



## **22<sup>nd</sup> Annual Report 2009-10**

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## Corporate Information

### Registered Office

3<sup>rd</sup> Floor, Sharda Arcade, Pune Satara Road, Bibwewadi,  
Pune-411 037 Tel: (91 20) - 24231623;  
Fax : (91 20) - 24221470

### Head Office

Dowlath Towers, 10<sup>th</sup> Floor, 59 Taylors Road, Kilpauk,  
Chennai-600 010; Tel : (91 44) - 42203000;  
Fax: (91 44)-42858528.

### Registrar & Share Transfer Agent

Karvy Computershare Pvt Ltd., 17-24, Vittal Rao  
Nagar, Madhapur, Hyderabad-500 081  
Tel: (91 40)-23420815; Fax: (91 40)-23420814

### 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

### Investor Relations, Media & Analyst Contact

Mr. Shekhar Singh Batham  
shekhar.batham@hovservices.com  
investor.relations@hovservices.com

### Company Secretary & Compliance Officer

Mr. Bhuvanesh Sharma  
investor.relations@hovservices.com

## The Board of Directors

Mr. Parvinder S Chadha	<b>Chairman &amp; Executive Director</b>
Mr. Surinder Rametra	<b>Executive Director</b>
Mr. Sunil Rajadhyaksha	<b>Executive Director</b>
Mr. B R Gupta	<b>Director</b>
Mr. Ajay Madan	<b>Director</b>
Mr. Harish Bhasin	<b>Director</b>
Mr. Prakash Shukla	<b>Director</b>

## The Executive Management

Mr. Suresh Yannamani	<b>President</b>
Mr. James Reynolds	<b>Chief Financial Officer &amp; CAO, Global</b>
Mr. Kenneth Shaw	<b>Executive Vice President HR, Global</b>

### **Mission, Vision and Values**

*"The mission of HOVS is to deliver significant, identifiable value and improve return-on investment for our customers by delivering business solutions"*

*"We are guided to our mission by our core values – at HOVS we meet our responsibilities with integrity; provide an equal opportunity and a work environment for our employees to excel together as one team delivering continuous improvements – our customers who are always first at HOVS"*

**- Mr. Parvinder S. Chadha, Chairman & Executive Director**

## Chairman's Message

Dear Shareholders,

"We fared well", I am glad to report, "during the last year as we continued to refine our focus and doing more of what we do best – so far it appears to be right and has served us well."

The credit belongs to our dedicated employees who shaped this strategy and helped transform the Company during this period from a niche player in a large growing market to a top provider of BPO, KPO solutions trusted as a valuable partner by customers and recognized by many prestigious outsourcing publications. Indeed, we have come a long way from our humble roots and have a long way to go to create value for our shareholders.



In late 2007, as the markets were beginning to go through dislocation, we examined all aspects of our business and focused on key factors important to our customers and our growth. We continued to refine key targets of our strategy, including reinforcing cost management, heavy investment in technology, process re-engineering, investments in our core services, shortening turnaround time and increase quality. Our strategic goal is to deliver far better value for our clients and create a competitive position for us.

We will continue to marshal our resources to invest in areas where we already have strategic advantage and exit out of areas where we cannot reasonably in foreseeable future benefit. Our key market is the US with future growth coming from Europe, India and China. US markets cooled off over the last 2 years with an unemployment rate around 10%. Our strategy to invest in defensive and or /regulated sectors, diversified client base with majority of the business coming from FORTUNE 100® has paid off well except in the accounts receivable collections business which declined substantially. We exited this service to improve equity value for our shareholders; this will also allow us to improve our management focus and consolidate our position and thus, allowing us to invest more in services where we are already positioned well and now can better leverage our strengths.

We believe IT Enabled Services industry is still in its infancy – it has a lot of potential for future growth. Our customers have outsourced a very small portion of the business that could be outsourced and this is the biggest opportunity for us.

Our industry also faces consolidation as it matures – scale does matter and clients are going to outsource more but to a fewer vendors. Another key area to support this phenomenon is longer decision cycle by our customers slowing down investments in their own core markets. This can potentially slow down the investments for innovation which in our opinion is key enabler for the BPO industry to continue to enjoy strong future growth. We address this potential slow down primarily by reducing the overall investment required by our customers by efficiencies of scale, performing some of the core functions and leveraging our end to end business solutions, seamlessly linking our hosted services platforms with our client's platforms.

Our challenge is to leverage our domain experience and success in current markets we serve into success in other rapidly growing markets where we have significant presence such as growing healthcare services market in India and China, two of the world's fastest growing economies. We strategically invested in India and China over the last decade to prepare for building a domestic business with our portfolio of services as and when these markets are ready.

We are refining our end-to-end services by moving up in the value chain by adding services such as knowledge services, business intelligence and emerging BPO services. While we are well positioned, the challenge is to stay focused in light of so many opportunities as these economies go through explosive growth, retain best talent, continue to innovate most of all improve outcome for our clients.

Our efforts and investments in technology has begun to pay off - our Profit after tax has improved from under 5% to over 10% in the last 2 years and our headcount has decreased from a high of 15,500 to approximately 8,900. We believe this healthy change in our value proposition will continue to bear fruit for the near term.

We aspire to "Exceed Expectations" by being a global leader in the BPO industry whose value is recognized by clients for outcome we deliver, by shareholders for the profits we generate, recognition of our employees by our stakeholders and we aspire to be the most admired Company by our stakeholders.

I thank you for your support and look forward to it in the coming years.

With regards,

Parvinder S Chadha  
Chairman & Executive Director

## Directors' Report

Your Directors are pleased to present the Company's Twenty- Second Annual Report on the Business and Operations of HOV Services Ltd (the "Company" or "HOVS") together with the Audited Statement of Accounts for the year end March 31, 2010.

HOVS is one of the largest end-to-end BPO companies, providing healthcare, finance and accounting, e-content management, document lifecycle, presentment, HR assist, and strategic consulting services across key verticals such as BFSI, Healthcare, Government, Telco, Publishing, Retail, Commercial and Industrial Manufacturing industries.

### FINANCIAL RESULTS AND OPERATIONS:

In the financial year 2009-10, your Company recorded consolidated revenue of Rs. 8,483.93 million and loss after tax was Rs. 758.40 million. The brief financial highlights with comparison of previous year are as below:

Particulars	For the year end March 31, Rs. In Million			
	Consolidated		Standalone	
	2010	2009	2010	2009
<b>INCOME</b>				
Income from Operation	8,483.93	8,970.72	74.91	43.77
Other Income	14.74	21.72	2.90	2.99
	<b>8,498.67</b>	<b>8,992.44</b>	<b>77.81</b>	<b>46.76</b>
<b>EXPENDITURE</b>				
Staff Cost	4,474.60	4,518.83	32.14	37.27
General and Administrative Expenses	4,133.09*	3,325.84	7.61	17.77
	<b>8,607.69</b>	<b>7,844.67</b>	<b>39.75</b>	<b>55.04</b>
<b>Profit / (Loss) before Interest, Depreciation, Tax &amp; Minority Interest</b>	<b>(109.02)</b>	<b>1,144.77</b>	<b>38.06</b>	<b>(8.28)</b>
Less: Interest	336.25	444.78	-	0.14
Less: Depreciation	252.17	236.53	3.51	3.78
<b>Profit / (Loss) before Tax &amp; Minority Interest</b>	<b>(697.44)</b>	<b>466.46</b>	<b>34.55</b>	<b>(12.20)</b>
Less: Provisions for taxes				
Current Tax	48.78	13.86	6.10	-
Deferred Tax	15.10	(15.85)	(0.78)	3.30
Fringe Benefit Tax	-	4.92	-	0.26
<b>Profit / (Loss) after Tax &amp; before Minority Interest</b>	<b>(761.32)</b>	<b>463.53</b>	<b>29.23</b>	<b>(15.75)</b>
Less: Minority Interest	(2.92)	(0.34)	-	-
<b>Profit / (Loss) after Tax &amp; Minority Interest</b>	<b>(758.40)</b>	<b>463.87</b>	<b>29.23</b>	<b>(15.75)</b>

\*Includes Exceptional items of Rs. 1327.64 Million.

## 1. RESULTS OF OPERATIONS:

### Performance on Consolidated basis:

- The consolidated total income decreased by 5.43 % in the current fiscal year, to Rs. 8,483.93 million from Rs. 8,970.72 million in the corresponding last fiscal year 2008-09.
- EBIDTA before exceptional item increased by 2.33% for the current FY to Rs.1,206.86 million from Rs. 1,176.44 million over the corresponding last fiscal year 2008-09.
- Net Profit decreased by 263.61% for the current FY to Rs. (758.40) million from Rs. 463.53 million over the corresponding last fiscal year 2008-09.
- The basic and diluted Earnings per share (EPS) before exceptional item are Rs. 45.57 for the current FY.

### Performance on Standalone basis:

- Total Income for the current FY increased 71.15% to Rs. 74.91 million from Rs 43.77 million for the corresponding last fiscal year 2008-09.
- EBITDA increased by 412.03% for the current FY to Rs 35.17 million from Rs (11.27) million over the corresponding last fiscal year 2008-09.
- Net Profit increased by 285.62% for the current FY to Rs 29.23 million from Rs (15.75) million over the corresponding last fiscal year 2008-09.
- The basic and diluted Earnings per share (EPS) before exceptional item are Rs. 2.34 for the current FY.

## 2. SIGNIFICANT DEVELOPMENTS:

### (a) Key Highlights during the year were:

- Employee headcount at 8,900+ associates.
- Added over US \$9.9 million in customer contracts in the fourth Fiscal Quarter 2009-10, and \$68.8 million for the Fiscal Year ended March 31, 2010.
- Top 100 clients represent over 79% of total revenues with the largest customer representing only 17% of total revenues.
- Developed and launched four new hosted services to expand our presence in Healthcare, e-learning and F&A services.
- The Company maintained strong liquidity position with DSO of 53 days, Debt to Equity Ratio of 1.4:1 and Net Bank Debt of US \$102.8 million at March 31, 2010, down \$16.3 million from March 31, 2009.

### (b) Key Accomplishment and Noteworthy Items:

International Association of Outsourcing Professionals (IAOP) ranked us:

- a. Best 20 Leaders by Industry Focus: Health Care;
- b. Best 10 Companies by Service Offered: Document Management;
- c. Best 10 Leaders by Service Offered: Financial Management;
- d. Best 20 Leaders by Region Served: India;
- e. Best 20 Leaders by Region Served: Canada;

**(c) Material Transaction by HOV Services, LLC**

During the Year 2009-10, the Company's Board of Directors approved the action of its wholly owned subsidiary, HOV Services, LLC to enter into a Material Transaction in order to focus on end-to-end high growth and margin services, improve operational efficiency and streamline the decision making process by selling certain assets: 100% interest in Bay Area Credit Services, LLC, 100% interest in HOV AR Management Services Private Limited and its 30 % minority interests in TRAC Holdings, LLC (TRAC) and SAM Holdings, LLC (SAM), to Rustic Canyon, LLC, an Associate, (which already has 70% ownership interest in TRAC & SAM) for \$12 million USD in cash (approximately Rs. 5,563 Lakhs). Details related to the impact of this transaction have been provided in the Management Discussion & Analysis section.

**(d) Buyback of Equity Shares:**

During the year under review, the Buy-back offer of the Company through an open market stock exchange route was successfully completed. The details of this are as follows:

**Structural details of the buyback program:**

<b>Date of Board Resolution for approval of Buy back</b>	January 13, 2009		
<b>Date of Public Notice cum Public Announcement</b>	January 13, 2009		
<b>Maximum Offer size</b>	10,00,000 Equity Shares		
<b>Minimum Offer size</b>	2,50,000 Equity Shares		
<b>Maximum Offer Price:</b>	Rs. 50/- Per Equity Share(Aggregate Amount Not more than Rs. 5.00 Crores).		
<b>Date of Opening of the Buy back:</b>	February 2, 2009		
<b>Duration of the Buy back:</b>	Up to January 12, 2010 (12 months from the date of Board resolution)		
<b>Execution method:</b>	Open Market Purchases through Stock Exchanges.		
<b>Sources from which buy back is financed:</b>	Share Capital And Free Reserves		
	<b>FY March 31, 2010</b>	<b>FY March 31, 2009</b>	<b>Total</b>
<b>Number of shares bought back:</b>	20,000	43,023	63,023
<b>Details of the shares bought back:</b>	20,000 Equity shares at average rate of Rs. 32.62 per share	43,023 Equity shares at average rate of Rs. 28.67 per share	63,023 Equity shares at average rate of Rs. 29.92 per share
<b>Buyback price and the aggregate amount paid on buyback:</b>	20,000 Equity shares at average rate of Rs. 32.62 per share; aggregating amount Rs. 6,52,400	43,023 Equity shares at average rate of Rs. 28.67 per share; aggregating amount Rs. 12,33,280	63,023 Equity shares at average rate of Rs. 29.92 per share; aggregating amount Rs. 18,85,680

Amount by which the share capital and free reserves including share premium are reduced on account of buyback of the shares:	Total share capital and free reserves including share premium are reduced by Rs. 2,00,000 and Rs. 4,55,360 respectively	Total share capital and free reserves including share premium are reduced by Rs. 4,30,230 and Rs. 8,09,568 respectively	Total share capital and free reserves including share premium are reduced by Rs. 6,30,230 and Rs. 12,64,928 respectively
Cancelled shares:	20,000	43,023	63,023
Amount transferred to Capital Redemption Reserve Account	Rs. 2,00,000	Rs. 4,30,230	Rs. 6,30,230

**(e) Appropriations:****(i) Dividend:**

Your Board of Directors at the meeting held on May 24, 2010 recommended a final dividend of Rs. 2/- per fully paid up equity share of Rs. 10/- each for the financial year 2009-10.

Earlier, your Board of Directors in their meeting held on January 28, 2010 had declared an interim Dividend of Rs. 2/- per share of Rs. 10/- each for the year ended March 31, 2010 and it was paid to the shareholders on February 18, 2010.

For the financial year 2009-10 the Company does not have any unpaid dividend meant to be transferred to the Investor Education Protection Fund under Section 205C of the Companies Act, 1956.

**(ii) Transfer to Reserve:**

- a. Your Company proposes to transfer Rs 29,23,466/- to the general reserve.
- b. Pursuant to the section 77 AA of the Companies Act, 1956 a sum equal to nominal value of the shares bought back is required to transfer to Capital Redemption Reserve account. The Company as of February 12, 2010, up to the closure of its Buy-back offer had bought back 20,000 equity shares. Therefore an amount of Rs 2,00,000/- is transferred to Capital Redemption Reserve Account during the year under review.

**3. 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 Company is not energy intensive. The Company conducted energy audit in some of the units and has implemented recommendations such as keeping a spare stock of energy efficient compact fluorescent lamps (CFL) instead of conventional incandescent light bulbs, changing or cleaning the filters on air conditioners in the beginning of summer and increasing temperature settings from 21°C to 24°C on thermostats in a phased manner. This has resulted in reduction of energy consumption during this financial year.

**Research and Development:** The Company has not undertaken any R&D activity in any specific area during the year under review, and hence no cost has been incurred towards the same. However, the Company believes technology is strategic to its growth and has invested heavily

in hosted platforms, automation, capture, presentation and analytics. The Company has development teams in US, India and Mexico implementing this vision.

**Technology Absorption, Adaptation and Innovation:** The Company has been focused on providing state-of-the-art end-to-end BPO services to Clients. In carrying out this mission, HOVS has invested heavily in technology innovation, while leveraging its global footprint that is no longer confined by traditional borders through the use of a globally stable and secure network infrastructure that conforms to the highest 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; a significant number of our team member have gone through Six Sigma training and are certified at higher levels of competency. The Company is constantly developing and adopting modern technologies and standards to grow its competitive advantage, to better serve its clients, retain employees and improve productivity and performance.

**Foreign Exchange Earnings and Outgo:** Almost the entire earnings of the Company are from the export of services since the Company has no domestic business. The foreign exchange earnings and outgo is contained in the Note number 17(b) of schedule 14B to the Accounts of the Annual Report.

#### **4. Particulars of Employees:**

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the Directors' report for the year ended March 31, 2010 is set out in the Annexure I to the Director's Report.

#### **5. Human Resources:**

During the year the Company has taken utmost care of its employees deployed in wide-ranging cultures across the globe. The Company has well defined Human Resource Policies, excellent training facilities and a well established, healthy working environment. The Company organizes regular health checkups through recognized medical centers and the relationship of HOVS with its employees remains cordial throughout the year.

#### **6. 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 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.

## **7. 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.

## **8. 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.

## **9. 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.

## **10. Auditors**

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

## **11. Directors**

During the year under review Mr. Prakash Shukla was inducted as an Additional Director w.e.f. October 26, 2009 and holds office up to the date of ensuing Annual General Meeting. His appointment requires the approval of members at the ensuing Annual General Meeting.

The Company has received a notice in writing from a member pursuant to Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Prakash Shukla for the office of Director, liable to retire by rotation.

Brief resume of the Director proposed to be appointed, as stipulated in Clause 49 of the Listing agreement with the stock exchanges is provided in section of Notice of the Annual General Meeting.

## **12. Subsidiary companies and consolidation of Accounts**

As per Section 212 of the Companies Act, 1956, the Company is required to attach the director's report, balance sheet, and profit and loss account of the subsidiary companies. The application was made to the Central Government of India for an exemption from such attachment as the Company presents the audited consolidated financial statements in the Annual Report. The Government of India has granted exemption to the Company from complying with section 212 for all the subsidiary companies vide its approval letter dated February 5, 2010. Pursuant to the conditions of Government of India approval the statement thereto is annexed to the Annual Report.

Accordingly, the Annual Report does not contain the financial statements of the subsidiary companies. We will make available the audited annual accounts and related information of

subsidiary companies, where applicable, upon request by any of our investors. These documents will also be available for inspection during business hours at our registered office.

### 13. Employee Stock Option Plan (ESOP)

The Company has instituted "HOVS Stock Option Plan 2007" and "HOVS Stock Option Plan 2008" for its employees and for employee's of its subsidiary companies as detailed below:

Plan	Shareholder's Approval Date	No. of Options for employees of the Company	No. of Options for employees of subsidiary companies	Total
"HOVS Stock Option Plan 2007"	July 21, 2007	400,000	700,000	1,100,000
"HOVS Stock Option Plan 2008"	September 30, 2008	0	750,000	750,000

Options were issued to employees at an exercise price not less than closing price of the stock exchange where there is highest trading volume, prior to the date of meeting of the Compensation & Remuneration Committee in which options are granted. The options will vest in a phased manner within five years as 10% in each first to four years and balance 60% at the end of fifth year.

