



HOV SERVICES LIMITED

NINETEENTH ANNUAL REPORT

Financial Year 2006 - 2007

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Corporate Information

The Board of Directors

Mr. Surinder Rametra	<i>Chairman and Executive Director</i>
Mr. Parvinder S Chadha	<i>Executive Director</i>
Mr. Sunil Rajadhyaksha	<i>Executive Director</i>
Mr. Ajay Madan	<i>Director</i>
Mr. B R Gupta	<i>Director</i>
Mr. Rajeev Gupta	<i>Director</i>

The Management Team

Mr. Ronald Cogburn	<i>President</i>
Mr. Suresh Yannamani	<i>President & COO, BPO Services</i>
Mr. James Reynolds	<i>Chief Financial Officer & CAO, Global</i>
Mr. Vikram Negi	<i>Executive Vice President</i>
Mr. Kenneth Shaw	<i>Executive VP, Global Human Resources</i>
Mr. R Vijaya Kumar	<i>Chief Financial Officer, India</i>
Mr. T Jayakumar	<i>President, India Based Services</i>
Mr. Karan Negi	<i>President, ARM Services</i>
Mr. Anish Desai	<i>President, Risk Management Services</i>

Company Secretary & Compliance Officer

Bhuvanesh Sharma

E-mail: investor.relations@hovservices.com

Auditors

Lodha & Co.
Chartered Accountants
6 Karim Chambers
40 Ambalal Doshi Marg
Mumbai 400 023
Maharashtra, India
Tel: (91 22) 2265 1140
Fax: (91 22) 2269 1414

Registered Office

HOV Services Limited
3rd Floor, Sharda Arcade,
Pune Satara Road, Bibwewadi,
Pune - 411037
Tel: (91 20) 2423 1623
Fax: (91 20) 2422 1460
E-mail: investor.relations@hovservices.com

Registrar & Share Transfer Agent

Karvy Computershare Pvt. Ltd.
17-24, Vittal Rao Nagar,
Madhapur, Hyderabad-500081
Tel: (91 40) 23420815
Fax: (91 40) 23420814

DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to present their Nineteenth Annual Report on the Business and Operations of the Company together with Audited Statement of Accounts for the year ended March 31, 2007.

1. Financial Results:

Particulars	Rs. Million			
	"For the year ended March 31"			
	Consolidated		Standalone	
	2007	2006	2007	2006
INCOME				
Income from Operations	2489.96	1638.42	69.83	44.71
Other Income	13.33	12.28	6.06	1.81
	2,503.29	1,650.70	75.89	46.52
EXPENDITURE				
Staff Cost	1073.51	823.89	19.34	10.10
General and Administrative Expenses	1054.24	616.82	25.57	8.86
	2,127.75	1,440.71	44.91	18.96
Profit/(Loss) before Interest, Depreciation and Tax	375.54	209.99	30.98	27.56
Less: Interest	70.46	26.31	0.80	0.26
Less: Depreciation	47.23	32.93	1.07	1.12
Profit/(Loss) before Tax	257.84	150.75	29.11	26.18
Tax pertaining to earlier years	-	-	0.04	(0.01)
Less: Provisions for taxes				
Current Tax	38.05	34.82	0.76	0.01
Deferred Tax	-	-	0.11	(0.04)
Fringe Benefit Tax	-	-	0.32	0.11
Profit/(Loss) after Tax Before Minority Interest	219.79	115.93	27.95	26.11
Less: Minority Interest	12.49	-	-	-
Profit/(Loss) after Tax After Minority Interest	207.30	115.93	27.95	26.11

2. Results Of Operations

Performance on consolidated basis:

The Revenue increased by 51.7% to Rs 2,503.3 million from Rs 1,650.7 million and profit after taxes increased by 78.8% to Rs 207.3 million from Rs 115.9 million.

Performance on a standalone basis:

The Revenue increased by 63% to Rs. 75.89 million from Rs. 46.52 million and profit after taxes increased by 7% to Rs. 27.96 million from Rs 26.11 million.

3. Dividend

The Company currently intends to retain all current earnings for the operations and expansion of its business. Accordingly your Directors do not recommend any dividend for the year.

4. Significant Developments

Your Company has undergone significant changes during the year ended March 31, 2007. After successful completion of its Initial Public Offering, the Company has also completed three strategic acquisitions. The Company now serves its

expanded customer base including more than 50% of the FORTUNE 100® companies from 49 plus facilities spread across India, US, China, Mexico and Canada and with over 11,400 team members, is now well positioned as the leading provider of services in the Finance and Accounting ("F&A") segment of the BPO Industry.

(1) Initial Public Offering

Your Company successfully completed in September, 2006 its initial public issue of 4,050,000 (Four Million Fifty Thousand) Equity shares of face value Rs. 10/- (Ten) each at a premium of Rs. 190/- (One Hundred and Ninety) fully paid up. The equity shares of your Company are listed on National Stock Exchange of India Limited (NSE) and on the Bombay Stock Exchange Limited (BSE) as of September 27, 2007. Accordingly the paid up share capital of the Company as on March 31, 2007 stood at Rs. 125,540,450/- (One Hundred Twenty Five Million Five Hundred Forty Thousand and Four Hundred and Fifty) consisting of 12,554,045 (Twelve Million Five Hundred Fifty Four Thousand and Forty Five) equity share of a face value of Rs. 10/- (Ten) each.

(2) Lason Inc, acquisition was completed on February 28, 2007. Lason is a leader in BPO industry serving Healthcare, Banking, Financial Services, Insurance, Government, Automotive and Retail industries. Lason's right shore servicing platform based in US, Canada, Mexico, China and India with emphasis on security, and Six Sigma and other global standards has been well received by its customers. Headquartered in Chennai, India and Troy, Michigan, U S, Lason serves more than 50% of the FORTUNE 100® companies providing them end to end solutions in the F&A segment of the BPO industry.

(3) TRAC Holdings, LLC including its wholly owned operating subsidiary Tracmail (I) Pvt. Ltd. in Mumbai ("TRAC") serve an enviable list of US clients in the Financial Services and Banking Industries. TRAC in the F&A sector, the primary focus of your Company, provides Accounts Receivable Management services with an experienced team of over 500 employees. Your Company acquired 30% of shareholdings along with management control effective January 1, 2007, with an option to purchase the remaining 70% of shareholding at any time in the near future.

(4) SAM Holdings, LLC including its wholly owned subsidiary Superior Asset Management, Inc., ("SAM") provides Accounts Receivable Management services to the Fortune 250 companies in the Telco, Banking and Financial Services industries. SAM with a long history of successfully servicing its clients is well positioned to leverage the global servicing platform of HOVS for expansion. Your Company acquired 30% of shareholdings along with management control effective April 1, 2007 with an option to purchase the remaining 70% of shareholding at any time in the near future.

5. Conservation of Energy, Technology Absorption, and Foreign Exchange

Particulars furnished pursuant to Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1998:

Conservation of Energy: The operation of the Company is not energy intensive. However, adequate measures have been taken to conserve and reduce energy consumption. Every effort is taken to reduce the consumption of energy which includes standardization on purchase of energy efficient equipment and accessories, detection and prevention of leak, monitoring load and conducting periodic energy audits.

Research and Development: The Company has not undertaken any R&D activity in any specific area during the year under review, hence no cost has been incurred towards the same.

Technology Absorption, Adaptation and Innovation: The Company is a leading provider of end to end BPO services enabled by utilizing best practices in security of our client data, compliance with international standards including ISO, HIPAA and SAS70. The Company has adopted Six Sigma practices and LEAN techniques in a majority of its centers and processes; significant numbers of our team members have undergone Six Sigma training as well. The Company is actively pursuing and adopting emerging technologies and standards to grow its competitive advantages, to better serve its clients, retain employees and improve productivity and performance.

Foreign Exchange Earnings and Outgo: Most of your Company's earnings are from the export of services. The foreign exchange earnings and outgo is contained in the Notes to the Accounts of the Annual Report.

6. Particulars of Employees

The Company has no employees drawing remuneration in excess of limits specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

7. Employee Relations

The relationship of your Company with its employees remained cordial throughout the year.

8. Directors Responsibility Statement

As stipulated in Section 217(2AA) of Companies Act, 1956, your Directors subscribe to the “Directors Responsibility Statement” and confirm as under:

- a) that in preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; and
- b) that the directors have 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 and loss account of the Company for that the period; and
- c) that the directors have taken proper and sufficient care of 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; and
- d) that the directors have prepared the annual accounts on a going concern basis.

9. Fixed Deposit

The Company has not accepted any deposits from the public within the meaning of Section 58A of the Companies Act, 1956, during the year under review.

10. Management Discussion and Analysis

Management Discussion and Analysis Report for the year under review, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges is presented as a separate section forming a part of this report.

11. Corporate Governance

A separate section on Corporate Governance forming part of the Directors’ Report and the Certificate from the Company’s Auditors confirming compliance of Corporate Governance norms as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges is included as a separate section in this Annual Report.

12. Auditors

The Statutory Auditors M/s Lodha & Co, Chartered Accountants, Mumbai, hold office till the conclusion of ensuing Annual General Meeting and being eligible, have expressed their willingness to continue, if re-appointed. You are requested to consider their re-appointment.

13. Directors

There is no change in the Board of Directors during the year under review. Mr. Ajay Madan, Director, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

14. Particulars Required Under Section 212 of The Companies Act, 1956

As per Section 212 we are required to attach the Director’s Report, Balance Sheet and Profit and Loss Account of our Subsidiary Companies. Accordingly, these have been appended to this report.

15. Acknowledgement

The Board wishes to convey their appreciation to its employees, shareholders, customers, suppliers and bankers for the continued support given by them to the Company during the year.

For and on behalf of the Board of Directors

Place: Mumbai
Date: May 28, 2007

Surinder Rametra
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Global Business Process Outsourcing

The outsourcing of business processes (“BPO”) to third-party providers has become a sizable and growing industry. Companies use BPO services to garner higher profits by managing growth at reduced risk levels, while retaining competitiveness. BPO provides the means to service an enterprise’s critical yet non-core functions at lower operating costs than would be incurred by performing the functions in-house.

The Company views the BPO industry along the following horizontal functional processes:

Business Process Outsourcing Cross Industry Functional Processes	
Logistics Procurement Training Product Engineering	Finance & Accounting Customer Care Sales and Marketing Human Resources

According to IDC, worldwide spending on BPO services totaled \$382.5 billion in 2004. IDC projects that total BPO spending will increase to \$641.2 billion in 2009 for a five-year compound annual growth rate (“CAGR”) of 10.9% (*Source: IDC, “Worldwide BPO Market Steadily Expands, with Buyer Demand Molding Vendor Strategies, IDC Reveals”, October 25, 2005*). Overall, the BPO market is becoming increasingly complex.

Your Company has focused its business in the finance and accounting (“F&A”) sector, which involves providing services associated with a client’s need to manage the flow of money into and out of their organization. This includes segments such as transaction management, general accounting, finance, treasury and risk management and tax management. HOV Services has positioned itself in the F&A community by providing practical solutions to core-level business management functions. By developing core-competencies to serve the needs of FORTUNE 500® companies and deploying its unique skill set via a global service base, the Company provides a unified strategy to meet any basic business financial requirement.

Your Company’s established presence across its service offerings uniquely positions it to bid for large projects from clients and service significant parts of their F&A functions. Presently, the Company provide services to clients in BFSI, Healthcare, Government, Telecom, Publishing, Manufacturing, Automotive and Retail; it renders services to more than 50% of the FORTUNE 100® companies.

Comprehensive Offering Portfolio

Service Offerings	Industries Served					
	Healthcare	BFSI	Telecom	Publishing	Manufacturing	Government
A/P Services	■	■	■	■	■	■
ARM/ A/R Cycle Management	■	■	■	■	■	■
Loan processing (Credit Card, Auto and Mortgages)		■				
Healthcare Payor Services	■					
Healthcare Provider Services	■					
Risk management & Employee Verification Services	■	■	■	■	■	■
Claims Management/Construction Consulting	■	■	■			■
Litigation Support	■	■	■			■
Business Intelligence and Smart Dial		■	■			
Tax processing	■	■	■			
Document Lifecycle Services	■	■	■	■	■	■
Content Transformation	■	■	■	■	■	■

The Company's goal and business strategy is to leverage its existing customer relationships to cross sell its end-to-end service offerings delivered from the right shore.

OPPORTUNITIES

During the current year, your Company achieved the distinction, based on revenue, to be one among the top three BPO Companies based in India. The Company has significant growth opportunity ahead of it and is focused to capitalize upon its current position, gain market share to deliver sustainable results over the long term by exceeding expectations of its clients.

To successfully execute the Company's strategy and achieve its goal, management believes it must continue to be proactive by concentrating on the following factors:

Business process improvements:

The Company continually develops and enhances its technology and infrastructure with initiatives to improve the efficiency of its operations and enhance client service. The Company continues to drive improved performance and reduced cost through its on-going focus on business process improvements.

Leverage Right Shore:

Your Company is uniquely positioned with operations based in India, US, Canada, Mexico and China. This provides it with significant opportunities to provide on-shore, near shore and off-shore BPO services to suit the requirement of various customers in North America, its biggest market at present.

Leverage Marquee Clients:

Your Company derives approximately 69% of its revenue from top 100 clients, including over 50% of the FORTUNE 100(r) Companies. Currently, it provides to these clients a small number of services in the F&A segment out of a potential of over 12 such service offerings. There exists a significant opportunity for the Company to increase substantially its revenue and profits, by cross-selling and by providing a larger number of services as compared to the few that it is currently providing to its clients.

THREATS

Competition: The BPO industry in which the Company competes is highly fragmented and competitive industry. A significant source of the competition is the in house capability of the Company's targeted customer base.

Raising Staff Cost:

The rising salary and high attrition among operatives is a threat. This is planned to be offset with good human resource policies, increased productivity and increased use of technology to reduce the dependence on man power.

Rupee Appreciation:

The appreciation of Rupee against US Dollar could have the effect of eroding margins. Your Company plans to hedge as appropriate using suitable hedging techniques including forward contracts to improve upon the realization of Indian Rupees.

Proprietary Rights and Processes:

The Company regards the systems, workflow capabilities, information and know-how underlying its services as proprietary and relies primarily on a combination of contract, trade secrets, confidentiality agreements and contractual provisions to protect its rights.

FUTURE OUTLOOK

According to IDC, worldwide spending on BPO services totaled \$382.5 billion in 2004. IDC projects that total BPO spending will increase to \$641.2 billion in 2009 for a five-year compound annual growth rate ("CAGR") of 10.9%

Management believes that the Company's current position in the industry and the current timing of the industry cycle enables it to win new clients in new markets and begin to offer additional services, including additional customized solutions, to existing and new customers. In addition, since many customers select a BPO provider based on experience and existing client relationships, new competitors may face difficulties in winning new customers that the Company, with its history of experience and strong existing customer relationships, does not face.

INTERNAL CONTROL SYSTEMS

The Company has well defined internal control systems, documented procedures and policies. The organization structure, clearly defines role and responsibilities. An independent Internal Audit team regularly reviews policies and procedures across horizontal functions and submits its reports every quarter which are reviewed by management and corrective actions wherever necessary are taken.

FINANCIAL PERFORMANCE

Revenues

On a consolidated basis, the Company's total revenues increased by 51.7% to Rs. 2,503.29 million in fiscal 2007 from Rs. 1,650.70 million in fiscal 2006

The Company's stand alone total revenues increased by 63% to Rs. 75.89 million in fiscal 2007 from Rs. 46.52 million in fiscal 2006.

Expenditures

On a consolidated basis, the Company's total expenditures in fiscal 2007 were Rs. 2,121.73 million, an increase of 47% from total expenditures of Rs. 1,440.71 million in fiscal 2006.

The Company's stand alone total expenditures in fiscal 2007 were Rs. 44.79 million, an increase of 135% from total expenditures of Rs. 19.05 million in fiscal 2006.

Profit after Tax

On a consolidated basis, the Company's profit after tax was Rs. 207.30 million in fiscal 2007, an increase of 79% over profit after tax of Rs. 115.93 million in fiscal 2006.

The Company's stand alone profit after tax was Rs. 27.96 million in fiscal 2007, an increase of 7% over profit after tax of Rs. 26.11 million in fiscal 2006.

Employee Relations

The Company has in place various policies and procedures to attract and retain its employees. Most of your employees are well educated and the Company provides training on various soft skills, domain knowledge and effective communication skills. The Company conducts Six Sigma training with a view to enable them to grow with the organization. Your Company is focused on improving the overall experience including health and mental well being of its employees; and to that end it regularly conducts health camps including Yoga programmes. The Company also provides many benefits and incentives to its employees including an Employee Stock Option Plan (ESOP) to help motivate and retain valued employees.

CORPORATE GOVERNANCE REPORT FOR THE FINANCIAL YEAR 2006-07

The Company is listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited. Report on Corporate Governance as per Clause 49 of Listing Agreement (s) is given under:

Company's Philosophy on Code of Governance

The Board of Directors has been constituted in compliance with the Companies Act, 1956 and Listing Agreement(s) with the Stock Exchanges. The Board functions either as a full Board or through various committees constituted to oversee specific operational areas. The Company's executive management provides the Board detailed reports on its performance periodically. The Board has 6 Directors, three of whom are executive Directors and three of whom are non-executive independent Directors. The Chairman of the Board, Mr. Surinder Rametra is an executive Director. Further, in compliance with Clause 49 of the Listing Agreement(s) to the extent applicable to a company seeking listing for the first time, the various committees as stated in this Report have been formed.

1. Board of Directors

a) Composition of Board

The Board of Directors along with its committees provides direction and vision for the function of the Company. The composition of the Board is governed by Listing Agreement executed with Bombay Stock Exchange Limited and National Stock Exchange of India Limited, The Companies Act, 1956 and the provisions of the Articles of Association of the Company. The Board has an optimum combination of executive and non executive Directors and presently fifty percent of the Board comprises of independent Directors. The Board comprises of six Directors, consisting of three executive and three non executive directors. All three non executive directors are Independent Directors. The Company also has an Executive Chairman.

b) Non Executive Directors' Compensation and Disclosures

The Non Executive Directors on the Board of the Company are paid sitting fees for attending the Board Meeting and meetings of the various committees of the Board of Directors. All such fees paid to the Non Executive Directors are fixed by Board of Directors. No compensation is paid to the Non Executive Directors. No stock options have been granted to any of the Non Executive Directors during the financial year ended March 31, 2007.

c) Other provisions related to Board and Committees

The gap between two meetings does not exceed four months. Leave of absence was granted to the Directors as and when requested by them. All the information required to be placed before the Board as per Clause 49 of the Listing Agreement was made available to the Board for their discussion and consideration.

None of the Directors on the Company's Board is a member of more than ten committees and Chairman of more than five committees across all the companies in which he is Director. All the Directors have made necessary disclosure regarding committees positions held by them in other companies.

The Composition of the Board, attendance at Board meetings during the year under review, number of Directorships held, membership and their shareholding in the Company is given below;

Composition of Board of Directors

Name of Director	Category	Board Meetings		Attendance in Last AGM	Other Directorships/Board Committees (Number)		
		Held	Attended		Director-ship	Committee Membership	Committee Chairmanship
Mr. Surinder Rametra	Promoter Executive	7	5	Yes	2	-	-
Mr. Parvinder S Chadha	Promoter Executive	7	4	No	-	-	-
Mr. Sunil Rajadhyaksha	Promoter Executive	7	6	No	1	-	-
Mr. Ajay Madan	Non-Executive Independent	7	4	No	2	-	-
Mr. B R Gupta	Non-Executive Independent	7	4	No	5	1	2
Mr. Rajeev Gupta	Non-Executive Independent	7	3	No	-	-	-

The details of Board Meetings held during the financial year 2006-2007

Date of Board Meetings	May 5, 2006	June 13, 2006	September 25, 2006	October 25, 2006	December 21, 2006	January 30, 2007	February 26, 2007
Board Strength	6	6	6	6	6	6	6
No. of Directors Present	2	2	6	6	3	5	2

d) Code of Conduct

The Board of Directors at its meeting held on October 25, 2006 had adopted the Code of Conduct for all Board Members and senior management of the Company. A copy of the code has been put on the website of the Company.

A declaration signed by the Chairman is given below;

I hereby confirm that;

The Company has obtained from all members of the Board and senior management personnel, affirmation that they have complied with the Code of Conduct of the Company for the financial year ended March 31, 2007.

Surinder Rametra
Chairman & Executive Director

2. Audit Committee

The Board of Directors of the Company at its meeting held on January 5, 2006 constituted the Audit Committee with two independent Directors and one executive Director. The composition of the Audit Committee meets the requirements of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement. The said Committee was reconstituted from December 21, 2006 to adopt Mr. Rajeev Gupta as a member thereof.

All the members of the Committee are financial literate. Mr. B R Gupta, Chairman of the Audit Committee has rich experience of more than 40 years in the insurance and financial markets. He is a Post Graduate, Law Graduate & Fellow of Insurance Institute of India. The Company Secretary acts as Secretary to the Audit Committee.

The composition of Audit Committee is as follows:

Name	Designation/Category
Mr. B R Gupta	Chairman (Independent Director)
Mr. Ajay Madan	Member (Independent Director)
Mr. Rajeev Gupta	Member (Independent Director)
Mr. Surinder Rametra	Member (Chairman & Executive Director)

The primary objective of the Audit Committee is to monitor and effectively supervise the Company's financial reporting process with a view to provide accurate, timely and proper disclosures. The terms of reference of the Committee, in brief, are as follows;

- Overview 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 to the Board, the appointment, re-appointment and, if required, the replacement or removal of statutory auditor and the fixation of audit fees.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956, changes in accounting policies, practices and reasons for the same, major accounting entries involving estimates based on the exercise of judgment by management, significant adjustments in the financial statements, compliance with listing and other legal requirements relating to financial statements, disclosure of any related party transactions, qualifications in the draft audit report.
- Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

- vii. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- viii. Discussion with internal auditors any significant findings and follow up thereon.
- ix. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- x. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area concern.
- xi. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.
- xii. To review the functioning of the Whistler Blower mechanism, in case the same exists.
- xiii. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
- xiv. Review the following information:
 - a) Management discussion and analysis of financial condition and results of operations;
 - b) Statement of significant related party transactions.
 - c) Management letters/letters of internal control weaknesses issued by the statutory auditors.
 - d) Internal audit reports relating to internal control weaknesses; and
 - e) The appointment, removal and terms of remuneration of the chief internal auditor subject to review by the Audit Committee.

