

# **HOVS**

**HOV Services Limited**



**23<sup>rd</sup> Annual Report 2010-11**

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## Corporate Information

### Registered & Head Office

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

### Registrar & Share Transfer Agent

Karvy Computershare Pvt Ltd., 17-24, Vittal Rao  
Nagar, Madhapur, Hyderabad-500 081  
Tel: (91 40)-44655000; 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 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. 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>

Dear Members:

By the time this Annual Report reaches you, we would have already announced some very exciting news. We have merged our indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. ("SOURCECORP"), a portfolio company of Apollo Management V, L.P.

SOURCECORP is a Texas, US based BPO services and specialty consulting services company. Shareholders of HOV Services and SOURCECORP will each control 50% of the combined entity now called SOURCEHOV, Inc., a Delaware corporation. This merger brings together two highly recognized companies and creates one of the largest global business process outsourcing and professional consulting services entities in the world. The management team of SOURCEHOV has over 25 years of expertise in the Industry, with a proven track record of seamlessly integrating core M&A components and continuously innovating new technologies, expanding end-to-end service offerings and always creating additional value for its customers.

With the combination of these two great companies, we now have strength and resources of 14,000+ associates and the potential to achieve a truly great future. This will not be easy and we will face challenges as we start this new chapter in HOVS' history, but we are confident that our expanded SOURCEHOV team can overcome obstacles and seize opportunities of all kinds. SOURCEHOV dedicated resources commit to work hard together and aim to excel beyond the paces of our competitors, carving out a significant role for SOURCEHOV in the global market and are excited to be a part of the team making history. We are very proud of our team and share their excitement and commitment to a very bright future.

On behalf of the shareholders and the Board of HOVS, I would like to thank each and every employee and member of HOVS (now part of SOURCEHOV), the SOURCECORP members and our partners at Apollo for making this combination a reality.

Furthermore, we were honored by the Maharashtra Government with an award for "Maharashtra Information Technology Support Services- BPO / KPO award 2010". We were nominated by Global Services 100 survey 2010 amongst the Top BPO provider in three categories namely, "Industry Specific BPO Vendors", "Top BPO Vendors" and "Top FAO Vendor" list; and NASSCOM, in its Annual BPO Survey 2010, ranked us on the list of "Top 15 BPO Exporters" list. Each one of these awards is a testimony of your Company's robust business model and delivery excellence.

We believe that 2010-11 was the pivoting point for the industry in many ways. From 10,000 ft, the industry has witnessed the mutual benefit of outsourcing from all involved – contrary to what analysts had initially warned. Indian companies have notably invested in the US, while US companies have increased the sale of US products to India, in effect creating jobs that many had feared were lost to outsourcing. Secondly, the maturity of the domestic market, product ecosystem of start-ups, growth in core markets and recognition that global sourcing is not just about cost savings (but fundamentally transforming each customer's business model) are significant trends that will reshape the industry in this decade.

In closing, I would like to thank you in addition to each and every one of our HOV family members for your continued and unwavering support. Our future is bright and each new step beholds challenges unforeseen, but, that being said, we are committed and steadfast.

I look forward sharing our victories – small and large – with you.

Best Regards and thank you again,

Parvinder S Chadha

Chairman & Executive Director

## Directors' Report

Your Directors are pleased to present the Company's Twenty- Third Annual Report on the Business and Operations of HOV Services Limited (the "Company" or "HOVS") together with the Audited Statement of Accounts for the year end March 31, 2011.

HOVS is one of the largest end-to-end BPO Company, 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 2010-11, your Company has recorded consolidated revenue of Rs. **7092.53** million and **profit** after tax was Rs. **537.30** 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	
	2011	2010	2011	2010
<b>INCOME</b>				
Income from Operation	7,092.53	8,483.93	247.40	74.91
Other Income	15.65	14.74	2.28	2.82
	<b>7,108.18</b>	<b>8,498.67</b>	<b>249.68</b>	<b>77.73</b>
<b>EXPENDITURE</b>				
Staff Cost	3,607.22	4,474.60	56.31	32.05
General and Administrative Expenses	2,374.87	4,133.09*	22.57	7.61
	<b>5,982.09</b>	<b>8,607.69</b>	<b>78.88</b>	<b>39.66</b>
<b>Profit / (Loss) before Interest, Depreciation and Tax</b>	<b>1,126.09</b>	<b>(109.02)</b>	<b>170.80</b>	<b>38.07</b>
Less: Interest	292.75	336.25	-	-
Less: Depreciation	291.64	252.17	3.72	3.51
<b>Profit / (Loss) before Tax</b>	<b>541.70</b>	<b>(697.44)</b>	<b>167.08</b>	<b>34.56</b>
Less: Provisions for taxes				
Current Tax	3.88	48.78	0.38	6.35
Deferred Tax	0.52	15.10	0.52	(1.02)
<b>Profit / (Loss) after Tax</b>	<b>537.30</b>	<b>(761.32)</b>	<b>166.18</b>	<b>29.23</b>
Less: Minority Interest	-	(2.92)	-	-
<b>Profit / (Loss) after Tax &amp; Minority Interest</b>	<b>537.30</b>	<b>(758.40)</b>	<b>166.18</b>	<b>29.23</b>

\*Includes Exceptional items of Rs. 1327.64 Million.