No options have been granted under **Plan 2008**.

i) The details of grant made and lapsed under **Plan 2007** are as below:

	Plan 2007		
	Employees of the Company	Employees of the subsidiary Companies	Total
<b>Options Granted</b>			
Grant in 2007	141,500	526,000	667,500
Grant in 2008	28,150	217,900	246,050
<b>Total Grant</b>	<b>169,650</b>	<b>743,900</b>	<b>913,550</b>
<b>Options Lapsed as of April 2010</b>	<b>6,650</b>	<b>138,950</b>	<b>145,600</b>
<b>Options in force</b>	<b>163,000</b>	<b>604,950</b>	<b>767,950</b>
<b>Balance options available</b>	<b>237,000</b>	<b>95,050</b>	<b>332,050</b>

ii) Information of grant made to directors and employees:

Options granted date	Directors (A)	Other than Directors (B)	Total (A+B)
July 21, 2007	7,500	640,000	647,500
October 25, 2007	0	20,000	20,000
July 30, 2008	7,500	183,550	191,050
October 08, 2008	0	55,000	55,000
<b>Total Granted</b>	<b>15,000</b>	<b>898,550</b>	<b>913,550</b>
<b>Options lapsed</b>	<b>5000</b>	<b>140,600</b>	<b>145,600</b>
<b>Options outstanding</b>	<b>10,000</b>	<b>757,950</b>	<b>767,950</b>

iii) The details of options granted under the two plans are given in the table.

**As of March 31, 2010**

	Plan 2007	Plan 2008
a. Options Granted:	9,13,550	Nil
b. The Pricing formula:	Closing price of the stock exchange where there is highest trading volume, prior to the date of the meeting of the Compensation & Remuneration Committee in which options are granted.	Nil
c. Options Vested:	Nil	Nil
d. Options Exercised:	Nil	Nil
e. Total number of shares arising as a result of exercise of options:	9,13,550	Nil
f. Optioned lapse:	1,45,600	Nil
g. Variation of terms of option:	NA	NA
h. Money realized by exercise of options:	NA	NA
i. Total number of options in force:	7,67,950	Nil
j. Employee wise details of Options granted to:		Nil
i. Senior Management personnel:	7,67,950	Nil
ii. Employee receiving 5% or more of the total number of options granted during the year:	Nil	Nil
iii. Employee granted 1% or more of the issued capital:	Nil	Nil
k. Diluted EPS on issue of shares on exercise calculated in accordance with AS 20.	NA	NA

#### 14. Acknowledgement

Your Directors express their appreciation for assistance and co-operation received from employees, shareholders, customers, suppliers, bankers and government authorities for their continued support to the Company during the year.

**For and on behalf of the Board of Directors**

Place: Chennai  
Date : May 24, 2010

**Parvinder S Chadha**  
Chairman & Executive Director

## Annexure I to the Director's Report

## Information in term of the provisions of Section 217(2A) of the Companies Act, 1956

Name	Title/Role	Qualifications	Age	Experience (Years)	Joining date	Gross Remuneration (Rs)	Previous Employment and Designation
Parvinder S Chadha	Chairman & Executive Director	B.S. Electrical Engineering & Graduate-Level coursework in computer science at the Illinois Institute of Technology.	55	34	April 1, 2006	24,00,000/-	Osicom Technologies Inc.US, Chairman & CEO
Surinder Rametra	Executive Director	B.E. Mechanical Engineering, Master's degree in Industrial Engineering from the Indian Institute of Technology, India and an MBA in Finance from New York University.	70	46	April 1, 2006	24,00,000/-	A TEC Group Inc., NY, US, Chairman & CEO
Sunil Rajadhyaksha	Executive Director	B.S. Telecommunications & Electronics and M.S. degree in Electrical Engineering from Illinois Institute of Technology.	57	34	April 1, 2006	24,00,000/-	Meret Optical Communications, President & COO

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview:

The IT- Enabled Services (ITES) industry is still in its infancy – with substantial potential for future growth. Our clients have outsourced a very small portion of the business that could be outsourced and this is the biggest opportunity for the Company. Our strategic vision is to leverage Company's domain expertise and success in current markets which it serves to the other rapidly growing markets where it has significant presence such as the growing healthcare and telecom services market in India and China, the two of the world's fastest growing economies.

It is believed that clients are going to outsource more but to fewer vendors. This consolidation is inevitable in the industry as scale does matter for BPO companies. Clients who want to outsource the entire process will favor based on industries – pay per use or pay per member models. The obvious examples are healthcare in the emerging markets or the rapidly growing telecom market in India and China, where core assets and functions are being outsourced. As scale begins to play a bigger role, smaller companies are going to look for safety in higher end offerings such as KPO, business intelligence and emerging BPO services. The larger companies will either have to acquire these services or build their own platforms to serve their clients better.

The BPO industry similar to the ITES industry will most likely develop/grow domestic footprints in the markets affected by the global slowdown by building a robust local business and delivery model in order to counter the concern related to recession or government policies.

### Current Scenario:

As per NASSCOM press release dated Feb 04, 2010:

- IT-BPO industry domestic market is expected to witness 12% growth in FY 09-10; to reach Rs.662 billion.
- Indian IT-BPO industry continues to dominate the global market place with 51 percent market share.
- Indian IT-BPO industry exports grew by 5.5% to USD 49.7 billion by FY 2010.
- The sector accounted for over 10 percent of total FDI investment in the last decade.

The BPO market is and has been in a steady state of growth for the past ten years. As per NASSCOM STRATEGIC REVIEW 2010 IT-BPO industry is estimated to aggregate revenues of USD 73.1 billion in FY2010, with the IT software and services industry accounting for USD 63.7 billion of revenues. The BPO industry remains as the fastest growing segment of the IT services sector, growing annually at 6% and is estimated to reach USD 12.4 billion in 2010.

As a proportion of national GDP, the sector revenues have grown from 1.2 percent in FY1998 to an estimated 6.1 percent in FY2010. Its share of total Indian exports (merchandise plus services) increased from less than 4 percent in FY1998 to almost 26 percent in FY2010.

- **Geographic focus:** The year was characterized by a strong revival in the US, which increased its market share to 61 percent. Emerging markets of Asia Pacific also contributed significantly to overall growth.

- **Vertical markets:** The industry's vertical market mix is well balanced across several mature and emerging sectors. The year 2009 witnessed increased adoption of outsourcing from our biggest segment the Banking, Financial Services and Insurance (BFSI), and Telemarketing to new emerging verticals of retail, healthcare and utilities.

**Domestic market:** Domestic IT-BPO revenues are growing at almost 8.5 percent to reach INR 1,088 billion in FY2010. Rise of Indian corporations facing competitive market conditions through an increasingly globalised Indian market, increased spend by the government in several e-Governance initiatives, enhanced connectivity and increased levels of IT spending are key factors, which make the domestic market lucrative today. The growth is also fueled by large deals in the telecom and BFSI space.

**Outlook:** The Indian IT is on the growth trajectory lead by IT-BPO industry. As per Nasscom, Indian IT-BPO industry continues to dominate the global market place with 51 percent market share and APAC is the fastest growing geography with an estimated growth of 10%.

## COMPANY SUMMARY

HOV Services Limited (the "Company" or "HOVS"), one of the largest end-to-end BPO Company headquartered in Chennai, India provides healthcare, finance and accounting, e-content, document management and business intelligence services across key industries such as BFSI, Healthcare, Government, Telecom, Publishing, Retail, Commercial and Industrial Manufacturing. HOVS' RightShore delivery centers are strategically located in India, North America, China and Mexico with over (8900+) associates with over 36 delivery centers servicing over 50% of the FORTUNE 100® and some of the other largest companies in the industries served.

Healthcare Claims Processing	<ul style="list-style-type: none"> <li>▪ Process ~ <b>100 million</b> healthcare claims annually - COB, EOB, Medicare and Super Bills</li> <li>▪ Domain expertise include Medical, Dental, Vision, Behavioral &amp; Rx claims</li> </ul>
Enrollments	<ul style="list-style-type: none"> <li>▪ Process ~ <b>2.1 million</b> Member Enrollment Transactions annually</li> <li>▪ Large / Small Group (Add, Term, Change, COBRA) on Image and EDI</li> </ul>
Print & Mail	<ul style="list-style-type: none"> <li>▪ Print and Mail ~ <b>8 million</b> documents per month as part of end-to-end processes</li> <li>▪ Healthcare accounts for ~ <b>30 million</b> annually</li> <li>▪ Customized member welcome packet : Certificate of coverage</li> </ul>
E Presentment	<ul style="list-style-type: none"> <li>▪ Electronically present ~ <b>1.8 million</b> annually pages of EOB / EOP</li> <li>▪ Manage electronic Re-Pricing transactions</li> </ul>
CRM and Support	<ul style="list-style-type: none"> <li>▪ ~ <b>6 million</b> annually CRM transactions</li> <li>▪ Service Desk, supporting, Email, Chat &amp; Voice</li> </ul>
Adjudication & Adjustments	<ul style="list-style-type: none"> <li>▪ Process over <b>8.0 million</b> claims annually with <b>\$36 million</b> paid / denied</li> <li>▪ Support Managed Care/ Indemnity &amp; Self Funded groups</li> </ul>
Claims Pre-Processing	<ul style="list-style-type: none"> <li>▪ Front End edits ~ <b>1.8 million</b> claims annually</li> <li>▪ Code/ error resolution - Proactive claim resolution</li> <li>▪ Automated FE Edits by Komodo FCB™ ready for deployment 2010</li> </ul>

Paper Claim Gateway	<ul style="list-style-type: none"> <li>▪ PCH™ end-to-end platform linking providers and payers for paper to paperless claims launched in 2010</li> </ul>
Finance and Accounting	<ul style="list-style-type: none"> <li>▪ Process ~ <b>6 million</b> transactions per month including POD's, Invoices, Pay Stubs, approvals and remittances</li> <li>▪ Servicing ~ <b>3.5 million</b> Accounts Receivable transactions per month for Healthcare and retail industry</li> </ul>
Econtent	<ul style="list-style-type: none"> <li>▪ Enable ~ <b>600 million</b> characters per month for most of the major publishing companies into smart data</li> <li>▪ E-learning platform for internal processes in deployment and scheduled for customer deployment in 2010</li> </ul>
HR Assist™	<ul style="list-style-type: none"> <li>▪ Process ~ <b>5,000</b> employee verification transactions through hosted Screen 360 services for customers and internally</li> <li>▪ HR Assist is being deployed across all HOVS sites in 2010</li> <li>▪ Online Training is deployed across 2 major services – Healthcare and ARM</li> </ul>
Document Life Cycle	<ul style="list-style-type: none"> <li>▪ Scan, Index, archive and convert into data to apply business rules as needed ~ <b>100 million</b> pages per month</li> </ul>
DOC DNA™	<ul style="list-style-type: none"> <li>▪ Ingests ~ <b>50 million</b> images per month with over <b>2.5 billion</b> images online</li> <li>▪ 50,000 ~ registered users with 700+ customer applications</li> </ul>
Analytics & Business Intelligence	<ul style="list-style-type: none"> <li>▪ Duplicate claim reduction</li> <li>▪ Member / Provider eligibility matching and COB calculations</li> <li>▪ Dispute Resolution</li> <li>▪ Fraud detection</li> <li>▪ Business Analytics</li> </ul>

As a leader in the Global KPO space, HOVS develops fully integrated solutions that combine best-of-breed technology, leading-edge infrastructure and domain expertise to give customers the most streamlined process. HOVS applies LEAN Six Sigma technique to improve quality, reduce cost and improve cycle time of its customer's business processes.

The Company offers a diverse range of services including healthcare payer/provider services, strategic consulting and construction services, employment verification services, finance and accounting services, content transformation and document lifecycle solutions.

Below is a highlight of some of the key services offered:

***Our Strategy and Key Differentiators:***

HOVS strategy weaves many items to help us differentiate and position the Company for success and a sample of some of key differentiators are:

- (1) Innovation – continuous enhancement of delivery of services by combining domain expertise and technology;
- (2) Business model by service type to create win-win partnership between HOVS clients and the Company. For example, pay per member or by outcome based;
- (3) Hosted services combined with delivery from right shore locations;
- (4) The best customer experience from initial engagement to deployment;
- (5) Continuous improvements and delivering highest end-to-end process quality; and
- (6) Better overall cost of ownership.

**Value Creation**

HOVS mission is to create value that benefits Customers, Employees and Shareholders

Key Stakeholder	Deliverable	Value Creation
CUSTOMERS	<ul style="list-style-type: none"> <li>❖ Provides quality products and services</li> <li>❖ Delivered reliably and cost effectively</li> </ul>	<ul style="list-style-type: none"> <li>❖ Enhances their ability to operate business</li> </ul>
EMPLOYEES	<ul style="list-style-type: none"> <li>❖ Conduct business ethically</li> <li>❖ Equal opportunities and career enhancement</li> <li>❖ Rewards for competence</li> <li>❖ Performance and dedication to our customers</li> <li>❖ Personal growth</li> <li>❖ Innovation</li> </ul>	<ul style="list-style-type: none"> <li>❖ Innovation</li> <li>❖ Higher retention rate</li> <li>❖ Infusion of high caliber individuals</li> </ul>
SHAREHOLDERS	<ul style="list-style-type: none"> <li>❖ Prudent investment</li> <li>❖ Professional business management</li> <li>❖ Strategy and execution honed by experience</li> </ul>	<ul style="list-style-type: none"> <li>❖ Higher shareholders value</li> <li>❖ Better returns on investment</li> </ul>



*"We aspire to **"Exceed Expectation"** through our innovative solutions, superior customer service and competitive desire to be the best BPO provider to our customers and their industry"*

**- Mr. Suresh Yannamani, President**

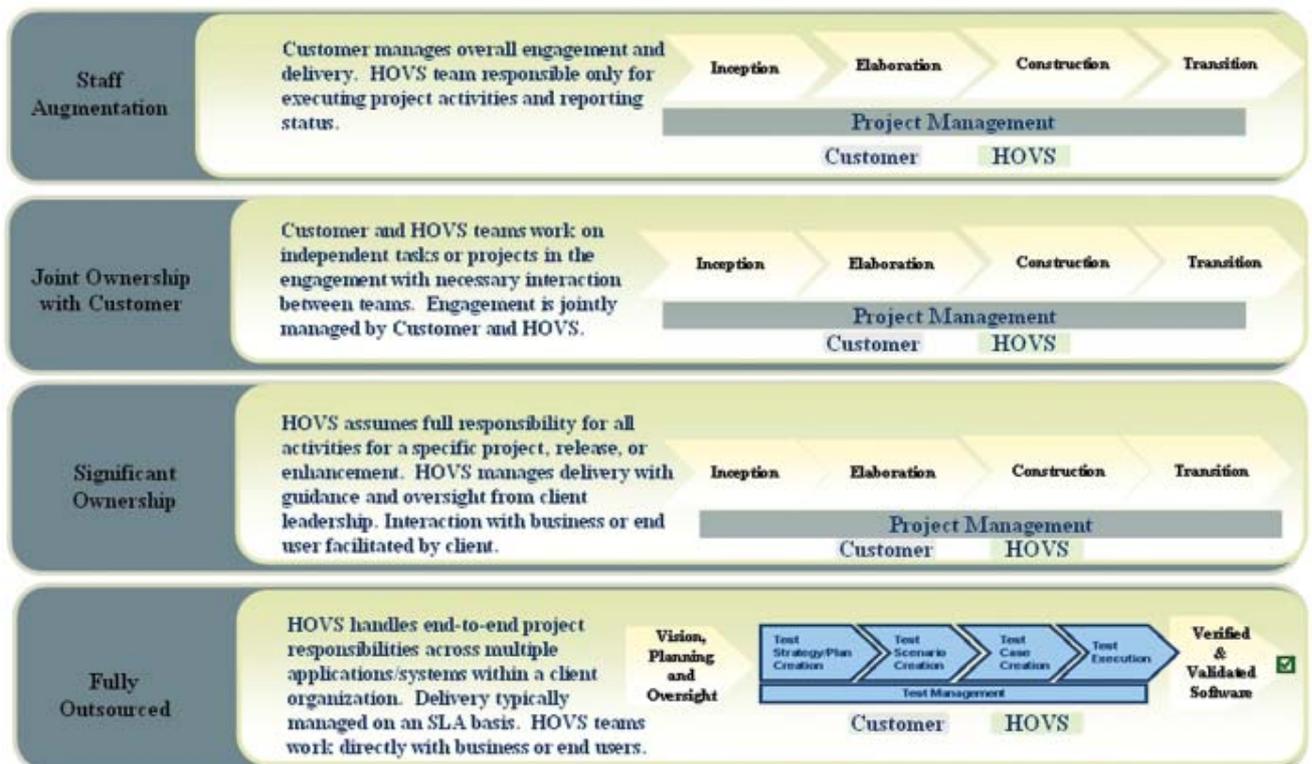
### Product and Service delivery Architecture

HOVS provides complete end to end technology based solutions to enhance and integrate its process with the existing setup prevailing at client's place. HOVS combines various best-of-breed technology, leading-edge infrastructure and domain expertise to give its clients the most streamlined process available benefiting clients to reduce cycle time and operation cost.



## Delivery Model

HOVS endeavor to deliver services to clients in the most efficient manner and customized the engagement based on the specific needs. HOVS recommended approach is geared towards delivering significant ROI with functions fully outsourced. An example of various delivery models below highlights various steps involved and responsibility of the parties.



### Technology Innovations

- Technology deployment is strategic to growth and the Company has invested heavily in automation, capture, presentation and analytics to grow its competitive advantages, better serve its clients, retain employees and improve productivity and performance.
- Effective use of technology to improve operations efficiency will continue to lead to better, faster, and cheaper solutions for clients.
- The Company is leveraging its global footprint to take advantage of shrinking distances and blur traditional borders bypassed by global, stable, secure network infrastructure all while conforming to international standards including ISO, HIPAA , HITECH, PCI and SAS70.

#### **HOVS new technologies developed in last 2 years to enable:**

- Optical character recognition technologies platforms - ACE, TurboScan, O-Coding
- Data Capture Platforms - Firefly Platform for Healthcare and F&A.
- Enhanced Services in healthcare - Provider Management Portal for converting paper claims to EDI claims, PCH™ paper to paperless claims platform.
- Komodo business rule engines deployed to enable HOVS rules and Customer Rules for very rapid deployment by customer by project
- HMS - productivity and quality tracking by employee worldwide, utilization of assets, management of assets, employee communications, secure portal for company and employees. HMS has been rolled out across all sites US, India and China where healthcare is processed.
- HR Assistance - onboarding, background checks, learning management, employee portal, HR record management and online induction platform.