The details of Audit Committee Meetings held during the financial year 2006-2007 are as under;

Date of Audit Committee Meetings	June 13, 2006	October 25, 2006	January 30, 2007	March 30, 2007
Committee Strength	3	3	4	4
No. of Members Present	2	3	3	3

Since, your Company got listed on the Stock Exchanges in September 27, 2006, during the financial year under review, one meeting of the Audit Committee was held prior to the listing.

3. Compensation & Remuneration Committee

The Board of Directors of the Company at its meeting held on January 5, 2006 constituted the Remuneration Committee which was reconstituted as Compensation & Remuneration Committee by the Board of Directors of the Company at its meeting held on October, 25, 2006. The Compensation & Remuneration Committee was constituted in terms of SEBI and as per Clause 49 of Listing Agreement (s) with the Stock Exchanges.

The Compensation & Remuneration Committee consists of Mr. Ajay Madan, Mr. B R Gupta and Mr. Rajeev Gupta, all Independent Directors with Mr. Ajay Madan as Chairman of the Compensation & Remuneration Committee.

During the financial year the Company has not held any meeting of this Committee. However, the members of the Committee have discussed and consulted in the Board meeting held on October 25, 2006 and January 30, 2007 for the implementation of the Employee Stock Option Plan (ESOP). The Committee vides its resolution by circulation dated May 15, 2007 resolved to approve the HOVS ESOP Plan and the same was considered and approved by the Board in its meeting held on May 28, 2007, subject to the approval of shareholders in the Annual General Meeting.

The terms of reference of the Committee, in brief, are as follows;

- a) Make recommendation for appointments to the Board;
- b) Frame Company's policies on the Board and Directors with the approval of the Board;
- c) Recommend compensation payable to the Executive Directors;
- d) Review of HR Policies/initiatives & senior level appointments;
- e) Administer and supervise Employees Stock Option Schemes.

4. Investor Grievances Committee

The Board of Directors of the Company at its meeting held on January 5, 2006 constituted the Investor Grievances Committee consisting of Mr. Ajay Madan, Chairman of the Committee, Mr. Surinder Rametra and Mr. Sunil Rajadhyaksha. The Committee looks into the matters relating to redress of shareholders and investors complaints such as transfer of shares, non-receipt of Annual Reports, non-receipt of dividend declared etc.

Mr. Bhuvanesh Sharma is the Company Secretary and Compliance Officer of the Company. He oversees the performance of the Registrar and Transfer Agents of the Company.

During the year under review the number of investors complaints received was 73. All of them were satisfactorily resolved/replied to, and no complaints/requests are pending as on March 31, 2007.

5. Other Committees Constituted by the Board

The Board of Directors has constituted the other committees as detailed below;

Sr. No.	Name of the Committee	Members	Date of Constitution	Brief Terms of Reference
1	Selection Committee	Ajay Madan Rajeev Gupta Parvinder S Chadha	March 9, 2006	In terms of Director's Relatives (Officer or Place of Profit) Rules, 2003.
2	IPO Committee	Parvinder S Chadha Surinder Rametra Sunil Rajadhyaksha	March 9, 2006	To administer the process of Initial Public Issue.
3	Investment Committee	B R Gupta Surinder Rametra Sunil Rajadhyaksha	October 25, 2006	To administer the investment of funds.
4	Acquisition Committee	Ajay Madan Rajeev Gupta Sunil Rajadhyaksha Surinder Rametra	December 21, 2006	To administer the matters of acquisitions
5	Capital Committee	Parvinder S Chadha Surinder Rametra Sunil Rajadhyaksha	February 26, 2007	To administer capital expansion.

6. Remuneration of all the Directors

Sr. No.	Name of Director	Salary & Perquisites	Bonus/Commission	Sitting Fees	Stock Options
1	Mr. Surinder Rametra	Nil	Nil	Nil	Nil
2	Mr. Parvinder S Chadha	Nil	Nil	Nil	Nil
3	Mr. Sunil Rajadhyaksha	Nil	Nil	Nil	Nil
4	Mr. Ajay Madan	Nil	Nil	70,000	Nil
5	Mr. B R Gupta	Nil	Nil	80,000	Nil
6	Mr. Rajeev Gupta	Nil	Nil	60,000	Nil

Notes: 1) The Company has not entered into any pecuniary relationship or transaction with the Non-Executive Directors.

2) The Company has not so far issued any stock option to Non Executive Independent Directors.

7. General Body Meetings

a) The details of last three Annual General Meetings held are as under:

Year	Location	Date	Time	Special Resolutions passed
2003-04	Unit No. 32, Electronic Co-Operative Estate, Pune-Satara Road, Pune-411009	September 30, 2004	11:00 AM	Nil
2004-05	Unit No. 32, Electronic Co-Operative Estate, Pune-Satara Road, Pune-411009	September 30, 2005	11:00 AM	Nil
2005-06	3rd Floor, Sharda Arcade, Bibwewadi, Pune-411037	June 15, 2006	11:00 AM	Nil

b) Extra Ordinary General Meeting:

During the year the Company held an Extra Ordinary General Meeting on May 6, 2006 for passing a special resolution for amendment of Articles of Association of the Company.

c) Postal Ballot:

During the year under review, in pursuance to Section 192A of the Companies Act, 1956 and Companies (Passing of the Resolution by Postal Ballot) Rules, 2001, voting by means of postal ballots was conducted for seeking approval of the shareholders as below:

Date of the Notice	Date of Result	Name of the Scrutinizer	Special Resolutions passed	Results
December 26, 2006	January 27, 2007	Mr. S.Anand SS Rao, Practising Company Secretary	Amending the utilization of issue proceeds arising out of the recent initial public offering ("IPO") of equity shares of the Company.	99.88% Votes cast in favour.

Procedure for the Postal Ballot:

The Postal Ballot Forms were sent to all the Members along with Notice dated December 26, 2006 and the Explanatory Statement pursuant to Section 173(2) of the Companies Act, for obtaining their approval for amending the utilization of issue proceeds arising out of the recent initial public offering ("IPO") of equity shares of the Company.

The Board of Directors appointed Mr. S.Anand SS Rao, Practising Company Secretary as Scrutinizer for conducting the Postal Ballot process.

The Members were requested to carefully read the instructions appearing in the Form, record their assent or dissent therein and return the said form duly completed in original in the attached postage pre-paid envelope so as to reach the Scrutinizer on or before January 25, 2007.

Upon the receipt and on completion of the scrutiny of the Postal Ballot Forms, the Scrutinizer submitted his report to the Chairman of the Company. The Results of the Postal Ballot were announced by the Chairman on January 27, 2007. The Results are displayed at the Registered Office of the Company and also on the Web site of the Company at: http://www.hovservices.com/news_press.html

Total No. Of Ballot Forms Received: 562

Particulars	No. Of Postal Ballot Forms	No. Of Shares	% Of Total Votes Polled
Postal Ballot forms with assent for the Resolution	501	6,814,045	99.88
Postal Ballot forms with dissent for the Resolution	40	8082	0.12
Postal Ballot forms declared invalid	21	2078	
Total	562	6,824,205	
Net Valid Postal Ballot	541	6,822,127	100

Votes cast in favour of the Resolution were 99.88%. The special resolution was accordingly passed with the requisite majority.

8. Disclosures Requirements

- The detailed Management Discussion and Analysis Report is given separately in the Annual Report.
- During the year 2006-07, there were no materially significant transactions, having a potential conflict of interest to the Company at large.
- The Company was not subject to any non-compliance and no penalties or strictures were imposed on the Company by Stock Exchanges, SEBI or any statutory or other authority on any matters relating to capital markets, during the last three years.
- The Company does not have any Whistle Blower Policy in force.

- The Company has complied with all the mandatory requirements.
- The Company has complied with non-mandatory requirement relating to Remuneration Committee.
- Shareholding of Non-Executive Directors as on March 31, 2007 is as below:

Sr. No.	Name of Director	Number of shares held
1	Mr. Ajay Madan	Nil
2	Mr. B R Gupta	Nil
3	Mr. Rajeev Gupta	10,000

9. Means of Communication

The Company's periodic financial results as well as official news releases and presentations made to the institutional investors and analysts are displayed on the web site of the Company at www.hovservices.com. The Company's results are also uploaded on the EDIFAR (Electronic Data Information Filing and Retrieval System) website maintained by National Informatics Center (NIC). The financial results are normally published in Free Press Journal, Mumbai and Economics Times (English) and Navshakti Mumbai, Loksatta, Pune, (regional newspaper).

10. Non-Mandatory Requirements

The Board has setup Compensation & Remuneration Committee and other Committees, the details of which are furnished in Point No. 3 and 5 of this report.

11. Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Certifications

As per the requirement of Clause 49 of the Listing Agreement, a certificate duly signed by CEO and CFO of the Company was placed at the Board Meeting of the Company held on May 28, 2007.

12. General Shareholder Information

a). Details of ensuing AGM:

Day and Date	Time	Venue
Saturday July 21, 2007	10:30 AM	Le Meridien, Raja Bahadur Mill Road Pune, Maharashtra 411001

b). Financial Year: April 1, 2006 to March 31, 2007

c). Financial Calendar for the Year 2007-2008:

Schedule of the Board Meetings for declaration of Financial Results (tentative and subject to change):

Quarter End	Date
1 st Quarter Results	On or before July 31, 2007
2 nd Quarter Results	On or before October 31, 2007
3 rd Quarter Results	On or before January 31, 2008
4 th Quarter Results	On or before June 30, 2008

d). Date of Book Closure: June 19, 2007 to June 22, 2007(both days inclusive)

e). Dividend payment date: NIL

f). Listing: The shares are listed on National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE)

g). Listing on Stock Exchanges and Codes:

	NSE	BSE
Exchange Code	HOVS	532761

ISIN No. in NSDL & CDSL: **INE596H01014**

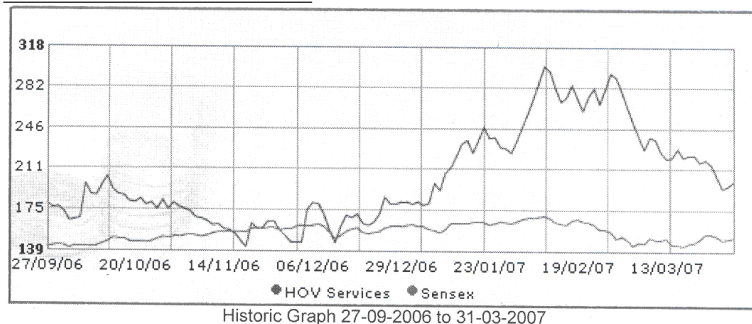
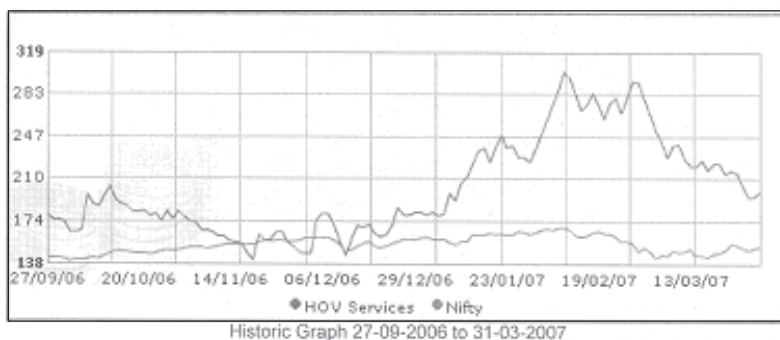
h). Market price data:

Monthly highs, lows and trading volume for FY 2007

	NSE			BSE			Total Quantity Traded
	High (Rs)	Low (Rs)	Trade Quantity	High (Rs)	Low (Rs)	Trade Quantity	
Sep-06	234.00	172.80	4,125,945	208.80	173.00	3,747,387	7,873,332
Oct-06	211.00	163.15	8,987,387	210.90	163.50	8,765,258	17,752,645
Nov-06	187.40	140.05	2,815,462	187.00	140.90	2,421,335	5,236,797
Dec-06	191.30	142.00	12,759,374	191.55	142.15	9,338,964	22,098,338
Jan-07	255.65	176.05	7,254,172	254.50	177.00	5,763,080	13,017,252
Feb-07	316.95	221.55	843,325	316.05	222.00	962,602	1,805,927
Mar-07	303.80	185.00	270,534	294.00	184.75	326,201	596,735

HOV Services Limited's Share prices versus the NSE Nifty

The Chart herein below shows the comparison of the Company's share price movement vis-à-vis the movement of BSE Sensex and NSE Nifty:

HOVS vis-à-vis BSE Sensex:**HOVS vis-à-vis NSE Nifty:****i). Registrar and Share Transfer Agent**

Karvy Computershare Pvt. Ltd.
 17-24, Vittal Rao Nagar,
 Madhapur, Hyderabad-500081

j). Share Transfer System

Shareholders/Investors are requested to send share transfer related documents directly to our Registrar and Share Transfer Agent. If the transfer documents are in order, the transfer of shares(s) get registered within 15 days of receipt of transfer documents by our Registrar and Share Transfer Agent. The Company's R&T agent has expertise and effective systems for share transfers.

k). Distribution of Shareholding as of March 31, 2007**i) Distribution of Shares according to size of holding:**

No. of Shares	Shareholders		Share Amount	
	Number	Percentage to total (%)	Rs.	Percentage to total (%)
Upto 5000	6606	91.75	5,795,980	4.62
5001 to 10000	235	3.26	1,922,240	1.55
10001 to 20000	146	2.03	2,168,200	1.72
20001 to 30000	69	0.96	1,746,340	1.39
30001 to 40000	24	0.33	870,990	0.70
40001 to 50000	28	0.39	1,315,040	1.04
50001 to 100000	31	0.43	2,428,170	1.93
100001 to above	61	0.85	109,293,490	87.05
Total	7200	100.00	125,540,450	100.00

ii) Distribution of Shares by Shareholders Category:

Sr. No.	Shareholder Category	No. of Share holders	Shares Held	Voting Strength %
1	Promoters	8	6,947,931	55.34
2	Resident Individuals	6404	1,858,673	14.80
3	Bodies Corporate	341	829,841	6.61
4	Foreign Nationals	9	746,355	5.94
5	Bodies Corporate	2	714,759	5.69
6	Foreign Inst Investors	6	636,691	5.07
7	Mutual Funds	5	630,543	5.02
8	HUF	282	86,392	0.70
9	Non Resident Indians	83	67,885	0.55
10	Clearing Members	59	34,555	0.27
11	Trusts	1	420	0.00
	TOTAL	7200	12,554,045	100.00

iii) Top Ten Shareholders as of March 31, 2007

S. No.	Name(s) of the Shareholders	Category as per depository	Shares	%
1	Adesi 234 ,LLC	Promoters	3,000,985	23.92
2	HOF 2, LLC	Promoters	1,429,680	11.38
3	Chitale, LLC	Promoters	878,852	7.00
4	Stern Capital Partners, LLC	Promoters	694,246	5.53
5	Sunil Rajadhyaksha	Promoters	588,720	4.68
6	eIndia Venture Fund Limited	Ltd	476,506	3.79
7	Prudential ICICI Trust Ltd Bal Fund	Mutual Fund	448,542	3.57
8	India Emerging Opportunity Fund Limited	FII	242,378	1.94
9	Merrill Lynch LP Holdings Inc	Ltd	238,253	1.90
10	eIndia Venture Fund Ltd On Behalf Of HOF 2, LLC	Promoters	238,253	1.90
	TOTAL		8,236,415	65.61

l). Dematerialisation of shares and liquidity

The shares of the Company are tradable both in dematerialization (electronic) as well as physical form and available for trading under both depository system in India-CDSL & NSDL. 33.02% of the Company's shares were held in electronic form as of March 31, 2007.

m). Outstanding GDRs/ADRs/Warrants/Convertible instruments and their impact on the equity shares

The Company has not issued any GDRs/ADRs/Warrants or any convertible instruments, convertible instruments and hence there are no other particulars to be given under this head.

n). Plant/Office Locations

As the Company is engaged in Business Process Outsource (BPO) Industry, it does not have any Plants. The Company has over 49 facilities worldwide. The Key facilities in India and USA are listed below;

India Offices**Pune**

3rd Floor, Sharda Arcade,
Pune Satara Road,
Bibwewadi, Pune 411037

Navi Mumbai

3rd Tower, 3rd Floor,
Vashi Railway Station Complex,
Navi Mumbai-400705

Chennai

Dowlath Towers, 59, Taylors Road,
Kilpauk,
Chennai-600 010

Global Offices

Suite 435,
50 West, San Fernando Street,
San Jose, CA 95113

1305 Stephenson Highway
Troy,
MI 48083

771 East Southlake Boulevard
Southlake, TX 76092. USA

o). Name, Designation and Address of Compliance officer for communication

Bhuvanesh Sharma
3rd Floor, Sharda Arcade,
Pune Satara Road,
Bibwewadi, Pune 411037
Maharashtra, India
Tel: (91 20) 2423 1623
Fax: (91 20) 2422 1460
E-mail: investor.relations@hovservices.com

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members of HOV Services Limited

We have examined the compliance of conditions of Corporate Governance by HOV Services Limited, for the year under review, as stipulated in clause 49 of the Listing Agreement with Stock Exchanges of India.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to a review of 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 opinion on the financial statements of the Company.

In our opinion and to the best of our information and explanations given to us and based on the representations given by the Management of the Company, we certify that the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in 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 the effectiveness with which the Management has conducted the affairs of the Company.

For LODHA & COMPANY

Chartered Accountants

(R.P. Baradiya)
Partner
Membership No. 44101

AUDITORS' REPORT

To
The Members
HOV SERVICES LIMITED

1. We have audited the attached Balance Sheet of **HOV SERVICES LIMITED** as at March 31, 2007, also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 of India (hereinafter referred to as the "Act"), we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred in Section 211 (3C) of the Act, to the extent applicable;
 - (e) On the basis of written representations received from the directors as on March 31, 2007 and taken on record by the Board of Directors, we report that, none of the directors is disqualified as on 31st March, 2007 from being appointed as a director of the Company in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with 'Significant Accounting Policies and Notes to Accounts' in Schedule 17 and other notes appearing elsewhere in the accounts, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
 - ii) in the case of the Profit & Loss Account, of the profit of the Company for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Mumbai
Date: May, 28, 2007

For LODHA & CO.
Chartered Accountants

R.P.BARADIYA
Partner
Membership No.44101

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF AUDITORS' REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2007 OF HOV SERVICES LIMITED

On the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we state that:

1. a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
b) As explained to us, the assets have been physically verified by the management in accordance with the phased program of verification, which in our opinion is reasonable, considering the size of the Company and nature of its fixed assets business. No material discrepancies have been noticed on such physical verification.
c) No substantial part of the fixed assets has been disposed off during the year.
2. The Company does not have any inventory. Therefore, the provisions of clause 4(ii) of the Order are not applicable to the Company.
3. a) The Company has not granted any loans, secured or unsecured, to Companies, Firms and other parties covered in the register maintained under Section 301 of the Act.
b) The Company has taken interest free unsecured loans from two directors covered in the register maintained under Section 301 of the Act aggregating to Rs. 12,201,420 (being the maximum balance). The same were repaid during the year.
c) There was no stipulation as to when the repayment has to be made or when the interest was payable, wherever applicable.
d) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions on which loans have been taken are prima facie, not prejudicial to the interest of the Company.
4. In our opinion and according to the information and explanations given to us, having regard to the explanations that purchase of certain items of fixed assets and sale of services are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and nature of its business for the purchase of fixed assets and for the sale of software and services. The activities of the Company do not involve purchase of inventory and sale of goods. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5. a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that Section.
b) According to the information and explanations given to us, in our opinion, the aforesaid contracts or arrangements aggregating during the year to Rs.500,000 or more in respect of each party, have been made at prices which are reasonable considering inter alia the transfer pricing report issued by an expert under the Income Tax Act, 1961 according to which the prices for such transactions are at arms length.
6. No deposits within the meaning of Sections 58A and 58AA or any other relevant provisions of the Act and rules framed there under have been accepted by the Company.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. According to the information and explanations given to us, the central government has not prescribed the maintenance of cost records under clause (d) of sub section (1) of Section 209 of the Act for the services rendered by the Company.

