

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy on Code of Governance

Corporate governance is a system by which a corporate entity is directed and controlled in a given economic, political and social environment. It also entails the interplay between different stakeholders of a corporation, viz., board of directors, equity holders, employees, customers and government. It deals with how a company fulfils its obligations to investors and other stakeholders. It is about creating shareholder wealth while ensuring a fair play to all other stakeholders and society at large.

EdServ Softsystems Limited is committed to follow the best practices in the area of corporate governance. The company believes that proper corporate governance facilitates effective management and control of business. This, in turn, enables the company to deliver the optimum results to all its stakeholders. The Corporate Governance philosophy of EdServ is based on the following principles:

- To enhance shareholders value.
- To protect interests of shareholders and other stakeholders including customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and to achieve excellence at all levels.

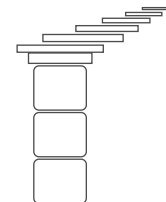
2. Board of Directors

The Board of Directors of the company consisted of two executive and three non-executive Independent Directors as on March 31, 2009.

| Name of the Director | Designation | Category |
|------------------------|-------------------|------------------------------------|
| Mr. S. Giridharan | Chairman & CEO | Executive Director |
| Mrs. G. Gita | Managing Director | Executive Director |
| Mr. S. Arvind | Director | Non-Executive Independent Director |
| Dr. Ilango Balakrishna | Director | Non-Executive Independent Director |
| Mr. T. S. Ravichandran | Director | Non-Executive Independent Director |

During the financial year 1st April 2008 to 31st March 2009, twelve Board Meetings were held on the following dates: 03.04.2008, 09.04.2008, 14.04.2008, 22.04.2008, 23.04.2008, 10.05.2008, 20.09.2008, 15.11.2008, 19.12.2008, 19.01.2009, 11.02.2009 and 19.02.2009. The Annual General Meeting was held on 24.04.2008.

The composition and membership on other Boards, Committees of Directors and attendance of Directors at the Board of Directors Meetings held during the Financial Year 01.04.2008 to 31.03.2009 and the last AGM held on 24.04.2008 are given below:



| Name of the Director | Date of appointment / Reappointment | Attendance Particulars | | Number of other Directorships and Committee Memberships / Chairmanships (other than EDSERV) | | |
|------------------------|-------------------------------------|------------------------|----------|---|--------------------------|----------------------------|
| | | Board Meeting | Last AGM | Other Directorships * | Committee Memberships ** | Committee Chairmanships ** |
| Mr. S. Giridharan | 01.04.2008 | 12 | Yes | Nil | Nil | Nil |
| Mrs. G. Gita | 01.04.2008 | 12 | Yes | Nil | Nil | Nil |
| Mr. S. Arvind | 03.04.2008 | 5 | Yes | 2 | 1 | 1 |
| Dr. Ilango Balakrishna | 22.04.2008 | 3 | Yes | Nil | Nil | Nil |
| Mr. T. S. Ravichandran | 22.04.2008 | 5 | Yes | Nil | Nil | Nil |

NOTE

* Excludes Foreign Companies, Private Limited Companies and Alternate Directorships.

** Memberships in Audit Committee and Shareholders/Investors Grievance Committee are reckoned for this purpose.

Relationship between directors: Except Mrs. G. Gita, who is the wife of Mr. S. Giridharan, none of the other Directors are related to each other in the company.

Code of Conduct: The code of Conduct for all the members of the Board and senior management of the Company has been posted on the website of the Company: www.edserv.in.

Re-appointment of Directors: Full details of Directors seeking re-appointment at the ensuing Annual General Meeting have been furnished in the Notice convening the meeting of the Shareholders.

3. Audit Committee

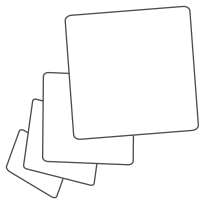
The Audit committee was constituted on 22nd April 2008 and comprises the following members:

| Name of Director | Status in Committee | Nature of Directorship |
|------------------------|---------------------|------------------------------------|
| Mr. S. Arvind | Chairman | Non-Executive Independent Director |
| Mr. T. S. Ravichandran | Member | Non-Executive Independent Director |
| Mr. S. Giridharan | Member | Executive Chairman |

Mr. V. Ramaseshan is the Secretary to the Committee.