#### **HOVS' new technology platform has been developed to address the following issues:**

- To make the Company less dependent on offshore and address US business that cannot be sent offshore, HOVS undertook development of new workflow, business rule engines, and redesigned processes to launch enhanced services in Healthcare and A/P with work underway for additional verticals.
- Faster deployment of new business.
- Faster and better change management making the Company more responsive.
- Improve productivity to reverse the increasing headcount and utilization.

## Human Resources

HOVS employee remunerations, rewards and recognition policies are directly linked to performance, incentivizing productivity and efficiency throughout. All exceptional services are duly recognized and awarded through an employee recognition and awareness program. Adequate training is provided both in-house and using external faculties and facilities at all levels. Management staffs are also considered for relevant training by sponsoring to various seminars, lectures, communication and other soft skill development programs, stress busting programs etc. Facilities solicit and display employee artwork and employees at all levels are exposed to the benefits of Yoga which is available thro' a trained Yoga consultant. There is also an in-house e-magazine to bring out important happenings and to encourage in-house talents.

An employee communication portal pushes for regular corporate and management communication. Once a month all employees are addressed by Senior Management and apprised of the developments taking place during that period. The Company follows open policy to redress the grievances if any.

Career Progress has been drawn up for all levels and there is clarity of growth opportunities within the Company. Employees are encouraged to refer their friends for any positions to be filled in and also paid adequately if such referred persons are appointed. The employee relations with the Company are cordial at all locations and the Management is actively involved in making sure the Company meets the law of the land and set the high standards for all to achieve.



***"We aspire to "Exceed Expectation" by being the employer of choice in each of our facilities, by attracting and keeping highly skilled individuals who work as a team to generate profitable results."***

***-Mr. Kenneth L Shaw, Executive Vice President Human Resources.***

### Internal Controls

- HOVS has a well defined internal control systems and well documented procedures. There are adequate checks and balances at all levels. The mandate goes beyond financial transactions to even review all other functions of various departments, viz Purchase, Sales and Marketing, Operations, Payroll, HR and may others.
- The Internal Audit is both outsourced to professional firms and team of internal auditors who reviews all the policies, procedures and also audits most of the transactions.
- The reports submitted every quarter is reviewed by the Management and Board of Directors and if needed corrective actions are taken.
- Additionally, pursuant to the Clause 49, the Corporate Governance of the listing agreement with stock exchanges, the Company is required to comply with additional standards. These standards include a certification by Company's Chief Executive Officer and Chief Financial Officer upon the effectiveness and deficiencies of internal controls and the certificate is placed before the Audit Committee meeting every quarter.

### Threats & Risk

- HOVS challenge is to leverage its domain experience and success in current markets it serve, to other rapidly growing markets where HOVS have significant presence such as growing healthcare services market in India and China, two of the world's fastest growing economies.
- The appreciation of the Indian Rupee against the US Dollar can affect margins.
- Competition from global companies setting shops in India, China and Mexico as well as domestic BPO companies pose threat by price and margin erosion.
- Competition from other developing Countries is also a threat. However, HOVS' root in technology and adherence to existing and emerging standards, delivering the highest quality, global delivery platform enable HOVS to compete well against some deeply entrenched companies.
- The rising inflation and salaries along with high attrition among associates is a threat. This is planned to be offset with increased productivity and increased use of technology to reduce the dependence on manpower.

### Impact of Financial Performances

#### i) Impact of Material transaction:

The Company's wholly owned subsidiary, HOV Services, LLC sold certain assets: 100% interest in Bay Area Credit Services, LLC, 100% interest in HOV AR Management Services Private Limited, and its 30 % minority interests in TRAC Holdings, LLC and SAM Holdings, LLC for \$12 million USD in cash (approximately Rs. 56 Cr), which resulted in an exceptional loss of 132.8 Cr.

Below are the proforma results for the year ended March 31, 2010 and the Fourth Quarter and year to date excluding the ARM business for the related period:

Particulars <i>Rs In Million's</i>	Year ended March 31,	Year ended March 31,	% Change	Quarter ended March 31,	Quarter ended December 31,	% Change
	2009-10	2008-09		2009-10	2009-10	
	EXCLUDING ARM	EXCLUDING ARM		EXCLUDING ARM	EXCLUDING ARM	
TOTAL INCOME	7,353.04	7,288.57	0.9%	1,843.52	1,815.20	1.6%
EBITDA	1,349.26	1,193.08	13.1%	342.41	329.70	3.9%
EBITDA %	18.3%	16.4%		18.6%	18.2%	
PAT	762.29	641.44	18.8%	197.50	191.50	3.1%
PAT %	10.4%	8.8%		10.7%	10.5%	
Excluding ARM Impact Basic and Diluted EPS	61.02	51.27		15.81	15.31	

**Consolidated Financial Proforma Performance for the Fiscal Year ended March 31, 2010, excluding the Material Transaction**

- Consolidated total Income for the FY2010 increased by 0.9% to Rs 7,353.0 million from Rs 7,288.6 million for the fiscal year 2008-09.
- EBITDA increased by 13.1% for the FY2010 to Rs 1,349.3 million from Rs 1,193.1 million over the last fiscal year 2008-09 and EBITDA margins increased from 16.4% to 18.3%.
- Net Profit increased by 18.8% for the FY2010 to Rs 762.3 million from Rs 641.4 million over the fiscal year 2008-09.
- Basic and diluted Earnings per Share (EPS) are Rs 61.02 for the fiscal year.
- Pro forma diluted EPS is Rs 33.19 after giving effect to all shares that would be issued.

**Consolidated Financial Proforma Performance for the Fourth Quarter ended March 31, 2010, excluding the Material Transaction**

- Total Income for the fourth quarter increased 1.6% to Rs 1,843.5 million from Rs 1,815.0 million over the third quarter FY2010.
- EBITDA increased by 3.9% for the fourth quarter to Rs 342.4 million from Rs 329.7 million over the third quarter FY 2009-10 and EBITDA margins increased from 18.2% to 18.6%.
- Net Profit increased by 3.1% to Rs.197.5 million from Rs. 191.57 million over the third quarter FY 2009-10.
- The basic and diluted EPS for this three month period is Rs 15.81 per share.

**ii) Impact of Dividend declaration:**

The Board of Directors had declared an interim Dividend of Rs. 2/- per share of Rs. 10/- each for the year ended March 31, 2010 and was paid to the shareholders on February 18, 2010.

Keeping in view the long term interest of the shareholders, the Board of Directors at the meeting held on May 24, 2010 recommended a final dividend of Rs.2/- per fully paid up equity share of Rs. 10/- each for the financial year 2009-10. This commend yours' approval for declaration.



*"Your Company's financial performance in the current fiscal and restructuring of its subsidiary instigated during the year testify versatility of our business model that is pedestal on aspiring to **"Exceed Expectation"** for its clients, shareholders and employees."*

**Mr. James Reynolds, Global Chief Financial Officer**

## ANNEXURE TO THE DIRECTORS' REPORT

### REPORT ON CORPORATE GOVERNANCE

(Pursuant to the Clause 49 of the Listing Agreement with Stock Exchanges)

#### 1. HOVS Philosophy of Corporate Governance

The objective of Corporate Governance is to achieve excellence in business thereby increasing shareholders' worth in the long term which can be achieved keeping the interest of shareholders' and comply with all rules, regulations and laws. The Board of Directors and Senior Management of your Company observed the following;

- Carry out their duties in an honest and businesslike manner and within the scope of their authority;
- Responsible for the oversight of the assets and business affairs in an honest, fair, diligent and ethical manner;
- Make and enact informed decisions and policies in the best interests of the Company; and
- Adhere to the standards of care, loyalty, good faith and the avoidance of conflicts of interest that follow.

#### 2. Board of Directors

The Board of Directors along with its committees provides direction and vision for the function of the Company. The Board functions either as a full Board or through various committees constituted to oversee specific operational areas. The Board is entrusted with the task of managing the Company directly or through delegation of authority to executive management which provides the Board detailed reports on its performance periodically. The Board of Directors consists of eminent professionals with considerable professional expertise and experience in business and industry.

##### (a) Size and Composition of Board of Directors

The Board has an optimum combination of executive and non executive Directors and presently more than fifty percent of the Board comprises of independent Directors. The Board comprises of seven Directors, consisting of three executive and four non executive directors. All four non executive directors are Independent Directors. The Chairman of the Company is an Executive Director.

##### (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.

The Non Executive Directors have been granted stock options under Employee Stock Option Plan 2007 of the Company. The stock options were issued at latest available closing price of the stock exchange where there is highest trading volume, prior to the date of the meeting of the Compensation & Remuneration Committee in which options are granted.

Details of Stock Options Granted to Non Executive Directors:

Sr. No.	Name of Director	Stock Options
1	Mr. Ajay Madan	5,000
2	Mr. B R Gupta	5,000

**(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. None of the directors is having any relation with other directors of the Board.

The composition of Board, attendance at Board meeting during the year under review, number of Directorship, membership and their shareholding in the Company is given below;

Composition of Board of Directors:

Name of Director	Category	Board Meetings		Attended Last AGM	Other Directorships/Board Committees (Number)		
		Held	Attended		Directorship	Committee Membership	Committee Chairmanship
Mr. Surinder Rametra	Promoter Executive	5	4	Yes	-	-	-
Mr. Parvinder S Chadha	Promoter Executive	5	4	Yes	-	-	-
Mr. Sunil Rajadhyaksha	Promoter Executive	5	3	Yes	3	-	-
Mr. Ajay Madan	Non-Executive Independent	5	4	Yes	-	-	-
Mr. B R Gupta	Non-Executive Independent	5	5	Yes	4	1	3
Mr. Harish Bhasin	Non-Executive Independent	5	5	Yes	2	-	-
Mr. Prakash Shukla*	Non-Executive Independent	5	1	No	3	-	-

\*Appointed as an additional director w.e.f October 26, 2009

The details of Board Meetings held during the financial year 2009-2010 are as under;

Sr. No.	Date of Board Meetings	Board Strength	No. of Directors Present
1	June 4, 2009	6	6
2	July 28, 2009	6	5
3	October 26, 2009	6	5
4	December 12, 2009	7	3
5	January 28, 2010	7	7

## Details of Remuneration of all the Directors

Sr. No.	Name of Director	Salary & PerquisitesRs.	Bonus/Commission	Sitting FeesRs.	Stock Options
1	Mr. Surinder Rametra	24,00,000	Nil	Nil	Nil
2	Mr. Parvinder S Chadha	24,00,000	Nil	Nil	Nil
3	Mr. Sunil Rajadhyaksha	24,00,000	Nil	Nil	Nil
4	Mr. Ajay Madan	Nil	Nil	1,50,000	5,000
5	Mr. B R Gupta	Nil	Nil	1,50,000	5,000
6	Mr. Harish Bhasin	Nil	Nil	1,50,000	Nil
7	Mr. Prakash Shukla	Nil	Nil	20,000	Nil

- Notes: 1) The Company has not entered into any pecuniary relationship or transaction with the Non-Executive Directors.
- 2) The Company had received the Central Government approval vide its letter dated November 2, 2007 for the payment of remuneration of Rupees. 4,00,000/- (inclusive of all) per month to each of the whole-time Directors.

### 3. Audit Committee

The Company has set-up an Audit Committee pursuant to requirements of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement. 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.

Majority of the Members of the Audit Committee, including the Chairman of the Committee have accounting and financial management expertise. Mr. B R Gupta, who was the Chairman of the Audit Committee at the time of previous Annual General Meeting, was present at the Annual General Meeting of the Company held on July 25, 2009. Mr. B R Gupta has expertise of 43 years in insurance and financial markets.

The Chairman of the Company, Statutory Auditors, and Chief Financial Officer attend the meetings of the Audit Committee as invitees. Mr. Bhuvanesh Sharma, Company Secretary & Compliance Officer 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. Harish Bhasin	Member (Independent Director)
Mr. Surinder Rametra	Member (Executive Director)

The details of Audit Committee Meetings held during the financial year 2009-2010 are as under:

Sr. No.	Date of Committee Meetings	Committee Strength	No. of Members Present
1	June 4, 2009	4	4
2	July 28, 2009	4	4
3	October 26, 2009	4	4
4	January 28, 2010	4	4

#### 4. Compensation & Remuneration Committee

The Company has set-up a Compensation & Remuneration Committee, pursuant to the requirements of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) and as per Clause 49 of Listing Agreement (s) with the Stock Exchanges.

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

The brief terms of objective of the Committee are as under:

- Make recommendation for the appointment on the Board.
- Frame Companies policies on human resource with the approval of the Board.
- Recommend compensation payable to the executive directors.
- Review of HR Policies/initiatives & senior level appointments.
- Administer and supervise Employees Stock Option Schemes.

The Committee meets as and when required and the details of its Meetings held during the financial year 2009-10 are as under:

Sr. No.	Date of Committee Meetings	Committee Strength	No. of Members Present
1	July 28, 2009	3	3

#### 5. Investor Grievances Committee

The Company has set-up an 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.

The Investor Grievances Committee had authorized Mr. R. Vijayakumar, Chief Financial Officer, India and Mr. Bhuvanesh Sharma, Company Secretary & Compliance Officer to overview the task of investor's servicing and redress their grievances by having fortnightly review calls to take care of requirements related to shareholders quarries, re-materialization of shares, issue of duplicate share certificates, issue of new certificates in replacement of those that are torn, defaced, lost or destroyed, split/consolidation of share certificates and any other matter as and when received from the shareholders of the Company and maintained the records thereof. The meeting of the Committee during the year was held on October 26, 2009.

During the year under review the number of investors complaints received was 5. All of them were satisfactorily resolved/ replied, and no complaint/request is pending as on March 31, 2010.

## 6. 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 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 Public Issue.	To administer the process of Initial
3	Investment Committee	B R Gupta Surinder Rametra Sunil Rajadhyaksha	October 25, 2006	To administer the investment of funds.
4	Acquisition Committee	Ajay Madan 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	Steering Committee	Ajay Madan B R Gupta	October 8, 2008	To review Material Transaction.

## 7. General Body Meetings

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

Year	Location	Date	Time	Special Resolutions passed
2006-07	Le Meridien, Raja Bahadur Mill Road Pune-411001	July 21, 2007	10:30 AM	Yes
2007-08	Taj Blue Diamond, 11, Koregaon Road, Pune-411001	September 30, 2008	10:30 AM	Yes
2008-09	Le Meridien, Raja Bahadur Mill Road Pune-411001	July 25, 2009	12:00 Noon	Yes

b) Extra Ordinary General Meeting: No Extra Ordinary General Meeting was held during the year.

## 8. Subsidiary Companies

The Company does not have any material non-listed Indian Subsidiary companies, whose turnover or net worth (paid up capital and free reserves) exceeds 20% of the Consolidated turnover or net worth respectively, of the Company.

The major updates on about the unlisted subsidiary companies are regularly presented to the Audit Committee and the Board in addition to the following key points which are taken up in the Audit committee/ Board meeting.

- i) Minutes of the all the meetings of the subsidiary companies held between two Board meetings; and
- ii) Major dealings of subsidiary companies.

## 9. Disclosures Requirements

- The detailed Management Discussion and Analysis Report are given separately in the Annual Report.
- During the year 2009-10, actions of its wholly owned subsidiary, HOV Services, LLC entering into a material transaction in order to focus on end- to- end high growth and margin services, improve operational efficiency and streamline decision making process by selling certain assets : 100% interest in Bay Area Credit Services, LLC, 100% interest in HOV AR Management Services Private Limited and its 30% minority interest in TRAC Holdings, LLC (TRAC) and SAM Holdings, LLC (SAM), to Rustic Canyon, LLC, an Associate, (which already has 70% ownership interest in TRAC & SAM) for \$12 million USD in cash (approximately Rs.5,563 Lakhs).
- During the year 2009-10, the Company declared an interim dividend of Rs. 2/- per equity share of Rs. 10/- each of the Company; record date was February 3, 2010 and payment date was February 18, 2010.
- 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, 2010 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. Harish Bhasin	Nil
4	Mr. Prakash Shukla	Nil

## 10. Means of Communications

The Company communicates through Quarterly Results, Press Releases and Analyst Calls. The financial results are generally published in local/ regional news papers, financial and other national papers that include Free Press Journal, Mumbai, Navshakti Mumbai, Loksatta, Pune, (regional newspaper), Economics Times, Financial Express and more.

The Company's periodic financial results as well as official news releases and presentations made available to the institutional investors and analysts and are displayed on the web site of the Company at [www.hovservices.com](http://www.hovservices.com).

All the information about the Company is promptly sent through facsimile, email and also post to the Stock Exchange where the shares of the Company are listed and are release to press, where ever required, for information of public at large and is available on the Company's website.

### 11. Non-Mandatory Requirements

The Board has setup Compensation & Remuneration Committee and other Committees, the details of which are furnished at Point No. 4 and 6 of this report.

### 12. 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 meeting of Board of Directors of the Company held on May 24, 2010.