9. a) The Company is generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to the Company with the appropriate authorities. However in few cases there were delays in payment of income tax deducted at source and provident fund (ranging between 1 to 15 days). As explained to us, no undisputed amounts payable in respect of the aforesaid statutory dues were outstanding as at the last day of the financial year for a period of more than six months from the date they became payable.

b) According to the records of the Company, there are no dues of Income Tax, Sales Tax, Service tax, Custom Duty, Wealth Tax, Excise Duty, Cess, which have not been deposited on account of any dispute.
10. The Company does not have accumulated losses as at end of the financial year and has not incurred any cash losses in the financial year under review or in the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks.
12. During the year, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The Company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
14. The Company has not taken any term loan during the Year.
15. The Company is not dealing in or trading in shares, securities, debentures, and other investments.
16. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions.
17. According to the information and explanations given to us and on an overall examination of the cash flow statements and balance sheet of the Company, in our opinion, the funds raised on short-term basis have, prima facie, not been used for long-term investment.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act.
19. The Company has not issued any debentures during the year.
20. We have verified that the end use of money raised by public issues is as disclosed in the notes to the financial statements.
21. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Place: Mumbai
Date: May, 28, 2007

For LODHA & CO.
Chartered Accountants

R.P.BARADIYA
Partner
Membership No.44101

Balance Sheet As at March 31, 2007

	Schedule No.	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
SOURCES OF FUNDS			
1. Shareholders' Funds :			
(a) Share Capital	1	125,540,450	85,040,450
(b) Reserves and Surplus	2	677,643,134	26,109,433
		803,183,584	111,149,883
2. Loan Funds :			
(a) Secured Loans	3	456,780	884,937
(b) Unsecured Loans	4	-	12,766,187
		456,780	13,651,124
3. Deferred Tax Liability (Refer Note No.9 of Notes to Financial Statement in Schedule 17)		571,019	461,611
TOTAL		804,211,383	125,262,618
APPLICATION OF FUNDS			
1. Fixed Assets :	5		
(a) Gross Block		10,561,168	7,786,215
(b) Less: Depreciation		3,537,009	2,466,632
(c) Net Block		7,024,159	5,319,583
(d) Capital Work-in-Progress		11,440,732	8,741,353
		18,464,891	14,060,936
2. Investments	6	695,381,368	54,235,586
3. Current Assets, Loans and Advances :			
(b) Sundry Debtors	7	14,586,172	22,281,297
(c) Cash and Bank Balances	8	74,542,200	2,908,254
(d) Loans and Advances	9	11,345,451	40,079,649
		100,473,823	65,269,200
Less: Current Liabilities and Provisions:			
(a) Liabilities	10	9,566,147	7,113,820
(b) Provisions	11	542,552	1,189,282
		10,108,699	8,303,102
Net Current Assets		90,365,124	56,966,097
TOTAL		804,211,383	125,262,618
Significant Accounting Policies and Notes forming part of the Financial Statements			
	17		

The Schedules referred to above form an integral part of the Financial Statements.

As per our attached report of even date.

For LODHA & CO
Chartered Accountants

R. P. BARADIYA
Partner

Place: Mumbai
Date: May 28, 2007

For and on behalf of the Board

Surinder Rametra
Chairman & Executive Director

Bhuvanesh Sharma
Company Secretary

Parvinder S Chadha
Executive Director

Vikram Negi
Chief Financial Officer

Profit and Loss Account for the year ended March 31, 2007

	Schedule No.	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
INCOME :			
Income from Operations	12	69,832,297	44,706,066
Other Income	13	6,055,929	1,810,603
		75,888,226	46,516,669
EXPENDITURE :			
Personnel Expenses	14	19,342,144	10,097,755
Operating Expenses	15	23,903,579	8,852,905
Interest	16	915,282	256,516
Depreciation	5	1,070,377	1,120,356
Foreign Exchange Variation (Net)		1,548,848	-
Miscellaneous Expenditure Written-off		-	5,610
		46,780,230	20,333,142
Profit before Taxation		29,107,996	26,183,528
Provision for Taxation			
Current Tax		764,962	4,928
Deferred Tax		109,408	(36,035)
Fringe Benefit Tax		320,678	110,127
Profit after Taxation		27,912,948	26,104,508
Tax Adjustments for earlier year		(39,561)	(4,928)
Net Profit		27,952,509	26,109,436
Balance of Profit brought forward from previous year.		26,109,433	29,108,247
Less : Capitalised for the purpose of Bonus Equity Issue		-	29,108,250
Amount available for Appropriation		54,061,942	26,109,433
Balance carried to Balance Sheet		54,061,942	26,109,433
Basic Earnings per Share (EPS)		2.63	5.96
(Equity Share, per value Rs.10 each)			
(Refer note no. 4 of notes to Financial Statements in schedule 17)			
Significant Accounting Policies and Notes forming part of the Financial Statements	17		
The Schedules referred to above form an integral part of the Financial Statements.			

As per our attached report of even date.

For LODHA & CO
 Chartered Accountants

 R. P. BARADIYA
 Partner

 Place: Mumbai
 Date: May 28, 2007
For and on behalf of the Board
 Surinder Rametra
 Chairman & Executive Director

 Bhuvanesh Sharma
 Company Secretary

 Parvinder S Chadha
 Executive Director

 Vikram Negi
 Chief Financial Officer

Cash Flow Statement for the year ended March 31, 2007

Particulars	For the year ended March 31, 2007	For the year ended March 31, 2006
A. Cash flow from Operating Activities:		
Net Profit/(Loss) before tax	29,107,996	26,183,528
Adjustments for:		
Depreciation	1,070,377	1,120,356
Dividend Recd	(3,177,409)	
Interest Expense	796,560	170,436
Interest Income	(2,239,980)	(13,723)
Provision not required written back	(638,540)	(17,077)
Unrealised Foreign Exchange (Gain)/Loss, net	1,548,848	(1,796,880)
Preliminary Expenses written off	-	5,610
Operating Profit before Working Capital changes	26,467,852	25,652,250
Adjustments for changes in Working Capital :		
(Increase)/Decrease in Sundry Debtors	6,146,278	4,161,543
(Increase)/Decrease in Other Receivables	23,930,807	(35,822,434)
Increase/(Decrease) in Trade and Other Payables	2,490,236	6,222,942
Cash generated from Operations	59,035,173	214,302
Taxes Paid (including Fringe Benefit Tax)	(1,197,757)	(68,954)
Net cash from/(used in) Operating Activities	57,837,416	145,348
B. Cash flow from Investing Activities:		
Purchase of Fixed Assets	(5,474,332)	(11,561,318)
Dividend Recd	3,177,409	-
Investment in Subsidiaries	(641,145,782)	(54,235,586)
Interest Received	2,115,826	13,723
Net Cash from/(used in) Investing Activities	(641,326,879)	(65,783,181)
C. Cash flow from Financing Activities:		
Proceeds from issue of Share Capital	664,081,192	55,000,000
Proceeds/(Repayments) from/to loans, (net)	(13,194,344)	10,467,834
Interest Paid	(796,560)	(170,436)
Net cash from/(used in) Financing Activities	650,090,288	65,297,398
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	66,600,824	(340,435)
Opening Cash and Cash Equivalents	2,850,748	3,191,183
Closing Cash and Cash Equivalents	69,451,572	2,850,748

Notes:

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard 3, Cash Flow Statements issued by the Institute of Chartered Accountants of India.
- Pledged FDRs has been excluded from Cash and Cash equivalents and included in Other Receivables.
- Previous year's figures has been regrouped/rearranged, where necessary

As per our attached report of even date.

For LODHA & CO

Chartered Accountants

R. P. BARADIYA
Partner**For and on behalf of the Board**Surinder Rametra
Chairman & Executive DirectorParvinder S Chadha
Executive DirectorPlace: Mumbai
Date: May 28, 2007Bhuvanesh Sharma
Company SecretaryVikram Negi
Chief Financial Officer

Schedules Forming Part of The Balance Sheet As At March 31, 2007

SCHEDULE 1

SHARE CAPITAL	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Authorized : 150,00,000 Equity Shares of Rs.10 each.	150,000,000	150,000,000
Issued, Subscribed & Paid-up : 1,25,54,045 (Previous year 85,04,045) Equity shares of Rs.10 each	125,540,450	85,040,450
Notes: (1) Out of above, 29,87,095 (Previous year 29,87,095) shares were issued as fully paid up Bonus shares, by capitalization of the balance lying in profit and loss accounts. (2) During the year, 40,50,000 equity shares have been allotted pursuant to the Initial Public Offer(IPO) as fully paid up @Rs.200 per share (including Rs.190 per share as premium)		
Total	125,540,450	85,040,450

SCHEDULE 2

RESERVES AND SURPLUS:	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Securities Premium Account Opening balance as per last balance sheet	-	-
Add: Additions during the year on Initial Public Offer.	769,500,000	-
Less: Utilised towards Share issue expenses (Also refer note no. 2 of notes to Financial Statements in schedule 17)	145,918,808	-
	623,581,192	-
Surplus in Profit and Loss Account (As per annexed account)	54,061,942	26,109,433
Total	677,643,134	26,109,433

SCHEDULE 3

SECURED LOANS	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
From a Bank: Vehicle loan (Secured by way of hypothecation of vehicle acquired there against)	456,780	884,937
Total	456,780	884,937

SCHEDULE 4

UNSECURED LOANS	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Loan from Directors.	-	12,766,187
Total	-	12,766,187

SCHEDULE 5: Fixed Assets

Particulars	Gross Block			Depreciation			Net Block		
	As at 01.04.2006	Additions / Adjustments during the year	Deductions/ Adjustments during the year	As at 31.03.2007	Up to 01.04.2006	For the year	Deductions/ Adjustments during the year	Up to 31.03.2007	As at 31.03.2007 As at 31.03.2006
Intangibles:									
Software Product (Meant for sale)	-	2,065,902	-	2,065,902	-	128,765	-	128,765	1,937,137
Tangibles:									
Plant & Machinery:									
1) Computer & Computer Equipment	4,901,246	481,438	-	5,382,684	1,656,361	720,721	-	2,377,082	3,005,602
2) Office Equipment Furniture & Fixtures	488,841	222,325	-	711,166	69,472	45,307	-	114,779	596,387
Vehicles (Secured against Loan)	778,612	5,288	-	783,900	602,712	21,919	-	624,631	159,269
	1,617,516	-	-	1,617,516	138,087	153,665	-	291,752	1,325,764
Total	7,786,215	2,774,953	-	10,561,168	2,466,632	1,070,377	-	3,537,009	7,024,159 5,319,583
Previous Year	4,966,248	3,317,659	497,692	7,786,215	1,368,281	1,120,356	22,005	2,466,632	5,319,583
Capital Work in Progress to- the extent not capitalized	8,741,353	4,765,281	2,065,902	11,440,732	-	-	-	-	11,440,732
									8,741,353

Note: Capital Work In Progress includes (I) Software Products Rs. 11,150,484 (Previous year Rs. 87,41,353) (II) Computers Rs. 1,45,124 (Previous year Rs. Nil)

SCHEDULE 6

INVESTMENTS	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Long Term, Trade (Unquoted)		
Investment in Subsidiaries		
10,000 (Previous Year 10,000) Equity shares of Rs.10 each of Bay Area Credit Service (I) Pvt. Ltd, fully paid up In HOV Services LLC	55,894,881	54,191,596
1,000 (Previous year 1,000) Class 'A' Unit of USD 1 each of HOV Services, LLC	43,990	43,990
Add: Amount further invested as additional paid in capital.	639,442,497	-
Total	695,381,368	54,235,586

SCHEDULE 7

SUNDRY DEBTORS	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
(Unsecured, considered good.)		
Outstanding for a period exceeding six months :		
Dues from subsidiaries	-	6,654,220
Outstanding for a period not exceeding six months :		
Dues from subsidiaries	13,476,772	15,627,077
Others	1,109,400	-
(Also, refer note no. 10B of notes to Financial Statements in schedule 17)		
Total	14,586,172	22,281,297

SCHEDULE 8

CASH AND BANK BALANCES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Cash balance in hand	28,051	3,169
Balances with Scheduled Banks :		
(a) In Current Accounts	69,423,521	2,691,612
(b) Fixed Deposits (including interest accrued of Rs. 1,37,877; previous year Rs.13,723)	5,090,628	213,473
[of which FDRs of Rs.5,090,628 (Previous Year Rs.57,506) are pledged with banks for guarantees issued]		
Total	74,542,200	2,908,254

SCHEDULE 9

LOANS AND ADVANCES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
(Unsecured, considered good)		
Loans to wholly owned subsidiary (maximum outstanding during the year Rs. 62,836,704, previous year Rs.36,980,365)	196,323	36,423,293
Advances recoverable in cash or in kind or for value to be received	515,541	568,321
Taxes paid (Net of provision of Rs.1,128,140; previous year Nil)	105,577	-
Security Deposits	10,528,010	3,088,035
Total	11,345,451	40,079,649

SCHEDULE 10

CURRENT LIABILITIES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Sundry Creditors (Due other than to small scale industries) (Refer Note No.11 of Notes to Financial Statement in schedule 17)	8,959,303	6,473,708
Other Liabilities	606,844	640,113
Total	9,566,147	7,113,821

SCHEDULE 11

PROVISIONS	As at March 31,2007 Rs.	As at March 31,2006 Rs.
Provision for :		
Taxes payable (Net of payment of Rs. Nil; previous year 68,954)	-	46,101
Gratuity	501,278	1,020,861
Leave Encashment	41,274	122,320
Total	542,552	1,189,282

Schedules Forming Part Of Profit And Loss For The Year Ended March 31, 2007**SCHEDULE 12**

INCOME FROM OPERATIONS	As at March 31,2007 Rs.	As at March 31,2006 Rs.
Software and IT enabled services	68,445,997	44,706,066
Sale of Software Licence	1,386,300	-
Total	69,832,297	44,706,066

SCHEDULE 13

OTHER INCOME	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Dividend on Current Investments	3,177,409	-
Interest Received (TDS Rs.499,769 Previous Year Rs. 1,327)	2,239,980	13,723
Foreign Exchange Variation (Net)	-	1,796,880
Provisions no longer required written-back	638,540	-
Total	6,055,929	1,810,603

SCHEDULE 14

PERSONNEL EXPENSES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Salaries, Wages and Bonus	18,468,030	12,826,925
Contribution to Provident and Other Funds	518,253	291,979
Staff Welfare	409,821	137,028
Recruitment and Training Expenses	12,497	83,052
Insurance Charges	80,081	125,205
	19,488,682	13,464,189
Less: Transferred to capital work-in-progress For software development	146,538	3,366,434
Total	19,342,144	10,097,755

SCHEDULE 15

OPERATING EXPENSES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Auditors' Remuneration	637,507	370,476
Communication Costs	2,438,059	3,658,646
Electricity charges	625,102	445,478
Insurance charges	50,149	63,072
Legal & professional fees	9,955,307	1,859,740
Office, Administration & Other Expenses	2,682,321	832,176
Rates and Taxes	290,371	237,448
Rent	4,778,260	2,052,413
Repairs & Maintenance- Building	312,137	766,394
Repairs & Maintenance-Computers	68,146	98,787
Travelling & Conveyance	6,530,513	1,658,195
	28,367,872	12,042,824
Less: Transferred to capital work-in-progress For software development	4,464,293	3,189,919
Total	23,903,579	8,852,905

SCHEDULE 16

INTEREST AND FINANCE CHARGES	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
Interest on :		
Term Loan	44,835	57,929
Others	751,725	107,952
Interest on OD	-	4,555
Finance Charges	118,722	86,080
Total	915,282	256,516

SCHEDULE 17**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2007.****STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS****A. SIGNIFICANT ACCOUNTING POLICIES****1. Overview of the Company:**

The Company was incorporated in 1989 under the Indian Companies Act, 1956 as Codec Communication Pvt. Ltd with registration number 25-14448. The Company commenced its operations on January 10, 1989. In March, 2006 the Company changed its name to HOV Services Limited as a part of its plans to create brand recognition among its customers. The Company is primarily involved into Finance and Accounting segment of the BPO sector including software development and support services thereto.

The Company, in the month of September 2006, came out with an initial public offer of 40,50,000 equity shares of face value of Rs 10 each at a premium of Rs.190 per share. The Equity Shares of the Company are listed on Bombay Stock Exchange and National Stock Exchange.

2. Basis for Preparation of Financial Statements:

The Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) applicable in India under the historical cost convention on the accrual basis, in compliance with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India ('ICAI'), to the extent applicable and on the principles of a going concern.

3. Use of Estimates:

The preparation of financial statements in conformity with AS and GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements and reported amounts of revenue and expenses for that year. Actual result could differ from these estimates. Any revision to accounting estimates is recognized prospectively.

4. Revenue Recognition:

The revenue from Finance and Accounting segment of the BPO sector including software development and support services is recognized as per the work orders/agreements entered with the parties.

License fee is recognized on delivery and as per the terms of the contact.

5. Fixed Assets:

Tangible: Fixed assets are stated at historical cost less accumulated depreciation. Replacements are either capitalized or charged to revenue depending upon their nature and long term utility.

Intangible: Costs that are directly associated with identifiable and unique software products controlled by the Company, whether developed in-house or acquired, and have probable economic benefits exceeding the cost beyond one year are recognized as software products. Capital work in progress comprises outstanding advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use at the balance sheet date.

6. Impairment of Assets:

In accordance with AS 28 on 'Impairment of Assets' issued by the Institute Of Chartered Accountants of India, where there is an indication of impairment of the Company's assets related to cash generating units, the carrying amounts of such assets are reviewed at each balance sheet date to determine whether there is any impairment. The recoverable amount of such assets is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of such assets exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, then such loss is reversed and the asset is restated to extent of the carrying value of the asset that would have been determined (net of amortization / depreciation), had no impairment loss been recognized.

7. Depreciation / Amortization:

a) Tangible Assets - Depreciation is provided under Straight Line Method and in the manner prescribed in the Schedule XIV of the Companies Act, 1956. Individual assets acquired for less than Rs 5,000 are entirely depreciated in the year of acquisition.

b) Intangible Assets - Software product (meant for sale) are amortised over its estimated useful life of 8 years.

8. Investments:

Investments are classified into long term and current investments. Long-term investments are carried at cost and provision is made to recognize any decline in the value other than temporary in the value of such investments. Current investments are carried at the lower of the cost or fair value and provision is made to recognize any decline in the carrying value of the investment.

9. Retirement Benefits:**Gratuity:**

The Company provides for gratuity, a defined benefit retirement plan, covering eligible employees. Liability under gratuity plan is determined on actuarial valuation done by the Life Insurance Corporation of India (LIC) at the end of the year.

Provident Fund:

Defined contributions for provident fund are charged to the Profit & Loss account based on contribution made in terms of applicable scheme.

Leave Encashment:

Liability towards Leave Encashment Benefit is provided for as at the Balance Sheet date as per the actuarial valuation taken at the end of the year.

10. Foreign Exchange Transactions:

- a) Transactions in foreign currency are recorded at the rate of exchange in force on the date of the transactions. Current assets, current liabilities and borrowings denominated in foreign currency are translated at the exchange rate prevalent at the date of Balance Sheet. The resultant gain or loss is recognized in the profit and loss account, except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.
- b) Exchange differences arising on settlement of foreign currency transactions are recognized in the profit and loss account, except exchange differences pertaining to the acquisition of fixed assets.
- c) Assets and liabilities expressed in foreign currency are converted, if covered by forward contract rates, at the rate contracted after adjusting the premium over the period of the forward contract, otherwise, at the year end rates. Exchange differences arising on such restatement are recognized in the profit and loss account except exchange differences pertaining to acquisition of fixed assets.

11. Accounting for Taxes on Income:

Provision for current income tax is made on the basis of the estimated taxable income for the year in accordance with the Income Tax Act 1961.

MAT credit asset is recognized and carried forward only if there is a reasonable certainty of it being set off against regular tax payable within the stipulated statutory period.

Fringe Benefit Tax has been made in respect of employee benefits and other specified

Expenses, in accordance with the provisions as per Income Tax Act, 1961.

Deferred tax resulting from timing differences between book profits and tax profits is accounted for under the liability method, at the current rate of tax, to the extent that the timing differences are expected to crystallize. Deferred tax assets are recognized and carried forward only if there is a virtual/ reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each Balance Sheet date.

12. Borrowing Costs:

Borrowing costs attributable to acquisition and construction of qualifying assets are capitalized as a part of the cost of such assets up to the date when such asset is ready for its intended use. Other borrowing costs are charged to profit and loss account.

13. Leases:

Where the Company has substantially acquired all risks and rewards of ownership of the assets, leases are classified as financial lease. Such assets are capitalized at the inception of the lease, at the lower of the fair value or present value of minimum lease payment and liability is created for equivalent amount. Each lease rent paid is allocated between liability and interest cost so as to obtain constant periodic rate of interest on the outstanding liability for each year.

Where significant portion of risks and reward of ownership of assets acquired under lease are retained by lessor, leases are classified as Operating Lease. Lease rentals for such leases are charged to Profit and Loss account.

14. Earnings Per Share

The earnings considered in ascertaining Earning Per Share comprise the net profit after tax. The number of shares used in computing Basic EPS is weighted average number of shares outstanding during the year. The number of shares used in computing diluted EPS comprises of weighted average shares considered for deriving Basic EPS, and also weighted average number of equity shares which could have been issued on the conversion of all diluted potential equity shares. Diluted potential equity shares are deemed converted at the beginning of the year, unless they have been issued at later date.

15. Provisions, Contingent Liability and Contingent Assets:

- i) Provisions involving substantial degree of estimation in measurement are recognized when there is present obligation as a result of past events and it is probable that there will be outflow of resources.
- ii) Disclosures for a contingent liability is made, without a provision in books, when there is an obligation that may, but probably will not, require outflow of resources.
- iii) Contingent Assets are neither recognized nor disclosed in the financial statement

16. Preliminary and share issue expenditure:

Preliminary expenses, issue expenses including expenses incurred on increase in authorization share capital and issue of fully paid up Bonus shares are adjusted against Securities Premium Account.

B. NOTES TO FINANCIAL STATEMENTS:**1. Capital commitments and Contingent liabilities:**

	As at March 31, 2007	As at March 31, 2006
Capital Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of Advances of Rs. NIL , previous year Rs. NIL)	Nil	Nil
Contingent Liabilities not provided for in respect of:		
Outstanding guarantees given by banks	49,35,500	Nil

2 a) Utilization of the proceeds of Initial Public Offer (IPO)

The company has raised Rs. 810 million from IPO of its equity shares for the purposes of planned capital expenditure, to infuse funds into the subsidiary for the redemption of Class B units issued by the subsidiary, to meet the issue expenses and acquisitions. In order to improve the profitability and cash flow position, it was decided to amend the pattern of use of the IPO proceeds from what was stated in prospectus dated September 11, 2006 ("Prospectus"). Accordingly, the consent of the members of the company was obtained by way of special resolution passed by means of postal ballot for the purpose of variation in the utilization of proceeds from IPO of its equity shares. The members have approved the following pattern of utilization.