The terms of reference of the Audit Committee are as per the guidelines set out in the Listing Agreement with the stock exchanges and these also conform to the provisions of Section 292A of the Companies Act, 1956.

During the year ended 31st March 2009, five meetings were held on the following dates: 22.04.2008, 20.09.2008, 15.11.2008, 19.01.2009 and 18.03.2009.



The Attendance of Directors at the Audit Committee Meetings is given below:

| Name of the Director | Attendance Particulars | |
|------------------------|------------------------|-------------------|
| | Meetings Held | Meetings Attended |
| Mr. S. Arvind | 5 | 5 |
| Mr. T. S. Ravichandran | 5 | 5 |
| Mr. S. Giridharan | 5 | 5 |

4. Remuneration Committee

The Remuneration Committee was constituted on 22nd April, 2008, subsequently re-constituted on 23rd July 2009 and at present comprises the following directors of the Board.

| Name of Director | Status in Committee | Nature of Directorship |
|------------------------|---------------------|------------------------------------|
| Mr. T. S. Ravichandran | Chairman | Non-Executive Independent Director |
| Mr. S. Arvind | Member | Non-Executive Independent Director |
| Dr. Ilango Balakrishna | Member | Non-Executive Independent Director |
| Mr. S. Giridharan | Member | Executive Chairman |

The terms of reference of the Remuneration Committee are as follows:

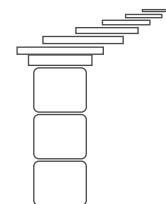
- The Remuneration Committee recommends to the board the compensation terms of the executive directors.
- Framing and implementing on behalf of the Board and on behalf of the shareholders, a credible and transparent policy on remuneration of executive directors including ESOP, Pension Rights and any compensation payment.
- Considering approving and recommending to the Board the changes in designation and increase in salary of the executive directors.
- Ensuring the remuneration policy is good enough to attract, retain and motivate directors.
- Bringing about objectivity in deeming the remuneration package while striking a balance between the interest of our Company and the shareholders.

Remuneration Policy:

The remuneration of the Executive Directors is recommended by the Remuneration committee, based on criteria such as industry benchmarks, the Company's performance vis-à-vis the industry and responsibilities shouldered. The Company pays remuneration by way of salary and perquisites to its Executive Directors.

The Non-executive Directors are not paid any remuneration except sitting fees. Further the company has not entered into any pecuniary relationship or transactions with the Non-executive directors.

One meeting of the Remuneration Committee was held on 22.04.2008 during the financial year ended 31st March 2009 to consider and recommend:



- i) The remuneration payable to Mr. S. Giridharan on his appointment as Executive Director with effect from 1st April 2008 for a period of three years and
- ii) The remuneration payable to Mrs. G. Gita on her reappointment as Managing Director with effect from 1st April 2008 for a period of three years.

The details of the remuneration paid to the Directors during the financial year 01.04.2008 to 31.03.2009 are given below:

| Names of Directors | Basic Salary (Rs.) | Allowances (Rs.) | Sitting Fees (Rs.) | As on 31.3.2009 | |
|------------------------|--------------------|------------------|--------------------|--------------------|--------------|
| | | | | No. of Shares Held | % of Holding |
| Mr. S. Giridharan | 29,75,400 | 24,600 | - | 17,69,797 | 14.74% |
| Mrs. G. Gita | 29,75,400 | 24,600 | - | 17,69,767 | 14.74% |
| Mr. S. Arvind | Nil | Nil | 15,000 | Nil | Nil |
| Dr. Ilango Balakrishna | Nil | Nil | 10,000 | Nil | Nil |
| Mr. T. S. Ravichandran | Nil | Nil | 15,000 | Nil | Nil |

5. Share Transfer and Shareholders / Investor Grievances Committee:

The Share transfer and Shareholders/Investors Grievances Committee was constituted on 22nd April 2008 and comprises of the following members:

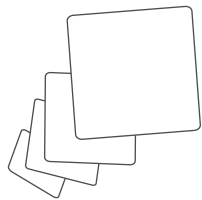
| Name of Director | Status in Committee | Nature of Directorship |
|------------------------|---------------------|------------------------------------|
| Mr. T. S. Ravichandran | Chairman | Non-Executive Independent Director |
| Mrs. G. Gita | Member | Managing Director |
| Mr. S. Giridharan | Member | Executive Chairman |

The scope and function of this committee is to consider and review matters connected with securities, transfers/transmission of shares /issue of duplicate share certificates etc., and to consider and review shareholders'/ investors' grievances and complaints and ensure that all shareholders'/ investors' grievances and correspondence are attended to expeditiously and satisfactorily unless constrained by incomplete documentation and/ or legal impediments.