### 13. General Shareholder Information

#### a) Details of ensuing AGM:

Day and Date	Time	Venue
Wednesday, July 21, 2010	3:00 PM	Le Meridien, Raja Bahadur Mill Road, Pune - 411001

#### b) Financial Year: April 1 to March 31

#### c) Financial Calendar for the Year 2010-2011:

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

Quarter End	Date
1 <sup>st</sup> Quarter Results	On or before August 14, 2010
2 <sup>nd</sup> Quarter Results	On or before November 14, 2010
3 <sup>rd</sup> Quarter Results	On or before February 14, 2011
4 <sup>th</sup> Quarter Results	On or before May 30, 2011

#### d) Date of Book Closure: July 15, 2010 to July 21, 2010 (both days inclusive)

#### e) Dividend payment date: Interim Dividend-February 18, 2010;

Final Dividend-July 30, 2010

#### 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:

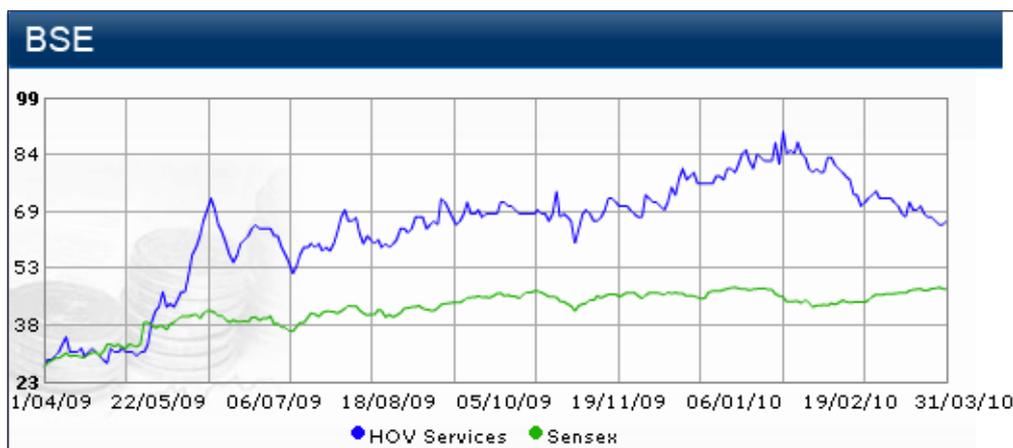
Monthly highs, lows and trading volume for FY 2009-10

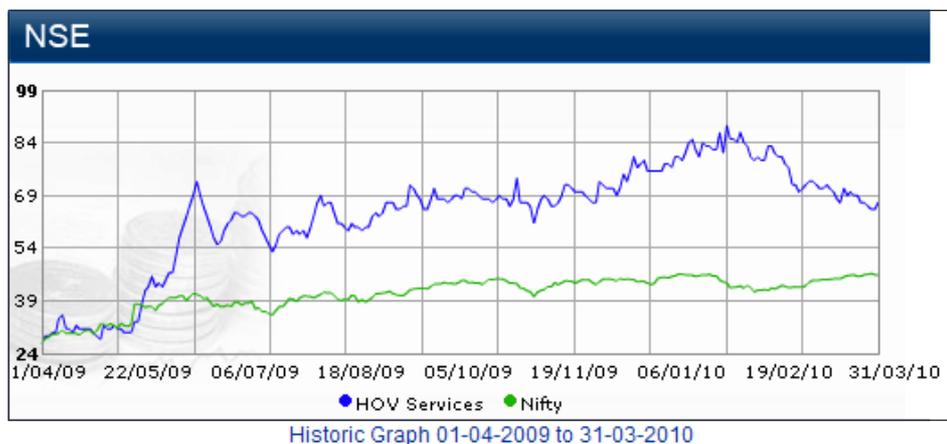
Month	NSE			BSE			Total Trade Quantity
	High (Rs.)	Low (Rs.)	Trade Quantity	High (Rs.)	Low (Rs.)	Trade Quantity	
Apr-09	37.65	26.15	167,902	37.40	25.10	190,963	358,865
May-09	49.50	28.00	325,170	48.00	28.00	441,534	766,704
Jun-09	76.00	43.50	391,332	75.70	44.10	443,446	834,778
Jul-09	69.85	50.00	97,188	69.80	51.90	228,786	325,974
Aug-09	71.90	57.25	146,111	72.30	57.85	261,813	407,924
Sep-09	74.50	63.50	174,462	74.85	64.00	190,630	365,092
Oct-09	76.00	63.75	464,173	76.50	65.00	356,990	821,163
Nov-09	80.35	59.90	811,417	80.50	59.50	694,921	1,506,338
Dec-09	84.80	68.20	1,900,677	84.90	67.35	1,877,766	3,778,443
Jan-10	96.50	76.00	3,739,062	97.20	76.90	3,024,227	6,763,289
Feb-10	90.25	69.10	955,383	90.00	69.65	596,554	1,551,937
Mar-10	78.70	64.05	560,369	75.50	64.05	364,928	925,297

## 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) will get registered within 15 days of receipt of transfer documents by our Registrar and Share Transfer Agent. The Company as R&T agent has expertise and effective systems for share transfers.

**k) Distribution of Shareholding as of March 31, 2010**
**i) Distribution of Shares according to size of holding:**

Number of Shares	Shareholders		Share Amount	
	Number	Percentage to total (%)	Rs.	Percentage to total (%)
Up to 5000	7,584	91.96	8,108,130	6.49
5001 to 10000	320	3.88	2,564,180	2.05
10001 to 20000	167	2.02	2,523,600	2.02
20001 to 30000	54	0.65	1,397,800	1.12
30001 to 40000	22	0.27	776,960	0.62
40001 to 50000	15	0.18	691,650	0.55
50001 to 100000	40	0.48	2,994,800	2.41
100001 to above	46	0.56	105,853,100	84.74
<b>Total</b>	<b>8,248</b>	<b>100.00</b>	<b>124,910,220</b>	<b>100.00</b>

## ii) Distribution of Shares by Shareholders Category:

Sr. No.	Shareholder Category	No. of Shareholders	Shares Held	Voting Strength
1	BANKS	1	1,800	0.01
2	CLEARING MEMBERS	40	19,420	0.16
3	FOREIGN INSTITUTIONAL INVESTORS	2	438,980	3.51
4	FOREIGN NATIONALS	3	461,745	3.70
5	H U F	315	129,525	1.04
6	BODIES CORPORATE	2	714,759	5.72
7	BODIES CORPORATES	307	1,175,889	9.41
8	MUTUAL FUNDS	1	113,269	0.91
9	NON RESIDENT INDIANS	67	345,401	2.77
10	PROMOTERS	8	6,973,353	55.83
11	RESIDENT INDIVIDUALS	7,502	2,116,881	16.95
	<b>Total</b>	<b>8,248</b>	<b>12,491,022</b>	<b>100.00</b>

## iii) Top Ten Shareholders as of March 31, 2010

Sr. No.	Name(s) of the Shareholders	Category as per depository	Shares	%
1	ADESI 234, LLC	Promoter	3,000,985	24.03
2	HOF 2, LLC	Promoter	1,667,933	13.35
3	CHITALE, LLC	Bodies Corporate	904,274	7.24
4	STERN CAPITAL PARTNERS, LLC	Promoter	694,246	5.56
5	SUNIL RAJADHYAKSHA	Promoter	588,720	4.71
6	NADATHUR HOLDINGS AND INVESTMENTS PRIVATE LIMITED	Bodies Corporate	518,277	4.15
7	EINDIA VENTURE FUND LIMITED	Bodies Corporate	476,506	3.81
8	MERRILL LYNCH CAPITAL MARKETS ESPANA S.A. S.V.	FII	408,480	3.27
9	ARJUN RAMESH	PUB	317,525	2.54
10	MERRILL LYNCH LP HOLDINGS INC.	Bodies Corporate	238,253	1.91
	<b>TOTAL</b>		<b>8,789,777</b>	<b>70.37</b>

**l) Dematerialization 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. 90.03 % of the Company's shares are held in electronic form as on March 31, 2010.

**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 Plant. The Company has over 36 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

**Chennai**

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

**Global Office**

1305 Stephenson Highway,  
Troy, MI 48083,USA

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

**Bhuvanesh Sharma**

Company Secretary & Compliance Officer

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

Maharashtra, India

Tel: (91 20) 2423 1623

Fax: (91 20) 2422 1470

E-mail: investor.relations@hovservices.com

## AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To  
The Members  
**HOV Services Limited**

We have examined the compliance of conditions of Corporate Governance by HOV Services Limited, 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

Sd/-  
(R.P. Baradiya)  
Partner  
Membership No. 44101

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### Declaration regarding Compliance with Code of Conduct

We hereby declare that the Company has received affirmation from the Board members and Senior Management Personnel with regard to Compliance of Code of Conduct of the Company for Directors and Senior Management Personnel, in respect of the financial year ended March 31, 2010.

Parvinder S Chadha  
Chairman & Executive Director

## CONSOLIDATED FINANCIAL STATEMENTS

### AUDITORS' REPORT

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 HOV Services Group' as at March 31, 2010, the Consolidated Profit & Loss Account and also the Consolidated Cash Flow Statement 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 have not audited the financial statements of 13 subsidiaries included in the consolidated financial results, whose financial statements reflect total assets of Rs. 101,295 Lacs as at March 31, 2010; as well as the total revenue for the year ended on March 31, 2010 of Rs. 85,738 Lacs. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of such other auditors.
4. We have not audited the financial statements of 2 subsidiaries included in the consolidated financial results, whose financial statements reflect the total revenue for the nine months ended on December 31, 2009 of Rs. 2,736 Lacs. These financial statements and other financial information have been Limited Reviewed by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of such other auditors.
5. 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" prescribed by Companies (Accounting Standards) Rules, 2006 as amended from time to time.
6. Based on our audit and on consideration of reports of other auditors on separate financial statements 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 and 4 above and Schedule '14' "Significant Accounting Policies and Notes to Consolidated Accounts" and other notes appearing elsewhere in the accounts, 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 HOV Services Group as at March 31, 2010;
- (ii) in the case of Consolidated Profit and Loss account, of the loss of the HOV Services Group for the year ended on that date; and
- (iii) in the case of Consolidated Cash Flow Statement, of the cash flows of the HOV Services Group for the year ended on that date.

**For LODHA & CO.**  
Chartered Accountants

**R.P. Baradiya**  
Partner  
Membership No. 44101  
Firm Registration No: 301051E

Chennai.  
Date: May 24, 2010

**CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2010**

	Schedule No.	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>I SOURCES OF FUNDS</b>			
<b>Shareholders' Funds :</b>			
Share Capital	1	2,969,996,758	3,336,389,775
Reserves and Surplus	2	726,223,923	1,771,292,026
		3,696,220,681	5,107,681,801
<b>Minority Interest</b>		-	300,324,711
<b>Loan Funds:</b>			
Secured Loans	3	5,207,941,390	6,767,714,420
<b>TOTAL</b>		<b>8,904,162,071</b>	<b>12,175,720,932</b>
<b>II APPLICATION OF FUNDS</b>			
<b>Goodwill arising out of consolidation</b>		7,286,161,556	9,281,592,294
<b>Fixed Assets :</b>	4		
Gross Block		921,407,545	1,202,381,399
Less: Depreciation		459,289,115	515,394,730
Net Block		462,118,430	686,986,669
<b>Deferred Tax Asset (Net)</b>		19,732,124	31,759,400
<b>Current Assets, Loans and Advances :</b>			
Inventories (Consumables)		73,343,291	90,642,598
Sundry Debtors	5	1,391,893,594	2,489,656,504
Cash and Bank Balances	6	546,031,403	643,453,081
Loans and Advances	7	423,419,116	851,221,317
		2,434,687,404	4,074,973,500
<b>Less: Current Liabilities and Provisions:</b>			
Current Liabilities	8	1,214,113,227	1,799,015,945
Provisions	9	84,424,216	100,574,986
		1,298,537,443	1,899,590,931
<b>Net Current Assets</b>		1,136,149,961	2,175,382,569
<b>TOTAL</b>		<b>8,904,162,071</b>	<b>12,175,720,932</b>
Significant Accounting Policies and Notes forming part of the Consolidated Financial Statements	14		

Schedules referred to above form an integral part of the Consolidated 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

**Parvinder S Chadha**  
Chairman & Executive Director

**Sunil Rajadhyaksha**  
Executive Director

**Surinder Rametra**  
Executive Director

Place: Chennai  
Date: May 24, 2010

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**James Reynolds**  
Chief Financial Officer & CAO, Global

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010**

	Schedule No.	For the year ended March 31, 2010 Rs.	For the year ended March 31, 2009 Rs.
<b>INCOME :</b>			
Income from Operations	10	8,483,934,751	8,970,719,996
Other Income	11	14,743,087	21,715,518
		8,498,677,838	8,992,435,514
<b>EXPENDITURE :</b>			
Personnel Expenses	12	4,474,596,594	4,518,834,114
Operating & Other Expenses	13	2,791,267,685	3,245,202,812
Interest & Finance Charges		336,252,290	444,776,936
Depreciation	4	252,165,334	236,527,902
Foreign Exchange Variation (Net)		50,946,432	30,243,384
MTM losses of derivative contracts		(36,739,297)	50,393,000
		7,868,489,038	8,525,978,148
<b>Profit/(Loss) before Exceptional Item &amp; Taxation</b>		<b>630,188,800</b>	<b>466,457,366</b>
Exceptional Item - Loss on sale of Investments (Refer note no. 2 of notes to Financial Statements in Schedule 14B)		1,327,635,491	-
<b>Profit/(Loss) after Exceptional Item before Taxation</b>		<b>(697,446,691)</b>	<b>466,457,366</b>
<b>Provision for Taxation</b>			
Current Tax		48,778,773	13,303,080
Deferred Tax		15,098,128	(15,852,318)
Fringe Benefit Tax		-	4,917,855
<b>Profit/(Loss) after Taxation</b>		<b>(761,323,592)</b>	<b>464,088,749</b>
Tax Adjustment for earlier year		966	553,627
<b>Net Profit/(Loss) before Minority Interest</b>		<b>(761,324,558)</b>	<b>463,535,122</b>
Minority Interest		(2,919,994)	(336,454)
<b>Net Profit/(Loss) after Minority Interest for the year</b>		<b>(758,404,564)</b>	<b>463,871,576</b>
Profit brought forward from previous year.		1,273,593,651	809,722,075
<b>Amount available for Appropriations</b>		<b>515,189,087</b>	<b>1,273,593,651</b>
<b>Appropriations:</b>			
Dividend Paid to Class A preferred units		20,267,679	-
Interim Dividend on equity shares		24,982,044	-
Dividend Tax on Interim Dividend		4,245,699	-
Proposed final dividend on equity shares		24,982,044	-
Dividend Tax on Proposed Dividend		4,149,205	-
Transfer to General Reserve		2,923,466	-
Balance of Profit carried to Balance Sheet		433,638,950	1,273,593,651
		515,189,087	1,273,593,651
<b>Basic &amp; Diluted Earnings per Share (EPS) before Exceptional Items</b>		45.57	36.96
<b>Basic &amp; Diluted Earnings per Share (EPS) after Exceptional Items (Equity Share, face value Rs.10 each)</b> (Refer note no. 7 of notes to Financial Statements in Schedule 14B)		(60.72)	36.96
Significant Accounting Policies and Notes forming part of the Consolidated Financial Statements	14		

Schedules referred to above form an integral part of the Consolidated 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

**Parvinder S Chadha**

Chairman & Executive Director

**Sunil Rajadhyaksha**

Executive Director

**Surinder Rametra**

Executive Director

Place: Chennai

Date: May 24, 2010

**Bhuvanesh Sharma**

Company Secretary &  
Compliance Officer

**James Reynolds**

Chief Financial Officer & CAO, Global

### Consolidated Cash Flow Statement for the year ended March 31, 2010

	For the year ended March 31, 2010	For the year ended March 31, 2009
<b>A. Cash flow from Operating Activities:</b>		
Net Profit before Tax after Minority Interest	(694,526,697)	466,793,820
<b>Adjustments for:</b>		
Depreciation	252,165,334	236,527,902
Interest Expenses	336,252,290	444,776,936
Interest Income	(10,790,167)	(15,345,081)
Provisions Written Back	-	(721,156)
Loss on Sale of Investment	1,327,635,491	-
Foreign Exchange Variation (Gain)/Loss	79,398,435	123,831,349
<b>Operating Profit before Working Capital changes</b>	<b>1,290,134,686</b>	<b>1,255,863,770</b>
<b>Adjustments for changes in Working Capital :</b>		
(Increase)/Decrease in Sundry Debtors	806,130,308	348,562,857
(Increase)/Decrease in Other Receivables	(10,370,139)	134,719,682
(Increase)/Decrease in Inventory (consumable)	6,963,026	(6,506,062)
Increase/(Decrease) in Trade and Other Payables	(33,295,792)	136,665,281
<b>Cash generated from Operations</b>	<b>2,059,562,090</b>	<b>1,869,305,528</b>
Taxes Paid	(11,222,245)	(24,457,822)
<b>Net cash from/(used in) Operating Activities - A</b>	<b>2,048,339,845</b>	<b>1,844,847,706</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets (net)	(252,238,945)	(404,004,682)
Sale of Investments	(390,615,965)	-
Repayment of Minority Interest	(266,077,673)	(512,968,829)
Interest Expenses	(336,252,290)	(444,776,936)
Interest Received	10,790,167	15,345,081
<b>Net Cash from/(used in) Investing Activities - B</b>	<b>(1,234,394,706)</b>	<b>(1,346,405,366)</b>
<b>C. Cash flow from Financing Activities:</b>		
Buyback of equity shares	(655,360)	(1,239,798)
Dividend paid	(45,249,723)	-
Dividend tax paid	(4,245,699)	-
Proceeds/(Repayments) from/to loans (net)	(788,027,774)	(208,567,595)
<b>Net cash from/(used in) Financing Activities - C</b>	<b>(838,178,556)</b>	<b>(209,807,393)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	(24,233,417)	288,634,947
Opening Cash and Cash Equivalents	569,744,604	281,109,657
<b>Closing Cash and Cash Equivalents</b>	<b>545,511,187</b>	<b>569,744,604</b>

**Notes:**

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard 3, 'Cash Flow Statements', prescribed by Companies (Accounting Standards) Rules, 2006.
- Pledged FDRs, funds earmarked for dividend & balance in Trust Cash accounts has been excluded from Cash and Cash equivalents and included in Other Receivables.
- Previous year's figures have been regrouped/rearranged where necessary.