Purpose of utilization of fund	Estimated use (Rs in Million)	Actual utilization up to March 31, 2007 (Rs in Million)
Planned capital expenditure & Acquisitions	210.80	191.30
To infuse funds into the subsidiary for redemption of class B Units issued by the subsidiary	456.40	440.00
Repayment of Advances	-	38.00
Issue expenses	142.80	145.90
Total	810.00	815.20

b) Share Issue Expenses:

The company has incurred the following expenses towards its IPO:

Sr No	Nature of expenses	Amount (Rs)
1	Professional & Legal Fees	114,448,253
2	Traveling & Conveyance	834,121
3	Advertisement & Publicity	15,246,193
4	Printing & Stationary	13,679,687
5	Listing fees & other expenses	1,710,554
	Total	145,918,808

The company has adjusted the aforesaid public issue expenses against Securities Premium Account.

3. a) In the opinion of the Board, the current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amount at which they are stated. Provision for all known and determined liabilities and depreciation is adequate and not in excess.
- b) Balances of sundry debtors, sundry creditors and advances given are, however, subject to confirmations and adjustments, if any. In the opinion of the management, adjustments as may be required on such confirmations, would not be significant.

4 Earnings per share (EPS):

Particulars	For the year ended March 31, 2007	For the year ended March 31, 2006
Net Profit as per Profit and Loss Account (Rs.)	27,952,509	26,109,436
Weighted Average Number of Equity Shares (Nos.)	10,645,552	4,379,045
Basic and Diluted Earning per Equity Share (Rs.)	2.63	5.96
Nominal value per Equity Share (Rs.)	10	10

5. Foreign Currency Exposures:

Foreign exchange currency exposure not covered by derivative instruments as at March 31, 2007: -

Particulars	Currency type	As at 31.03.07		As at 31.03.06	
		Amount (Foreign currency \$)	Amount Rs.	Amount (Foreign currency \$)	Amount Rs.
Current Assets, Loans and Advances	Dollar	25,800	1,109,400	499,469	22,281,296
Current Liabilities	Dollar	37,063	1,620,021	-	-

6 Leases:

a. Operating Lease:

(i) The Company has acquired office premises under lease arrangements for a period of five years. The lease arrangements in respect of office premises are renewable / cancelable at the Company's and / or lessors' option as mutually agreed. The future lease rental payments that the Company is committed to make is:

(Amount in Rs.)

	As at March 31, 2007	As at March 31, 2006
- Within one year	10,041,854	6,284,294
- Later than one year and not later than five years	32,429,208	438,833
- Later than five years	-	-

(ii) The Company has taken various commercial premises under cancelable operating leases. The lease agreements are usually renewable by mutual consent on mutual agreeable terms. The rental expenses in respect of operating leases are charged as rent under Schedule 15.

b. Financial Lease:

There were no financial leases entered into by the Company.

7. Related Party Transactions

Related party disclosures as required by Accounting Standard-18 "Related Party Disclosures" are given below:

A) Name of the related parties:

a) The Parties where Control exists:

(i) Subsidiaries

1	HOV Services LLC (also by way of management control)
2	Bay Area Credit Services (I) Pvt. Ltd.

ii) Fellow Subsidiaries

1	Bay Area Credit Service, LLC
2	Complex Property Advisors Corporation
3	Meridian Consulting Group, LLC (Wholly owned by HOV Ent. Ser. Inc)
4	HOV Enterprise Services Inc (Formerly Savant Consulting Group, Inc.)
5	Glen Denial Corporation dba Imperial Collection Service
6	Digital Boardwalk LLC (Wholly owned by HOV Enterprise Services Inc)
7	Rustic Canyon III, LLC. (w.e.f. March 1, 2007)
8	Trac Holding LLC (w.e.f. January 1, 2007)
9	Lason Inc (w.e.f. March 1, 2007)
10	Lason India Pvt Ltd (w.e.f. March 1, 2007)
11	Vetri Software (I) Pvt. Ltd (w.e.f. March 1, 2007)

b) Associates:

Sr. No	Name
1	HOV GPM, LLC
2	HOF 4, Limited

c) Directors/Key Managerial Personnel and their relatives:

Sr. No.	Name
1	Mr. Ronald Cogburn (President)
2	Mr. Sunil Rajadhyaksha (Executive Director)
3	Mr. Karan Negi (Chief Operational Officer)
4	Mr. Vikram Negi (Chief Financial Officer)
5	Mr. Anil Rajadhyaksha (Relative of Mr. Sunil Rajadhyaksha)
6	Mr. Parvinder S Chadha (Executive Director)
7	Mr. Surinder Rametra (Chairman & Executive Director)

B. During the year, following transactions were carried out with the related parties in the ordinary course of business:

(Amount in Rs.)

Name of the Party	Nature of Relationship	Transactions entered during the year ended	
		March 31, 2007	March 31, 2006
Bay Area Credit Service (India) Private Ltd Unsecured Loans Given Loan Repaid	Subsidiary	72,756,998 108,983,968	45,687,422 10,965,653
HOV Services LLC Investment in Shares	Subsidiary	639,071,824	43,990
<i>Bay Area Credit Service, LLC</i> Service Provided Services Availed	Subsidiary	35,169,465 1,088,665	29,214,419 -
<i>Complex Property Advisors Corporation</i> Services Provided	Subsidiary	11,985,201	11,113,537
<i>Meridian Consulting Group, LLC</i> Services Provided Services Availed	Subsidiary	3,520,963 601,128	3,383,085 -
<i>Imperial Collection Service</i> Services Provided	Subsidiary	1,141,450	265,340

<u>HOV Enterprise Services, Inc (Formerly Savant Consulting Group Inc)</u> Services provided	Subsidiary	3,057,388	729,685
<u>Digital Boardwalk LLC</u> Services Provided	Subsidiary	81,600	-
<u>HOV GPM, LLC</u> Advance taken and Repaid	Associates	38,925,699	1,104,246
HOF 4, Limited Acquisition of equity shares of Bay Area Credit Services (India) Private Ltd Received against excess paid	Associates	18,10,042.50 106,758	53,296,715 -
Ace Computers & Systems Consultancy services paid	Firm of Related to Key Managerial Personnel	-	220,000
<u>Mr. Sunil Rajadhyaksha</u> Loan Taken Loan Paid	Key Managerial Personnel	- 1,104,246	2,208,492 1,104,246
Mr. Parvinder S Chadha Loan Taken Loan Repayment	Key Managerial Personnel	250,000 250,000	-
Mr. Karan Negi - Salary	Key Managerial Personnel	96,000	8,857
Mr. Vikram Negi - Salary	Key Managerial Personnel	96,000	8,857
Mr. Ronald Cogburn - Salary	Key Managerial Personnel	108,000	9,964
Mr. Surinder Rametra Loan Taken Repayment of Loan Interest Paid	Key Managerial Personnel	- 12,413,666 751,725	11,565,000 - 107,952
Mr. Anil Rajadhyaksha Salary Consultancy Charges	Relative of Key Managerial Personnel	1,200,000 -	1,224,751 300,000

Balances with the related parties referred above, in the ordinary courses of business are as follows:

(Amount in Rs.)

Name of the Party	Nature of Relationship	Balance as on	
		March 31, 2007	March 31, 2006
Bay Area Credit Service (I) (P) Ltd. Unsecured Loan given	Subsidiary	196,323	36,423,293
<u>Bay Area Credit Service, LLC</u> Debtors Creditors	Subsidiary	8,417,595 1,049,544	8,780,656 -
Complex Property Advisors Corporation Debtors	Subsidiary	3,427,176	9,104,051
<u>Meridian Consulting Group, LLC</u> Debtors Creditors	Subsidiary	408,000 570,477	3,397,365 -
<u>Digital Boardwalk LLC</u> Debtors	Subsidiary	81,600	-
HOV Enterprise Services, Inc (Savant Consulting Group, Inc). <u>Debtors</u>	Subsidiary	816,000	732,765
Imperial Collection Service Debtors Mr. Surinder Rametra	Subsidiary	326,400	266,460
Loan taken & Interest thereon	Key Managerial Personnel	-	11,661,941
Mr. Sunil Rajadhyaksha Loan Taken	Key Managerial Personnel	-	1,104,246
Mr. Anil Rajadhyaksha Commission	Relative of Key Managerial Personnel	312,798	250,000
Mr. Karan Negi - Salary	Key Managerial Personnel	102,131	8,857
Mr. Vikram Negi - Salary	Key Managerial Personnel	-	8,857
Mr. Ronald Cogburn - Salary	Key Managerial Personnel	117,964	9,964

- 1) Related party relationship is as identified by the management and relied upon by the auditors.
 2) No balance in respect of the related parties have been provided for / written back / written-off as except above.

8. Managerial Remuneration: (Amount in Rs.)

Particulars	For the year ended March 31	
	2007	2006
a) To Managing Director Salaries and Allowances Commission	-	1,074,751 150,000
b) To Other Director Sitting Fees	210,000	-

9. Deferred Tax Asset/(Liability) comprises timing differences on account of: (Amount in Rs.)

Particulars	As on March 31, 2007	As on March 31, 2006
Deferred Tax Liability: On account of Depreciation	(571,019)	(461,611)
Net Deferred Tax Asset / (Liability)	(571,019)	(461,611)

10. Auditors' Remuneration: (Amount in Rs.)

Particulars	For the year ended March 31, 2007	For the year ended March 31, 2006
Payment to Statutory Auditor: Audit Fees	412,085	2,83,680
Certification Fees	405,960	4,07,000
Reimbursement of out of Pocket Expenses (Including service tax)	102,572	70,450
Total	920,617	761,130

11. (a) The information regarding small scale industrial undertaking has been determine to the extent that such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors
 (b) The Company has not received any intimation from the suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amount unpaid as at the year end together with the interest paid/payable as required under the said Act have not been given.

12. a) Other Information:

The Company is engaged in the Service Sector providing IT Enabled Services and Software development. The production and sale of such software can not be expressed in any generic unit. Hence it is not possible to give quantitative details of sale and information as required under paragraph 3, 4C and 4D of Part II of Schedule VI of the Companies Act 1956

b) Earnings / Expenditures in foreign Currency: (Amount in Rs.)

Particulars	For the year ended March 31, 2007	For the year ended March 31, 2006
Earnings in Foreign Exchange Income from Operations	69,832,297	44,706,066
Expenditures in Foreign Currency Business Promotion Expenditure	-	69,075
Legal & Professional Fees (Public issue expenses)	11,357,068	-
Consultancy Fees	1,620,021	-

13. Figures of the previous year have been regrouped/rearranged, wherever considered necessary to conform to the current year's presentation.

Signatures to Schedule 1 to 17

For LODHA & CO

Chartered Accountants

R. P. BARADIYA

Partner

Place: Mumbai

Date: May 28, 2007

For and on behalf of the Board

Surinder Rametra

Chairman & Executive Director

Bhuvanesh Sharma

Company Secretary

Parvinder S Chadha

Executive Director

Vikram Negi

Chief Financial Officer

Information as required under part IV of Schedule VI of the Companies Act, 1956

I. Registration Details	
Registration No.	014448
State Code	11
Balance Sheet Date	31-Mar-2007
II Capital Raised During the year (Amt Rs. 000)	
Public Issue	40,500
Right Issue	NIL
Bonus Issue	NIL
Private Placement	NIL
III. Position of Mobilization and Deployment of Funds (Amt Rs. 000)	
Total Liabilities	804,211
Total Assets	804,211
Sources of Funds	
Paid Up Capital	125,540
Reserve and Surplus	677,643
Secured Loans	457
Unsecured Loans	NIL
Deferred Tax	571
Application of the Funds	
Net Fixed Assets	7,169
Capital WIP	11,296
Investments	695,381
Net Current Assets	90,365
Miscellaneous Exp	NIL
Accumulated Loss	NIL
IV Performance Of Company	
Income	75,888
Total Expenditure	46,780
Profit before Tax	29,108
Profit after Tax	27,953
Earnings Per Share in Rs.	2.63
Dividend%	NIL
V . Generic Names of Three Principal Products/Services of the Company (as per monetary terms)	
Item Code No.	8524
Product Description	Software Services & Development

Statement Pursuant to Section 212 of the Companies Act, 1956 Relating to Subsidiary Companies

Rs. Million

Name of the Subsidiary Company	HOV Services, LLC	Bay Area Credit Service (I) Pvt. Ltd.
1 Financial Year of the Subsidiary ended on	March 31, 2007	March 31, 2007
2 (a) Issued, Subscribed and Paid up Capital of the Subsidiary Company	617.86	0.10
(b) Extent of Interest of HOVS in the Capital of the Subsidiary	100%	100%
3 Net aggregate amount of Profits / Losses of the Subsidiary so far as it concerns the Members of HOVS and is not dealt with in the Accounts of HOVS		
a. The financial year ended March 31, 2007	0.29	50.70
b. For the previous Financial Years of the Subsidiary since it became Subsidiary of HOVS	Nil	Nil
4 Net aggregate amount of Profits / Losses of the Subsidiary so far as dealt with or provisions made for those losses in the Accounts of HOVS		
a. The financial year ended March 31, 2007	Nil	Nil
b. For the previous Financial Years of the Subsidiary since it became Subsidiary of HOVS	Nil	Nil

For LODHA & CO
Chartered Accountants

For and on behalf of the Board

R. P. BARADIYA
Partner

Surinder Rametra
Chairman & Executive Director

Parvinder S Chadha
Executive Director

Place: Mumbai
Date: May 28, 2007

Bhuvanesh Sharma
Company Secretary

Vikram Negi
Chief Financial Officer

Auditors' Report on the Consolidated Financial Statements

To,
The Board of Directors of
HOV Services Limited

1. We have audited the attached Consolidated Balance Sheet of **HOV Services Limited** (the 'Parent Company') and its subsidiaries collectively referred to as 'the Group' as at March 31, 2007 and also the Consolidated Profit and Loss Account for the year ended on that date annexed thereto. These Financial Statements are the responsibility of the Parent Company's management and have been prepared by them on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary Rustic Canyon III, LLC, whose financial statements reflect total assets of Rs. 7429.04 million (including goodwill arising on consolidation of Rs. 5302.10 million) as at March 31, 2007 and total revenues of Rs. 587.27 million for the period from March 1, 2007 to March 31, 2007. These financial statements are unaudited and have been furnished to us by the Management and our opinion, in so far as it relates to the amounts included in respect of the said subsidiary is based solely on these certified financial statements.
4. We report that the consolidated financial statements have been prepared by the Parent Company's management in accordance with the requirements of the Accounting Standards (AS) 21-Consolidated Financial Statements issued by the Institute of Chartered Accountants of India.
5. Based on our audit and on the other financial information of the components and to the best of our information and according to the explanations given to us, we are of the opinion that the attached Consolidated Financial Statements, read together with para 3 above, give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of Consolidated Balance Sheet, of the state of affairs of the parent company and its subsidiaries as at March 31, 2007;
 - (ii) in the case of Consolidated Profit and Loss account, of the profit for the year ended on that date; and
 - (iii) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For LODHA & CO.
Chartered Accountants

R.P. Baradiya
Partner
Membership No. 44101

Place: Mumbai,
Date: May 28, 2007

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2007

	Schedule No.	As at March 31, 2007 Rs.
I SOURCES OF FUNDS		
Shareholders' Funds:		
Share Capital	1	2,872,933,502
Reserves and Surplus	2	884,612,770
		3,757,546,272
Minority Interest		187,504,919
Loan Funds:		
Secured Loans	3	4,677,786,378
Deferred Tax Liability (Refer Note No.9)		1,416,217
TOTAL		8,624,253,786
II APPLICATION OF FUNDS		
Goodwill arising out of consolidation		6,943,285,538
Fixed Assets:	4	
Gross Block		778,786,528
Less: Depreciation		342,763,141
Net Block		436,023,387
Capital Work-in-Progress		11,295,608
		447,318,995
Current Assets, Loans and Advances:		
Inventories		70,906,502
Sundry Debtors	5	1,630,799,979
Cash and Bank Balances	6	546,381,035
Loans and Advances	7	932,408,766
		3,180,496,282
Less: Current Liabilities and Provisions:		
Current Liabilities	8	1,858,342,315
Provisions	9	88,504,714
		1,946,847,029
Net Current Assets		1,233,649,253
TOTAL		8,624,253,786
Significant Accounting Policies and Notes forming part of the Consolidated Financial Statements	14	

The Schedules referred to above form an integral part of the Financial Statements.
 As per our attached report of even date.

For LODHA & CO
 Chartered Accountants

For and on behalf of the Board

R.P. BARADIYA
 Partner

Surinder Rametra
 Chairman & Executive Director

Parvinder S Chadha
 Executive Director

Place: Mumbai
 Date: May 28, 2007

Bhuvanesh Sharma
 Company Secretary

Vikram Negi
 Chief Financial Officer

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

INCOME :	Schedule No.	As at March 31, 2007 Rs.
Income from Operations	10	2,489,957,048
Other Income	11	13,295,976
TOTAL INCOME		2,503,253,024
EXPENDITURE:		
Personnel Expenses	12	1,073,513,154
Operating Expenses	13	1,048,223,134
Foreign Exchange Variation (Net)		5,982,676
Interest & Finance Charges		70,460,937
Depreciation	4	47,229,539
TOTAL EXPENDITURE		2,245,409,440
Profit before Taxation		257,843,584
Provision for Taxation		
Current Tax		36,184,653
Deferred Tax		954,606
Fringe Benefit Tax		950,654
Profit after Taxation		219,753,673
Tax Adjustments for earlier year		(38,200)
Net Profit Before Minority Interest		219,791,873
Minority Interest		12,490,680
Net Profit After Minority Interest		207,301,193
Balance of Profit brought forward from previous year.		58,002,400
Balance carried to Balance Sheet		265,303,593
Basic & Diluted Earning Per Share (EPS) in Rs.		19.47
(Refer note no.9)		
Significant Accounting Policies and		
Notes forming part of the Consolidated Financial Statements	14	

Schedules referred to above form an integral part of the Financial Statements.
 As per our attached report of even date.

For LODHA & CO
 Chartered Accountants

For and on behalf of the Board

R. P. BARADIYA
 Partner

Surinder Rametra
 Director

Parvinder S Chadha
 Director

Place: Mumbai
 Date: May 28, 2007

Bhuvanesh Sharma
 Company Secretary

Vikram Negi
 Chief Financial Officer

SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2007
SCHEDULE 1

SCHEDULE 1	As at March 31, 2007 Rs.
SHARE CAPITAL	
Authorized:	
15,000,000 Equity Shares of Rs.10 each.	150,000,000
Issued, Subscribed & Paid-up :	
1 12,554,045 Equity shares of Rs.10 each	125,540,450
Notes:	
(1) Out of above, 2,987,095 shares were issued as fully paid up Bonus shares, by capitalization of the balance lying in profit and loss accounts.	
(2) During the year, 4,050,000 equity shares have been allotted pursuant to the Initial Public Offer (IPO) as fully paid up @Rs.200 per share (including Rs.190 per share at a premium)	
2 Issued 9,972,794 Class A Preferred Units @ USD \$ 6.32 (Rs. 275.49 each).	
Note:	
Out of above, 5,226,105 units were issued for consideration other than cash.	2,747,393,052
Total	2,872,933,502

SCHEDULE 2	As at March 31, 2007 Rs.
RESERVES AND SURPLUS:	
1 Securities Premium Account	
Opening balance as per last balance sheet	-
Add: Additions during the year on Initial Public Offer.	769,500,000
	769,500,000
Less: Utilized towards Share issue expenses (Refer note no.3)	145,918,808
	623,581,192
2 Profit & Loss Account	
As per annexed account	265,303,593
3 Foreign Exchange Translation Reserve	(4,272,015)
Total	884,612,770

SCHEDULE 3	As at March 31, 2007 Rs.
SECURED LOANS	
From Banks:	
Vehicle loan (Secured by way of hypothecation of vehicle acquired there against)	757,333
Working Capital Loans From Bank (Secured against receivables)	250,057,471
From Others:	
Working Capital Loan from Merrill Lynch (Secured against fixed & current assets)	4,426,971,574
Total	4,677,786,378

SCHEDULE 4

Description	Gross Block As at 31/3/2007 Rs.	Depreciation As at March 31, 2007 Rs.	Net Block As at March 31, 2007 Rs.
Land & Building	13,243,436	229,292	13,014,144
Computer & Equipment	567,900,287	226,466,925	341,433,362
S/W & S/W Tools	38,372,044	30,698,348	7,673,696
Furniture & Fixtures	93,665,234	50,282,611	43,382,624
Office Equipment	53,774,233	30,573,630	23,200,602
Vehicle - Motor Car	9,765,392	4,383,570	5,381,822
Intangibles			
Software Product (Meant for Sale)	2,065,902	128,765	1,937,137
Total	778,786,528	342,763,141	436,023,387

SCHEDULE 5	As at March 31, 2007 Rs.
SUNDRY DEBTORS (Unsecured)	
Outstanding for a period exceeding six months:	
Considered Good	332,773,508
Considered Doubtful	80,639,027
	413,412,535
Less: Provision for Doubtful Debts	80,639,027
	332,773,508
Other Debts	1,298,026,472
Total	1,630,799,979

SCHEDULE 6	As at March 31, 2007 Rs.
CASH AND BANK BALANCES	
Cash On hand	34,749,583
Balances with Banks :	
(a) In Current Accounts	476,671,620
(b) In Fixed Deposits (including interest accrued of Rs.264,838)	5,991,805
(c) In Trust Account	28,968,027
Total	546,381,035

SCHEDULE 7	As at March 31, 2007 Rs.
LOANS AND ADVANCES (Unsecured, Considered Good)	
Advances paid for Investment	88,243,596
Due From Affiliates	251,821,940
Advances recoverable in cash or in kind or for value to be received	504,267,940
Security Deposit	87,967,213
Advance tax and Tax deducted at source	108,077
Total	932,408,766

SCHEDULE 8	As at March 31, 2007 Rs.
CURRENT LIABILITIES	
Sundry Creditors	1,677,208,411
(Due other than to small scale industries) (Refer Note No.11)	
Advances from customers	114,427,412
Other Liabilities	62,144,727
Due to Affiliates	4,561,766
Total	1,858,342,315

SCHEDULE 9	As at March 31, 2007 Rs.
PROVISIONS	
Provision for:	
Taxes payable	65,222,686
Gratuity	992,497
Leave Encashment	22,289,531
Total	88,504,714

SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2007

SCHEDULE 10	For the year ended March 31, 2007 Rs.
INCOME FROM OPERATIONS	
Income From Services	2,488,570,748
Sale of Software Licence	1,386,300
Total	2,489,957,048

SCHEDULE 11	As at March 31, 2007 Rs.
OTHER INCOME	
Interest Received	8,019,363
Dividend	3,177,409
Provisions no longer required written-back	2,099,204
Total	13,295,976

SCHEDULE 12	As at March 31, 2007 Rs.
EMPLOYEES' REMUNERATION & BENEFITS	
Salaries, Wages and Bonus	985,362,799
Staff Welfare	34,823,571
Insurance Charges	53,482,648
	1,073,669,018
Less: Transferred to capital work-in-progress	155,864
Total	1,073,513,154

SCHEDULE 13	As at March 31, 2007 Rs.
OPERATING EXPENSES	
Advertising & Publicity Expenses	17,654,807
Business Promotion Expenses	9,842,411
Communication Costs	119,866,964
Consultancy Charges	394,459,506
Electricity Charges	16,656,724
Insurance Charges	10,473,319
Legal & Professional fees	49,054,794
Postage & Delivery Expenses	75,966,656
Office Supplies & Forms	62,201,472
Office, Administration & Other Expenses	34,405,805
Rates and Taxes	8,918,453
Lease & Rent Charges	114,712,113
Repairs & Maintenance	25,417,980
Bank Charges & Commissions	33,574,317
Travelling & Conveyance	51,707,700
Other Costs	27,774,407
	1,052,687,427
Less: Transferred to capital Work-in-progress.	4,464,293
Total	1,048,223,134

SCHEDULE 14

SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED ON MARCH 31, 2007.