**1. RESULTS OF OPERATIONS:****Consolidated Financial Performance for the Fiscal Year (FY) ended March 31, 2011**

FY 2010-11 was the pivoting point for the industry – the current US Economy and Federal & State Budgets being at impasse caused drop in Revenues and EBIDTA, but the management is confident that their actions being taken will result in solid growth in the coming years.

The performance of the year ended March 31, 2011 highlighted as follows:

- Consolidated total Income for the current FY decreased 16.40% to Rs. 7,092.54 million from Rs 8,483.94 million for the corresponding last fiscal year 2009-10
- EBIDTA decreased by 7.8% for the FY to Rs. 1,110.4 million from Rs. 1,203.9 million over the corresponding last fiscal year 2009-10
- Net Profit was Rs. 537.3 million versus a Net Loss of Rs. 758.4 million reported in the prior year.
- The basic and diluted Earnings per share (EPS) were Rs 23.40 for the Year ended March 31, 2011.

**Standalone Financial Performance for the Year ended March 31, 2011**

- Total Income for the current FY increased 230.26% to Rs. 247.40 million from Rs 74.91 million for the corresponding last fiscal year 2009-10
- EBIDTA increased by 379.15% for the FY to Rs 168.47 million from Rs 35.17 million over the corresponding last fiscal year 2009-10
- Net Profit was Rs. 166.13 million versus a Net Profit of Rs. 29.24 million reported in the prior year
- The basic and diluted Earnings per share (EPS) are Rs 13.30 for the Year ended March 31, 2011.

**2. SIGNIFICANT DEVELOPMENTS:****(a) Key Highlights during the year were:**

- Added new business with over US \$12.0 million in total contract value in the fourth quarter FY 2010-11.
- Top 100 clients represent over 78% of total revenues with the largest customer representing only 19% of total revenues.
- Company maintained strong liquidity position with –
  - a. DSO (Debt Sale Outstanding) of 56 days
  - b. Debt to Equity Ratio of 1.39
  - c. Net Bank Debt of US\$ 113.6 million at March 31, 2011 as against US\$ 102.8 million at March 31, 2010.

**(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;
- Global Presence and experienced team with over 8,357 associates, strategically located across the globe: India 5,851, North America 1,440, China 655 and Mexico 411

- HOVS is also nominated with the following recognition / awards during the year 2010-2011:
  - 1) Nasscom Annual Survey 2010 has ranked HOV Services amongst the "Top 15 BPO Exporters 2009- 10" in India.
  - 2) 2010 Global Services 100 (GS 100) Survey has awarded HOV Services as a Top BPO provider in three categories namely, "Industry Specific BPO Vendors", "Top BPO Vendors" and "Top FAO Vendors" list.
  - 3) Government of Maharashtra has honoured HOV Services with "Maharashtra Information Technology Support Services- BPO /KPO award 2010".

**(c) Appropriations:**

**(i) Dividend:**

Your Board of Directors at the meeting held on May 27, 2011 recommended a final dividend of Rs. 2 per fully paid up equity share of Rs. 10/- each for the financial year 2010-11.

Earlier, during the year under review, your Board had declared an interim dividend of Rs. 2/- per equity share of Rs. 10/- each of the Company for every quarter as detailed below;

Quarter ended FY 2010-11	Interim dividend declared	Record date	Payment Date
Q1	1st	August 21, 2010	August 27, 2010
Q2	2nd	November 3, 2010	November 18, 2010
Q3	3rd	February 2, 2011	February 21, 2011

For the financial year 2010-11 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:** Your Company proposes to transfer Rs 16,617,943/- to the general reserve.

**3. Re structuring of subsidiary companies**

During the year under review your Board of Directors has consented the steps taken by HOV Services LLC for restructure of its subsidiary companies in order to maximize business operations efficiencies. The details of restructuring steps taken are as herein below:

- i)** The Board of Directors in its meeting held on February 27, 2011 accorded consent to incorporate a HOV SPV LLC in Delaware under the laws of Unites States of America as a wholly owned subsidiary of the Company.

And, HOV SPV LLC in turn incorporated HOVS Corp., a Nevada corporation under the laws of Unites States of America as a step down subsidiary of the Company.

Subsequently, the HOV SPV LLC name was changed to HOVS LLC on March 17, 2011;

- ii)** Thereafter, the Board of Directors of the Company in its meeting held on March 9, 2011 approved the merger of HOV Services LLC with HOVS Corp (a Nevada corporation and wholly owned subsidiary of HOVS LLC, a Delaware company as discussed in paragraph (i)

above). As a result of the merger HOV Services LLC continued as the surviving entity and as a wholly-owned subsidiary of HOVS LLC.

#### **4. Joint Venture ("JV")**

On March 12, 2011 the Board of Directors of HOVS accorded consent for the merger of its indirect subsidiary of the company HOV Services LLC incorporated under the laws of Delaware, ("HOV Services") with SOURCECORP, Inc., a portfolio company of Apollo Management V, L.P. incorporated under the laws of Delaware ("SOURCECORP"), a Texas-based BPO services and specialty consulting Services Company (the "Transaction").