As per our attached report of even date

**For LODHA & CO.**

Chartered Accountants

**For and on behalf of the Board****R.P.BARADIYA**

Partner

**Parvinder S Chadha**

Chairman &amp; Executive Director

**Sunil Rajadhyaksha**

Executive Director

**Surinder Rametra**

Executive Director

Place: Chennai

Date: May 24, 2010

**Bhuvanesh Sharma**Company Secretary &  
Compliance Officer**James Reynolds**

Chief Financial Officer &amp; CAO, Global

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2010**

SCHEDULE 1	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>SHARE CAPITAL</b> Authorised : 30,000,000 (Previous year 30,000,000) Equity Shares of Rs.10 each.	300,000,000	300,000,000
<b>Issued, Subscribed &amp; Paidup :</b> 12,491,022 (Previous year 12,511,022) Equity shares of Rs.10 each	124,910,220	125,110,220
<b>Notes:</b> (1) Out of above, 2,987,095 (Previous year 2,987,095) shares were issued as fully paid up Bonus shares, by capitalisation of the balance lying in profit and loss account. (2) 20,000 (Previous year 43,023) shares were bought back during the year (Refer note 9 of notes to Financial Statements in Schedule 14B)	2,845,086,538	3,211,279,555
10,467,532 (Previous year 10,467,532) Class A Preferred Units by HOV Services, LLC <b>Notes:</b> (1) Out of above, 5,226,105 (Previous year 5,226,105) units were issued for consideration other than cash. (2) Class A Preferred unit shareholders are entitled to all rights except attending and voting at the General Meeting.		
<b>Total</b>	<b>2,969,996,758</b>	<b>3,336,389,775</b>

SCHEDULE 2	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>RESERVES AND SURPLUS:</b>		
<b>Capital Redemption Reserve</b>		
Opening balance as per last balance sheet	430,230	-
Add: Transfer from Securities Premium Account (Refer note 9 of notes to Financial Statements in Schedule 14B)	200,000	430,230
	630,230	430,230
<b>Securities Premium Account</b>		
Opening balance as per last balance sheet	622,341,394	623,581,192
Less: Utilised towards buy back of equity shares	455,360	809,568
Less: Transfer to Capital Redemption Reserve (Refer note 9 of notes to Financial Statements in Schedule 14B)	200,000	430,230
Add: IPO Issue Expenses no longer payable, written back	1,158,990	-
	622,845,024	622,341,394
<b>General Reserve</b>		
Opening balance as per last balance sheet	-	-
Add: Transfer from Profit & Loss Account	2,923,466	-
	2,923,466	-
<b>Profit &amp; Loss Account</b> (As per annexed account)	433,638,949	1,273,593,651
<b>Foreign Exchange Translation Reserve</b>		
Opening balance as per last balance sheet	(125,073,249)	(4,272,015)
Addition during the year	(208,740,497)	(120,801,234)
	(333,813,746)	(125,073,249)
<b>Total</b>	<b>726,223,923</b>	<b>1,771,292,026</b>

SCHEDULE 3	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>SECURED LOANS</b>		
Working Capital Loans (Secured against fixed & current assets of certain subsidiaries of USA and also corporate guarantee given by parent company)	5,207,941,390	6,767,714,420
<b>Total</b>	<b>5,207,941,390</b>	<b>6,767,714,420</b>

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2010**  
**SCHEDULE 4: FIXED ASSETS**

Amount in Rs.

Description	Gross Block at cost			Depreciation			Net Block	
	As at 1/4/2009	Additions during the year	Deletion/ Adj. during the year	As at 31/3/2010	For the year	Deletion/ Adj. during the year	As at 31/3/2010	As at 31/3/2009
Building	52,380,768	-	(39,434,299)	12,946,469	356,276	(37,673,310)	2,251,674	12,812,060
Computer	538,131,899	165,292,354	(162,450,048)	540,974,205	146,289,423	(117,861,207)	248,488,994	318,071,121
Furniture & Fixtures	216,727,988	42,109,661	(98,449,492)	160,388,158	47,133,006	(44,363,740)	96,867,543	122,629,711
Office Equipments	251,657,109	36,133,983	(112,879,329)	174,911,763	41,898,395	(83,219,906)	104,868,295	105,467,303
Vehicles	9,383,167	8,061,417	(2,708,923)	14,735,661	1,858,009	(720,316)	2,463,219	8,057,642
<b>Intangibles</b>								
Software Product*	134,100,468	641,530	(117,290,709)	17,451,289	14,630,225	(24,432,471)	4,349,390	119,948,832
<b>Total</b>	<b>1,202,381,399</b>	<b>252,238,945</b>	<b>(533,212,800)</b>	<b>921,407,545</b>	<b>252,165,334</b>	<b>(308,270,950)</b>	<b>459,289,115</b>	<b>686,986,669</b>
<b>Previous Year</b>	<b>990,213,034</b>	<b>404,004,682</b>	<b>(191,836,317)</b>	<b>1,202,381,399</b>	<b>236,527,902</b>	<b>(215,286,455)</b>	<b>515,394,730</b>	<b>-</b>

\* Meant for license sale or otherwise

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2010**

<b>SCHEDULE 5</b>	<b>As at March 31, 2010 Rs.</b>	<b>As at March 31, 2009 Rs.</b>
<b>SUNDRY DEBTORS</b> <b>(Unsecured, Considered Good, unless stated otherwise)</b>		
Outstanding for a period exceeding six months :		
Considered Good	20,733,885	23,357,926
Considered Doubtful	49,568,460	107,247,128
	<b>70,302,345</b>	<b>130,605,054</b>
Less: Provision for Doubtful Debts	(49,568,460)	(107,247,128)
	<b>20,733,885</b>	<b>23,357,926</b>
Other Debts	1,371,159,709	2,466,298,578
<b>Total</b>	<b>1,391,893,594</b>	<b>2,489,656,504</b>

<b>SCHEDULE 6</b>	<b>As at March 31, 2010 Rs.</b>	<b>As at March 31, 2009 Rs.</b>
<b>CASH AND BANK BALANCES</b>		
Cash in hand	784,053	283,741
Balances with Banks :		
(a) In Operating Accounts		
i) Earmarked for dividend	129,608	-
ii) Others	445,304,272	524,271,401
(b) In Trust Accounts	-	73,388,013
(c) In Fixed Deposits (including interest accrued of Rs. 3,51,500 ; Previous year Rs. 147,731)	99,813,470	45,509,926
<b>Total</b>	<b>546,031,403</b>	<b>643,453,081</b>

<b>SCHEDULE 7</b>	<b>As at March 31, 2010 Rs.</b>	<b>As at March 31, 2009 Rs.</b>
<b>LOANS AND ADVANCES (Unsecured, Considered Good)</b>		
Advance recoverable in cash or in kind	273,449,641	506,478,690
Security Deposits	127,938,689	168,879,556
Advance tax and Tax deducted at source	1,659,629	5,502,878
Due From Associates	20,371,157	170,360,193
<b>Total</b>	<b>423,419,116</b>	<b>851,221,317</b>

**SCHEDULE 8**

<b>CURRENT LIABILITIES</b>	<b>As at March 31, 2010 Rs.</b>	<b>As at March 31, 2009 Rs.</b>
Sundry Creditors	739,606,039	1,496,903,540
Other Liabilities	329,953,986	149,171,968
Deposits from Customers	138,671,163	131,096,643
Due To Associates	5,752,431	21,843,794
Unclaimed Interim Dividend*	129,608	-
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>Total</b>	<b>1,214,113,227</b>	<b>1,799,015,945</b>

**SCHEDULE 9**

<b>PROVISIONS</b>	<b>As at March 31, 2010 Rs.</b>	<b>As at March 31, 2009 Rs.</b>
Provision for Taxes	6,999,193	15,291,725
Proposed Final Dividend	24,982,044	-
Dividend Distribution Tax	4,149,205	-
<b>Employee Benefits:</b>		
Leave Entitlement	26,868,802	6,097,029
Gratuity	21,424,972	28,793,232
Provision for MTM losses on derivative contracts	-	50,393,000
<b>Total</b>	<b>84,424,216</b>	<b>100,574,986</b>

**SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010****SCHEDULE 10**

<b>INCOME FROM OPERATIONS</b>	<b>For the year ended March 31, 2010 Rs.</b>	<b>For the year ended March 31, 2009 Rs.</b>
Sale of Software Licences	-	3,478,950
Income From Services	8,483,934,751	8,967,241,046
<b>Total</b>	<b>8,483,934,751</b>	<b>8,970,719,996</b>

**SCHEDULE 11**

<b>OTHER INCOME</b>	<b>For the year ended March 31, 2010 Rs.</b>	<b>For the year ended March 31, 2009 Rs.</b>
Interest on fixed deposits	10,790,167	15,345,081
Other Income	3,952,920	5,649,281
Provisions no longer required written-back	-	721,156
<b>Total</b>	<b>14,743,087</b>	<b>21,715,518</b>

**SCHEDULE 12**

<b>PERSONNEL EXPENSES</b>	<b>For the year ended March 31, 2010 Rs.</b>	<b>For the year ended March 31, 2009 Rs.</b>
Salaries, Wages and Bonus	4,162,384,671	4,236,474,742
Staff Welfare	56,266,530	50,925,625
Staff Insurance	255,945,393	231,433,747
<b>Total</b>	<b>4,474,596,594</b>	<b>4,518,834,114</b>

**SCHEDULE 13**

<b>OPERATING AND OTHER EXPENSES</b>	<b>For the year ended March 31, 2010 Rs.</b>	<b>For the year ended March 31, 2009 Rs.</b>
Advertising & Publicity	3,714,612	3,400,504
Business Promotion Expenses	18,193,063	23,128,269
Communication Costs	286,795,178	311,002,287
Electricity charges	138,473,046	123,921,560
Insurance charges	31,481,782	34,546,462
Legal & professional fees	417,333,007	662,818,894
Postage & Delivery expenses	65,773,414	127,646,051
Office Supplies & Forms	407,038,393	564,860,226
Office, Administration & Other Expenses	286,446,152	287,618,509
Rates and Taxes	33,262,090	37,599,925
Rent charges	532,488,447	512,138,950
Loss on discarded/sale of Fixed Assets	484,040	-
Repairs & Maintenance :		
Building	86,818,220	78,188,453
Other	225,717,986	220,749,455
Bank Charges & Commission	52,716,077	22,291,366
Travel & Conveyance	204,532,178	235,291,901
<b>Total</b>	<b>2,791,267,685</b>	<b>3,245,202,812</b>

**SCHEDULE 14****SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED ON MARCH 31, 2010.****A. SIGNIFICANT ACCOUNTING POLICIES****1 Overview of the Group**

HOV Services Limited ("Parent") and its subsidiaries collectively referred to as "the Group" is one of the largest end-to-end BPO company headquartered in Chennai, India provides Finance and Accounting services in the BFSI, Healthcare, Government, Telco, Publishing, Retail, Commercial and Industrial Manufacturing industries. Its clients include some of the largest companies in the industries served. Right Shore delivery centers strategically located in India, North America, China and Mexico with over 8,950 associates working together to Exceed Expectations® of our clients.

**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') prescribed by the Companies (Accounting Standards) Rules, 2006, 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 consolidated 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 under AS 21 - 'Consolidated Financial Statements' prescribed by the Companies (Accounting Standards) Rules, 2006.

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:

HOV Service Ltd's subsidiaries and step down subsidiaries are listed below:

Name	Country of incorporation	Percentage of ownership Interest at March 31, 2010	Percentage of ownership Interest at March 31, 2009
HOVS Holdings Limited	Hong Kong	100	100
HOV Services Beijing Limited (Subsidiary of HOVS Holdings Limited)	China	100	100
HOV Services, LLC	USA	100	100
HOV Enterprise Services, Inc. (Subsidiary of HOV Services, LLC)	USA	100	100
Meridian Consulting Group (Subsidiary of HOV Enterprise Services, Inc.)	USA	100	100
Rustic Canyon III, LLC (Subsidiary of HOV Services, LLC)	USA	100	100
Lason, Inc. (Subsidiary of Rustic Canyon III, LLC)	USA	100	100
Lason India Pvt. Limited (Subsidiary of Lason, Inc.)	India	100	100
Vetri Software (I) Pvt. Limited (Subsidiary of Lason India Pvt. Limited)	India	100	100

HOV AR Management Services Pvt. Limited (Subsidiary of Lason India Pvt. Limited) (a)	India	-	100
Bay Area Credit Services, LLC (Subsidiary of HOV Services, LLC) (a)	USA	-	100
HOV GPM, LLC (Subsidiary of Bay Area Credit Services, LLC) (a)	USA	-	100
Superior Asset Management Holdings, LLC (Subsidiary of HOV Services, LLC) (a)	USA	-	30
Superior Asset Management, Inc (Subsidiary of SAM Holdings, LLC) (a)	USA	-	30
TRAC Holdings, LLC (Subsidiary of HOV Services, LLC) (a)	USA	-	30
Tracmail AR Services Pvt. Limited (Subsidiary of TRAC Holdings, LLC) (a)	India	-	30

(a) Subsidiary until December 31, 2009, thereafter they are Associates of the Company, See Note B-2.

## 6. Revenue recognition

- a) The revenue from Finance and Accounting sector 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 our consulting services and reimbursable expenses billed to our clients is recognized when services are rendered.
- d) License fees are recognized on delivery and as per the terms of the contract.

## 7 Inventories

Consumables 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.

## 9. Impairment of assets

In accordance with AS 28 on 'Impairment of Assets' prescribed by Companies (Accounting Standards) Rules, 2006, 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.

## 10. Method of depreciation / Amortization:

### I) Parent Company

- 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 of licenses and otherwise) are amortized over its estimated useful life of 8 years.

### II) Indian and Foreign Subsidiaries

Depreciation is provided on Straight-Line Method at the following rates determined based on management's estimate of useful life of the assets.

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

## 11. 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.

## 12. Accounting of Employee Benefits

### Employee Benefits to employees in India

#### a) Gratuity:

Gratuity liability is a defined benefit obligation. The Company has taken an insurance policy under the Group Gratuity Scheme with the Life Insurance Corporation of India (LIC) to cover the gratuity liability of the employees and the amount paid / payable in respect of the present value of liability of past services is charged to the Profit and loss account every year. The difference between the amount paid / payable to LIC and the actuarial valuation made at the end of each financial year is charged to Profit and Loss account.

#### b) Provident Fund:

Retirement benefits in the form of Provident Fund / Pension Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective trusts.

#### c) Leave Entitlement:

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

### Employee Benefits to employees in Foreign Subsidiary Companies

In respect of employees in Foreign Subsidiary Companies, contributions to defined contribution pension plans are recognized as an expense in the profit & loss account as incurred and necessary provision has been done as per applicable laws.

## 13. 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.

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.

#### **14. Translation of Foreign Currency Items**

(i) Initial Recognition

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 is recognized in the Profit & Loss account.

(ii) Conversion

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.

(iii) Forward Exchange Contracts not intended for trading or speculation purposes

A gain or loss on such forward exchange contracts is computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier year). The gain or loss so computed is recognised in the statement of profit and loss for the period. The premium or discount on the forward exchange contract is not recognised separately.

(iv) Derivatives

As per the Institute of Chartered Accountants of India's ('ICAI') Announcement, accounting for derivative contracts, other than those covered under AS-11, are marked to market on a portfolio basis, and the net loss after considering the offsetting effect on the underlying hedge item is charged to the income statement. Net gains are ignored.

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency. The Company limits the effects of foreign exchange rate fluctuations by following established risk management policies including the use of derivatives. The Company enters into option contracts, where the counterparty is a bank. The options are not used for trading or speculation purposes.

To designate an option as an effective hedge, management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. To the extent, hedges are designated effective, neither gain nor loss is recognised in the

profit and loss account. In the absence of a designation as an effective hedge, loss is recognised in the profit and loss account.

#### **15. 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.

#### **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

### **B NOTES TO ACCOUNTS**

1. Effective April 1, 2008, the operations of the foreign subsidiaries are being considered non integral in view of inter alia changed circumstances. Accordingly, in compliance with AS-11 relating to 'Changes in Foreign Exchange rate', the non monetary items are translated at the closing rates.
2. The Board of Directors of the Company approved actions of its wholly owned subsidiary, HOV Services, LLC entering into a Material Transaction in order to focus on end-to-end high growth and margin services, improve operational efficiency and streamline decision making process by selling certain assets: 100% interest in Bay Area Credit Services, LLC, 100% interest in HOV AR Management Services Private Limited and its 30% minority interests in TRAC Holdings, LLC (TRAC) and SAM Holdings, LLC (SAM), to Rustic Canyon, LLC, an Associate, (which already has 70% ownership interest in TRAC & SAM) for \$12 million USD in cash (approximately Rs. 5,563 Lakhs). This Material Transaction resulted in loss of Rs. 132.76 crores is recorded as an exceptional item.

### 3. Capital Commitment and Contingent liabilities:

#### A) Capital Commitment:

Sr. No.	Particulars	As at March 31, 2010	As at March 31, 2009
1.	Estimated amount of contracts remaining to be executed on capital account, not provided for	12,516,066	574,441

#### B) Contingent Liabilities:

Sr. No.	Particulars	As at March 31, 2010	As at March 31, 2009
1	Corporate Guarantee Outstanding -on behalf of Associates	135,561,059	154,344,886
2	Disputed Income Tax Matters	3,680,005	3,680,005
3	Claims against the Company, not acknowledged as debt	9,867,000	9,867,000
4	Provident Fund- Administration Charges	-	331,047
5	Employees State Insurance	18,348,877	18,348,877

Based on internal assessment and legal advice, management is confident of a favorable outcome in respect of all these matters in respect of point no.3 to 5.

### 4. Employee Benefits:

Defined Benefit Plan in respect of Gratuity payable to Indian employees- As per Actuarial Valuations:

I	Assumptions	As on March 31, 2010	As on March 31, 2009
	Discount Rate (Different rates for different subsidiaries)	6.4% to 8%	6.4% to 8%
	Expected Rate of Return on plan asset	9% to 9.25%	9% to 9.15%
	Salary Escalation (Different rates for different subsidiaries)	5% to 10%	5% to 10%
II	Table showing changes in present value of obligations	As on March 31, 2010	As on March 31, 2009
	Present value of obligations as at beginning of year	29,806,765	26,512,107
	Interest cost	1,846,954	1,908,287
	Current Service Cost	3,577,071	4,117,661
	Benefits Paid	(2,215,504)	(2,927,558)
	Actuarial (gain)/Loss on obligations	2,878,271	1,209,801
	Present value of obligations as at end of year	35,893,557	28,793,232

<b>III</b>	<b>Table showing changes in the fair value of plan assets</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Fair value of plan assets at beginning of year	15,518,830	17,106,776
	Expected return on plan assets	1,343,679	1,452,343
	Contributions	669,322	1,254,797
	Benefits paid	(2,215,504)	(2,927,558)
	Actuarial Gain / (Loss) on Plan assets	39,014	26,831
	Fair value of plan assets at the end of year	15,355,341	16,913,189
<b>IV</b>	<b>Table showing fair value of plan assets</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Fair value of plan assets at beginning of year	15,518,830	17,106,776
	Actual return on plan assets	1,343,679	1,452,343
	Contributions	669,322	1,254,797
	Benefits Paid	(2,215,504)	(2,927,558)
	Fair value of plan assets at the end of year	15,355,341	16,886,358
	Funded status	(20,538,216)	(13,907,109)
	Excess of Actual over estimated return on plan assets (Actual rate of return = Estimated rate of return as ARD falls on 31st March)	NIL	NIL
<b>V</b>	<b>Actuarial Gain/Loss recognized</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Actuarial gain/(Loss) for the year - Obligation	3,350,245	(1,208,893)
	Actuarial (gain)/Loss for the year - plan assets	39,014	26,831
	Total (gain)/Loss for the year	2,839,257	1,208,893
	Actuarial (gain)/Loss recognized in the year	2,839,257	1,208,893
<b>VI</b>	<b>The amounts to be recognized in the Balance Sheet</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
	Present value of obligations as at the end of year	35,893,557	30,820,298
	Fair value of plan assets as at the end of the year	15,355,341	16,913,189
	Funded status	20,936,336	(13,907,109)
	Net Asset/(liability) recognized in balance sheet	20,538,216	(14,780,473)

VII	Expenses recognized in statement of Profit & loss	For the year ended March 31, 2010	For the year ended March 31, 2009
	Current Service cost	3,577,071	4,117,661
	Interest Cost	1,846,954	1,908,287
	Expected return on plan assets	(1,343,679)	(1,452,343)
	Net Actuarial (gain)/Loss recognised in the year	2,839,257	1,182,970
	Expenses recognised in statement of Profit & loss	6,919,603	5,756,575

5. The goodwill working for the current financial year is as follows:

Particulars	As on March 31, 2010	As on March 31, 2009
<b>A) Opening Balance of Goodwill</b>	<b>9,281,592,294</b>	<b>7,356,284,638</b>
B) Add: Additions on account of acquisition/payments	NIL	712,753,663
C) Add: Additions on account of exchange gain (loss)	(1,055,540,879)	1,212,553,993
D) Less: Deletion on account of Sale of Companies	939,889,859	NIL
<b>Closing balance of Goodwill ( A+B+C-D)</b>	<b>7,286,161,556</b>	<b>9,281,592,294</b>

6. 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) Accounts 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.

