capacities in Lincoln West Hospitals, Chicago, IL, USA. He is on the Board of Directors of Millennium Finance Ltd. He is also a member of Audit Committee, Remuneration and Compensation Committee and Share Allotment Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

By Order of the Board  
For LANCO GLOBAL SYSTEMS LIMITED

Place : Hyderabad,  
Date : 04.12.2006.

K V R RAJU  
COMPANY SECRETARY



## DIRECTORS' REPORT

To  
The Members

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

### FINANCIAL RESULTS (Rupees in Lakhs)

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

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

### DEVELOPMENTS DURING THE YEAR AND THEREAFTER

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

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

### DIRECTORS

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

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

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

### DEPOSITS

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

### AUDITORS

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

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

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are as follows:

#### CONSERVATION OF ENERGY

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

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

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

### RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

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

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

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

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

### FOREIGN EXCHANGE EARNINGS AND OUTGO

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

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

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

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

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

### PARTICULARS OF EMPLOYEES

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

### REPORT ON CORPORATE GOVERNANCE

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

### DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors hereby confirm that:

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

### ACKNOWLEDGEMENTS

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

FOR AND ON BEHALF OF THE BOARD

Place : Hyderabad,  
Date : 04.12.2006.

L MADHUSUDHANA RAO  
CHAIRMAN



## **REPORT ON CORPORATE GOVERNANCE**

### **I. MANDATORY REQUIREMENTS**

#### **1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE**

The basic philosophy of corporate governance of the company is to achieve business excellence and enhance shareholder value keeping in view the interest of all stake-holders. The company stands by transparency in all its dealings and strict regulatory compliance.

#### **2. BOARD OF DIRECTORS**

##### **a) Composition**

The Board comprises of 7 directors. The Board consists of appropriate mix of executive and non-executive directors. There are 6 non-executive directors, including 3 independent directors.

##### **b) Board Meetings**

9 Board Meetings were held during the year 2005-2006. The dates on which the Meetings were held are 23.04.2005, 27.06.2005, 11.07.2005, 29.07.2005, 26.08.2005, 21.10.2005, 14.12.2005, 30.01.2006 and 28.03.2006.

Agenda papers along with detailed notes were circulated to the Directors in advance for each of these meetings. All relevant information, as required was placed before the Board from time to time.

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

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(i) The details of the Directors on the Board of the Company for the year 2005-2006 are given below:

Name	Category	Designation	Number of Member-ships in Boards of other Public Limited Companies	Only Chairman-ship in Committees of Boards of other Companies	Only Member-ship in Committees of Boards of other Companies	No. of Board meetings attended	Attendance at last AGM
Shri L Madhusudhana Rao	Non-Executive	Presently Chairman. Upto 27.6.2005 Chairman & Whole Time Director	9	NIL	NIL	5	Yes
Shri Suresh Chukkapalli	Non-Executive Independent	Vice Chairman till 28.9.2005. Retired as a director on 28.9.2005 and not reappointed	2	NIL	NIL	5	Yes
Shri G Bhaskara Rao	Non-Executive	Director	9	3	5	9	Yes
Shri Y Harish Chandra Prasad	Non-Executive	Director	6	2	5	4	Yes
Shri M N Nambiar	Non-Executive Independent	Director	NIL	NIL	NIL	8	Yes
Shri V K Srinivasan	Non-Executive Independent	Director till 01.09.2006	NIL	NIL	NIL	9	Yes
Dr Prasada Rao VDM Ravella	Non-Executive Independent	Director	1	NIL	NIL	2	No
Dr Kilaru Hanumantha Rao	Non-Executive Independent	Director till 28.9.2005. Retired as a director on 28.9.2005 and not reappointed	NIL	NIL	NIL	NIL	No
Shri G Venkatesh Babu	Non-Executive Independent	Alternate Director to Dr Prasada Rao VDM Ravella	5	NIL	NIL	1	No



### C) Directors seeking re-appointment

Shri G Bhaskara Rao and Dr Prasada Rao VDM Ravella, Directors, retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

#### Sri G Bhaskara Rao

Sri G Bhaskara Rao, (52) did his M. Tech. in (Mech. Design). He has rich experience in Engineering, Technology, Construction, Power, Administration and Management etc. He has traveled extensively through out the world. He is a Director on the Boards of Lanco Electric Utility Limited, Lanco Group Limited, Clarion Power Corporation Ltd., Lanco Industries Ltd., Lanco Infratech Ltd., Rithwik Energy Systems Ltd., Aban Power Company Ltd., Vamshi Industrial Power Ltd., Lanco Kondapalli Power Private Ltd., Lanco Amarkantak Power Private Ltd., Lanco Green Power Private Ltd., Himavat Power Private Ltd., Pragdisa Power Private Ltd., Chamba Hydro Power Private Ltd., Chatari Hydro Power Private Ltd., Dharmashala Hydro Power Private Ltd., Diyothal Hydro Power Private Ltd., Parvat Hydro Power Private Ltd., Coral Orchids Private Ltd., Garnet Grooves Private Ltd., Lanco Property Management Company Pvt. Ltd., Lanfin Ventures Private Ltd., Lanfin Trustee Private Ltd., Lanco Hydro Energies Private Ltd., Ravi Hydro Electric Private Ltd., Himachal Hydro Power Private Ltd., Uranus Infratech Pvt Ltd., Saffire Farms Pvt. Ltd., Chobia Hydro Power Pvt. Ltd., Lanco Hills Technology Park Pvt. Ltd., Lanco Energy Pvt. Ltd., Jupiter Infratech Pvt. Ltd., Mercury Project Pvt. Ltd., Emerald Orchids Pvt. Ltd. and Occidental Power Private Ltd. He is also a partner in M/s S V Contractors. He is a Member of several reputed institutions. He is also a member of Audit Committee of Lanco Global Systems Limited, Lanco Industries Ltd., Vamshi Industrial Power Limited, Aban Power Co. Ltd, Lanco Infratech Ltd., Lanco Amarkantak Power Pvt Ltd and a member of Management Committee of Lanco Amarkantak Power Pvt Ltd and a member of Share Allotment Committee of Lanco Amarkantak Power Pvt Ltd and Lanco Global Systems Ltd. He holds 600 equity shares of Rs.10/- each in the Company and a member of Shareholders'/Investors' Grievance Committee of Lanco Industries Limited.

#### Dr. Prasada Rao VDM Ravella

Dr. Prasada Rao VDM Ravella (56) is a NRI director. He took his Medical Degree from Guntur Medical College and General Practice Residency from Ravenswood Hospital, Chicago, IL, USA. He is a member of Medical Association, Chicago Medical Society. He holds State of Illinois Medical License and Drug Enforcement Agency License. From 1980 to 1995 he worked in different capacities in Lincoln West Hospitals, Chicago, IL, USA. He is on the Board of Directors of Millennium Finance Ltd. He is also a member of Audit Committee, Remuneration and Compensation Committee and Share Allotment Committee of Lanco Global Systems Limited. He does not hold any equity shares in the Company.

### d) Board Committees

To enable better management of the affairs of the Company, the Board delegates certain matters to Committees of the Board set up for the purpose. The proceedings of the meetings of the Committees are circulated to the Board.

### 3. AUDIT COMMITTEE

#### (i) Brief descriptions of terms of reference

The Audit Committee consists of only Non-Executive Directors and discharges all the responsibilities statutorily prescribed.

The functions of the Audit Committee include:

Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.

Recommending the appointment and removal of external auditor, fixation of their audit fee and also approval for repayment for any other services.