Shareholders of HOV Services and SOURCECORP will each control 50% of the combined entity, i.e. SOURCEHOV, Inc., ("SOURCEHOV"), a Delaware corporation. The merger brings together two highly recognized companies and created one of the largest global business process outsourcing and professional consulting services entities in the world. The management team of SOURCEHOV has over 25 years of expertise in the Industry, with a proven track record of seamlessly integrating core M&A components and continuously innovating new technologies to create end-to-end services and new value for its customers.

The new company SOURCEHOV, with approximately \$480 million in revenue, is one of the largest pure play BPO and specialty consulting companies in the industry, serving customers in more than half of the Fortune 100® with deep domain expertise, including document centric applications, in Healthcare Payer and Provider, Finance and Banking, Public Sector, Publishing, Legal, Insurance, Manufacturing and Commercial industries, including specialized consulting services for construction management, tax benefits, legal claims settlements and economic consultancy. With this combination, the Company's global workforce is now more than 14,200 employees operating from approximately 80 delivery centers in 6 countries viz U.S., Mexico, Canada, India, China and Philippines.

As of April 29, 2011, the HOV Services completed previously announced merger of its indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. The new name of the combined company is SourceHOV Inc., reflecting the union of our two companies and our expanded capabilities.

Subsequent to aforesaid merger the Company's head office is relocated to 3<sup>rd</sup> Floor, Sharda Arcade, Pune Satara Road, Bibwewadi, Pune-411 037.

#### **5. Class A preferred Units by HOV Services LLC**

Effective April 29, 2011, by virtue of the closure of the merger of its indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. ("SOURCECORP"), the 10,467,532 Class A preferred Units issued by HOV Services LLC and outstanding as of March 31, 2011, have ceased to exist. Therefore, effective May 2, 2011 the fully diluted outstanding share capital of the Company on consolidated basis comprised of 12, 491, 022 equity shares of Rs 10/- each only.

#### **6. ADR/GDR**

In the earlier proposed 15,000,000 of ADR/GDR issue by the Company, none of the underlying equity shares are issued.

#### **7. Employee Stock Option Plan (ESOP)**

- a) The Company instituted "**HOVS Stock Option Plan 2007**" and "**HOVS Stock Option Plan 2008**" for its employees and for employees 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 were 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 options granted and lapsed under **Plan 2007** are as below:

	Plan 2007		
	Employees of the Company	Employees of the subsidiary Companies	Total
<b>Approved Options</b>	<b>400,000</b>	<b>700,000</b>	<b>1,100,000</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 1, 2011</b>	<b>155,150</b>	<b>217,900</b>	<b>373,050</b>
<b>Options in force</b>	<b>14,500</b>	<b>526,000</b>	<b>540,500</b>
<b>Balance options available</b>	<b>385,500</b>	<b>174,000</b>	<b>559,500</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
25-Oct-07	0	20,000	20,000
30-Jul-08	7,500	183,550	191,050
8-Oct-08	0	55,000	55,000
<b>Total number of Options Granted</b>	<b>15,000</b>	<b>898,550</b>	<b>913,550</b>
<b>Options lapsed as of April 1, 2011</b>	<b>10000</b>	<b>363,050</b>	<b>373,050</b>
<b>Options outstanding</b>	<b>5,000</b>	<b>535,500</b>	<b>540,500</b>

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

As of March 31, 2011

	Plan 2007	Plan 2008
<b>a.</b> Options Granted:	9,13,550	Nil
<b>b.</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
<b>c.</b> Options Vested:	Nil	Nil
<b>d.</b> Options Exercised:	Nil	Nil
<b>e.</b> Total number of shares arising as a result of exercise of options:	9,13,550	Nil
<b>f.</b> Options lapsed:	3,73,050	Nil
<b>g.</b> Variation of terms of option:	NA	NA
<b>h.</b> Money realized by exercise of options:	NA	NA
<b>i.</b> Total number of options in force:	5,40,500	Nil
<b>j.</b> Employee wise details of Options granted to:		Nil
i. Senior Management personnel:	5,40,500	
ii. Employee receiving 5% or more of the total number of options granted during the year:	Nil	
iii. Employee granted 1% or more of the issued capital:	Nil	
<b>k.</b> Diluted EPS on issue of shares on exercise calculated in accordance with AS 20.	NA	NA

- b) **The Compensation & Remuneration Committee in its meeting held on May 27, 2011 have granted options out of the ESOP Plan 2007 as per detailed below:**

Grant Date	Independent Directors	Employees of the Company	Employee of the subsidiary company	Total
May 27, 2011	30,000	22,500	10,000	62,500

- c) The Compensation and Remuneration Committee and the Board of Directors in their respective meetings held on May 27, 2011 consented, in the best interest of employees of HOV Services LLC which is merged with SOURCECORP, to continue the options of all such employees whom the options were granted out of the HOVS ESOP Plan 2007 during the year 2007 and 2008.