The said Committee met once on 31.03.2009 during the financial year 2008-09. Mr. V. Ramaseshan, Company Secretary is the Compliance officer.

During the Financial Year ended 31st March 2009, twenty investor complaints were received from the shareholders and were replied/redressed to the satisfaction of the investors. There are no complaints pending as on date of this report. There were no share transfers pending registration as at 31st March 2009.

Investors are requested to address their complaints if any to the below mentioned e-mail ID: info@edserv.in.



6. General Body Meetings

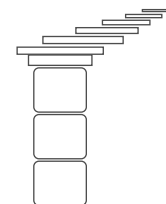
- Annual General Meetings held during the last three years are as under:

| Year | Date and Time | Venue |
|-----------|----------------------------------|---|
| 2005-2006 | 29th September 2006 at 11.30 a.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 2006-2007 | 28th September 2007 at 11.30 a.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 2007-2008 | 24th April 2008 at 11.00 a.m | No:139, Arcot Road, Kodambakkam, Chennai - 24 |

- Extraordinary General meeting during the last three years:

| EGM Date | Time | Venue |
|------------|------------|---|
| 30.03.2007 | 12.00 p.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 02.04.2007 | 10.00 a.m. | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 07.10.2007 | 10.00 a.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 28.12.2007 | 12.00 p.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 07.01.2008 | 10.00 a.m | New No. 44, Old No.18, Venkatraman Street, T.Nagar, Chennai – 600 017 |
| 09.04.2008 | 11.00 a.m | No:139, Arcot Road, Kodambakkam, Chennai 600 024 |
| 14.04.2008 | 11.00 a.m. | No:139, Arcot Road, Kodambakkam, Chennai 600 024 |
| 10.12.2008 | 10.00 a.m | No:139, Arcot Road, Kodambakkam, Chennai 600 024 |
| 19.12.2008 | 4.00 p.m. | No:139, Arcot Road, Kodambakkam, Chennai 600 024 |

- No resolutions have been put through postal ballot so far.
- Special resolutions passed in the previous three Annual general meetings of shareholders of the company:
 - 2005-2006: No special resolution passed at this annual general meeting.
 - 2006-2007: No special resolution passed at this annual general meeting.
 - 2007-2008: Special resolution was passed for
 - i) Issue of 40,80,000 equity shares of Rs.10/- each at a premium on Preferential basis under Section 81 (1A) of the Companies Act, 1956.
 - ii) Appointment of Mr. S. Giridharan as Chairman & CEO for a period of three years with effect from 01.04.2008.
 - iii) Reappointment of Mrs. G. Gita as Managing Director for a period of three years with effect from 01.04.2008.

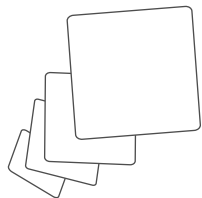


- Special resolutions passed in the Extra-ordinary general meeting of the shareholders of the Company held during the last three years:

| EGM Date | Special resolutions passed for |
|------------|--|
| 30.03.2007 | Issue /allotment of 5,00,000 Equity shares of Rs.10/ each as bonus shares to existing shareholders in the ratio of 1:2.20071. |
| 28.12.2007 | Change of Name of the company from Lambent Softsystems Ltd to EdServ Softsystems Pvt. Ltd |
| | i) Alteration of Articles of Association pursuant to Section 31 of the Companies Act, 1956 for insertion of regulation 4.1 and 33A. |
| | ii) Issue /allotment of 9,50,000 Equity shares of Rs.10/ each as bonus shares to existing shareholders in the ratio of 1:1.30638. |
| 09.04.2008 | Issue /allotment of 15,00,000 Equity shares of Rs.10/ each as bonus shares to existing shareholders in the ratio of 1:0.53. |
| 14.04.2008 | i) Issue /allotment of 27,16,800 Equity shares of Rs.10/ each as bonus shares to existing shareholders in the ratio of 1:0.63. |
| | ii) Conversion of the company from "Private" to "Public" pursuant to section 44 read with Section 21 of the Companies Act, 1956. |
| | iii) Alteration of Articles of Association by deleting existing regulations 1 to 34 and inserting regulations 1 to 208 in its place. |
| | iv) Alteration of the Objects clause of Memorandum of Association pursuant to section 17 of the Companies Act, 1956 by: |
| | a) deleting existing subclause 2 in clause III(A) of Main objects and new sub clause 2 inserted in its place. |
| | b) deleting existing sub clause 3 in clause III (A) of Main Objects and new sub clause 3 inserted in its place. |
| 10.12.2008 | Issue of 1,06,092 equity shares of Rs.10/- each at a premium of Rs.50/- each to Individuals on Preferential basis under Section 81(1A) of the Companies Act, 1956. |
| 19.12.2008 | Public Issue of 39,73,908 equity shares of Rs.10/- each at a premium of Rs.50/- each under Section 81(1A) of the Companies Act, 1956. |

7. Disclosures

- Related Party Transactions: The Company has not entered into any transactions of material nature with the Promoters, the Directors or the Management, their subsidiaries or relatives, etc, that may have potential conflict with the interests of the Company. The necessary disclosures regarding the transactions are given in the Notes to the Accounts.
- There are no instances of non-compliance by the Company, penalties, strictures imposed on the Company by the Stock exchanges or SEBI or any statutory authority on any matter related to Capital Markets during the last three years.
- Whistle Blower Policy: The Company does not have a Whistle Blower Policy. However steps are being taken to formulate the same. No employee of the company has been denied access to the audit committee.
- The company has complied with the mandatory requirements of the revised Clause 49 of the Listing agreement and the extent of compliance of the non-mandatory requirements is given in Point no. 11 below.



- e. The company came out with a Public issue of 39,73,908 Equity shares of Rs.10/- each for cash at a price of Rs.60/- per share on 05th February 2009. The issue was oversubscribed by 1.30 times.
- f. The statement of utilization of public issue funds as on March 31, 2009 is given below

| Sr. No. | Particulars | Estimated cost as per Prospectus Rs. In lacs (excluding contingencies) | Actual amount Expended/invested Rs. In lacs |
|---------|---|--|---|
| 1 | Content Development | 1,120.00 | 1,276.33 |
| 2 | Establishment of HEAL Laboratories | 1,038.00 | 390.75 |
| 3 | Establishing HEADS Offices | 275.05 | 49.00 |
| 4 | Development and Implementation of centralized Lamps Portal Engine | 110.00 | 75.28 |
| 5. | Promotion Expenses | 205.30 | 80.99 |
| 6. | Issue Expenses | 202.00 | 193.89 |
| 7. | Amount available in the Current Account & Fixed Deposit | – | 856.64 |
| | Total | 2,950.35 | 2,922.88 |

8. Means of Communication

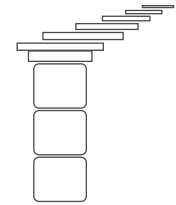
| | |
|--|---|
| Quarterly results | Quarterly financial results of the company are published in the "Business Line" and "Makkal Kural". |
| Any website where displayed | BSE and NSE sites |
| Whether it also displays official news releases | Yes |
| Presentations made to Institutional Investors or to the Analysts | Yes |

9. Management Discussion and Analysis Report

Management Discussion and Analysis Report forms a part of this Report.

10. General Shareholders Information

- (i) Annual General Meeting Date : 17th September 2009
Time : 10:15am
Venue : Kamaraj Arangam, No. 492, Anna Salai, Teynampet, Chennai 600006
- (ii) Financial Calendar Year : 1st April 2008 to 31st March 2009
- (iii) Book-Closure Dates : 11th September 2009 to 17th September 2009 (Both days Inclusive)
- (iv) Dividend Payment Date : Commencing 17th September 2009 (date of AGM) – to be completed within the mandatory time limit.