A. SIGNIFICANT ACCOUNTING POLICIES**1 Overview of the Group**

HOV Services Limited ('Parent') and its subsidiaries collectively referred to as 'the Group'. The Group is a global information technology conglomerate headquartered in Pune, India. The group provides Business Process Outsourcing (BPO) services to the finance and accounting business sector with operation in India and US. The group's principal areas of operations are Account Receivable Management (ARM), Enterprise Management Tools and Services (EMTS) and Insurance and Tax Advisory Services. The BPO services includes calling services, data, document and image capture, web based document repository services via its Document DNA (Digital Network Access) product, analog services, onsite facilities management, print and mail type services, database management and other professional services.

2 Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared and presented under historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India ('GAAP') and in compliance with the Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India (the 'ICAI'), the provisions of the companies Act, 1956 and guidelines issued by the Securities and Exchange Board of India to the extent applicable.

3 Use of estimates

The preparation of financial statements in conformity with AS and GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements and reported amounts of revenue and expenses for that year. Actual result could differ from these estimates. Any revision to accounting estimates is recognized prospectively.

4 Principles of consolidation

The consolidated financial statements include the financial statements of HOV Services Ltd and all its subsidiaries, which are more than 50% owned or controlled and have been prepared in accordance with the consolidation procedures laid down in AS 21 - 'Consolidated Financial Statements' issued by ICAI.

The consolidated financial statements have been prepared on the following basis:

- The financial statements of the parent and the subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting profits in full.
- The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.
- The consolidated financial statements are prepared using uniform accounting policies across the Group.
- Goodwill arising on consolidation

The excess of cost to the parent of its investment in subsidiaries over its portion of equity in the subsidiaries at the respective dates on which investment in subsidiaries was made is recognized in the financial statements as goodwill. The parent's portion of equity in the subsidiaries is determined on the basis of the value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

5. Members of the Group:

HOVS's step down subsidiaries

Name	Country of incorporation	Percentage of ownership Interest as at March 31, 2007
Bay Area Credit Services (I) Pvt. Ltd. (Subsidiary of HOV Services Ltd)	India	100
HOV Services, LLC (Subsidiary of HOV Services Ltd)	USA	100
Bay Area Credit Service, LLC (Subsidiary of HOV Services, LLC)	USA	100
Complex Property Advisors Corporation (Subsidiary of HOV Services, LLC)	USA	100
Meridian Consulting Group (Subsidiary of HOV Enterprise Services, Inc)	USA	100
Glen Danial Corporation dba Imperial Collection Service (Subsidiary of HOV Services, LLC)	USA	100
HOV Enterprise Services, Inc (Formerly known as Savant Consulting Group, Inc) (Subsidiary of HOV Services, LLC)	USA	100
Digital Boardwalk , LLC (Subsidiary of HOV Enterprise Services, Inc)	USA	100
TRAC Holdings, LLC *	USA	30
Tracmail (I) India Pvt. Ltd *	India	30
Rustic Canyon III, LLC ** (Subsidiary of HOV Services, LLC)	USA	100
Lason Inc ** (Subsidiary of Rustic Canyon III, LLC)	USA	100
Lason India Pvt. Ltd. ** (Subsidiary of Lason Inc)	India	100
Vetri Software (I) Pvt. Ltd. ** (Subsidiary of Lason Inc)	India	100

* Subsidiary with effect from 1st January 2007. (30% holding with 100% management Control)

** Subsidiary with effect from 1st March, 2007.

6 Revenue recognition

- a) The revenue from Finance and Accounting segment of the BPO sector including software development and support services is recognized as per the work orders/agreements entered with the parties. The Company's revenues are driven primarily by transaction volumes. The Company records revenues when the services are provided and all significant obligations of the Company have been satisfied. In certain circumstances, depending upon contractual terms or billing cycle cut off, the Company is unable to bill for work completed in a certain period. In these cases, the Company recognizes revenue when the work is performed in order to match revenues with the services and related expenses. The work ultimately will be billed according to the contractual terms or the next possible billing cycle, as applicable.
- b) Revenue arising from collection services is recognized when cash is collected on behalf of clients.
- c) Revenue from EMTS and Insurance Advisory segment for project consulting services, staff augmentation and reimbursable expenses incurred on consulting services charged to client is recognized when services are rendered.

- d) Revenue from tax advisory services for property tax services, cost segregation services, real and personal property appraisals, market studies and reimbursable expenses incurred on consulting services charged to client is recognized when services are rendered.

7 Inventories

Supplies are valued at the lower of cost or net realizable value. From time to time, due to changes in market demand, technology or other such factors, it may be necessary for the Company to write-down the carrying value of its supplies.

8 Fixed assets

Tangible: Fixed assets are stated at historical cost less accumulated depreciation. Replacements are either capitalized or charged to revenue depending upon their nature and long term utility.

Intangible: Costs that are directly associated with identifiable and unique software products controlled by the Company, whether developed in-house or acquired, and have probable economic benefits exceeding the cost beyond one year are recognized as software products.

Capital work in progress: It comprises of advances paid to acquire fixed assets and the cost of fixed assets that are not ready for their intended use as at the balance sheet date.

Impairment of assets: In accordance with AS 28 on 'Impairment of Assets' issued by the Institute Of Chartered Accountants of India, where there is an indication of impairment of the Group's assets related to cash generating units, the carrying amounts of such assets are reviewed at each balance sheet date to determine whether there is any impairment. The recoverable amount of such assets is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of such assets exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, then such loss is reversed and the asset is restated to extent of the carrying value of the asset that would have been determined (net of amortization / depreciation) had no impairment loss been recognized.

9 Method of depreciation / Amortization:

I) Parent Company and Indian Subsidiaries

a) **Tangible Assets** - Depreciation is provided under Straight Line Method and in the manner prescribed in the Schedule XIV of the Companies Act, 1956. Individual assets acquired for less than Rs 5000 are entirely depreciated in the year of acquisition.

b) **Intangible Assets** - Software product (meant for sale) are amortized over its estimated useful life of 8 years.

II) Foreign Subsidiaries

It is provided on straight-line basis over the estimated useful lives of the assets given herein below:

Fixed Asset	Useful life in years
Computers and office equipments	2 - 5
Leasehold Improvements	2 - 10
Furniture and fixture	2 - 7
Software	3 - 5
Vehicle	5 - 7

10 Investments

Investments are classified into long-term investments and current investments. Long-term investments are carried at cost and provision is made to recognize any decline, other than temporary, in the value of such investments. Current investments are carried at the lower of the cost and fair value and provision is made to recognize any decline in the value of investment.

11 Accounting of Retirement Benefits

Gratuity:

The Company provides for gratuity, a defined benefit retirement plan, covering eligible employees. Liability under gratuity plan is determined on actuarial valuation done by the Life Insurance Corporation of India (LIC) at the end of the year.

Provident Fund:

Defined contributions for provident fund are charged to the Profit & Loss account based on contribution made in terms of applicable scheme.

Leave Encashment:

Liability towards Leave Encashment Benefit is provided for as at the Balance Sheet date as per the actuarial valuation taken at the end of the year.

In case of foreign subsidiaries, contribution to defined contribution pension plans are recognized as expenses in the profit and Loss account as incurred.

12 Accounting for Taxes on Income

Provision for current income tax is made on the basis of the estimated taxable income for the year in accordance with the specific applicable laws.

MAT credit asset pertaining to the Parent and its Indian subsidiary company is recognized and carried forward only if there is a reasonable certainty of it being set off against regular tax payable within the stipulated statutory period.

Provision for Fringe Benefit Tax (FBT) is made on the basis of expenses incurred on employees and other expenses as prescribed under the Income Tax Act, 1961.

Deferred tax resulting from timing differences between book and tax profits is accounted for under the liability method, at the current rate of tax, to the extent that the timing differences are expected to crystallize. Deferred tax assets are recognized and carried forward only if there is a reasonable / virtual certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each balance sheet date.

The deferred Tax Assets /Liabilities and tax expenses are determined separately for parent and each subsidiary company, as per their applicable laws and then aggregated.

13 Translation of Foreign Currency Items

Transactions in foreign currency are recorded at the rate of exchange in force on the date of the transactions. Current assets, current liabilities and borrowings denominated in foreign currency are translated at the exchange rate prevalent at the date of the Balance Sheet. The resultant gain/loss, except in cases where they relate to the acquisition of fixed assets, are recognized in the Profit & Loss Account.

Assets and liabilities expressed in foreign currency are converted, if covered by forward contract rates, at the rate contracted after adjusting the premium over the period of the forward contract, otherwise, at the year end rates. Exchange differences arising on such restatement are recognized in the profit and loss account except exchange differences pertaining to acquisition of fixed assets.

All the activities of the foreign subsidiaries are carried out with a significant degree of autonomy from those of the Parent. Accordingly, as per the provisions of AS - 11 "Effects of changes in foreign exchange rates", these operations have been classified as 'Non integral operations' and therefore all assets and liabilities, both monetary and non-monetary, are translated at the closing rate while the income and expenses are translated at the average rate for the year. The resulting exchange differences are accumulated in the foreign currency translation reserve until the disposal of net investment.

14 Borrowing Costs

Borrowing costs directly attributable to acquisition, construction and production of qualifying assets are capitalized as a part of the cost of such asset up to the date of completion. Other borrowing costs are charged to the Profit & Loss Account.

15 Unbilled revenue

Revenue recognized over and above billing is classified as unbilled revenue.

16 Lease

Where the Group has substantially acquired all risks and rewards of ownership of the assets, leases are classified as financial lease. Such assets are capitalized at the inception of the lease, at the lower of the fair value or present value of minimum lease payment and liability is created for equivalent amount. Each lease rent paid is allocated between liability and interest cost so as to obtain constant periodic rate of interest on the outstanding liability for each year.

Where significant portion of risks and reward of ownership of assets acquired under lease are retained by lessor, leases are classified as Operating Lease. Lease rentals for such leases are charged to Profit and Loss account.

17 Provisions, Contingent Liabilities and Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognized when there is present obligation as a result of past events and it is probable that there will be outflow of resources.

Disclosures for a contingent liability is made, without a provision in books, when there is an obligation that may, but probably will not, require outflow of resources.

Contingent Assets are neither recognized nor disclosed in the financial statements

18 Preliminary and share issue Expenses

Preliminary expenses, issue expenses including expenses incurred on increase in authorized share capital and issue of fully paid up bonus shares are adjusted against Securities Premium Account.

B NOTES TO ACCOUNTS

1. a) This is the first year of consolidation and hence, previous years figures have not given.

b) The company has not prepared cash flow statement, as this is the first year of consolidation.

2. **Capital commitments and Contingent liabilities:**

	As at March 31, 2007 (Rs.)
Contingent Liabilities not provided for in respect of:	
Outstanding guarantees given by banks	4,995,500

3. a) **Utilization of the proceeds of Initial Public Offer (IPO)**

The Parent Company has raised Rs. 810 million from IPO of its equity shares for the purposes of planned capital expenditure, to infuse funds into the subsidiary for the redemption of Class B units issued by the subsidiary, to meet the issue expenses and acquisitions. In order to improve the profitability and cash flow position, it was decided to amend the pattern of use of the IPO proceeds from what was stated in prospectus dated September 11, 2006 ("Prospectus"). Accordingly, the consent of the members of the company was obtained by way of special resolution passed by means of postal ballot for the purpose of variation in the utilization of proceeds from IPO of its equity shares. The members have approved the following pattern of utilization.

Purpose of utilization of fund	Estimated use (Rs in Million)	Actual utilization up to March 31, 2007 (Rs in Million)
Planned capital expenditure & Acquisitions	210.80	191.30
To infuse funds into the subsidiary for redemption of class B Units issued by the subsidiary	456.40	440.00
Repayment of Advances	-	38.00
Issue expenses	142.80	145.90
Total	810.00	815.20

b) **Share Issue Expenses:**

The Parent Company has incurred the following expenses towards its IPO:

Sr No	Nature of expenses	Amount (Rs)
1	Professional & Legal Fees	114,448,253
2	Traveling & Conveyance	834,121
3	Advertisement & Publicity	15,246,193
4	Printing & Stationary	13,679,687
5	Listing fees & other expenses	1,710,554
	Total	145,918,808

The Parent Company has adjusted the aforesaid public issue expenses against Securities Premium Account.

c) During the year, HOV services, LLC has raised Rs. 2747.39 million by issuing 9,972,794 Class A Preferred Units @ \$ 6.32 per unit. (Rs. 275.49).

4. a) In the opinion of the Board, the current assets, loans and advances have a value on realization in the ordinary course of business atleast equal to the amount at which they are stated. Provision for all known and determined liabilities and depreciation is adequate and not in excess.
- b) Certain Balances of sundry debtors, sundry creditors and advances given are, however, subject to confirmations and adjustments, if any. In the opinion of the management, adjustments as may be required on such confirmations, would not be significant.

5. Earnings Per Share

Particulars	For the year ended March 31, 2007 Rs.
Net Profit as per Profit and Loss Account (Rs.)	207,301,193
Weighted average number of equity shares	10,645,552
Basic and Diluted Earning per share	19.47
Nominal value per Equity Share (Rs.)	10

6. Leases:

a. Operating Lease:

i) The Company has acquired office premises under lease arrangements for a period of five years. The lease arrangements in respect of office premises are renewable / cancelable at the Company's and / or lessors' option as mutually agreed. The future lease rental payments that the Company is committed to make is:

(Amount in Rs.)

	As at March 31, 2007 Rs.
- Within one year	10,041,854
- Later than one year and not later than five years	32,429,208
- Later than five years	-

ii) The Company has taken various commercial premises under cancelable operating leases. The lease agreements are usually renewable by mutual consent on mutually agreeable terms. The rental expenses in respect of operating leases are charged as rent under schedule 15

b. Financial Lease:

There were no financial leases entered into by the Company.

7. Related Party Transactions

Related parties with whom transactions have been entered in the ordinary course of business.

a) Associates:

Sr. No	Name
1	HOV GPM, LLC
2	HOF 4, Limited
3	Digital Boardwalk, Inc
4	HOV Re, LLC
5	HOV FS, LLC
6	HOV Procure, LLC
7	Allen Law Group
8	HOV, LLC
9	General Pacific, LLC
10	Superior Asset Management, LLC
11	HOV Capital, LLC

b) Directors/Key Managerial Personnel and their relatives:

Sr. No.	Name
1	Mr. Ron Cogburn (President)
2	Mr. Sunil Rajadhyaksha (Executive Director)
3	Mr. Karan Negi (Chief Operational Officer)
4	Mr. Vikram Negi (Chief Financial Officer)
5	Mr. Anil Rajadhyaksha (Relative of Mr. Sunil Rajadhyaksha)
6	Mr. Parvinder Chadha (Executive Director)
7	Mr. Surinder Rametra (Chairman & Executive Director)

Transactions carried out with related parties referred to in "a", "b, above, in the ordinary course of business are as under: -

Sr.	Name	Nature	Amount (in Rs.) March 31, 2007
1	Vikram Negi	Reimbursement of Exp	1,406,121
2	HOF 2, LLC	Redemption of class B units	222,309,000
3	HOF 3, LLC	Redemption of class B units	407,566,500
4	Rustic Canyon, LLC	Purchase of shares	75,006,098
		Advance against purchase of shares	88,243,596
5	HOV GPM, LLC	Advance taken and Repaid	38,925,699
6	HOF 4, Limited	Acquisition of equity shares of Bay Area Credit Services (India) Private Ltd	18,10,042
		Received against excess paid	106,758
		Repayment of Loan	1,046,160
7	Mr. Sunil Rajadhyaksha	Loan Paid	1,104,246
8	Mr. Parvinder Chadha	Loan Taken	250,000
		Loan Repayment	250,000
9	Mr. Karan Negi	Salary	5,558,585
10	Mr. Vikram Negi	Salary	96,000
11	Mr. Ronald Cogburn	Salary	8,025,496
		Interest Paid	102,464
12	Mr. Surinder Rametra	Repayment of Loan	12,413,666
		Interest Paid	751,725
13	Mr. Anil Rajadhyaksha	Salary	1,200,000
14	General Pacific, LLC	Service Provided	2,133,789
15	HOV, LLC	Loan Recd	3,923,100
16	HOVFS, LLC	Loan Given	505,644
		Services rendered	3,260,570
17	Superior Assets Management, LLC	Loan Given	8,024,637
18	HOV Capital, LLC	Issued Class A preferred units	719,932,126

Balances with the related parties referred in (a) and (b) above in the ordinary course of business are as under for the parent and associates as of March 31, 2007.

Name of the Related party	Balances as on March 31st, 2007 (In Rs.)	
	Receivables	Payables
Digital Boardwalk, Inc	11,716,060	
HOV GPM LLC	62,270,304	
HOV Re, LLC	11,018,233	
HOV FS, LLC	79,165,739	
HOV Procure LLC		318,482
ALG LLP	72,183,126	
HOF 4, Limited	5,492,340	
General Pacific, LLC	1,631,318	
Superior Asset Management Holding Inc	8,024,637	
HOV, LLC		3,923,100
Mr. Karan Negi - Salary		102,131
Mr. Ronald Cogburn- Salary		117,964
Mr. Anil Rajadhyaksha - Commission		312,798

Note :-

- Related party relationship is as identified by management relied upon by the auditors
- No balance in respect of related parties has been provided for/ written back / written off.

8. Deferred Tax Asset/(Liability) comprises timing differences on account of:

Particulars	As on March 31, 2007 Rs.
<u>Deferred Tax Liability:</u>	
On account of Depreciation	(1,416,217)
Net Deferred Tax Asset / (Liability)	(1,416,217)

9. Segment Reporting

The group is engaged only in Finance and accounting segment of the BPO services and accordingly AS 17 Segment Reporting is not applicable.

- The information regarding small scale industrial undertakings has been determined to the extent that such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors.
 - The Company has not received any intimation from the suppliers regarding their status under Micro, Small and Medium enterprises development Act, 2006 and hence disclosures, if any relating to amounts unpaid as at the year end together interest paid/payable as required under the said Act have not been given.

Signatures to Schedule 1 to 14

Surinder Rametra
Chairman & Executive Director

Bhuvanesh Sharma
Company Secretary

For and on behalf of the board.

Parvinder S Chadha
Executive Director

Vikram Negi
Chief Financial Officer

HOV Services, LLC

AUDITORS' REPORT

To
The Members
HOV Services, LLC

1. We have audited the attached Balance Sheet of **HOV Services, LLC** as at 31st March, 2007, and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred in Section 211 (3C) of the Companies Act, 1956, to the extent applicable;
 - e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with 'Significant Accounting Policies and Notes to Accounts' and other notes appearing elsewhere in the accounts, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2007;
 - ii) in the case of the Profit & Loss Account, of the loss of the Company for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For LODHA & CO.

Chartered Accountants

R. P. BARADIYA
Partner
(Membership No.44101)

Place: Mumbai
Date: May, 28, 2007

HOV Services, LLC

BALANCE SHEET AS OF MARCH 31, 2007

	Schedule No.	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
I SOURCES OF FUNDS			
Shareholders' Funds :			
Share Capital	1	3,365,251,077	644,659,110
Reserves and Surplus	2	10,725	-
TOTAL		3,365,261,802	644,659,110
II APPLICATION OF FUNDS			
Investments	3	2,149,470,090	644,614,500
Current Assets, Loans and Advances :			
Cash and Bank Balances	4	184,999,615	44,610
Loans and Advances	5	1,096,785,367	2,804,854
		1,281,784,982	2,849,464
Less: Current Liabilities and Provisions:			
Current Liabilities	6	50,608,801	-
Provisions		15,670,343	2,804,854
		66,279,144	2,804,854
Net Current Assets		1,215,505,838	44,610
Profit and Loss Account (As per annexed accounts)		285,876	-
TOTAL		3,365,261,802	644,659,110
Significant Accounting Policies and Notes forming part of the Financial Statements	8		

Schedules referred to above form an integral part of the Financial Statements.