#### 7. Earnings per Share (EPS):

EPS for the year before exceptional item is

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Net Profit/(Loss) before exceptional items as per Profit and Loss Account (Rs.)	569,230,927	463,871,576
Weighted average number of equity shares	12,492,315	12,550,279
Basic and Diluted Earning per share	45.57	36.96
Nominal value per Equity Share (Rs.)	10	10

**EPS for the year after exceptional item is**

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Net Profit/(Loss) as per Profit and Loss Account (Rs.)	(758,404,564)	46,371,576
Weighted average number of equity shares	12,492,315	12,550,279
Basic and Diluted Earning per share	(60.72)	36.96
Nominal value per Equity Share (Rs.)	10	10

**8. Related Party Transactions**

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

**a) Associates:**

Sr. No.	Name
1	HOF 4 Limited
2	HOV Re, LLC
3	HOV FS, LLC
4	HOV Procure, LLC
5	HandsOn Ventures, LLC
6	HOV Capital, LLC
7	Tracmail India Private Limited*
8	RC GPM, LLC
9	Rustic Canyon, LLC
10	HOV AR Management Services Pvt. Limited*
11	HOV GPM, LLC*
12	TRAC Holdings, LLC*
13	Tracmail AR Services Pvt. Limited*
14	Superior Asset Management Holding, LLC*
15	Superior Asset Management, Inc.*
16	Bay Area Credit Services, LLC*

\* Subsidiary up to December 31, 2009 thereafter Associates.

**b) Directors/Key Managerial Personnel and their relatives:**

Sr. No.	Name
1	Mr.Parvinder S Chadha (Chairman and Executive Director)
2	Mr. Surinder Rametra (Executive Director)
3	Mr. Sunil Rajadhyaksha (Executive Director)
4	Mr. Karan Negi (President ARM Business)
5	Mr. Anil Rajadhyaksha (Relative of Mr. Sunil Rajadhyaksha)
6	Mr. Vikram Negi (Relative of Mr. Karan Negi)

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

(Amount in Rs.)

Sr. No.	Name	Nature	For the year ended March 31,	
			2010	2009
1	HOV Re, LLC	Rent paid	21,842,699	18,708,790
		Advances paid	987,923	NIL
2	Rustic Canyon, LLC	Sale of Investments	544,235,105	NIL
		Outstanding received	11,706,279	NIL
3	Bay Area Credit Services, LLC	Services Rendered	6,647,248	NIL
4	Tracmail India Pvt. Limited	Rent paid	23,760,000	31,680,000
5	HOV Capital, LLC	Repayment of Advances	11,751,363	NIL
		Advances received	NIL	11,751,363
6	RC GPM, LLC	Repayment of Advances	407,600	NIL
		Advances received	NIL	407,600
7	HOV FS, LLC	Repayment of Advances	456,445	NIL
8	HOV Procure, LLC	Repayment of Advances	149,637,474	NIL
9	HandsOn Venture, LLC	Repayment of Advances	835,784	NIL
10	HOF 4 Limited	Repayment of Advances	6,419,700	NIL
11	Mr. Sunil Rajadhyaksha	Managerial Remuneration	9,303,784	9,085,072
12	Mr. Parvinder S Chadha	Managerial Remuneration	2,400,000	2,400,000
13	Mr. Karan Negi	Salary	6,960,381	7,181,762
14	Mr. Vikram Negi	Salary	6,024,909	5,837,081
		Reimbursement of Expenses	1,500,018	NIL
14	Mr. Surinder Rametra	Managerial Remuneration	2,400,000	2,400,000
15	Mr. Anil Rajadhyaksha	Salary	400,000	1,200,000
		Commission (Provision written back Rs. Nil, previous year Rs. 312,798)	NIL	(312,798)

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, 2010.

(Amount in Rs.)

Name of the Related party	Nature	Balances As at March 31,	
		2010	2009
Bay Area Credit Services, LLC	Receivable	18,078,812	NIL
HOV Re, LLC	Receivable	2,292,435	1,304,512
HOV FS, LLC	Receivable	NIL	456,445
HandsOn Ventures, LLC	Receivable	NIL	835,784
HOF 4 Limited	Receivable	NIL	6,419,700
Rustic Canyon, LLC	Receivable	NIL	11,706,279
HOV Procure, LLC	Receivable	NIL	149,637,474
HOV AR Management Services Pvt. Limited	Payable	5,752,431	NIL
HOV Capital, LLC	Payable	NIL	11,751,363
RC GPM, LLC	Payable	NIL	407,600
Mr. Parvinder Chadha	Payable	246,777	NIL
Mr. Sunil Rajadhyaksha	Payable	422,480	NIL
Mr. Surinder Rametra	Payable	422,480	NIL
Mr. Karan Negi	Payable	96,000	NIL
Mr. Vikram Negi	Payable	96,000	NIL

**Note:-**

- a. Related party relationship is as identified by management relied upon by the auditors
- b. No balance in respect of related parties has been provided for/ written back / written off during the year, nor has any provision been made for doubtful debts / receivables.

**9. Buy Back of Shares:**

Pursuant to the approval of the Board of Directors of the Company, for buy back of Equity Shares under Section 77A of the Companies Act, 1956 up to 10% of the paid up Equity Share Capital and free reserves of the Company subject to maximum of Rs.5 Crore, at a maximum price of Rs. 50 per share, the Company has bought back 20,000 (Previous year 43,023) equity shares up to March 31, 2010 through open market transactions for an aggregate amount of Rs. 6.52 lacs, by utilizing Securities Premium account to the extent of Rs. 4.55 lacs. Further, the Capital Redemption Reserve account has also been created out of Securities Premium account for Rs. 2.00 lacs being the nominal value of shares bought back during the year in terms of Section 77A of the Companies Act, 1956.

**10. Future lease commitments****Finance Leases**

(Amount in Rs.)

<b>Particulars</b>	<b>As at March 31, 2010</b>	<b>As at March 31, 2009</b>
<u>Not later than one year</u>		
Minimum lease payments	19,600,717	15,475,866
Less: Finance Charges	2,341,886	2,084,840
Present Value of minimum lease payments	17,258,831	13,391,026
<u>Later than one year, but not later than five years</u>		
Minimum lease payments	13,106,246	11,328,964
Less: Finance Charges	876,889	755,455
Present Value of minimum lease payments	12,229,347	10,573,509
<u>Later than five years</u>		
Minimum lease payments	Nil	Nil
Less: Finance Charges	Nil	Nil
Present Value of minimum lease payments	Nil	Nil
<u>Net Carrying amount of assets under finance lease</u>		
Computer Equipment	31,523,902	24,705,292
Vehicles	2,826,862	2,514,466

**Operating Leases**

	<b>As at March 31, 2010</b>	<b>As at March 31, 2009</b>
Operating lease rent recognized in Profit and Loss Account	73,768,368	82,289,797

**Minimum Lease Payments:**

<b>Particulars</b>	<b>As at March 31, 2010</b>	<b>As at March 31, 2009</b>
Up to one year	66,065,753	65,320,471
One to five years	109,129,638	154,333,590
Beyond five years	-	-

**11. Deferred Tax Asset/ (Liability) comprise timing differences on account of:**
**A) In case of Indian subsidiary companies:**

(Amount in Rs.)

Particulars	As on March 31, 2010	As on March 31, 2009
<u>Deferred Tax Asset/(Liability):</u>		
On account of Depreciation	(296,912)	1,306,826
On account of expenditure debited to profit & loss account in current year but allowed for tax purpose in following year	20,029,036	30,452,574
<b>Net Deferred Tax Asset / (Liability)</b>	<b>19,732,124</b>	<b>31,759,400</b>

**B) In case of foreign subsidiaries:**

Deferred tax asset in respect of foreign subsidiary companies have not been considered as a matter of prudence.

**12. Impact of ICAI announcement on derivatives**

Pursuant to ICAI announcement dated March 29, 2008 on "Accounting for Derivatives", the Company has, based on the principles of prudence enunciated in Accounting Standard-1 on "Disclosure of Accounting Policies", recognised mark to market ('MTM') losses on derivative contracts outstanding as at March 31, 2010 to the extent the losses are not offset by the fair value gain on the underlying hedge items. In determining the 'MTM' losses, any compensating gains on underlying transactions (including firm commitments and highly probable forecast transactions) have been netted off and accordingly, the Company has recognized 'MTM' losses of approximately Rs. Nil (Previous year Rs.50.39 million) during the year ended March 31, 2010.

**13. Foreign Currency Exposure:**

Foreign exchange currency exposure not covered by derivative instruments:-

Particulars	Currency type	As at March 31, 2010		As at March 31, 2009	
		Amount in Foreign currency (In USD)	Amount (In Rs.)	Amount in Foreign currency (In USD)	Amount (In Rs.)
Current Assets, Loans & Advances	US Dollar	1,135,417	51,252,715	308,662	15,726,346
Current Liabilities	US Dollar	37,063	1,673,019	37,063	1,888,357
Bank Guarantee Given	US Dollar	37,500,000	1,69,27,50,000	37,500,000	1,910,625,000
Advances from customer	US Dollar	1,290,071	58,233,779	1,979,857	100,874,171
Balance in EEFC Account	US Dollar	2,313	104,393	5,863	298,702

**14. Segment Reporting:**

The group is engaged in BPO business of Finance and Accounting sector. Accordingly there are no separate reportable segments as per Accounting Standard-17 on "Segment Reporting as prescribed by Companies (Accounting Standards) Rules, 2006.

**15.** Previous year's figures are regrouped or rearranged wherever considered necessary to conform to the current year presentation.

**Signatures to Schedule 1 to 14  
For and on behalf of the Board**

**Parvinder S Chadha**  
Chairman & Executive Director

**Sunil Rajadhyaksha**  
Executive Director

**Surinder Rametra**  
Executive Director

Place: Chennai  
Date : May 24, 2010

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**James Reynolds**  
Chief Financial Officer & CAO, Global

### Information regarding Subsidiary Companies For the Year 2009-2010

Amount in Rupees

Sr. No.	Name of Company	Capital	Reserves	Total Assets	Total Liabilities	Details of Investment* (*Except Investment in subsidiary)	Turnover	Profit Before Tax	Provision for Tax	Profit After Tax	Proposed Dividend
1	HOV AR Management Services (I) Pvt. Ltd.*	-	-	-	-	-	95,173,852	(20,594,689)	14,055	(20,608,744)	-
2	Bay Area Credit Service, LLC*	-	-	-	-	-	623,408,169	(153,370,245)	(135,291)	(153,234,954)	-
3	HOV Enterprise Services, Inc.	124,928,245	(12,629,811)	112,298,434	112,298,389	-	63,999,816	(9,886,362)	923,727	(10,810,089)	-
4	Meridian Consulting Group, LLC	49,721,394	228,881,422	278,602,816	278,602,816	-	299,060,882	33,600,724	94,095	33,506,629	-
5	HOV Services, LLC	3,207,286,513	(1,318,019,523)	1,889,266,990	1,889,266,990	-	3,413,660	(1,281,593,974)	-	(1,281,593,974)	-
6	HOV GPM, LLC*	-	-	-	-	-	-	(23,792,456)	-	(23,792,456)	-
7	Rustic Canyon III, LLC	629,679,843	252,964	629,932,808	629,932,808	-	-	-	-	-	-
8	Lason, Inc.	543,372,660	1,229,311,388	8,459,338,513	8,459,338,513	-	6,951,216,169	883,838,223	309,671,812	574,166,411	-
9	Lason India Pvt. Ltd.	20,185,310	178,625,733	228,299,221	228,299,221	-	1,015,551,153	59,195,033	16,547,813	42,647,220	-
10	Verri Software (I) Pvt. Ltd.	100,000	(10,953,525)	53,411,974	53,411,974	-	146,907,345	1,872,883	584,233	1,288,650	-
11	HOVS Holdings Ltd.	5,868	70,775,769	73,564,073	73,564,073	-	21,290,846	37,511,743	-	37,511,743	-
12	HOV Services (Beijing) Ltd.	15,799,000	(39,290,320)	40,049,073	40,049,073	-	80,675,049	(10,000,529)	-	(10,000,529)	-
13	Trac Holdings, LLC*	-	-	-	-	-	19,900,191	(5,883,727)	-	(5,883,727)	-
14	Tracmail AR Services Pvt. Ltd.*	-	-	-	-	-	323,578,944	8,310,034	3,800,000	4,510,034	-
15	Superior Asset Management Holdings, Inc.*	-	-	-	-	-	-	(105,524)	-	(105,524)	-
16	Superior Asset Management, Inc.*	-	-	-	-	-	273,641,440	(2,416,488)	275,713	(2,692,201)	-

\* Subsidiary up to 31.12.2009

**STANDALONE FINANCIAL STATEMENTS**  
**AUDITORS' REPORT**

To

The members

**HOV SERVICES LIMITED**

1. We have audited the attached Balance Sheet of **HOV SERVICES LIMITED** as at 31<sup>st</sup> March, 2010, also the Profit & Loss Account and 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 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 (hereinafter referred to as the "Act"), we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
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 the 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 Section 211(3C) of the Act, to the extent applicable;
  - e) On the basis of the written representation received from directors as on 31<sup>st</sup> March, 2010 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31<sup>st</sup> March, 2010 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 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 31<sup>st</sup> March, 2010;
  - 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 of the Company for the year ended on that date.

For **LODHA & COMPANY**  
*Chartered Accountants*

**R.P.Baradiya**  
Partner  
Membership No.44101  
Firm Registration No. 301051E

Place: Chennai  
Date: 24<sup>th</sup> May, 2010

**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, 2010 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, all the fixed assets have been physically verified by the management at the year end, which in our opinion is reasonable considering the size of the Company and nature of its fixed assets. No discrepancies have been noticed on such physical verification.  
c) During the year, no substantial part of fixed assets has been disposed off by the Company.
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. The Company has not granted or taken any loans, secured or unsecured, to / from companies, firms of other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that purchased of certain items of fixed assets and sale of services are of a special nature for which suitable alternative source do not exist for obtaining comparable 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 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. 5,00,000 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. The Company has not accepted any public deposits within the meaning of Section 58A and 58AA or any other relevant provisions of the Act and rules framed thereunder.
7. In our opinion, the Company has an internal audit system commensurate with the size of the Company 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, Investor Education and Protection Fund, Income Tax, Wealth Tax, Service Tax, Sales Tax, Customs Duty, Excise Duty, Cess and other statutory dues applicable to the Company with appropriate authorities. 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 except as stated below:

Name of the Statute	Nature of Dues	Amount (Rs. In Lacs)	Period to which the amount relates	Due date	Date of Payment
Income Tax	Advance Income Tax	16.91	F.Y. 2009-10	15 <sup>th</sup> September, 2009	Paid on 30 <sup>th</sup> April, 2010

b) According to the records of the Company, there are no dues of Income Tax, Sales Tax, Service Tax, Customs Duty, Wealth Tax, Excise Duty and Cess which have not been deposited on account of any dispute.

10. The Company has no accumulated losses as at March 31, 2010 and has not incurred any cash loss in the financial year under review. It has, however, incurred cash loss in the immediately preceding financial year.

11. In our opinion and according to the information given to us, the Company has not taken any loan from the bank. Therefore, the provisions of clause 4(xi) of the Order are not applicable to the Company.