## 8. 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. 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 16(b) of schedule 14B to the Accounts of the Annual Report.

## 9. Particulars of Employees:

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

## 10. 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 remained cordial throughout the year.

#### **11. 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.

#### **12. 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.

#### **13. 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.

#### **14. 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.

#### **15. 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.

#### **16. Directors**

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

The Board of Directors in their meeting held on May 27, 2011 had subject to the approval of Central Government, approved re-appointment of Mr. Parvinder S Chadha, Mr. Sunil Rajadhyaksha and Mr. Surinder Rametra as whole-time directors of the Company w.e.f April 1, 2011 for a period of five years.

## 17. 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 January 25, 2011. 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.

## 18. 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: Mumbai

Date : May 27, 2011

**Parvinder S Chadha**

Chairman & Executive Director

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview:

As per NASSCOM, the BPO segment grew by 14 per cent to reach USD 14.1 billion in FY2011. The year also witnessed the next phase of BPO sector evolution – "BPO 3.0" characterized by greater breadth and depth of services, process re-engineering across the value chain, increased delivery of analytics and knowledge based services through platforms, strong domestic market focus and SMB [Small and Medium Business] centric delivery models.

While financial statistics and generous forecasts are encouraging, the IT-BPO market is not immune to the boom and bust cycles that have affected mature global industries such as construction, manufacturing and retail. IT-BPO service providers have traditionally benefited from such market cycles, acting as a stabilizing agent for their clients, but it is imperative to remain vigilant – current competitive advantages such as cost, education levels and management expertise may erode or can be fiscally fatal. Pressure from other BRIC's (Brazil, Russia, India and China) members will continually increase and the impact of their continued assertiveness is difficult to predict and cannot be ignored.

The industry with basic outsourcing advantages of cost and talent is shifting and evolving from being tactical to being of strategic benefit to clients. Indian companies have notably invested in the US, while US companies have increased the sale of US products to India, in effect; creating jobs that many have feared were lost to outsourcing. Secondly, the maturity of the domestic market, product ecosystem of start-ups, growth in core markets and recognition that global sourcing is not just about cost savings (but fundamentally transforming each customer's business model) are significant trends that will reshape the industry in this decade.

The year saw wide ranging contract restructuring exercises, and deal size reductions as buyers came to terms with new business models and budgetary constraints. However, multi-sourcing saw higher adoption, precipitated by the increased maturity of Indian providers. Recent global M&A activity in the sector indicates select acquisitions by established service providers to enhance skill and scale. While cost and talent still remain essential considerations for global sourcing, savvy customers are constantly demanding more – growth markets, flexibility and innovation. With customers demanding more immediate value from IT and forward-looking strategies that support growth and innovation, service providers are adopting agile methods focusing on operational excellence through ongoing innovation, diversification, renewed partnerships/alliances and new business models.

Another key area to support this phenomenon is longer decision cycle by the customers slowing down investments in their own core markets – which is key factor for the BPO industry to continue to enjoy strong future growth. To survive, IT-BPO providers must divert more resources to improve environment of business performance measurement & greater risk-reward sharing by focusing the factors like Transformational Business impact; Service Delivery maturity; Scalability; and Sustainability.

Over the past few years due to altered demand landscape, the industry had begun to transform itself by actively diversifying beyond core offerings and markets through new business and pricing, models, specialize to provide end-to-end service offerings with deeper penetration across verticals that transform process delivery through re-engineering and enabling technology innovate through research and development. Services such as virtualization, consolidation, and managed services that focus on ROI in the short term will drive opportunities in the market. Emerging Asian enterprises

across multiple industries will continue to accelerate services spending in their efforts to challenge existing global MNCs.

Also, because of developing nations continuing to grow faster than the developed countries; worldwide IT spending will also benefit from the recovery in emerging markets; the growth will reflect a new demand for IT goods and services in years to come.

**COMPANY SUMMARY:**

HOV Services Limited one of the largest end-to-end BPO Company headquartered at Chennai, India provides Finance and Accounting services in the BFSI, Healthcare, Government, Media & Publishing, Retail, Commercial and Industrial Manufacturing industries. Its clients include over 50% of the FORTUNE 100® and are some of the largest companies in the industries served. RightShore delivery centers strategically located in U.S., Mexico, Canada, India, China and the Philippines with 8,357 employees working together to Exceed Expectations® of our clients.

**Below is a highlight of some of the key services offerings:**

**Healthcare Claims Processing**

- Process **\_ 100 million** healthcare claims annually- COB, EOB, Medicare and Super Bills
- Domain expertise includes Medical, Dental, Vision, Behavioral & Rx claims.

**Enrollments**

- Process **\_ 2.1 million** Members Enrollment Transactions annually
- Large / Small Group (Add, Term Changes, COBRA on Image and EDI)

**Print & Mail**

- Print & Mail **\_ 8 million** documents per month as part of end-to- end processes.
- Healthcare accounts for **\_ 30 million** annually.
- Customised members welcome packet: Certificate of coverage.

**E - Presentment**

- Electronically present **\_ 1.8 million** annually page of EOB / EOP.
- Manage electronic Re-Pricing transactions.