As per our attached report of even date.

For LODHA & CO
 Chartered Accountants

 R. P. BARADIYA
 Partner
For HOV Services, LLC
 Surendra Rametra
 Manager

 Place: Mumbai
 Date: May 28, 2007

HOV Services, LLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

	Schedule No.	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
INCOME :			
Interest Received		3,008,759	
		3,008,759	-
EXPENDITURE :			
Operating Expenses	7	3,379,996	
		3,379,996	-
Loss before Taxation		(371,237)	
Provision for Taxation			
Current Tax		(85,361)	
Loss for the year carried forward to the Balance Sheet		(285,876)	-
Significant Accounting Policies and Notes forming part of the Financial Statements	8		

As per our attached report of even date.

For LODHA & CO
 Chartered Accountants

 R.P.BARADIYA
 Partner
For HOV Services, LLC
 Surendra Rametra
 Manager

 Place: Mumbai
 Date: May 28, 2007

HOV Services, LLC

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2007**SCHEDULE 1**

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
SHARE CAPITAL		
1000 Class A Units	43,590	44,610
Additional Paid in Capital	617,814,435	-
Class B units	-	644,614,500
9,972,794 Class A Preferred Units @ USD \$ 6.32 (Rs. 275.49 each).	2,747,393,052	-
Note: Out of above, 5,226,105 units were issued for consideration other than cash.		
Total	3,365,251,077	644,659,110

SCHEDULE 2

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
RESERVES AND SURPLUS:		
Translation Reserve	10,725	
Total	10,725	-

SCHEDULE 3

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
INVESTMENTS		
Long Term, Trade (Unquoted)		
Investment in Subsidiaries		
1. Rustic Canyon III, LLC.	1,439,733,395	-
2. Investment in following Subsidiary	410,708,031	417,103,500
a) Bay Area Credit Services, LLC.		
b) Complex Property Advisors Corporation		
c) Glenn Daniel Corporation dba Imperial Collection Services		
3. HOV Enterprise Services, INC. (Formerly known as Savant Consulting Group,INC)	224,022,566	227,511,000
4. Trac Holding, LLC. (Acquired 300 (Previous Year NIL) class A units of Trac Holding, LLC)	75,006,098	
Total	2,149,470,090	644,614,500

HOV Services, LLC**SCHEDULE 4**

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
CASH AND BANK BALANCES		
Cash balance on hand	43,590	44,610
Balances with Banks : In Current Accounts	184,956,025	-
Total	184,999,615	44,610

SCHEDULE 5

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
LOANS AND ADVANCES (Unsecured, considered good)		
Advance to Rustic Canyon, for 30% purchase of SAM Holding	88,243,596	-
Due From Subsidiaries (Maximum amount outstanding during the year- Rs.989,455,453 Previous Year Rs. 5,512,012)	1,002,327,186	8,315,170
Due From Affiliates	6,214,585	
Total	1,096,785,367	8,315,170

SCHEDULE 6

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
CURRENT LIABILITIES		
Due to Subsidiaries	6,490,757	5,510,316.00
Due to Affiliates	44,118,044	-
Total	50,608,801	5,510,316

SCHEDULES FORMING PART OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2007**SCHEDULE 7**

	As at March 31, 2007 Rs.	As at March 31, 2006 Rs.
OPERATING EXPENSES		
Rates and Taxes	9,057	-
Bank Charges	729,198	-
Professional fees	1,086,857	-
Bussiness Promotion	815,143	-
Travelling And Conveyance	658,907	-
Other Expenses	80,835	-
Total	3,379,996	-

Schedule 8**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS****A. SIGNIFICANT ACCOUNTING POLICIES:****1. Overview of the Company**

HOV Services, LLC ("HOVS") is formed on March 23, 2005 a Nevada Limited Liability Company (collectively the "Company", "We", "Us" or "Our"). The company is formed for the purpose of acquisitions of different companies.

2. Basis for Preparation of Financial Statements

The Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) applicable in India under the historical cost convention on the accrual basis and in compliance with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable and on the principles of going concern.

3. Use of Estimates

The preparation of financial statements in conformity with AS and GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements and reported amounts of revenue and expenses for that year. Actual result could differ from these estimates. Any revision to accounting estimates is recognised prospectively.

4. Investments

Investments are classified into long term and current investments. Long-term investments are carried at cost and provision is made to recognize any decline in the value other than temporary in the value of such investments. Current investments are carried at the lower of the cost or fair value and provision is made to recognize any decline in the carrying value of the investment.

5. Foreign Exchange Transactions

- Transactions in foreign currency are recorded at the rate of exchange in force on the date of the transactions. Current assets, current liabilities and borrowings denominated in foreign currency are translated at the exchange rate prevalent at the date of Balance Sheet. The resultant gain or loss is recognized in the profit and loss account, except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.
- Exchange differences arising on settlement of foreign currency transactions are recognized in the profit and loss account, except exchange differences pertaining to the acquisition of fixed assets.
- Assets and liabilities expressed in foreign currency are converted, if covered by forward contract rates, at the rate contracted after adjusting the premium over the period of the forward contract, otherwise, at the year end rates. Exchange differences arising on such restatement are recognized in the profit and loss account except exchange differences pertaining to acquisition of fixed assets.

HOV Services, LLC**6. Accounting for Taxes on Income**

Provision for current income tax is made on the basis of the estimated taxable income for the year.

Deferred tax resulting from timing differences between book profits and tax profits is accounted for under the liability method, at the current rate of tax, to the extent that the timing differences are expected to crystallize. Deferred tax assets are recognized and carried forward only if there is a virtual/ reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each Balance Sheet date.

7. Provisions, Contingent Liability and Contingent Assets

- a) Provisions involving substantial degree of estimation in measurement are recognized when there is present obligation as a result of past events and it is probable that there will be outflow of resources.
- b) Disclosures for a contingent liability is made, without a provision in books, when there is an obligation that may, but probably will not, require outflow of resources.
- c) Contingent Assets are neither recognized nor disclosed in the financial statements.

B. NOTES TO FINANCIAL ACCOUNTS**1. Related Party Transactions**

Related party disclosures as required by Accounting Standard-18 "Related Party Disclosures", are given below:

A) Name of the related parties:**(i) Where control exists:****a) Holding Company**

1.	HOV Services Limited
----	----------------------

b) Subsidiaries

1	Bay Area Credit Services, LLC. (BACS,LLC)
2	Meridian Consulting Group, LLC (Meridian)
3	HOV Enterprise Services, INC. (HOV Ent. Services)
4	Imperial Collection Services, INC. (Imperial)
5	Complex Property Advisors Corporation. (CPAC)
6	Rustic Canyon III, LLC

(ii) Other Related Party**a) Associates**

1.	HOV, LLC
2.	HOV GPM, LLC.
3	Superior Asset Management
4	DBI
5	HOV Procure, LLC,
6	HOV Re, LLC.
7	HOV FS, LLC
8	HOF 2, LLC
9	HOF 3, LLC
10	Rustic Canyon, LLC
11	HOV Capital,LLC

HOV Services, LLC**b) Key Managerial Personnel**

1 Vikram Negi

B) Transactions carried out with related parties referred to in “a”, “b” and “c” ,”d”, above, in the ordinary course of business are as under: -

Sr.	Name	Nature	Amount (in Rs.) March 31, 2007	Amount (in Rs.) March 31, 2006
1	Vikram Negi	Reimbursement of Exp	1,406,121	NIL
2	HOF 2, LLC	Issue of Class B units Redemption of class B units	NIL 227,511,000	222,309,000 NIL
3	HOF 3, LLC	Issue of Class B units Redemption of class B units	NIL 417,103,500	407,566,500 NIL
4	Rustic Canyon, LLC	Purchase of share Advance against purchase of shares	75,006,098 88,243,596	NIL NIL
5	CPAC	Loan Recd Loan Given	32,093,353 70,846,585	- 2,184,061
6	BACS, LLC	Loan Recd Loan Given	198,994,516 290,707,663	- 5,510,316
7	HOV Ent.Services	Loan Recd Loan Given	73,412,658 70,753,709	- 610,845
8	DB, LLC	Loan Recd Loan Given	74,935 388,736	- 8,253
9	Meridian	Loan Recd Loan Given	179,243,281 169,428,716	- 5,512,012
10	Imperial	Loan Recd Loan Given	4,222,513 42,080,121	-
11	Rustic Canyon III, LLC	Loan Recd Loan Given	152,565,000 989,496,537	-
12	DBI, INC	Loan Given	1,915,932	-
13	HOV GPM, LLC	Loan Recd Loan Given	261,772,639 221,626,825	-
14	HOV Re, LLC	Loan Given	3,793,009	-
15	HOVFS, LLC	Loan Given	505,644	-
16	HOV Procure, LLC	Loan Recd Loan Given	466,008 515,139	-
17	HOV, LLC	Loan Recd	3,923,100	-
18	HOV Capital, LLC	Issued Class A preferred units	719,932,126	-

HOV Services, LLC

Balances with the related parties referred above, in the ordinary courses of business are as under:

(Amount in Rs.)

Sr. No.	Name of the Related Party	Balance as on	
		March 31, 2007	March 31, 2006
	Receivable		
1	CPAC	40,887,355	2,184,060.99
2	Imperial	37,857,608	-
3	Rustic Canyon, III LLC.	836,931,539	-
4	BACS LLC	86,328,822	(5,510,316)
5	DB, LLC	321,865	8,253
6	DBI	1,915,932	-
7	HOV Re	3,793,009	-
8	HOVFS	505,644	-
Total		1,008,541,774	8,315,170
	Payable		
1	HOV Enterprise Services, Inc	2,062,079	(610,845)
2	Meridian	4,428,571	(5,512,011)
3	HOV Procure	49,131	-
4	HOV GPM	40,145,813	-
5	HOV	3,923,100	-
6	HOV Services Ltd	107	-
Total		50,608,801	5,510,316

2. The previous year's figures have been regrouped/rearranged wherever necessary to conform to current period's presentation.
3.
 - a) In the opinion of Management, the current assets, loans and advance have a value on realization in the ordinary course of business at least equal to the amount at which they are stated. Provision for all known and determined liabilities and depreciation is adequate and not in excess.
 - b) Balance of sundry debtors, sundry creditors and advances given are, however, subject to confirmations and adjustments, if any. In the opinion of the management, adjustments as may be required on such confirmations, would not be significant.

Signatures to Schedule 1 to 8

For HOV Services, LLC.
Manager

Place: Mumabi
Date: May 28, 2007

Cash Flow Statement for the year ended March 31, 2007

Particulars	Rs.
A. Cash flow from Operating Activities:	
Net Profit/(Loss) before tax	(371,237)
Adjustments for:	
Interest Income	(3,008,759)
Translation Reserve	10,725
Operating Profit before Working Capital changes	(3,369,271)
Adjustments for changes in Working Capital :	
(Increase)/Decrease in Other Receivables	(1,093,895,149)
Increase/(Decrease) in Trade and Other Payables	63,474,291
Cash generated from Operations	(1,033,790,130)
Taxes Paid -	
Net cash from/(used in) Operating Activities	(1,033,790,130)
B. Cash flow from Investing Activities:	
Investments	(65,122,195)
Interest Received	3,008,759
Net Cash from/(used in) Investing Activities	(62,113,436)
C. Cash flow from Financing Activities:	
Proceeds from issue of Share Capital (net)	1,280,858,572
Net cash from/(used in) Financing Activities	1,280,858,572
Net Increase/(Decrease) in Cash and Cash Equivalents	184,955,006
Opening Cash and Cash Equivalents	44,610
Closing Cash and Cash Equivalents	184,999,616

Notes:

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard 3, 'Cash Flow Statements', issued by the Institute of Chartered Accountants of India.
- Since Cash Flow has been prepared for the first year & hence previous years figures has not been given.

As per our report of even date.

For LODHA & CO
 R.P.BARADIYA
 Partner
For HOV Services, LLC
 Surendra Rametra
 Manager

 Place: Mumbai
 Date: May 28, 2007

Bay Area Credit Service (India) Private Limited

Directors' Report

Dear Shareholders'

The Board of Directors of HOV Services, LLC are pleased to present Annual Report on the Business and the Operations of the Company together with the Audited Statement of account for the year ended March 31, 2007.

Ultimate Holding Company

The Board regards HOV Services Limited, a company incorporated in India, as the ultimate holding company of the Company.

Highlights of the year

- a) During the year, HOV services, LLC has raised Rs. 2747.39 million (\$63.03 million) by issuing 9,972,794 Class A Preferred Units @ Rs. 275.49 (\$ 6.32) per unit.
- b) During the year, the Holding Company infused additional paid in capital of Rs. 639 million in its subsidiary HOV Services, LLC. The said amount is utilized by HOV Services, LLC to redeem its Class B Units.
- c) During the year, HOV services, LLC acquired 300 Class A units (30%) of TRAC Holdings, LLC from Rustic Canyon, LLC. Also as per agreement dated 1st January 2007, HOV services, LLC became Manager of TRAC Holdings LLC with power to control and manage its business affairs.
- d) During the year, HOV Services LLC acquired Lason, Inc through its wholly own subsidiary.]

Energy, Technology Absorption & Foreign Exchange Earnings And Outgo:

Statement of Particulars to the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 forming part of Directors Report

- a. CONSERVATION OF ENERGY:
The operations are not energy intensive.
- b. TECHNOLOGY ABSORPTION:
There has been no Research and Development activity.
- c. FOREIGN EXCHANGE EARNINGS AND OUTGO:
Disclosure of information relating to foreign exchange earnings and outgo as required under Rule 2 [c] is given in schedule on Notes to Accounts forming part of Audited Annual Accounts.

Particulars of Employees

The Company has no employees drawing remuneration in excess of limits specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

Employee Relations

The relationship of your Company with its employees remained cordial throughout the year.

Directors' Responsibility Statement

As stipulated in Section 217(2AA) of Companies Act, 1956, your Directors subscribe to the "Directors Responsibility Statement" and confirm as under:

- a) that in preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; and
- b) that the directors have 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 and loss account of the Company for that the period; and
- c) that the directors have taken proper and sufficient care of 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; and
- d) that the directors have prepared the annual accounts on a going concern basis.

Auditors

M/s. Lodha & Co., Chartered Accountants, have indicated their willingness to continue in office.

Acknowledgement

The Board gratefully acknowledges the valuable support given by the bankers, shareholders & the employees of the Company and is looking forward to their continued support in the future.

For and on behalf of the Board of Directors

For HOV Services, LLC

Surinder Rametra

Manager

Place: Mumbai

Date: May 28, 2007

DIRECTORS' REPORT

Dear Shareholders'

The Board of Directors of Bay Area Credit Service (India) Pvt. Ltd. are pleased to present Annual Report on the Business and the Operations of the Company together with the Audited Statement of account for the year ended March 31, 2007.

FINANCIAL RESULTS AND OPERATIONS

Particulars	For the year ended March 31,	
	2007 Rs. Million	2006 Rs. Million
INCOME		
Income from Operations	148.53	110.16
Other Income	0.42	-
	148.95	110.16
EXPENDITURE		
Staff Cost	71.71	58.04
General and Administrative Expenses	22.44	18.1
	94.15	76.14
Profit/(Loss) before Interest, Depreciation and Tax	54.8	34.02
Less: Interest	-	-
Less: Depreciation	2.6	3.07
Profit/(Loss) before Tax	52.2	30.95
Less: Provisions for taxes		
Current Tax	0.02	-
Deferred Tax	0.85	-
Fringe Benefit Tax	0.63	0.48
Profit/(Loss) after Tax	50.7	30.47

Dividend

In order to conserve the Company's resources, your Board has decided not to recommend any dividend.

Directors

Mr. Karan Negi and Mr. Anil Rajadhyaksha were appointed as directors of the Company.

Mr. Parvinder S Chadha and Mr. Sunil Rajadhyaksha resigned as directors during the Year.

Auditors

M/s. Lodha & Co., Chartered Accountants, retire as the Auditors of the Company at the conclusion of the Annual General Meeting and being eligible and offer themselves for re-appointed from the conclusion of this annual general meeting until the conclusion of the next annual general meeting.

Energy, Technology Absorption & Foreign Exchange Earnings And Outgo:

Statement of Particulars to the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 forming part of Directors Report

a. CONSERVATION OF ENERGY:

The operations are not energy intensive as it consumes very little power

Bay Area Credit Service (India) Private Limited

b. **TECHNOLOGY ABSORPTION:**

There has been no Research and Development activity.

c. **FOREIGN EXCHANGE EARNINGS AND OUTGO:**

Disclosure of information relating to foreign exchange earnings and outgo as required under Rule 2 [c] is given in schedule on Notes to Accounts forming part of Audited Annual Accounts.

Particulars of Employees

The Company has no employees drawing remuneration in excess of limits specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

Employee Relations

The relationship of your Company with its employees remained cordial throughout the year.

Directors' Responsibility Statement

As stipulated in Section 217(2AA) of Companies Act, 1956, your Directors subscribe to the "Directors Responsibility Statement" and confirm as under:

- a) that in preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; and
- b) that the directors have 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 and loss account of the Company for that the period; and
- c) that the directors have taken proper and sufficient care of 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; and
- d) that the directors have prepared the annual accounts on a going concern basis.

Acknowledgement

The Board gratefully acknowledges the valuable support given by the bankers, shareholders & the employees of the Company and is looking forward to their continued support in the future.

For and on behalf of the Board of Directors

Karan Negi

Director

Place:Pune

Date: May 26, 2007

Bay Area Credit Service (India) Private Limited

AUDITORS' REPORT

To
The Members
Bay Area Credit Service (India) Private Limited.

1. We have audited the attached Balance Sheet of Bay Area Credit Services (India) Private Limited as at March 31, 2007, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 of India (hereinafter referred to as the "Act"), we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act, to the extent applicable;
 - (e) on the basis of written representations received from directors as on March 31, 2007, and taken on record by the Board of Directors, wherever applicable, we report that, none of the directors is disqualified as on 31st March, 2007 from being appointed as a director of the Company in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with 'Significant Accounting Policies and Notes to Accounts' in Schedule 14 and other notes appearing elsewhere in the accounts, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i.) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
 - ii.) in the case of the Profit & Loss Account, of the profit of the Company for the year ended on that date; and
 - iii.) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For LODHA & CO.
Chartered Accountants

R. P. BARADIYA
Partner
(Membership No.44101)

Place: Mumbai
Date: May 26, 2007

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF AUDITORS' REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED MARCH 31, 2007 OF BAY AREA CREDIT SERVICE (INDIA) PRIVATE LIMITED.

On the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of audit, we state that:

1.
 - a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - b) As explained to us, the assets have been physically verified by the management in accordance with the phased programme of verification, which in our opinion is reasonable, considering the size of the Company and nature of its fixed assets. No material discrepancies have been noticed on such physical verification.
 - c) No substantial part of the fixed assets has been disposed off during the year.
2. The Company does not have any inventory. Therefore, the provisions of clause 4(ii) of the Order are not applicable to the Company.
3.
 - a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
 - b) The Company has taken an interest free unsecured loan from the holding Company amounting to Rs. 72,756,998. The maximum balance during the year and the year-end balance was Rs.62,386,704 and Rs. 1,96,323 respectively.
 - c) There is no stipulation as to when the repayment has to be made or when the interest would be payable.
 - d) In our opinion and according to the information and explanations given to us, the terms and conditions on which loan have been taken are prima facie, not prejudicial to the interest of the Company.
4. In our opinion and according to the information and explanations given to us, having regard to the explanations that purchase of certain items of fixed assets and sale of services are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and nature of its business for the purchase of fixed assets and for the sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanation given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
5.
 - a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that Section.
 - b) According to the information and explanations given to us, in our opinion, the aforesaid contracts or arrangements aggregating during the year to Rs. 500,000 or more in respect of each party, have been made at prices which are reasonable considering inter alia the transfer pricing report issued by an expert under the Income Tax Act, 1961 according to which the prices for such transactions are at arms length.
6. No deposits within the meaning of directives issued by RBI (Reserve Bank of India) and Sections 58A and 58AA or any other relevant provisions of the Act and rules framed there under have been accepted by the Company.
7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
8. According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub section (1) of Section 209 of the Act for the services rendered by the Company.
9.
 - a) The Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Cess and other material statutory dues applicable to the Company with the appropriate authorities. However in few cases there were delays (delayed by 1 to 15 days) in payment of income tax deducted at source and provident fund. As explained to us, no undisputed amounts payable in respect of the aforesaid statutory dues were outstanding as at the last day of the financial year for a period of more than six months from the date they became payable.

Bay Area Credit Service (India) Private Limited

- b) According to the records of the Company, there are no dues of Income Tax, Sales Tax, Service tax, Customs Duty, Wealth Tax, Cess that have not been deposited on account of any dispute.
10. The Company does not have no accumulated losses as at March 31, 2007 and has not incurred any cash losses in the financial year under review or in the immediately preceding financial year.
 11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks.
 12. During the year, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
 13. The Company is not a chit fund or a nidhi mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.
 14. The Company is not dealing in or trading in shares, securities, debentures, and other investments.
 15. In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions.
 16. According to the information and explanations given to us, the Company has not taken any term loans during the year .
 17. According to the information and explanations given to us and on an overall examination of the cash flow statements and balance sheet of the Company, in our opinion, the funds raised on short-term basis have, prima facie, not been used for long-term investment.
 18. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act.
 19. During the year, no funds have been raised by public issue.
 20. The Company has not issued any debentures during the year.
 21. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

For LODHA & CO.