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. In our opinion, 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. In our opinion, the Company is not dealing in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

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. The Company has not raised any funds on short term basis. Therefore, the provisions of clause 4(xvii) of the Order are not applicable to the Company.
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 or in the recent past.
19. The Company has not issued any debentures during the year or in the recent past.
20. The Company has not raised any money by public issue during the year or in the recent past.
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 & COMPANY**  
*Chartered Accountants*

Place: Chennai  
Date: 24<sup>th</sup> May. 2010

**R.P. BARADIYA**  
Partner  
Membership No. 44101  
Firm Registration No. 301051E

**BALANCE SHEET AS AT MARCH 31, 2010**

	Schedule No.	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>SOURCES OF FUNDS</b>			
<b>1. Shareholders' Funds :</b>			
(a) Share Capital	1	124,910,220	125,110,220
(b) Reserves and Surplus	2	641,960,443	670,381,149
		766,870,663	795,491,369
2 Deferred Tax Liability (Net)		2,840,411	3,864,730
<b>TOTAL</b>		<b>769,711,074</b>	<b>799,356,099</b>
<b>APPLICATION OF FUNDS</b>			
<b>1. Fixed Assets :</b>	3		
(a) Gross Block		25,590,489	27,815,266
(b) Less: Depreciation		9,246,990	7,333,936
(c) Net Block		16,343,499	20,481,330
<b>2. Investments</b>	4	706,110,844	706,104,392
<b>3. Current Assets, Loans and Advances :</b>			
(a) Sundry Debtors	5	45,721,853	8,083,846
(b) Cash and Bank Balances	6	30,032,239	57,777,163
(c) Loans and Advances	7	12,765,696	17,791,078
		88,519,788	83,652,087
<b>Less: Current Liabilities and Provisions:</b>			
(a) Liabilities	8	6,569,414	10,743,860
(b) Provisions	9	34,693,643	137,850
		41,263,057	10,881,710
<b>Net Current Assets</b>		47,256,731	72,770,377
<b>TOTAL</b>		<b>769,711,074</b>	<b>799,356,099</b>
Significant Accounting Policies and Notes forming part of these 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 and on behalf of the Board**

**For LODHA & CO.**  
Chartered Accountants

**Parvinder S Chadha**  
Chairman & Executive Director

**Sunil Rajadhyaksha**  
Executive Director

**Surinder Rametra**  
Executive Director

**R. P. BARADIYA**  
Partner

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**James Reynolds**  
Chief Financial Officer & CAO, Global

Place: Chennai  
Date: May 24, 2010

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010**

	Schedule No.	For the year ended	
		March 31, 2010 Rs.	March 31, 2009 Rs.
<b>INCOME :</b>			
Income from Operations	10	74,911,795	43,773,517
Other Income	11	2,816,245	287,938
Foreign Exchange Variation (Net)		-	2,696,077
		<b>77,728,040</b>	<b>46,757,532</b>
<b>EXPENDITURE :</b>			
Personnel Expenses	12	32,053,182	37,268,359
Operating Expenses	13	20,476,051	24,981,985
Depreciation	3	3,512,160	3,784,788
Foreign Exchange Variation (Net)		3,034,516	-
		59,075,909	66,035,132
Less: Corporate Charges recovered from a Subsidiary Company		(15,904,170)	(7,070,551)
		43,171,739	58,964,581
<b>Profit / (Loss) before Taxation</b>		<b>34,556,301</b>	<b>(12,207,049)</b>
<b>Provision for Taxation</b>			
Current Tax		6,345,000	-
Deferred Tax		(1,024,321)	3,288,617
Fringe Benefit Tax		-	261,000
<b>Profit / (Loss) after Taxation</b>		<b>29,235,622</b>	<b>(15,756,666)</b>
Tax Adjustments for earlier year		966	(11,598)
<b>Net Profit/ (Loss) for the year</b>		<b>29,234,656</b>	<b>(15,745,068)</b>
Profit brought forward from previous year		47,609,525	63,354,593
<b>Amount available for Appropriations</b>		<b>76,844,181</b>	<b>47,609,525</b>
<b>Appropriations:</b>			
(a) Interim Dividend on equity shares		24,982,044	-
(b) Proposed Final Dividend on equity shares		24,982,044	-
(c) Dividend Tax		4,245,699	-
(d) Dividend Tax on Proposed Final Dividend		4,149,205	-
(e) Transfer to General Reserve		2,923,466	-
(f) Balance carried to Balance Sheet		15,561,723	47,609,525
		<b>76,844,181</b>	<b>47,609,525</b>
<b>Basic Earnings per Share (EPS)</b> <b>(Equity Share, per value Rs.10 each)</b> (Refer note no. 3 of notes to Financial Statements in Schedule 14 B)		2.34	(1.25)
Significant Accounting Policies and Notes forming part of these 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 and on behalf of the Board**

**For LODHA & CO.**  
Chartered Accountants

**Parvinder S Chadha**  
Chairman & Executive Director

**Sunil Rajadhyaksha**  
Executive Director

**Surinder Rametra**  
Executive Director

**R. P. BARADIYA**  
Partner

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**James Reynolds**  
Chief Financial Officer & CAO, Global

Place: Chennai  
Date: May 24, 2010

## Cash Flow Statement for the year ended March 31, 2010

Particulars	For the year ended March 31, 2010 Rs.	For the year ended March 31, 2009 Rs.
<b>A. Cash flow from Operating Activities:</b>		
Net Profit/(Loss) before tax	34,556,301	(12,207,049)
<b>Adjustments for:</b>		
Depreciation	3,512,160	3,784,788
Interest Income	(2,742,101)	(287,938)
Loss on sale of fixed Assets	484,040	-
Foreign Exchange (Gain)/Loss, net	3,034,516	(2,696,077)
<b>Operating Profit before Working Capital changes</b>	<b>38,844,916</b>	<b>(11,406,276)</b>
<b>Adjustments for changes in Working Capital :</b>		
(Increase)/Decrease in Sundry Debtors	(40,672,521)	19,613,900
(Increase)/Decrease in Other Receivables	4,895,774	(5,874,019)
Increase/(Decrease) in Trade and Other Payable	(3,109,005)	(793,591)
<b>Cash generated from Operations</b>	<b>(40,836)</b>	<b>1,540,013</b>
Taxes Paid (including Fringe Benefit Tax)	(827,872)	(508,491)
<b>Net cash from/(used in) Operating Activities</b>	<b>(868,708)</b>	<b>1,031,522</b>
<b>B. Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	-	(1,418,073)
Sale of Fixed Assets	141,630	-
Investment in Subsidiaries	(6,452)	55,894,881
Interest Received	2,742,101	287,938
<b>Net Cash from/(used in) Investing Activities</b>	<b>2,877,279</b>	<b>54,764,746</b>
<b>C. Cash flow from Financing Activities:</b>		
Buyback of equity shares	(655,360)	(1,239,798)
Dividend paid	(24,982,044)	-
Dividend tax paid	(4,245,699)	-
<b>Net cash from/(used in) Financing Activities</b>	<b>(29,883,103)</b>	<b>(1,239,798)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents	(27,874,532)	54,556,470
Opening Cash and Cash Equivalents	57,561,163	3,004,693
<b>Closing Cash and Cash Equivalents</b>	<b>29,686,631</b>	<b>57,561,163</b>

**Notes:**

- The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in Accounting Standard 3, Cash Flow Statement prescribed by Companies (Accounting Standards) Rules, 2006.
- Pledged FDRs & funds earmarked for dividend has been excluded from Cash and Cash equivalents and included in Other Receivables.
- Previous year's figures have been regrouped/rearranged where necessary.

As per our attached report of even date

**For and on behalf of the Board**
**For LODHA & CO.**  
 Chartered Accountants

**Parvinder S Chadha**  
 Chairman & Executive Director

**Sunil Rajadhyaksha**  
 Executive Director

**Surinder Rametra**  
 Executive Director

**R. P. BARADIYA**  
 Partner

**Bhuvanesh Sharma**  
 Company Secretary &  
 Compliance Officer

**James Reynolds**  
 Chief Financial Officer & CAO, Global

 Place: Chennai  
 Date: May 24, 2010

## SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE 1	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>SHARE CAPITAL</b>		
<b>Authorised :</b> 3,00,00,000 (Previous year 3,00,00,000) Equity Shares of Rs.10 each.	30,00,00,000	30,00,00,000
<b>Issued, Subscribed &amp; Paidup:</b> 1,24,91,022 (Previous year 1,25,11,022) Equity shares of Rs.10 each, fully paid up	124,910,220	125,110,220
<b>Out of the above Equity Shares</b>		
(a) 29,87,095 (Previous year 29,87,095) shares were issued as fully paid up Bonus shares by capitalisation of the balance lying in profit and loss account		
(b) 20,000 (Previous year 43,023) shares were bought back during the year (Refer note 10 of notes to Financial Statements in Schedule 14 B)		
<b>Total</b>	<b>124,910,220</b>	<b>125,110,220</b>
SCHEDULE 2	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>RESERVES AND SURPLUS:</b>		
<b>(a) Capital Redemption Reserve</b>		
Opening balance as per last balance sheet	430,230	-
Add: Transfer from Securities Premium Account (Refer note 10 of notes to Financial Statements in Schedule 14 B)	200,000	430,230
	630,230	430,230
<b>(b) Securities Premium Account</b>		
Opening balance as per last balance sheet	622,341,394	623,581,192
Less: Utilised towards buy back of equity shares	455,360	809,568
Less: Transfer to Capital Redemption Reserve (Refer note 10 of notes to Financial Statements in Schedule 14 B)	200,000	430,230
Add: IPO Issue Expenses no longer payable, written back	1,158,990	-
	<b>622,845,024</b>	<b>622,341,394</b>
<b>(c) General Reserve</b>		
Opening balance as per last balance sheet	-	-
Add: Transfer from Profit & Loss Account	2,923,466	-
	2,923,466	-
<b>(d) Profit and Loss Account</b> (As per annexed account)	15,561,723	47,609,525
<b>Total</b>	<b>641,960,443</b>	<b>670,381,149</b>

**SCHEDULE FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2010**  
**SCHEDULE 3: FIXED ASSETS**

(Amount in Rs.)

Particulars	Gross Block (at cost)			Depreciation			Net Block			
	As at 01.04.2009	Additions during the year	Deductions/ Adjustments during the year	As at 31.03.2010	Up to 01.04.2009	For the year	Deductions/ Adjustments during the year	Up to 31.03.2010	As at 31.03.2010	As at 31.03.2009
Intangibles:										
Software Product*	17,451,289	-	-	17,451,289	2,167,976	2,181,414	-	4,349,390	13,101,899	15,283,313
Tangibles:										
Plant & Machinery:										
1) Computer including Computer Software	6,888,008	-	988,385	5,899,623	4,122,374	1,098,870	845,251	4,375,993	1,523,630	2,765,634
2) Office Equipment	2,890,246	-	650,669	2,239,577	457,863	231,876	168,132	521,607	1,717,970	2,432,383
Furniture & Fixtures	585,723	-	585,723	-	585,723	-	585,723	-	-	-
<b>Total</b>	<b>27,815,266</b>	<b>-</b>	<b>2,224,777</b>	<b>25,590,489</b>	<b>7,333,936</b>	<b>3,512,160</b>	<b>1,599,106</b>	<b>9,246,990</b>	<b>16,343,499</b>	<b>20,481,330</b>
<b>Previous Year</b>	<b>12,337,002</b>	<b>16,803,459</b>	<b>1,325,195</b>	<b>27,815,266</b>	<b>4,874,346</b>	<b>3,784,788</b>	<b>1,325,198</b>	<b>7,333,936</b>	<b>20,481,330</b>	

\* Meant for License sale or otherwise

SCHEDULE 4	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>INVESTMENTS</b>		
<b>Long Term and Trade (Unquoted)</b>		
<b>Investment in Subsidiaries:</b>		
In HOV Services LLC		
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	706,060,397	706,060,397
In HOVS Holdings Ltd.		
1001 (Previous year 1) Equity share of Hongkong Dollar 1	6,457	5
<b>Total</b>	<b>706,110,844</b>	<b>706,104,392</b>

SCHEDULE 5	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>SUNDRY DEBTORS</b>		
<b>(Unsecured, considered good)</b>		
<b>Outstanding for a period exceeding six months :</b>		
Due from Subsidiary Company		
HOV Services, LLC	510,115	-
Others	-	-
<b>Outstanding for a period not exceeding six months :</b>		
Due from Subsidiary Company		
HOV Services, LLC	36,399,147	917,100
Others	8,812,591	7,166,746
(Also, refer note no.7B of notes to Financial Statements in Schedule 14 B)		
<b>Total</b>	<b>45,721,853</b>	<b>8,083,846</b>

SCHEDULE 6	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>CASH AND BANK BALANCES</b>		
Cash balance in hand	10,742	9,281
<u>Balances with Scheduled Banks :</u>		
(a) In Current Accounts		
(i) Earmarked for dividend	129,608	-
(ii) Others	2,520,671	47,410,501
(b) Fixed Deposits (including interest accrued of Rs.3,89,000; previous year Rs1,41,381)	27,371,218	10,357,381
[of which FDRs of Rs. 2,16,000 (Previous Year Rs.2,16,000) are pledged with banks for guarantees issued]		
<b>Total</b>	<b>30,032,239</b>	<b>57,777,163</b>

SCHEDULE 7	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>LOANS AND ADVANCES</b> (Unsecured, considered good)		
<b>Amount due from Subsidiary Company:</b>		
HOV Services, LLC	5,530,861	7,642,500
Advances recoverable in cash or in kind or for value to be received	500,737	809,913
Advance Tax (Net of provision of Rs. NIL; previous year Rs. NIL)	-	71,390
Advance Fringe Benefit Tax (Net of provision of Rs.2,61,215; previous year Rs.2,61,000)	238,554	238,769
Security / Other Deposits	5,074,470	5,719,510
Service Tax Recoverable	1,421,074	3,308,996
<b>Total</b>	<b>12,765,696</b>	<b>17,791,078</b>

SCHEDULE 8	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>CURRENT LIABILITIES</b>		
<b>Sundry Creditors:</b>		
Micro, Small & Medium Enterprises (Refer Note No.14 of notes to financial statements in schedule 14 B)	-	-
Due to Subsidiary Companies	589,139	1,888,357
Other Creditors	5,186,571	7,912,114
Other Liabilities	664,096	943,389
Unclaimed Interim Dividend *	129,608	-
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>Total</b>	<b>6,569,414</b>	<b>10,743,860</b>

SCHEDULE 9	As at March 31, 2010 Rs.	As at March 31, 2009 Rs.
<b>PROVISIONS</b>		
Provision for Taxes (Net of Advance Tax of Rs. 5,25,000; previous year Rs.NIL)	5,446,919	-
Proposed Final Dividend	24,982,044	-
Dividend Distribution Tax	4,149,205	-
<b>Employee Benefits:</b>		
Leave Entitlement	115,475	137,850
<b>Total</b>	<b>34,693,643</b>	<b>137,850</b>

## SCHEDULES FORMING PART OF PROFIT AND LOSS FOR THE YEAR ENDED

<b>SCHEDULE 10</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
<b>INCOME FROM OPERATIONS</b>		
Software and IT enabled services	74,911,795	40,472,767
Sale of Software License	-	3,300,750
<b>Total</b>	<b>74,911,795</b>	<b>43,773,517</b>
<b>SCHEDULE 11</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
<b>OTHER INCOME</b>		
Interest Received (TDS Rs. 3,01,691; Previous Year Rs.30,680)	2,742,101	287,938
Miscellaneous Income	74,144	-
<b>Total</b>	<b>2,816,245</b>	<b>287,938</b>
<b>SCHEDULE 12</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
<b>PERSONNEL EXPENSES</b>		
Salaries, Wages and Bonus	30,834,478	35,763,313
Contribution to Provident and Other Funds	821,261	977,355
Staff Welfare	199,587	200,435
Recruitment and Training Expenses	45,815	192,215
Insurance Charges	152,041	135,041
<b>Total</b>	<b>32,053,182</b>	<b>37,268,359</b>
<b>SCHEDULE 13</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
<b>OPERATING EXPENSES</b>		
Rent	4,186,414	4,288,620
Repairs & Maintenance:		
Building	143,776	164,403
Plant & Machinery	69,751	33,140
Others	234,747	370,632
Advertisement Expenses	810,617	859,165
Insurance charges	44,812	81,622
Legal & Professional fees	1,791,863	6,255,998
Public Relation Expenses	60,000	1,040,000
Auditors' Remuneration	2,214,190	2,822,860
Communication Costs	826,837	1,149,370
Office Upkeep & Maintenance	609,530	458,985
Sundry Balances Written off	57,301	525,237
Power & Fuel Expenses	2,142,254	1,276,527
Office, Administration & Other Expenses	1,379,676	1,399,032
Loss on Discarded / Sale of Fixed Assets	484,040	-
Rates and Taxes	183,563	264,620
Bank Charges & commissions	8,059	135,821
Travelling & Conveyance Expenses	5,228,621	3,855,953
<b>Total</b>	<b>20,476,051</b>	<b>24,981,985</b>

## SCHEDULE 14

### HOV SERVICES LIMITED

#### SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2010

#### 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 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 sector 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) prescribed by the Companies (Accounting Standards) Rules, 2006 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 sector 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 contract.

##### **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 as at the balance sheet date.

## 6 Impairment of Assets:

In accordance with AS 28 on 'Impairment of Assets' prescribed by the Companies (Accounting Standards) Rules, 2006, 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. Other Software products are amortized over its period of license.

## 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/market value and provision is made to recognize any decline in the carrying value of the investments.

## 9. Employee Benefits:

### a) Gratuity:

Gratuity liability is a defined benefit obligation. The Company has taken an insurance policy under the Group Gratuity Scheme with the Life Insurance Corporation of India (LIC) to cover the gratuity liability of the employees and the amount paid / payable in respect of the present value of liability of past services is charged to the Profit and loss account every year. The difference between the amount paid / payable to LIC and the actuarial valuation made at the end of each financial year is charged to Profit and Loss account.

### b) Provident Fund:

Retirement benefits in the form of Provident Fund / Pension Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective trusts.

**c) Leave Entitlement:**

Liability towards Leave Entitlement 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:**

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.

**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.

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 crystallise. 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 Earnings 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.

### B. NOTES TO FINANCIAL STATEMENTS:

#### 1. Contingent Liabilities not provided for in respect of:

(Amount in Rs.)

	As at March 31, 2010	As at March 31, 2009
Bank Guarantees outstanding on behalf of Subsidiaries	1,692,750,000	1,910,625,000
on behalf of Associates	135,561,059	154,344,886
Others	216,000	216,000

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 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) Accounts 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 (EPS):

Particulars	For the year ended March 31,	
	2010	2009
Net Profit/ (Loss) as per Profit and Loss Account (Rs.)	29,234,656	(15,745,068)
Weighted Average Number of Equity Shares (Nos.)	12,492,315	12,550,279
Basic and Diluted Earning per Equity Share (Rs.)	2.34	(1.25)
Nominal value per Equity Share (Rs.)	10	10

#### 4. Foreign Currency Exposures:

Foreign exchange currency exposure not covered by derivative instruments:

Particulars	As at March 31, 2010			As at March 31, 2009	
	Currency type	Amount in Foreign currency (In USD)	Amount (In Rs.)	Amount in Foreign currency (In USD)	Amount (In Rs.)
Current Assets, Loans & Advances	US Dollar	1,135,417	51,252,715	308,662	15,726,346
Current Liabilities	US Dollar	37,063	1,673,019	37,063	1,888,357
Bank Guarantee given	US Dollar	37,500,000	1,692,750,000	37,500,000	1,910,625,000

#### 5. Leases:

##### a. Operating Lease:

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 13.

##### b. Financial Lease:

There were no financial leases entered into by the Company.