**CRM & Support**

- CRM Transaction **\_ 6 million** annually.
- Service Desk, Supporting, Email, Chat & Voice.

**Adjudication & Adjustments**

- Process over **\_ 8.0 million** claims annually with \$ 36 million paid / denied.
- Support Managed Care / Indemnity & Self Funded groups.

**Claims Pre-Processing**

- Front End edits **\_ 18.0 million** claims annually.
- Code / error resolution- Proactive claim resolution.
- Automated FE Edits by Komodo FCB™ ready for deployment 2010

**Paper Claims Gateway**

- PCH™ end-to-end platform linking providers and payers for paper to paperless claims launched in 2010.

**Finance and Accounting**

- Process **\_ 6 million** transactions per month including POD's Invoices, Pay Stubs, approvals, and remittances.
- Serving **\_ 3.5 million** Accounts Receivable transactions per month for healthcare and retail Industry.

**EContent**

- Enable ~ **600 million** characters per month for most of the major publishing companies into smart data.
- E-learning platform for internal processes in deployment and scheduled for customer deployment in 2010.

**HR Assist™**

- Process ~ 5000 employees verification transactions through hosted Screen 360 services for customers and internally.
- HR Assist™ is being deployed across all HOVS sites in 2010.
- Online Training is deployed across 2 major services – Healthcare and ARM.

**Document Life Cycle**

- Scan, Index, archive and convert into data to apply business rules as needed ~ **100 million** pages per month.

**DOC DNA™**

- Ingests ~ **50.0 million** images per month with over **2.5 billion** images online.
- 50,000 ~ registered users with 700+ customer applications

**Analytics & Business Intelligence**

- Duplicate claim reduction.
- Member / Provider eligibility matching and COB calculations
- Dispute Resolution
- Fraud detection
- Business Analytics

The Company offers a diverse range of services which includes Healthcare Payor /Provider services, Presentment Services Strategic Consulting, HR Assist, Finance and Accounting Services, E-Content management Services and Document Lifecycle Services.

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

HOVS strategy weaves many items to help us differentiate and position us 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 our clients and us. 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

<b>CUSTOMERS</b>	<b>SHAREHOLDERS</b>
<p><b><u>Delivery:</u></b></p> <ul style="list-style-type: none"> <li>◆ Provides quality products and services</li> <li>◆ Delivered reliably and cost effectively</li> </ul> <p><b><u>Value Creation:</u></b></p> <ul style="list-style-type: none"> <li>◆ Enhances their ability to operate business</li> </ul>	<p><b><u>Delivery:</u></b></p> <ul style="list-style-type: none"> <li>◆ Prudent investment</li> <li>◆ Professional business management</li> <li>◆ Strategy and execution honed by experience</li> </ul> <p><b><u>Value Creation:</u></b></p> <ul style="list-style-type: none"> <li>◆ Higher shareholders value</li> <li>◆ Better returns on investment</li> </ul>
<b>KEY STAKEHOLDERS</b>	
<b>EMPLOYEES</b>	
<p><b><u>Delivery:</u></b></p> <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>◆ Innovation</li> <li>◆ Personal growth</li> </ul> <p><b><u>Value Creation:</u></b></p> <ul style="list-style-type: none"> <li>◆ Innovation</li> <li>◆ Higher retention rate</li> <li>◆ Infusion of high caliber individuals</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**

**Overview of Services Offered and Industry: Percentage of Total Revenue** as of March 31.

Services Offered	2007	2008	2009	2010	2011
Finance and Accounting	3%	4%	5%	6%	6%
AR Management*	40%	18%	17%	12%	0
Healthcare Payor / Provider	11%	24%	28%	31%	32%
HR Assist	6%	2%	1%	1%	1%
Strategic Consulting	31%	4%	3%	4%	6%
Document Lifecycle Services	6%	30%	27%	26%	30%
Presentment Services	2%	13%	14%	13%	15%
eContent Management	1%	5%	6%	7%	10%