Chartered Accountants

R. P. BARADIYA

Partner

(Membership No.44101)

Place: Mumbai

Date: May 26, 2007

BALANCE SHEET AS AT MARCH 31, 2007**SOURCES OF FUNDS**

	Schedule No.	As on March 31, 2007 Rs.	As on March 31, 2006 Rs.
Shareholder's Funds			
Share Capital	1	100,000	100,000
Reserves and Surplus	2	84,054,065	33,349,841
Loan Funds :			
Unsecured Loans	3	196,323	36,423,293
Deferred Tax Liability (Net)		845,198	-
(Refer Note No. 5)			
		85,195,586	69,873,134
APPLICATION OF FUNDS			
Fixed Assets :	4		
Gross Block		23,707,057	22,645,168
Less: Depreciation		6,122,885	3,519,503
Net Block		17,584,172	19,125,665
Current Assets, Loans and Advances :			
Sundry Debtors	5	75,973,103	64,926,088
Cash and Bank Balances	6	449,473	238,897
Loans and Advances	7	1,886,013	2,231,315
		78,308,589	67,396,300
Less: Current Liabilities and Provisions:			
Current Liabilities	8	10,014,658	15,537,285
Provisions	9	682,517	1,111,546
		10,697,176	16,648,831
Net Current Assets		67,611,414	50,747,469
		85,195,585	69,873,134
Significant Accounting Policies & Notes to Accounts	14		

The Schedules referred to above form an integral part of the Financial Statements.

As per our attached report of even date.

For LODHA & CO
Chartered Accountants

For Bay Area Credit Service (I) Pvt. Ltd.

R. P. BARADIYA
Partner

Karan Negi
Director

Anil Rajadhyaksha
Director

Place: Pune
Date: May 26, 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING MARCH 31, 2007

	Schedule No.	As on March 31, 2007 Rs.	As on March 31, 2006 Rs.
INCOME :			
Income from Operations	10	148,530,891	110,162,007
Other Income	11	424,653	4,040
		148,955,544	110,166,046
EXPENDITURE :			
Personnel Expenses	12	71,715,745	58,043,743
Operating Expenses	13	17,965,964	17,528,997
Depreciation	4	2,603,382	3,073,982
Foreign Exchange Variation (Net)		4,469,696	569,063
		96,754,787	79,215,785
Profit before Taxation		52,200,757	30,950,261
Provision for Taxation			
Current Tax		20,000	-
Deferred Tax		845,198	-
Fringe Benefit Tax		629,976	482,996
		1,495,174	482,996
Profit after Taxation		50,705,583	30,467,265
Tax Adjustments for earlier year		1,360	-
Net Profit		50,704,223	30,467,265
Profit brought forward from earlier years		33,349,841	2,882,576
Balance carried to Balance Sheet		84,054,064	33,349,841
Basic Earnings per share (EPS) in Rs.		5,070	3,047
Significant Accounting Policies and Notes to Accounts	14		

The Schedules referred to above form an integral part of the Financial Statements.

As per our attached report of even date.

For LODHA & CO
Chartered Accountants

For Bay Area Credit Service (I) Pvt. Ltd.

R. P. BARADIYA
Partner

Karan Negi
Director

Anil Rajadhyaksha
Director

Place: Pune
Date: May 26, 2007

Bay Area Credit Service (India) Private Limited
Schedules annexed to and forming part of the Balance Sheet as at March 31, 2007
SCHEDULE 1

SHARE CAPITAL	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Authorised : 10,000 Equity Shares of Rs.10 each	100,000	100,000
Issued, Subscribed & Paidup : 10,000 Equity Shares of Rs.10 each, fully paid up. (Held entirely by holding company, HOV Services Limited)	100,000	100,000
Total	100,000	100,000

SCHEDULE 2

RESERVE & SURPLUS	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Surplus in Profit and Loss Account As per Annexed Account	84,054,065	33,349,841
Total	84,054,065	33,349,841

SCHEDULE 3

UNSECURED LOANS	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Short Term From Holding Company	196,323	36,423,293
Total	196,323	36,423,293

SCHEDULE 4 FIXED ASSETS

Particulars	Gross Block As at 01.04.2006	Additions / Adjustments	Deductions/ Adjustments	As at 31.03.2007	Depreciation Upto 01.04.2006	For the year	Deductions/ Adjustments	Up to 31.03.2007	Net Block As at 31.03.2007	As at 31.03.2006
Computers	8,970,333	966,892	-	9,937,225	1,945,193	1,839,038	-	3784231	6,152,994	7,025,140
Furniture & Fixtures	10,764,007	-	-	10,764,007	1,382,070	621,206	-	2003276	8,760,731	9,381,937
Office Equipments	2,910,828	94,997	-	3,005,825	192,240	143,138	-	335378	2,670,447	2,718,588
Total	22,645,168	1,061,889	0	23,707,057	3,519,503	2,603,382	0	6122885	17,584,172	19,125,665
Previous Year	3,221,001	19,424,167	0	22,645,168	445,521	3,073,982	0	3,519,503	19,125,665	-

SCHEDULE 5

SUNDRY DEBTORS	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
(Unsecured, considered good.)		
Outstanding for a period exceeding six months	17635020	-
Outstanding for a period not exceeding six months	58338083	64,926,088
Total	75,973,103	64,926,088

SCHEDULE 6 :

CASH AND BANK BALANCES	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Cash balance in hand	6,824	7,855
Balances with Scheduled Banks :		
(a) In Current Accounts	375,932	151,904
(b) In Fixed Deposits pledged with bank for guarantees issued (Including interest Rs.6717.00 previous year Rs.4040.00)	66,717	79,138
Total	449,473	238,897

SCHEDULE 7

LOANS & ADVANCES	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
(Unsecured, considered good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received	796,013	985,315
Advance Tax and Tax deducted at source	2,500	-
Security Deposits	1,087,500	1,246,000
Total	1,886,013	2,231,315

SCHEDULE 8

CURRENT LIABILITIES	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Sundry Creditors	9,387,998	10,231,100
Other Liabilities	626,660	5,306,185
Total	10,014,658	15,537,285

SCHEDULE 9

PROVISIONS	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Provision for :		
Income Tax	20,000	-
Fringe Benefit Tax (Net of advance tax Rs. 655785, Previous Year Rs.375 856)	66,545	92,354
Gratuity	491,219	786,983
Leave Encashment	104,753	232,209
Total	682,517	1,111,546

SCHEDULES FORMING PART OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 31, 2007**SCHEDULE 10**

INCOME FROM OPERATIONS	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Export Services	148,530,891	110,162,007
Total	148,530,891	110,162,007

SCHEDULE 11

OTHER INCOME	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Interest Received	31,587	4,040
Miscellaneous income	2,900	-
Provisions no longer required written-back	390,166	-
Total	424,653	4,040

SCHEDULE 12

PERSONEL EXPENSES	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Salaries, Wages and Bonus	60,827,911	48,765,541
Contribution to Provident and Other Funds	2,169,774	2,050,135
Staff Welfare	1,162,941	2,003,834
Recruitment and Training Expenses	718,955	1,007,379
Insurance Charges	153,571	169,053
Transport charges	6,682,593	4,047,801
Total	71,715,745	58,043,743

SCHEDULE 13

OPERATING & OTHER EXPENSES	For the year ended March 31, 2007 Rs.	For the year ended March 31, 2006 Rs.
Auditors' Remuneration	185,893	374,202
Bank Charges	48,785	79,189
Communication Costs	2,906,712	1,785,164
Consultancy charges	343,717	568,272
Insurance	24,205	40,166
Miscellaneous Expenditure	2,539,576	2,347,784
Power & Fuel Expenses	3,629,406	2,514,814
Rates & Taxes	216,274	255,949
Rent	6,171,718	5,822,460
Repairs & Maintenance - Building	424,425	570,789
Repairs & Maintenance - Others	442,728	826,935
Security Charges	818,322	770,734
Travelling & Conveyance	214,202	1,572,539
Total	17,965,964	17,528,997

SCHEDULE 14**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS****A. SIGNIFICANT ACCOUNTING POLICIES:****1. Overview of the Company**

The Company was incorporated in 2004 under the Companies Act, 1956 as Bay Area Credit Service (India) Private Limited. Presently wholly owned subsidiary of HOV Services Limited.

2. Basis for Preparation of Financial Statements

The Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles (GAAP) applicable in India under the historical cost convention on the accrual basis and in compliance with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable and on the principles of going concern.

3. Use of Estimates

The preparation of financial statements in conformity with AS and GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities on the date of financial statements and reported amounts of revenue and expenses for that year. Actual result could differ from these estimates. Any revision to accounting estimates is recognised prospectively.

4. Revenue Recognition

The revenue in respect of company's Accounts Receivable Management activity is recognized as per the work orders/agreements entered into with the parties.

5. Fixed Assets

Tangible: Fixed assets are stated at historical cost less accumulated depreciation. Replacements are either capitalized or charged to revenue depending upon their nature and long term utility.

Intangible: Costs that are directly associated with identifiable and unique software products controlled by the Company, whether developed in-house or acquired, and have probable economic benefits exceeding the cost beyond one year are recognized as software products.

6. Impairment of Assets

In accordance with AS 28 on 'Impairment of Assets' issued by the Institute Of Chartered Accountants of India, where there is an indication of impairment of the Company's assets related to cash generating units, the carrying amounts of such assets are reviewed at each balance sheet date to determine whether there is any impairment. The recoverable amount of such assets is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of such assets exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, then such loss is reversed and the asset is restated to the extent of the carrying value of the asset that would have been determined (net of amortization / depreciation) had no impairment loss been recognized.

7. Depreciation

Depreciation is provided under Straight Line Method and in the manner prescribed in the Schedule XIV of the Companies Act, 1956. Individual assets acquired for less than Rs 5,000 are entirely depreciated in the year of acquisition.

8. Investments

Investments are classified into long term and current investments. Long-term investments are carried at cost and provision is made to recognize any decline in the value other than temporary in the value of such investments. Current investments are carried at the lower of the cost or fair value and provision is made to recognize any decline in the carrying value of the investment.

9. Retirement Benefits**a) Gratuity:**

The Company provides for gratuity, a defined benefit retirement plan, covering eligible employees. Liability under gratuity plan is determined on actuarial valuation done by the Life Insurance Corporation of India (LIC) at the end of the year.

b) Provident Fund:

Defined contributions for provident fund are charged to Profit & Loss account based on contribution made in terms of applicable scheme.

c) Leave Encashment

Liability towards Leave Encashment Benefit is provided for as at the Balance Sheet date as per the actuarial valuation taken at the end of the year.

10. Foreign Exchange Transactions

- a) Transactions in foreign currency are recorded at the rate of exchange in force on the date of the transactions. Current assets, current liabilities and borrowings denominated in foreign currency are translated at the exchange rate prevalent at the date of Balance Sheet. The resultant gain or loss is recognized in the profit and loss account, except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.
- b) Exchange differences arising on settlement of foreign currency transactions are recognized in the profit and loss account, except exchange differences pertaining to the acquisition of fixed assets.
- c) Assets and liabilities expressed in foreign currency are converted, if covered by forward contract rates, at the rate contracted after adjusting the premium over the period of the forward contract, otherwise, at the year end rates. Exchange differences arising on such restatement are recognized in the profit and loss account except exchange differences pertaining to acquisition of fixed assets.

11. Accounting for Taxes on Income

Provision for current income tax is made on the basis of the estimated taxable income for the year in accordance with the Income Tax Act 1961.

MAT credit asset is recognized and carried forward only if there is a reasonable certainty of it being set off against regular tax payable within the stipulated statutory period.

Fringe Benefit Tax has been made in respect of employee benefits and other specified Expenses, in accordance with the provisions as per Income Tax Act, 1961.

Deferred tax resulting from timing differences between book profits and tax profits is accounted for under the liability method, at the current rate of tax, to the extent that the timing differences are expected to crystallize. Deferred tax assets are recognized and carried forward only if there is a virtual/ reasonable certainty that they will be realized and are reviewed for the appropriateness of their respective carrying values at each Balance Sheet date.

12. Borrowing Costs

Borrowing costs attributable to acquisition and construction of qualifying assets are capitalized as a part of the cost of such assets up to the date when such asset is ready for its intended use. Other borrowing costs are charged to profit and loss account.

13. Leases

Where the Company has substantially acquired all risks and rewards of ownership of the assets, leases are classified as financial lease. Such assets are capitalized at the inception of the lease, at the lower of the fair value or present value of minimum lease payment and liability is created for equivalent amount. Each lease rent paid is allocated between liability and interest cost so as to obtain constant periodic rate of interest on the outstanding liability for each year.

Where significant portion of risks and reward of ownership of assets acquired under lease are retained by lessor, leases are classified as Operating Lease. Lease rentals for such leases are charged to Profit and Loss account.

14. Earnings Per Share

The earnings considered in ascertaining Earning Per Share comprise the net profit after tax. The number of shares used in computing Basic EPS is weighted average number of shares outstanding during the year. The number of shares used in computing diluted EPS comprises of weighted average shares considered for deriving Basic EPS, and also weighted average number of equity shares which could have been issued on conversion of all diluted potential equity shares. Diluted potential equity shares are deemed converted at the beginning of the year, unless they have been issued at later date.

15. Provisions, Contingent Liability and Contingent Assets

- a) Provisions involving substantial degree of estimation in measurement are recognized when there is present obligation as a result of past events and it is probable that there will be outflow of resources.
- b) Disclosures for a contingent liability is made, without a provision in books, when there is an obligation that may, but probably will not, require outflow of resources.
- c) Contingent Assets are neither recognized nor disclosed in the financial statements.

B. NOTES TO FINANCIAL ACCOUNTS**1. Capital commitments and Contingent liabilities:**

	As at March 31, 2007 (Rs.)	As at March 31, 2006 (Rs.)
Contingent Liabilities not provided for in respect of:		
Outstanding guarantees given by banks	60,000	70,000

- 2 a) In the opinion of the Board, the current assets, loans and advances have a value on realization in the ordinary course of business atleast equal to the amount at which they are stated. Provision for all known and determined liabilities and depreciation is adequate and not in excess.
- b) Balances of sundry debtors, sundry creditors and advances given are, however, subject to confirmations and adjustments, if any. In the opinion of the management, adjustments as may be required on such confirmations, would not be significant

3 Earnings per share: (Amount in Rs.)

Particulars	For the year ended	
	March 31, 2007	March 31, 2006
Net profit as per Profit and Loss Account	50,704,223	30,467,265
Weighted Average Number of equity shares	10,000	10,000
Basic and Diluted Earning per equity share	5,070	3,047
Nominal value per Equity share	10	10

4. Related Party Transactions

Related party disclosures as required by Accounting Standard-18 "Related Party Disclosures", are given below:

A) Name of the related parties:**a) Holding Company**

- HOV Services Limited

b) Associates

- Bay Area Credit Service LLC
- Imperial Collection Services
- Superior Asset Management
- General Pacific LLC

c) Key Managerial Personnel

- Mr. Karan Negi (Director)
- Mr. Anil Rajadhyaksha (Director)

B) Transactions carried out with related parties referred to in "a", "b" and "c" above, in the ordinary course of business are as under: -

(Amount in Rs.)

Sr. No.	Name of the Related Party	Transaction entered during the year ended	
		March 31, 2007	March 31, 2006
1.	HOV Services Ltd. Unsecured Loans Loan Taken Loan Repaid	72,756,998 108,983,968	45,687,422 10,965,653
2.	Bay Area Credit Service, LLC Services Provided	69,360,425	92,216,133
3.	Imperial Collection Services Services Provided	14,268,101	3,316,750
4	Superior Asset Management Services Provided	5,740,123	-
5	General Pacific, LLC Services Provided	2,133,789	1,820,539

Balances with the related parties referred above, in the ordinary courses of business are as under:

(Amount in Rs.)

Sr. No.	Name of the Related Party	Balance as on	
		March 31, 2007	March 31, 2006
1.	HOV Services Ltd. Unsecured Loans	196,323	36,423,293
2.	Bay Area Credit Service, LLC Debtors	59,851,888	3,316,750
3.	Imperial Collection Service Debtors	5,004,476	52,901,429
4	Superior Asset Management Debtors	5,645,728	-
5	General Pacific LLC Debtors	62077	-

Notes :

1. Related party relationship is as identified by the company and relied upon the Auditors.
2. No amount in respect of related parties have been written back/provided for during the year.

5. Deferred Tax Asset/(Liability) comprises timing differences on account of: (Amount in Rs.)

Particulars	Balance as on	
	As on 31.03.07	As on 31.03.06
Deferred Tax Liability:		
On account of Depreciation	(8,45,198)	-
Net Deferred Tax Asset / (Liability)	(8,45,198)	-

6. Auditors' Remuneration: (Amount in Rs.)

Particulars	For the year ended	
	March 31, 2007	March 31, 2006
Payment to Statutory Auditor:		
Audit Fees	179,776	287,480
Reimbursement of out of pocket expenses (Including Service Tax)	6,117	31,522
Total	185,893	319,002

7. Foreign Currency Exposure:

Foreign exchange currency exposure not covered by derivative instruments as at March 31,2007: -

Particulars	Foreign Currency	March 31, 2007		March 31, 2006	
		Amount Foreign currency \$	Amount in Rs.	Amount in Foreign currency \$	Amount in Rs.
Debtors	US Dollar	11,86,439	51,016,865	14,55,416	64,926,088

8. Segment Reporting

The company is engaged only in the Accounts Receivable Management segment of the BPO services and accordingly Accounting Standard-17, 'Segment Reporting' is not applicable.

9. (a) The information regarding small-scale industrial undertakings has been determined to the extent that such parties have been identified on the basis of information available with the Company. This has been relied upon by the Auditors.
- (b) The Company has not received any intimation from the suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given.

10. Other Information:

The Company is engaged in the Service Sector providing IT Enabled Services. The production and sale of such services can not be expressed in any generic unit. Hence it is not possible to give quantitative details of sale and information as required under paragraph 3, 4C and 4D of Part II of Schedule VI of the Companies Act 1956.

11. Transactions in foreign Currency:

(Amount in Rs.)

Particulars	For the year ended	
	March 31, 2007	March 31, 2006
Earnings in Foreign Exchange		
Income from Operations	148,530,891	110,162,007
CIF Value of Import Goods	147,494	-

12. The previous year's figures have been regrouped/rearranged wherever necessary to conform to current period's presentation.

As per our attached report of even date.

For LODHA & CO
Chartered Accountants

For Bay Area Credit Service (I) Pvt. Ltd.

R. P. BARADIYA
Partner

Karan Negi
Director

Anil Rajadhyaksha
Director

Place: Pune
Date: May 26, 2007

NOTICE OF NINETEENTH ANNUAL GENERAL MEETING

Notice is hereby given that the Nineteenth Annual General Meeting of the Members of HOV Services Limited will be held on Saturday day, the 21st day of July, 2007 at 10:30 A.M at Le Meridien, Raja Bahadur Mill Road Pune, Maharashtra 411001 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at March 31 2007 and Profit and Loss Account of the Company together with Schedules and Notes annexed thereto and the Cash Flow Statement for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Ajay Madan, who retires by rotation, and being eligible, offers himself for re appointment.
3. To appoint M/s Lodha & Co., Chartered Accountants as auditors, who shall hold office from the conclusion of this meeting till the conclusion of next Annual General Meeting of the Company and authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

4. **To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Special Resolution for 400,000 stock option for employees of the Company:**

RESOLVED THAT pursuant to the provisions of Section 81(1A), and all other applicable provisions, if any, of the Companies Act 1956, the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "SEBI Guidelines") or any statutory modification(s) or re-enactment of the Act or the Guidelines and Listing Agreements entered into by the Company with the Stock Exchange(s) where the shares of the securities of the Company are listed and subject to any applicable approval(s), permission(s) and sanction(s) as may be necessary of any authorities and subject to such condition(s) and modification(s) as may be prescribed or imposed by such authorities while granting such approval(s), permission(s) and sanction(s) and which may be agreed to and accepted by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee, including the Compensation and Remuneration Committee which the Board has constituted to exercise its powers, including the powers, conferred by this resolution) the consent of the Company be and is hereby accorded to the Board of Directors of the Company to grant, create, offer, issue and allot, in one or more tranches, at any time to or to the benefit of such person(s) who are in permanent employment of the Company, whether working in India or out of India, including any Director of the Company, whether whole time or otherwise(hereinafter referred as "Employees"), as may be decided by the Board, Options exercisable by the Employees under the Plan titled "HOVS Stock Option Plan 2007" (The Plan) to subscribe to such number of equity shares of the Company which may give rise to the issue of equity shares of the Company not exceeding in aggregate 4,00,000 equity shares of the Company and on such terms and conditions as may be fixed or determined by the Board in accordance with the provisions of the law or guidelines issued by the relevant Authority; each option would be exercisable for one Equity share of a face value of Rs. 10 each fully paid-up on payment of the requisite exercise price to the Company.

RESOLVED FURTHER THAT the number of options that may be granted to any Non-Executive director (including any independent director) in any financial year under the Scheme shall not exceed 2500 and in aggregate shall not exceed 1 % of the issued and paid up capital of the Company at the time of grant of options.

RESOLVED FURTHER THAT in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, if any additional equity shares are issued by the Company to the Option Grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the above ceiling of 4,00,000 equity shares shall be deemed to be increased to the extent of such additional equity shares issued.

RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot Equity shares upon exercise of options from time to time in accordance with the Employee Stock Option Scheme and such Equity shares shall rank pari passu in all respects with the then existing Equity Shares of the Company.

RESOLVED FURTHER THAT in case the equity shares of the Company are either sub-divided or consolidated, then the number of shares to be allotted and the price of acquisition payable by the option grantees under the schemes shall automatically stand augmented or reduced, as the case may be, in the same proportion as the present face value of Rs. 10 per equity share bears to the revised face value of the equity shares of the Company after such sub-division or consolidation, without affecting any other rights or obligations of the said allottees.