8th Annual Report 2008-09

(v) Important dates of announcements of company's activities:

| | |
|---|----------------------------|
| Results for the quarter ending 30th June, 2009 | Third week of July 2009 |
| Results for the quarter ending 30th September, 2009 | Third week of October 2009 |
| Results for the quarter ending 31st December, 2009 | Third week of January 2010 |
| Results for the quarter ending 31st March 2010 | Third week of April 2010 |
| Annual General Meeting | September 2010 |

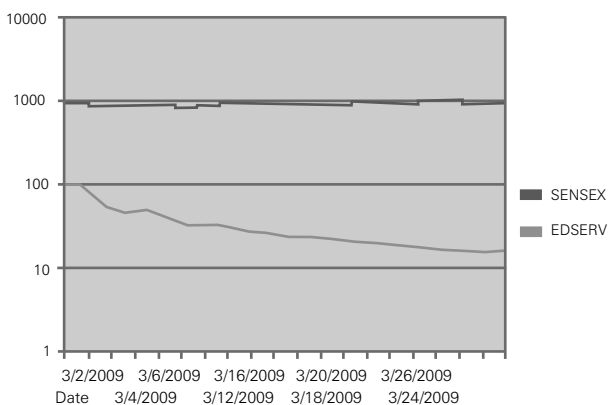
(vi) Listing on the Stock Exchanges : The Equity shares of the Company are listed on the Bombay stock Exchange and National Stock Exchange.

(vii) Stock Code : Bombay Stock Exchange Ltd. - 533055
National Stock Exchange Ltd - EDSERV

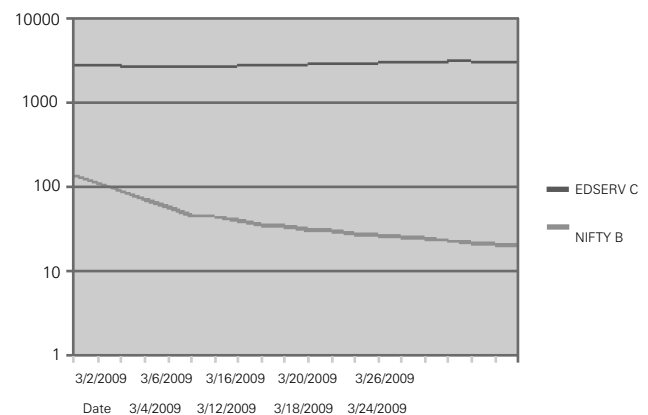
(viii) Stock Market Data : High and Low quotations of the Company's shares during the period 02.03.2009 (being the date on which the stock is listed) to 31st March 2009.

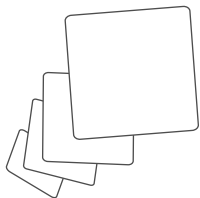
| Month | Bombay Stock Exchange Ltd. | | National Stock Exchange Ltd. | |
|------------|----------------------------|-------|------------------------------|-------|
| | Share Prices (Rs.) | | Share Prices (Rs.) | |
| | High | Low | High | Low |
| March 2009 | 147.90 | 19.65 | 147.90 | 19.55 |

(ix) A. Performance of EdServ share on BSE versus BSE Sensex:



B. Performance of EdServ share on NSE versus NSE Nifty:



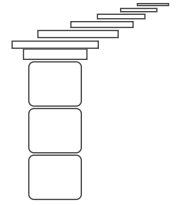


- (x) Registrar and Share Transfer Agents : M/s. Karvy Computershare Private Limited,
Address for communication : 17-24, Near Image Hospital, Reliance Cybervilae, Vittalrao Nagar, Madhapur Hyderabad, Andhra Pradesh, 500 081.
- (xi) Share Transfer System : Share transfer documents received by the Company will be processed, approved and kept ready for despatch within 30 days from the date of the receipt.
- (xii) Dematerialisation of shares : The shares of the Company have been admitted for dematerialisation with NSDL and CDSL. The ISIN No. is INE889J01019. 33.10% of the Company's paid up Equity share capital has been dematerialised upto March 31, 2009.
- (xiii) Shareholding Pattern as on 31.03.2009:

| Category | No. of Shares | Percentage |
|------------------|--------------------|----------------|
| Promoter group | 35,94,630 | 29.94% |
| Bodies Corporate | 56,23,575 | 46.84% |
| Public | 25,57,884 | 21.31% |
| Clearing Members | 2,20,046 | 1.83% |
| NRIs | 9,865 | 0.08% |
| Total | 1,20,06,000 | 100.00% |