\*Impact of ARM business hive off realized in March quarter of FY 2010

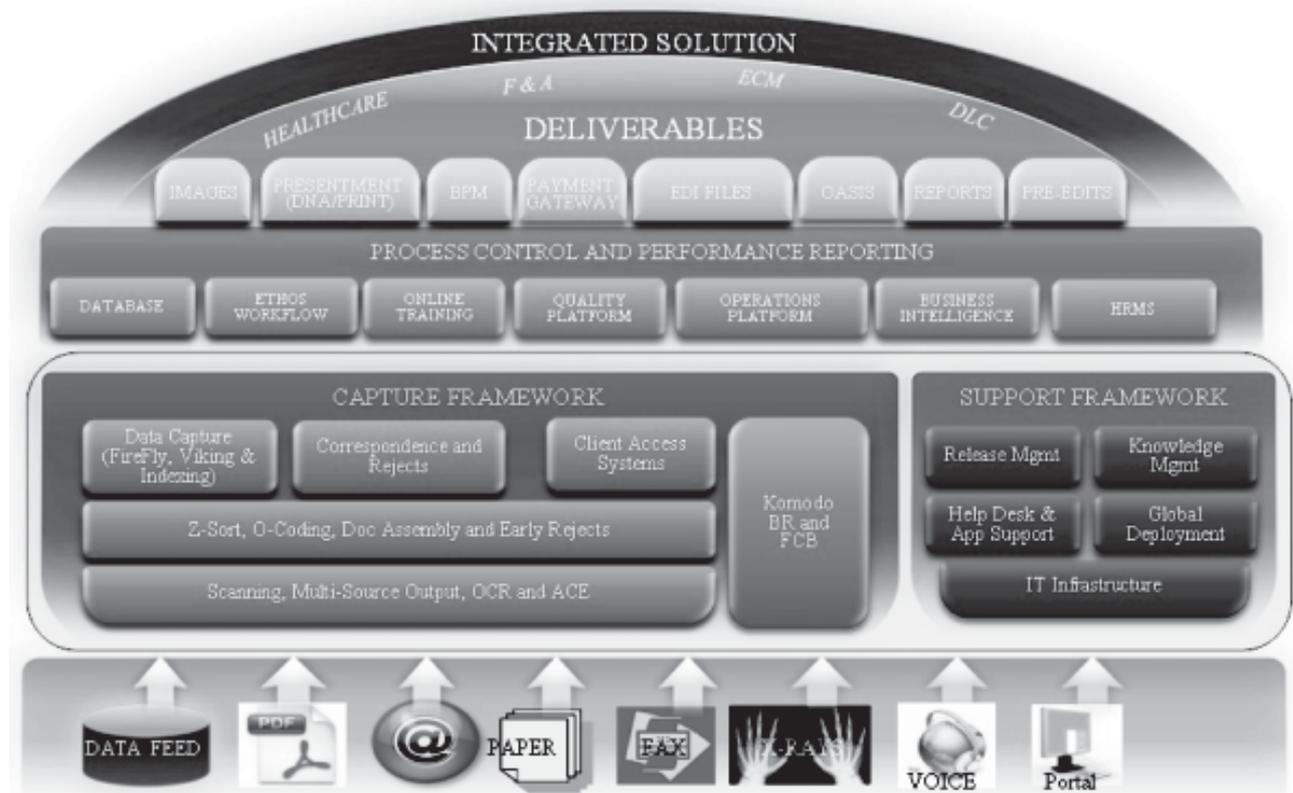
Industry Vertical	2007	2008	2009	2010	2011
BFSI	50%	34%	26%	24%	23%
Healthcare	23%	37%	40%	40%	38%
Telecom	23%	4%	7%	5%	0
Media / Publishing	1%	4%	6%	7%	9%
Manufacturing	1%	7%	6%	6%	7%
Retail	0%	1%	3%	4%	5%
Government	3%	12%	13%	13%	18%

\*Impact of ARM business hive off realized in March quarter of FY 2010. Hence revenue from telecom is for first 3 quarter of FY 2010.

Client Mix	2008	2009	2010	2011
Top Clients	14%	15%	16%	16%
Top 5 Clients	29%	35%	32%	31%
Top 10 Clients	37%	44%	43%	43%
Top 20 Clients	46%	55%	56%	54%
Top 50 Clients	59%	69%	70%	67%
Top 100 Clients	69%	77%	81%	79%
Top 200 Clients	78%	87%	89%	89%
Top 350 Clients	83%	93%	94%	95%
Non Top 350 Clients	17%	7%	6%	5%

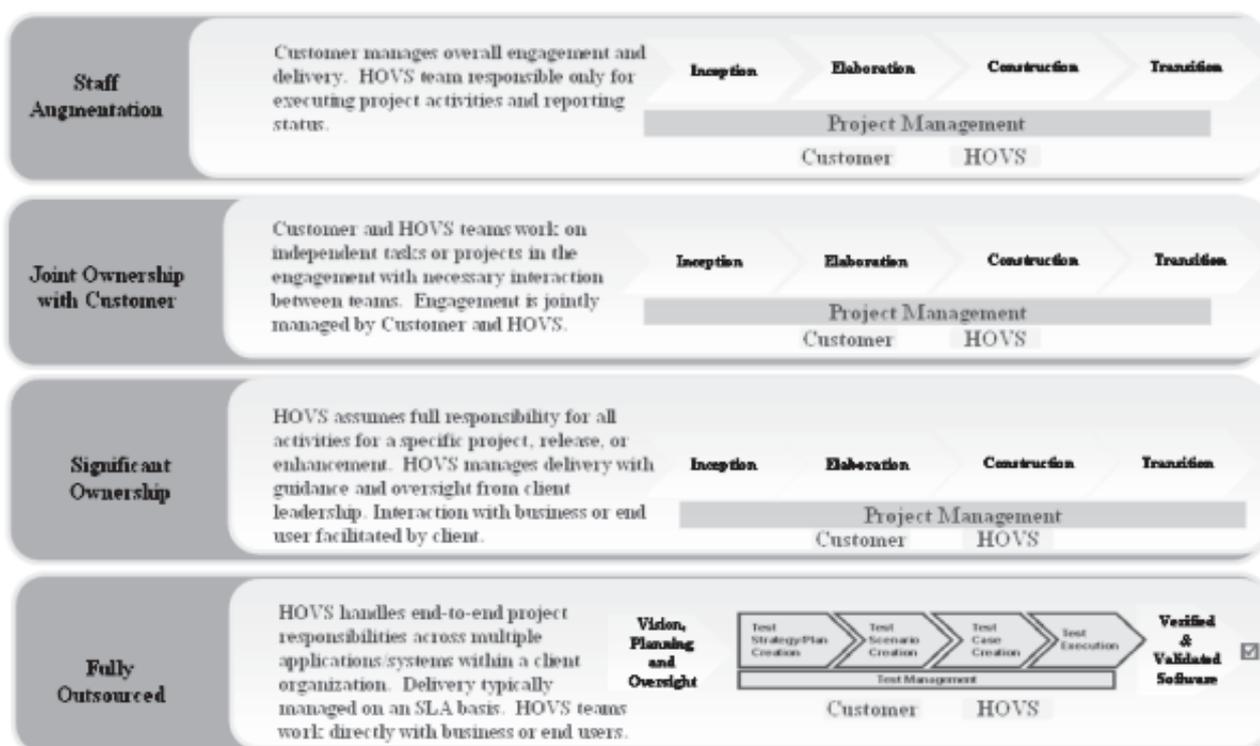
### Product and Service delivery Architecture