RESOLVED FURTHER THAT the Board be and is hereby authorized to formulate, evolve, decide upon and bring into effect the Plan and to make any modification(s), change(s), variation(s), alteration(s) or revision(s) in the said Plan as it may deem fit, from time to time in its sole and absolute discretion, including but not limited to amendment(s)

with respect to vesting period and schedule, exercise price, exercise period, eligibility criteria, or to suspend, withdraw, terminate or revise the Plan in conformity with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, the SEBI Guidelines and any other applicable laws.

RESOLVED FURTHER THAT the Board be and is hereby authorised to take all necessary steps for listing of the securities allotted under the Plan on the Stock Exchanges where the securities of the Company are listed as per the provisions of the Listing Agreements with the Stock Exchange(s) concerned, the Guidelines and other applicable laws and regulations.

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution and to settle any question, difficulty or doubt that may arise in this regard, the Chief Financial Officer and Company Secretary of the Company, be and are hereby authorised severally to do all such acts, deeds, matters and things and execute all such documents, instruments and writings as may be in his sole and absolute discretion deem necessary or expedient.

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Special Resolution for 700,000 stock option for employees of the subsidiaries companies:

RESOLVED THAT pursuant to the provisions of Section 81(1A), and all other applicable provisions, if any, of the Companies Act 1956, the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "SEBI Guidelines") or any statutory modification(s) or re-enactment of the Act or the Guidelines and Listing Agreements entered into by the Company with the Stock Exchange(s) where the shares of the securities of the Company are listed and subject to any applicable approval(s), permission(s) and sanction(s) as may be necessary of any authorities and subject to such condition(s) and modification(s) as may be prescribed or imposed by such authorities while granting such approval(s), permission(s) and sanction(s), and which may be agreed to and accepted by the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall be deemed to include any Committee, including the Compensation and Remuneration Committee which the Board has constituted to exercise its powers, including the powers, conferred by this resolution) the consent of the Company be and is hereby accorded to the Board of Directors of the Company to grant, create, offer, issue and allot in one or more tranches, at any time to or to the benefit of such person(s) who are in permanent employment of the Subsidiary(ies) of the Company, whether working in India or out of India from time to time, including any Director of the Subsidiary(ies) Company, whether whole time or otherwise, (hereinafter referred to as "Employees"), as may be decided by the Board, Options exercisable by the Employees under the Plan titled "HOVS Stock Option Plan 2007" (The Plan) to subscribe to such number of equity shares of the Company which may give rise to the issue of equity shares of the Company not exceeding in aggregate 7,00,000 equity shares of the Company and on such terms and conditions as may be fixed or determined by the Board in accordance with the provisions of the law or guidelines issued by the relevant Authority; each option would be exercisable for one Equity share of a face value of Rs. 10 each fully paid-up on payment of the requisite exercise price to the Company.

RESOLVED FURTHER THAT in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, if any additional equity shares are issued by the Company to the Option Grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the above ceiling of 7,00,000 equity shares shall be deemed to be increased to the extent of such additional equity shares issued.

RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot Equity shares upon exercise of options from time to time in accordance with the Employee Stock Option Scheme and such Equity shares shall rank pari passu in all respects with the then existing Equity Shares of the Company.

RESOLVED FURTHER THAT in case the equity shares of the Company are either sub-divided or consolidated, then the number of shares to be allotted and the price of acquisition of the shares by the aforesaid option grantees under the schemes shall automatically stand augmented or reduced, as the case may be, in the same proportion as the present face value of Rs. 10 per equity share bears to the revised face value of the equity shares of the Company after such sub-division or consolidation, without affecting any other rights or obligations of the said allottees.

RESOLVED FURTHER THAT the Board be and is hereby authorized to formulate, evolve, decide upon and bring into effect the Plan and to make any modification(s), change(s), variation(s), alteration(s) or revision(s) in the said Plan as it may deem fit, from time to time in its sole and absolute discretion, including but not limited to amendment(s) with respect to vesting period and schedule, exercise price, exercise period, eligibility criteria, or to suspend, withdraw, terminate or revise the Plan in conformity with the provisions of the Companies Act, 1956, the Memorandum and Articles of Association of the Company, the SEBI Guidelines and any other applicable laws.

RESOLVED FURTHER THAT the Board be and is hereby authorised to take all necessary steps for listing of the securities allotted under the Plan on the Stock Exchanges where the securities of the Company are listed as per the provisions of the Listing Agreements with the Stock Exchange(s) concerned, the Guidelines and other applicable laws and regulations.

RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution and to settle any question, difficulty or doubt that may arise in this regard, the Chief Financial Officer and Company Secretary of the Company, be and are hereby authorised severally to do all such acts, deeds, matters and things and execute all such documents, instruments and writings as may be in his sole and absolute discretion deem necessary or expedient.

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 (including any amendments thereto or re-enactment thereof) and subject to such approvals, permissions, consents and sanctions as may be necessary from the Government of India (GOI), the Reserve Bank of India (RBI), the provisions of the Foreign Exchange Management Act, 1999 (FEMA), The Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, the Issue of Foreign Currency Convertible Bonds and Ordinary shares (through Depository Receipt Mechanism) Scheme, 1993, SEBI (Disclosure and Investor Protection) Guidelines, 2000 (hereinafter referred to as the DIP Guidelines) (including Chapter XIII A thereof) and subject to the approval, consent, permission and / or sanction of the Ministry of Finance (Department of Economic Affairs) and Ministry of Industry (Foreign Investment Promotion Board / Secretariat for Industrial Assistance) and all other Ministries / Departments of the Government of India, the RBI and the Securities and Exchange Board of India (SEBI) and / or any other competent authorities and the enabling provisions of the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges where the Company’s shares are listed and in accordance with the regulations and guidelines issued by the GOI, RBI, SEBI and any competent authorities and clarifications issued thereon from time to time and subject to all other necessary approvals, permissions, consents and sanctions of concerned statutory and other authorities and subject to such conditions and modifications as may be prescribed by any of them while granting such approvals, permissions, consents and sanctions and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the “Board”, which term shall include any Committee thereof) consent of the Company be and is hereby accorded to the Board to create, offer, issue and allot in one or more tranches, whether rupee denominated or denominated in foreign currency, in the course of international and / or domestic offering(s) in one or more foreign markets, up to 15,000,000 Global Depository Receipts (GDRs), American Depository Receipts (ADRs), Foreign Currency Convertible Bonds (FCCBs), Warrants and / or Equity Shares through Depository Receipt Mechanism and / or any Other Financial Instruments (OFIs) convertible into or linked to Equity Shares or with or without detachable warrants with a right exercisable by the warrant holders to convert or subscribe to the Equity Shares or otherwise, in registered or bearer form (hereinafter collectively referred to as “Securities”) or any combination of Securities to any person including foreign / resident investors (whether institutions, incorporated bodies, mutual funds and / or individuals or otherwise), Foreign Institutional Investors, Promoters, Indian and/or Multilateral Financial Institutions, Mutual Funds, Non-Resident Indians, Employees of the Company and / or any other categories of investors, whether they be holders of shares of the Company or not (collectively called the “Investors”) through public issue(s) of prospectus, private placement(s) or a combination thereof at such time or times, at such price or prices, at a discount or premium to the market price or prices in such manner and on such terms and conditions including security, rate of interest, etc., as may be decided by and deemed appropriate by the Board in its absolute discretion including the discretion to determine the categories of Investors to whom the offer, issue and allotment shall be made to the exclusion of all other categories of Investors at the time of such issue and allotment considering the prevailing market conditions and other relevant factors wherever necessary in consultation with the Lead Managers, as the Board in its absolute discretion may deem fit and appropriate.”

“RESOLVED FURTHER THAT without prejudice to the generality of the above, the aforesaid Securities may have such features and attributes or any terms or combination of terms in accordance with international practices as per the prevailing practices and regulations in the capital markets including but not limited to the terms and conditions in relation to payment of interest, additional interest, premium on redemption, prepayment and any other debt service payments whatsoever including terms for issue of additional Equity Shares or variation of the conversion price of the Securities during the duration of the Securities and the Board be and is hereby authorised in its absolute discretion in such manner as it may deem fit, to dispose off such of the Securities that are not subscribed.”

“RESOLVED FURTHER THAT:

- (i) the Securities to be so created, offered, issued and allotted shall be subject to the provisions of the Memorandum and Articles of Association of the Company; and
- (ii) the underlying Equity Shares shall rank *pari passu* with the existing Equity Shares of the Company.”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to appoint Lead Managers, Underwriters, Guarantors, Depositories, Custodians, Registrars, Trustees, Bankers, Lawyers, Advisors and all such Agencies as may be involved or concerned in such offerings of Securities and to remunerate them by way of commission, brokerage, fees or the like and also to enter into and execute all such arrangements, agreements, memorandum, documents, etc., with such agencies and also to seek the listing of such Securities on one or more National and International Stock Exchange(s).”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to issue and allot such number of Equity Shares as may be required to be issued and allotted upon conversion of any Securities or as may be necessary in accordance with the terms of the offering, all such Equity Shares ranking pari passu with the existing Equity Shares of the Company in all respects, except the right as to dividend which shall be as provided under the terms of the issue and in the offering documents.”

“RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Board be and is hereby authorised to determine the form, terms and timing of the Issue(s), including the class of investors to whom the Securities are to be allotted, number of Securities to be allotted in each tranche, issue price, face value, premium amount on issue / conversion of Securities / exercise of warrants / redemption of Securities, rate of interest, redemption period, listings on one or more stock exchanges in India and / or abroad as the Board in its absolute discretion deems fit and to make and accept any modifications in the proposal as may be required by the authorities involved in such issues in India and/or abroad, to do all acts, deeds, matters and things and to settle any questions or difficulties that may arise in regard to the Issue(s).”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of its powers to any Committee of Directors to give effect to the aforesaid resolutions.”

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Special Resolution:

“RESOLVED THAT subject to the provisions of Section 94 of the Companies Act, 1956 and the Articles of Association of the Company, the approvals of the members of the Company be and is hereby accorded to increase the authorised share capital of the Company from the existing Rs. 15,00,00,000/- (Rupees Fifteen Crore Only) divided into 1,50,00,000 (One Crore and Fifty Lakhs Only) equity shares of Rs. 10/- (Rupees Ten Only) each to Rs. 30,00,00,000/- (Rupees Thirty Crore Only) divided into 3,00,00,000 (Three Crore Only) equity shares of Rs 10/-(Ten Only) each , and that clause V of the Memorandum of Association of the Company be substituted by the following:

“The authorised share capital of the Company is Rs. 30,00,00,000/- (Rupees Thirty Crore Only) divided into 3,00,00,000 (Three Crore Only) equity shares of Rs 10/-(Ten Only) each.”

“RESOLVED FURTHER THAT any one director of the Board of Directors or Mr. Bhuvanesh Sharma, Company Secretary, of the Company be and is hereby authorised to do all such acts, deeds, matters and to execute all such documents, instruments and writings as may be required in this connection and to delegate all or any of the powers herein vested in the Board of Directors to any Director(s) or to the Company Secretary, to give effect to this Resolution.”

8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Special Resolution:

“RESOLVED THAT pursuant to Section 31 and all other applicable provisions if any, of the Companies Act, 1956 (including any amendment thereto or any re-enactment thereof), the approval of the members of the Company by way of a special resolution is accorded to alter, the existing article number 3 of the Articles of Association of the Company and be substituted by the following:

“The authorised share capital of the Company is Rs. 30,00,00,000/- (Rupees Thirty Crore Only) divided into 3,00,00,000 (Three Crore Only) equity shares of Rs 10/-(Ten Only) each.”

“RESOLVED FURTHER THAT any one director of the Board of Directors or Mr. Bhuvanesh Sharma, Company Secretary, of the Company be and is hereby authorised to do all such acts, matters, deeds and things necessary or desirable in connection with or incidental to give effect to the above resolution, including but not limited to filing of necessary forms with the Registrar of Companies and to comply with all other requirements in this regard.”

By Order of the Board
HOV Services Limited

Place: Pune
 Date: June 15, 2007

Bhuvanesh Sharma
 Company Secretary

NOTES:

- 1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM, IN ORDER TO BE EFFECTIVE, MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE COMMENCEMENT OF THE MEETING.**

The following Explanatory Statement sets out all the material facts as required pursuant to Section 173(2) of the Companies Act, 1956 in respect of the above Special Business.

Item No. 4 and 5

The Company recognizes and appreciates the critical role played by the employees of the Company and its subsidiaries in bringing about growth of the organization. It strongly feels that the value created by them should be shared with them. To promote the culture of employee ownership in the Company, approval of the shareholders is being sought for issue of stock options to the employees of the Company and its Subsidiaries.

The main features of the employee stock option schemes are as under:

1. Total number of options to be granted:

A total of 11, 00,000 (Eleven Lakh) options for the employees of the Company and of the subsidiaries would be available for being granted under the Plan. Each option when exercised would be converted into one Equity share of Rs. 10/- (Rupees ten only) each fully paid-up.

Vested options that lapse due to non-exercise or unvested options that get cancelled due to resignation of the employees or otherwise, would be available for being re-granted at a future date.

SEBI guidelines require that in case of any corporate action (s) such as rights issues, bonus issues, merger and sale of division and others, a fair and reasonable adjustment needs to be made to the options granted. Accordingly, if any additional equity shares are issued by the Company to the Option Grantees for making such fair and reasonable adjustment, the ceiling of 11, 00,000 (Eleven Lakh) equity shares for the employees of the company and its subsidiaries as stated above shall be deemed to be increased to the extent of such additional equity shares issued.

2. Identification of classes of employees entitled to participate in the Employee Stock Option Scheme(s):

All permanent employees of the Company and its subsidiaries, including the Directors (excluding any director who directly or indirectly holds more than 10% of the outstanding equity shares of the company) but excluding the promoters of the Company, as may be decided by the Compensation and Remuneration Committee from time to time, would be entitled to be granted stock options under the ESOP Plan.

3. Transferability of employee stock options

The stock options granted to an employee shall not be transferable to any person and shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner. However, in the event of the death of an employee stock option holder while in employment, the right to exercise all the options granted to him till such date shall be transferred to his legal heirs or nominees.

4. Requirements of vesting and period of vesting:

The Options granted shall vest so long as the employee continues to be in the employment of the Company and its subsidiaries, as the case may be. The Compensation and Remuneration Committee may, at its discretion, lay down certain performance metrics on the achievement of which the granted options would vest, the detailed terms and conditions relating to such performance-based vesting, and the proportion in which options granted would vest (subject to the minimum and maximum vesting period as specified below).

The options would vest not earlier than one year and not later than six years from the date of grant of options. The exact proportion in which and the exact period over which the options would vest would be determined by the Compensation and Remuneration Committee, subject to the minimum vesting period of one year from the

date of grant of options.

5. Exercise Price:

The options would be granted at an exercise price equal to the latest available closing market price (at a stock exchange as determined by the Compensation Committee) on the date prior to the date on which the Compensation Committee finalizes the specific number of options to be granted to the employees.

6. Exercise Period and the process of Exercise:

The Exercise period would commence from the date of vesting and will expire on completion of five years from the date of vesting of options.

The options will be exercisable by the Employees by a written application to the Company to exercise the options in such manner, and on execution of such documents, as may be prescribed by the Compensation and Remuneration Committee from time to time. The options will lapse if not exercised within the specified exercise period.

7. Appraisal Process for determining the eligibility of the employees to ESOP:

The appraisal process for determining the eligibility of the employee will be specified by the Compensation and Remuneration Committee, and will be based on criteria such as role / designation of the employee, length of service with the Company and its subsidiaries, as the case may be, past performance record, future potential of the employee and/or such other criteria that may be determined by the Compensation Committee at its sole discretion.

8. Maximum number of options to be issued per employee and in aggregate:

The number of options that may be granted to any specific employee under the Scheme shall not exceed 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant of options.

9. Maximum number of options to be granted to Non-Executive directors (including independent directors) in any financial year and in aggregate:

The total number of options that may be granted to any Non-Executive director (including any independent director) of the company and its subsidiaries in any financial year under the Scheme shall not exceed 2500 and in aggregate shall not exceed 1 % of the issued and paid up capital of the Company at the time of grant of options.

10. Disclosure and Accounting Policies:

The Company shall comply with the disclosure and the accounting policies prescribed as per SEBI Guidelines and other concerned Authorities.

11. Method of option valuation

To calculate the employee compensation cost, the Company shall use the Fair Value Method for valuation of the options granted.

In case the Company calculates the employee compensation cost using the Intrinsic Value of the stock options, the difference between the employee compensation cost so computed and the cost that shall have been recognized if it had used the Fair Value of the options, shall be disclosed in the Directors' Report and also the impact of this difference on profits and on EPS of the Company shall also be disclosed in the Directors' Report.

As the employee stock option schemes provide for issue of shares to be offered to persons other than existing shareholders of the company, consent of the members is being sought pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 and the SEBI Guidelines.

None of the Directors of the Company are in any way, concerned or interested in the resolution, except to the extent of the securities that may be offered to them under the scheme.

Item No. 6

Section 81 of the Companies Act, 1956 requires that when a company proposes to issue further shares or securities convertible at a later date and such further shares are proposed to be issued to person other than the existing shareholders of the

Company, a special resolution is required to be passed at a general meeting of the Company.

The Board considered the Authorization for issue of up to 15,000,000 number of Global Depository Receipts (GDRs), American Depository Receipts (ADRs), Foreign Currency Convertible Bonds (FCCBs), and / or Equity Shares through Depository Receipt Mechanism (hereinafter referred to as “DR”) per SEBI guidelines and subject to all rules and regulations:

- a. Upon shareholder approval, to consider issuance of DR’s at this time up to 10,500,000; and
- b. Reserve the remaining 4,500,000 out of the authorized to be used in future for general corporate purposes subject to further Board Approval; and
- c. Issuance of such DR’s will be used to cancel all the Preferred Units issued by HOV Services, LLC for the acquisition of Lason.

The authority granted to the Board by way of special resolution will enable the Board to examine the modalities of the proposed issue, which will be in consultation with investment bankers, advisors, lead managers and /or agencies as may be required. Hence, the Board recommends the resolution for your approval.

None of the Directors of the Company are interested or concerned in the resolution.

Item No. 7

The authorised capital of the Company presently stands Rs. 15,00,00,000/- (Rupees Fifteen Crore Only) divided into 1,50,00,000 (One Crore and Fifty Lakhs Only) equity shares of Rs. 10/- (Rupees Ten Only) each. With the growing business it is desirable to bring the authorised capital of the Company in proper co-relation with magnitude of the Company’s recourses and size. It is therefore considered advisable to increase the authorised capital of the Company to Rs. 30,00,00,000/- (Rupees Thirty Crore Only) divided into 3,00,00,000 (Three Crore Only) equity shares of Rs 10/-(Ten Only) each.

Consequent upon the increase of the authorised capital of the Company, the Memorandum of Association of the Company will require alteration to reflect the increase in share capital

The proposed increased in authorised capital requires approval of members in general meeting. Hence the Board recommends the resolution to be passed.

None of the Directors of the Company are interested or concerned in the resolution.

Item No. 8

Consequent upon the increase of the authorised capital of the Company, Articles of Association of the Company will require alteration to reflect the increase in share capital.

The proposed alteration in memorandum and articles of association requires approval of members in general meeting. Hence the Board recommends the resolution to be passed.

None of the Directors of the Company are interested or concerned in the resolution.

By Order of the Board
HOV Services Limited

Place: Pune
Date: June 15, 2007

Bhuvanesh Sharma
Company Secretary



PROXY FORM

I/We _____
 of _____ being a member(s) of Hov Services Limited hereby appoint Mr./ Mrs./ Ms.
 _____ of _____

in the district of _____ or failing him / her Mr/Mrs./Ms. _____

of _____ in the district of _____ as my/our Proxy to attend and to vote for me/us on
 my/our behalf at the Nineteenth Annual General Meeting to be held on Saturday, the 21st day of July, 2007 at 10:30
 AM at Le Meridien, Raja Bahadur Mill Road Pune, Maharashtra 411001 and at any adjournment thereof.

Signed this _____ day of _____ 2007.

Folio No. : _____ No. of Shares held : _____

Client Id : _____ DP Id : _____

Signature _____

Affix
 15 paise
 revenue
 stamp

NOTES:

1. Proxy Form to be valid shall be duly signed, stamped and dated and shall be deposited at the Registered Office of the Company at least 48 hours before the of the Meeting.
2. The members who hold shares in dematerialized form shall quote their Client ID and DP Id.
3. A shareholder may vote either for or against each resolution.



ATTENDANCE SLIP

I hereby record my presence at the Nineteenth Annual General Meeting held on Saturday, the 21st day of July, 2007, 10:30 AM at Le Meridien, Raja Bahadur Mill Road, Pune, Maharashtra 411001

I certify that I am a registered member/ valid proxy of the registered member of the Company.

Folio No. : _____ No. of Shares held : _____

Client Id : _____ DP Id : _____

Name of Member / Proxy
 (in BLOCK letters)

Signature of Member / Proxy

Notes:

1. Please fill up this Attendance Slip and hand it over at the entrance of the meeting hall.
2. Members are requested to bring their copies of the Annual Report to the meeting.



HOV Services Limited

Registered Office :

HOV Services Limited,
3rd Floor, Sharda Arcade,
Pune Satara Road, Bibwewadi,
Pune - 411037

Day & Date : Saturday, July 21, 2007

Time : 10.30 A.M.

Venue : Le Meridien,

Raja Bahadur Mill Road,
Pune, Maharashtra 411 001

If undelivered, please return to :



Karvy Computershare Private Limited

Karvy Computershare Private Limited

(Unit : HOV Services Limited)

Plot No. 17 to 24, Vittalrao Nagar,
Madhapur, Hyderabad-500 081.

Tel No. (040) 23420815

Fax No. (040) 23420814

Email : mailmanager@karvy.com