#### 6. Employee Benefits:

Defined Benefit Plans- As per Actuarial Valuations:

I	Assumptions	As on March 31, 2010	As on March 31, 2009
	Discount Rate	8%	8%
	Expected Rate of Return on plan asset	9%	9%
	Salary Escalation	5%	5%
II	Table showing changes in present value of obligations	As on March 31, 2010	As on March 31, 2009
	Present value of obligations as at beginning of year	638,594	423,639
	Interest cost	51,088	33,891
	Current Service Cost	234,006	180,610
	Benefits Paid	NIL	NIL
	Actuarial (gain)/Loss on obligations	(235,987)	454
	Present value of obligations as at end of year	687,701	638,594

<b>III</b>	<b>Table showing changes in the fair value of plan assets</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Fair value of plan assets at beginning of year	694,450	290,803
	Expected return on plan assets	63,862	26,915
	Contributions	128,449	376,732
	Benefits paid	NIL	NIL
	Actuarial Gain / (Loss) on Plan assets	NIL	NIL
	Fair value of plan assets at the end of year	886,761	694,450
<b>IV</b>	<b>Table showing fair value of plan assets</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Fair value of plan assets at beginning of year	694,450	290,803
	Actual return on plan assets	63,862	26,915
	Contributions	128,449	376,732
	Benefits Paid	NIL	NIL
	Fair value of plan assets at the end of year	886,761	694,450
	Extra Funding	199,060	55,856
	Excess of Actual over estimated return on plan assets (Actual rate of return = Estimated rate of return as ARD falls on 31st March)	NIL	NIL
<b>V</b>	<b>Actuarial Gain/Loss recognized</b>	<b>As on March 31, 2010</b>	<b>As on March 31, 2009</b>
	Actuarial gain/(loss) for the year -Obligation	2,35,987	454
	Actuarial (gain)/loss for the year - plan assets	NIL	NIL
	Total (gain)/loss for the year	(235,987)	(454)
	Actuarial (gain)/loss recognized in the year	(235,987)	(454)
<b>VI</b>	<b>The amounts to be recognized in the balance sheet and statements of profit and loss</b>	<b>For the year ended March 31, 2010</b>	<b>For the year ended March 31, 2009</b>
	Present value of obligations as at the end of year	687,701	638,594
	Fair value of plan assets as at the end of the year	886,761	694,450
	Funded status	199,060	55,856
	Net Asset/(liability) recognized in balance sheet	(199,060)	(55,856)

VII	Expenses Recognised in statement of profit & loss	For the year ended March 31, 2010	For the year ended March 31, 2009
	Current Service cost	234,006	180,610
	Interest Cost	51,088	33,891
	Expected return on plan assets	(63,862)	(26,915)
	Net Actuarial (gain)/loss recognised in the year	(235,987)	454
	Expenses recognised in statement of profit & loss	(14,755)	1,88,040

## 7. Related Party Transactions

Related party disclosures as required by AS-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	HOVS Holdings Limited

##### (ii) Subsidiaries of Subsidiary's

1	HOV Services (Beijing) Limited
2	HOV Enterprise Services, Inc.
3	Meridian Consulting Group, LLC
4	Rustic Canyon III, LLC
5	Lason, Inc.
6	Lason India Pvt. Limited
7	Vetri Software (I) Pvt. Limited
8	Trac Holding, LLC*
9	Bay Area Credit Service, LLC*
10	HOV AR Management Services Pvt. Limited*
11	Superior Asset Management Holding, LLC*
12	Superior Asset Management, Inc*.
13	Tracmail AR Services Pvt. Limited*
14	HOV GPM, LLC*

\* Up to December 31, 2009, thereafter Associates

**b) Associates:**

Sr. No	Name
1	HOF 4, Limited
2	HandsOn Venture, LLC
3	Trac Holding, LLC
4	Bay Area Credit Service, LLC
5	HOV AR Management Services Pvt. Limited.
6	Superior Asset Management Holding, LLC
7	Superior Asset Management, Inc.
8	Tracmail AR Services Pvt. Limited
9	HOV GPM, LLC
10	Tracmail India Pvt. Limited

**c) Directors/Key Managerial Personnel and their relatives:**

Sr. No.	Name
1	Mr. Parvinder S Chadha (Chairman and Executive Director)
2	Mr. Surinder Rametra (Executive Director)
3	Mr. Sunil Rajadhyaksha (Executive Director)
4	Mr. Karan Negi (President ARM Business)
5	Mr. Anil Rajadhyaksha (Relative of Mr. Sunil Rajadhyaksha)

**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,	
		2010	2009
HOV AR Management Services Pvt. Limited Unsecured Loans Given	Subsidiary	255,024	14,440,210
Loan Repaid		255,024	15,336,802
Bay Area Credit Service, LLC Services Provided (up to December 31, 2009)	Subsidiary	26,055,849	34,067,316
Bay Area Credit Service, LLC			

Services Provided (from January 1, 2010)	Associates	6,647,248	NIL
Meridian Consulting Group, LLC Services Provided	Subsidiary	NIL	567,000
Imperial Collection Service Services Provided	Subsidiary	NIL	346,501
HOV Enterprise Services, Inc. Services Provided	Subsidiary	NIL	478,800
Digital Boardwalk, LLC Services Provided	Subsidiary	NIL	88,200
HOV Services, LLC Services Provided		40,066,758	3,290,280
Reimbursement of Expenses	Subsidiary	15,904,170	7,070,551
Profession fees Reimbursed		1,421,360	NIL
Travelling Expenses Reimbursed		36,329	NIL
HOVS Holdings, Ltd Additional capital infusion	Subsidiary	6,452	NIL
Mr. Surinder Rametra Managerial Remuneration	Key Managerial Personnel	2,400,000	2,400,000
Mr. Parvinder S Chadha Managerial Remuneration	Key Managerial Personnel	2,400,000	2,400,000
Mr. Sunil Rajadhyaksha Managerial Remuneration	Key Managerial Personnel	2,400,000	2,400,000
Mr. Karan Negi Salary	Key Managerial Personnel	96,000	96,000
Mr. Anil Rajadhyaksha Salary	Relative of Key Managerial Personnel	400,000	1,200,000
Commission (Provision written back NIL, previous year 3,12,798)		NIL	(312,798)

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

Name of the Party	Nature of Relationship	Balance as on	
		31.03. 2010	31.03. 2009
HOV Services, LLC Investment in Shares	Subsidiary	705,733,714	705,733,714
HOVS Holdings Limited	Subsidiary	6,452	5

Meridian Consulting Group, LLC			
Debtors	Subsidiary	NIL	NIL
Creditors		589,139	664,969
HOV Services, LLC (Debtor)	Subsidiary	36,909,262	917,100
HOV Services, LLC (Receivables)	Subsidiary	5,530,861	7,642,500
HOV Services, LLC			
Guarantee Given	Subsidiary	1,692,750,000	1,910,625,000
Bay Area Credit Service, LLC			
Debtors	Associates	8,812,591	5,791,096
Creditors		1,083,879	1,223,388
Tracmail India Pvt. Limited			
Guarantee Given	Associates	135,561,059	154,344,886
Hands On Venture, LLC			
	Associates	86,739	86,739
Mr. Surinder Rametra	Key Managerial Personnel	422,480	NIL
Mr. Parvinder S Chadha	Key Managerial Personnel	246,777	NIL
Mr. Sunil Rajadhyaksha	Key Managerial Personnel	422,480	NIL
Mr. Anil Rajadhyaksha	Relative of Key Managerial Personnel	74,427	NIL
Karan Negi	Key Managerial Personnel	96,000	NIL

- 1) Related party relationship is as identified by the management and relied upon by the auditors.
- 2) No amounts in respect of related parties have been written off/ written back during the year, nor has any provision been made for doubtful debts/ receivable.

#### 8. Employees Stock Option Plan (Plan 2007):

The shareholders in its Nineteenth Annual General meeting held on July 21, 2007 has approved to issue 11,00,000 equity shares of a face value of Rs.10 each with each such option conferring a right upon the employee to opt for one equity share of the company, in terms of HOVS ESOP Plan 2007. Under the plan, 4,00,000 options were reserved for employees of the Company and 7,00,000 for employees of subsidiary companies. Options were issued to employees at an

exercise price not less than closing price of the stock exchange where there is highest trading volume, prior to the date of meeting of the Compensation & Remuneration Committee in which options are granted. The options will vest in a phased manner within five years as 10% in each first to four years and balance 60% at the end of fifth year.

The details of grant made and lapsed under Plan 2007 are as below:

Particulars	2009-10		2008-09	
	Directors	Other than Directors	Directors	Other than Directors
Options outstanding at the beginning of the year	15,000	818,550	7,500	6,03,000
Options Granted during the year	NIL	NIL	7,500	2,38,550
Options Lapsed	5,000	60,600	NIL	23,000
Options outstanding at the end of the year	10,000	7,57,950	15,000	8,18,550

During the year no employees has exercised the option, hence no further details has been given.

#### 9. Employees Stock Option Plan (Plan 2008):

The shareholders in its Twentieth Annual General meeting held on September 30, 2008 approved additional 7,50,000 equity shares of a face value of Rs.10 each with each such option conferring a right upon the employee to opt for one equity share of the Company, in terms of HOVS ESOP Plan 2008. Under the 2008 plan, 7,50,000 options were reserved for employees of the subsidiary companies of the Company, working in India or out of India.

Options were issued to employees at an exercise price not less than closing price of the stock exchange where there is highest trading volume, prior to the date of meeting of the Compensation & Remuneration Committee in which options are granted. The options will vest in a phased manner within five years as 10% in each first to four years and balance 60% at the end of fifth year. No options are granted under ESOP Plan 2008.

#### 10. Buy Back of Shares:

Pursuant to the approval of the Board of Directors of the Company, for buy back of Equity Shares under Section 77A of the Companies Act, 1956 upto 10% of the paid up Equity Share Capital and free reserves of the Company subject to maximum of Rs.5 Crore, at a maximum price of Rs. 50 per share, the Company has bought back 20,000 (Previous year 43,023) equity shares up to March 31, 2010 through open market transactions for an aggregate amount of Rs. 6.52 lacs, by utilizing Securities Premium account to the extent of Rs. 4.55 lacs. Further, the Capital Redemption Reserve account has also been created out of Securities Premium account for Rs. 2.00 lacs being the nominal value of shares bought back in terms of Section 77A of the Companies Act, 1956.

**11. Managerial Remuneration:**

(Amount in Rs.)

Particulars	For the year ended March 31	
	2010	2009
a) To Executive Directors Salaries and Allowances	7,200,000	7,200,000
b) To Other Directors Sitting Fees	470,000	370,000

**12. Deferred Tax Asset/ (Liability) comprise timing differences on account of:**

(Amount in Rs.)

Particulars	As on March 31	
	2010	2009
Deferred Tax Liability: On account of Depreciation	(2,840,411)	(3,864,732)
Net Deferred Tax Asset / (Liability)	(2,840,411)	(3,864,732)

**13. Auditors' Remuneration:**

(Amount in Rs.)

Particulars	For the year ended March 31,	
	2010	2009
Payment to Statutory Auditors:		
Audit Fees	1,100,000	1,100,000
Limited Review Fees	990,000	13,20,000
Certification Fees	70,000	277,500
Advisory Services	NIL	85,000
Reimbursement of Out of Pocket Expenses (Included service tax of Rs. 2,28,403, previous year Rs. 3,24,185)	282,593	364,545
<b>Total</b>	<b>2,442,593</b>	<b>3,147,045</b>

14. 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.

15. The Company is engaged in the BPO business of Finance and Accounting Sector. Accordingly there are no separate reportable segments as per Accounting Standard 17 on "Segment Reporting" prescribed by Companies (Accounting Standarded) Rules, 2006.

**16. Remittance in foreign currencies for dividends:**

The Company has remitted Rs. 15,411,850/- in foreign currency on account of interim dividend paid during the year. The particulars of dividend paid to non resident shareholders for the current year are as under:

Particulars	Number of Non- Resident Shareholders		Number of Equity Shares held		Gross amount of dividend remitted	
	2010	2009	2010	2009	2010	2009
Interim dividend declared in Financial Year 2009-10	14	NIL	7,705,925	NIL	15,411,850	NIL

**17. 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 cannot 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,	
	2010	2009
<b><u>Earnings in Foreign Exchange</u></b>		
Income from Operations	74,911,795	43,773,517
<b><u>Expenditures in Foreign Currency</u></b>		
Travelling Expenses	NIL	97,002

18. 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 14**  
**For and on behalf of the**  
**Board of Directors of HOV Services Limited**

**Parvinder S Chadha**  
 Chairman & Executive Director

**Sunil Rajadhyaksha**  
 Executive Director

**Surinder Rametra**  
 Executive Director

Place: Chennai  
 Date : May 24, 2010

**Bhuvanesh Sharma**  
 Company Secretary &  
 Compliance Officer

**James Reynolds**  
 Chief Financial Officer & CAO, Global

**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-2010

**II. Capital Raised During the year (Amt Rs. 000)**

Public Issue	NIL
Right Issue	NIL
Bonus Issue	NIL
Private Placement	NIL

**III. Position of Mobilization and Deployment of Funds (Amt Rs. 000)**

Total Liabilities	769,711
Total Assets	769,711

**Sources of Funds**

Paid Up Capital	124,910
Reserve and Surplus	641,961
Secured Loans	NIL
Unsecured Loans	NIL
Deferred Tax	2,840

**Application of the Funds**

Net Fixed Assets	16,343
Capital WIP	NIL
Investments	706,111
Net Current Assets	47,257
Miscellaneous Exp	NIL
Accumulated Loss	NIL

**IV. Performance Of Company**

Income	74,912
Total Expenditure	43,172
Profit before Tax	34,556
Profit after Tax	29,235
Earnings Per Share in Rs.	2.34
Dividend%	40%

**V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)**

Item Code No.	8524
Product Description	Software Services & Development

## NOTICE OF 22<sup>ND</sup> ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty-Second Annual General Meeting of the Members of HOV Services Limited will be held on Wednesday, the 21<sup>st</sup> day of July, 2010 at 3:00 PM 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, 2010 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 declare dividend for the financial year ended March 31, 2010. The Board has recommended dividend @ 20 % per equity share of Rs. 10/- each.
3. To re-appoint Mr. Ajay Madan as Director of the Company, who retires by rotation.
4. 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

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

**"RESOLVED THAT** Mr. Prakash Shukla, holding office up to this Annual General Meeting, having appointed as an Additional Director, being eligible for appointment and in respect of whom the Company having received notice in writing under Section 257 of the Companies Act, 1956 from a member proposing his candidature for the office of a director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

By Order of the Board  
**HOV Services Limited**

Place: Chennai  
Date: May 24, 2010

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**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.***

2. 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. 5**

The Board of Directors of the Company at its meeting held on October 26, 2009 had appointed Mr. Prakash Shukla as an Additional Director under Section 262 of the Companies Act, 1956 read with Articles of Association of the Company. Mr. Prakash Shukla holds office only till the date of this Annual General Meeting.

Notice in writing from a member pursuant to Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Prakash Shukla for the office of Director, liable to retire by rotation.

None of the Directors of the Company, other than Mr. Prakash Shukla, is deemed to be concerned or interested in the resolution at Item No. 5 of the accompanying notice. He does not hold any shares in the Company.

The Board recommends the resolution set forth in Item No. 5 for the approval of members.

3. Pursuant to provision of Section 256 of the Companies Act, 1956 and Article 168 of Article of Association of the Company Mr. Ajay Madan, Director being liable to retire by rotation.
4. SEBI has made it mandatory to distribute dividends through Electronic Clearing Service (ECS). Members holding shares in electronic form may kindly note that their Bank account details, as furnished by their DPs to the Company, will be printed on their dividend warrants as per the applicable regulations of the DPs. Members are requested to notify change in their Bank account details, if any, to their DPs immediately and not to send the requests for the change in their Bank account details directly to the Company or to its Share Transfer Agent.
5. Members holding shares in physical form are requested to intimate to the Share Transfer Agent of the Company under the signature of the sole/first joint holder(s), the following information to be incorporated on dividend warrants.
  - i) Name of the sole/first joint holder(s) and the folio number.
  - ii) Particulars of Bank account like name of the bank, name of branch, bank account number allotted by the bank, complete address of the bank with pin code.
6. Members holding shares in physical form are requested to quote their folio number in all correspondence with the Company and to intimate the following directly to the Company's Registrar and Share Transfer Agent, Karvy Computershare Private Limited, Karvy House, 46 Avenue 4, Banjara Hills, Hyderabad-500 034:
  - a. Change, if any in their address;
  - b. Request for nominations form as per the provisions of the Companies Act, 1956.

7. Members holding share in dematerialized form are requested to contact their Depository Participant for any change in their particulars.
8. Members are requested to send their queries, if any, at least 10 days in advance to the Company Secretary of Company to facilitate the reply.
9. The certificate from the Auditors of the Company certifying that the Company's HOVS ESOP Plan 2007 & HOVS ESOP Plan 2008 is being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 will be available for inspection by members at the AGM.

By Order of the Board  
**HOV Services Limited**

Place: Chennai  
Date: May 24, 2010

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**BRIEF RESUME OF DIRECTORS SEEKING RE-APPOINTMENT / APPOINTMENT**

**Mr. Prakash Shukla**

Mr. Prakash Shukla, a visionary and goal oriented senior executive brings valuable expertise to the expanding network of Taj Group of Hotels & Resorts. He is currently responsible for total IT deployments at the Taj Group. Mr. Shukla has excellent experience working with some of the industry's most venerable corporations that includes Unisys / Sperry, IBM and has opportunity to provide IT solutions for numerous clients such as Morgan Stanley, Goldman Sachs, Citigroup, and Solomon Smith Barney.

Mr. Shukla is an Electrical Engineer from Rutgers University. He holds a Master's degree in Computer Science from New York Polytechnic University and attended the Advanced Management Program at Harvard Business School.



**PROXY FORM**

I/We.....  
of ..... being a member(s) of HOV Services Ltd 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 Twenty-Second Annual General  
Meeting of the Members of HOV Services Limited to be held on Wednesday, the 21<sup>st</sup> day of July, 2010 at 3:00  
PM at Le Meridien, Raja Bahadur Mill Road, Pune, Maharashtra-411001 and at any adjournment thereof.  
Signed this .....day of.....2010.

Folio No. : ..... No. of Shares held : .....  
Client Id : ..... DP Id : .....  
Signature : .....

<p>Affix 15 paise stamp revenue</p>
---

**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 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 Twenty-Second Annual General Meeting held on Wednesday, the 21<sup>st</sup> day of July, 2010 at 3:00 PM 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:**

3<sup>rd</sup> Floor, Sharda Arcade,  
Pune Satara Road,  
Bibwewadi, Pune -411 037

**Day and Date :** Wednesday, July 21, 2010

**Time :** 3:00 PM

**Venue :** Le Meridien, Raja Bahadur Mill Road,  
Pune - 411001

*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](mailto:mailmanager@karvy.com)