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 customize 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 us more responsive
- Improve productivity to reverse the increasing headcount and utilization

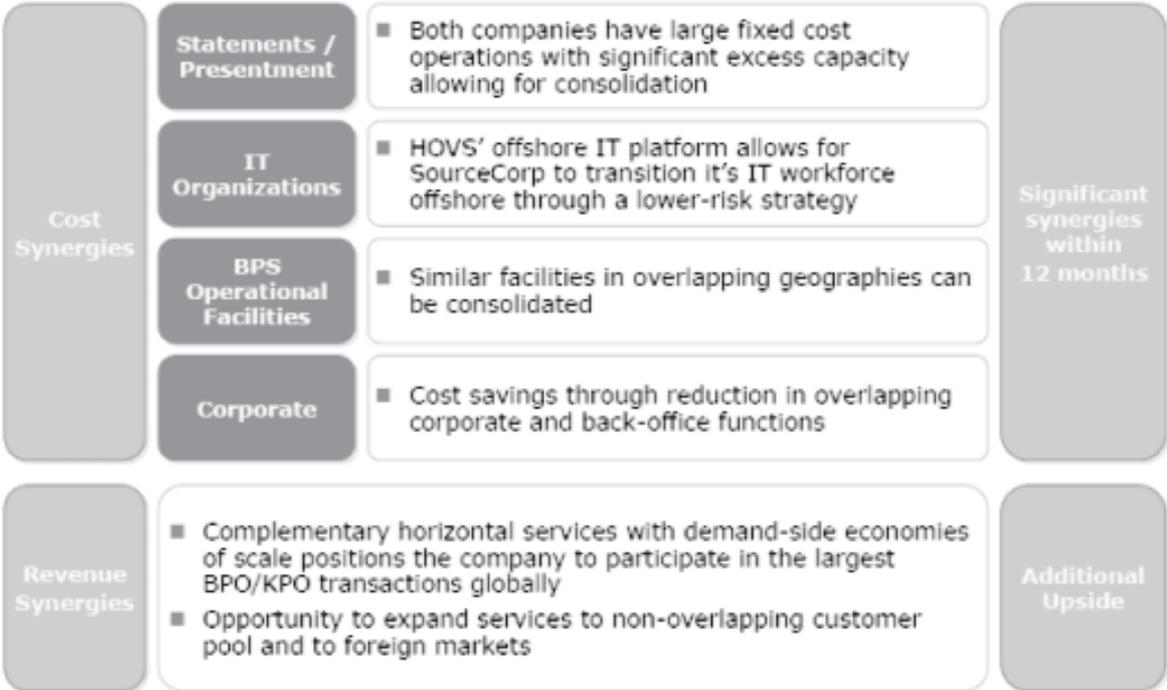
**Overview of merger**

HOV Services ("HOVS") entered an agreement to combine its indirect subsidiary HOV Services LLC with SOURCECORP, Inc ("SOURCECORP") a portfolio company of Apollo Management V, L.P. through a formation of new company SourceHOV Inc. The merger will bring together two highly recognized companies and create a global business process outsourcing and professional services consulting entity.

SOURCECORP is Texas-based Company. It provides business process outsourcing solutions and specialized high value consulting services to clients throughout the U.S.A. SOURCECORP leverages deep horizontal process knowledge into information-intensive industries including commercial, financial, government, healthcare, and legal. Headquartered in Dallas, SOURCECORP serves clients throughout the United States through a network of locations in U.S., Mexico, India and the Philippines.

Subsequent to aforesaid merger the Company's head office is relocated to 3<sup>rd</sup> Floor, Sharda Arcade, Pune Satara Road, Bibwewadi, Pune-411 037.