- (xiv) Distribution of Shareholding as on 31.3.2009:

| Category | No. Of shareholders | % to total | Shareholding (in Rs.) | % to total |
|-------------------|---------------------|---------------|-----------------------|---------------|
| 1 - 5,000 | 4,744 | 82.89 | 64,53,000 | 5.37 |
| 5,001 - 10,000 | 424 | 7.41 | 34,00,020 | 2.83 |
| 10,001 - 20,000 | 236 | 4.12 | 35,85,580 | 2.99 |
| 20,001 - 30,000 | 88 | 1.54 | 22,40,770 | 1.87 |
| 30,001 - 40,000 | 56 | 0.98 | 19,97,710 | 1.66 |
| 40,001 - 50,000 | 36 | 0.63 | 16,91,140 | 1.41 |
| 50,001 - 1,00,000 | 75 | 1.31 | 56,27,740 | 4.69 |
| 1,00,000 & Above | 64 | 1.12 | 9,50,64,040 | 79.18 |
| Total | 5,723 | 100.00 | 12,00,60,000 | 100.00 |



- (xv) Address for Correspondence : I Floor, Panna Plaza, New No. 139, Arcot Road,
Kodambakkam, Chennai – 600 024
- (xvi) Email ID for Investor grievance redressal: info@edserv.in

11. Non-Mandatory Requirements

- a. Board: The Company maintains the office of the Executive Chairman at the registered office of the Company.
- b. Remuneration Committee: The Board has duly constituted a Remuneration Committee, which determines the remuneration package for the Directors.
- c. Shareholder's Rights: Quarterly financial results are published in the "Business Line" and "Makkal Kural".
- d. Audit Qualifications: There are no qualifications by the auditor in the financial statements of the company.
- e. Training of Board members: Periodical meetings are held with outside skilled consultancy agencies for the Board members to appraise them in recent developments and existing laws and practices.
- f. Mechanism for evaluating non-executive Board members: Same as above
- g. Whistle blower Policy: As mentioned earlier, steps are being taken to formulate the Whistle Blower Policy by the Company

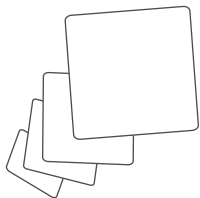
Code Of Conduct

We hereby declare that the code of Conduct for all the members of the Board and senior management of the Company has been posted on the website of our Company at www.edserv.in and all Board members and senior management of the company have affirmed compliance of the Code.

For and On Behalf of the Board

Place: Chennai
Date: 18.08.2009

S. Giridharan
Chairman & CEO



Certificate on Compliance with the Conditions of Corporate Governance Under Clause 49 of the Listing Agreement(s)

We have examined the compliance of conditions of corporate governance by M/s. EDSERV SOFTSYSTEMS LIMITED, for the year ended on 31st March, 2009 as stipulated in Clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The objective of our examination is to give our opinion on whether the company has complied with the conditions of Corporate Governance as stipulated in the provisions of Clause 49 of the Listing agreement entered into by the company with the listed stock exchange of India.

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 the conditions of the Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company.

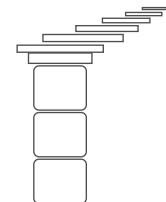
On the basis of review and according to the information and explanation given to us and representation made to us by the Management, we state that to the best of our knowledge and belief the company has complied in all material respects with the conditions of corporate governance stipulated in Clause 49 of the above mentioned listing agreement.

We further state 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 LAKSHMMI SUBRAMANIAN & ASSOCIATES
Practicing Company Secretaries

LAKSHMMI SUBRAMANIAN
Senior Partner
C.P.No.1087

Place : Chennai
Date : 18.08.2009



Auditors' Certificate on Compliance with the Conditions of Corporate Governance Under Clause 49 of the Listing Agreements

To the Members of

EDSERV SOFTSYSTEMS LIMITED

We have examined the compliance of the conditions of Corporate Governance of M/s. EdServ Softsystems Limited for the year ended 31st March 2009 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges in India.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has, during the aforesaid year, complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that as at 31st March 2009, no investor grievances were pending for a period exceeding one month against the Company as per the records maintained by the Company and produced for our verification.

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 RAJ AND RAVI
Chartered Accountants

N. RANGANATHAN
(Membership No. 21594)
Partner

Place: Chennai 600024.

Date: 25.06.2009.