**Significant Synergies to Drive Industry Leading Profitability Levels**



### Benefits from Synergy:

SourceHOV Inc. expects to realise multiple synergies from this combination—

- o Complementary horizontal services with demand-side economies of scale position the entity to participate in large BPO/KPO transactions globally.
- o Significant Operating Leverage
- o Opportunities to expand services to non-overlapping customer pool
- o Potential for seamless expansion into foreign markets
- o Highly customizable service offerings with extended range of core competencies.

### Transaction Highlights:

- o Strong global management team
- o Combined headcount of approximately 14,200 globally on February, 2011
- o Marquee Customers – more than 50% of the Fortune 100®
- o High visibility and large recurring revenue stream
- o Deep domain expertise in several Industries
- o Increased access to global customers with an extensive global footprint
- o Significant operating leverage, scalable operating platforms with new revenue growth opportunities

### Composition of SourceHOV Inc. board:

The board of SourceHOV Inc will consist of 7 members with 3 members each nominated by shareholders of HOV Services and SOURCECORP and CEO will serve the 7<sup>th</sup> member of the board upon election.

### Delivery Centers and Employees as at December 31, 2010:

Company Name	No of Delivery Centers	No of Employees	Locations
HOV Services	46	8750	North America, China, India, Mexico and Canada.
SOURCECORP	37	5500	US, Mexico, India & Philippines
<b>Combined</b>	<b>83</b>	<b>14,250</b>	

## Financial Performances

### Consolidated Financial Performance for the Fiscal Year ended March 31, 2011

- Consolidated total Income for the current FY decreased 16.40% to Rs. 7,092.54 million from Rs 8,483.94 million for the corresponding last fiscal year 2009-10
- EBIDTA decreased by 7.8% for the FY to Rs. 1,110.4 million from Rs. 1,203.9 million over the corresponding last fiscal year 2009-10
- Net Profit was Rs. 537.3 million versus a Net Loss of Rs. 758.4 million reported in the prior year.
- The basic and diluted Earnings per share (EPS) were Rs 23.40 for the Year ended March 31, 2011.

### Consolidated Financial Performance for the Fourth Quarter ended March 31, 2011

- Total Income for the fourth quarter decreased 10.2% to Rs 1,655.1 million from Rs 1,843.5 million over the fourth quarter FY 2009-10.
- EBIDTA decreased by 47.4% for the fourth quarter to Rs 180.0 million from Rs 342.41 million over the fourth quarter FY 2009-10
- Net Profit for the quarter was Rs. 40.0 million versus a Net Loss of Rs. 1,130.1 million reported in the corresponding quarter in the prior year.
- The Basic and Diluted Earnings per share (EPS) were Rs. 1.74 for the quarter ended March 31, 2011.

### Dividend declaration:

During the year the Board of Directors had declared three interim dividends of Rs. 2/- each per fully paid up equity share of Rs. 10/- each on August 27, 2010, on November 18, 2010 and February 21, 2011 respectively amounting to Rs. 873.94 lakhs including dividend distribution tax of Rs. 124.48 lakhs.

Keeping in view the long term interest of the shareholders, the Board of Directors at the meeting held on May 27, 2011 recommended a final dividend of Rs. 2 per fully paid up equity share of Rs. 10/- each for the financial year 2010-11. 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**

**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 reward program. Adequate training is provided both in-house and using external faculties and facilities at all levels. Facilities solicit and display employee artwork and employees at all levels are exposed to the benefits.

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 and Career Progress is an open policy 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 remain cordial at all levels 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 many 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 Audit Committee 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 & Risks**

- HOVS challenge is to leverage its domain experience and success in current markets it serves, 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.

**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 fifty percent of the Board comprises of independent Directors. The Board comprises of six Directors, consisting of three executive and three non executive directors. All three non executive directors are Independent Directors. The 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. B R Gupta	15,000
2	Mr. Prakash Shukla	10,000
3	Mr. Harish Bhasin	10,000

**(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	Atten- ded		Director- ship	Committee Membership	Committee Chairman ship
Mr. Surinder Rametra	Promoter Executive	8	8	Yes	1	-	-
Mr. Parvinder S Chadha	Promoter Executive	8	2	No	-	-	-
Mr. Sunil Rajadhyaksha	Promoter Executive	8	7	Yes	1	-	-
Mr. B R Gupta	Non-Executive Independent	8	8	Yes	4	1	3
Mr. Harish Bhasin	Non-Executive Independent	8	8	Yes	1	-	-
Mr. Prakash Shukla	Non-Executive Independent	8	4	No	5	-	-

The details of Board Meetings held during the financial year 2010-2011 are as under;

Sr. No.	Date of Board Meetings	Board Strength	No. of Directors Present
1	May 24, 2010	7	5
2	July 22, 2010	6	4
3	July 29, 2010	6	4
4	October 28, 2010	6	6
5	January 27, 2011	6	6
6	February 27, 2011	6	4
7	March 9, 2011	6	4
8	March 12, 2011	6	4

Details of Remuneration of all the Directors

Sr. No.	Name of Director	Salary & Perquisites Rs.	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. B R Gupta	Nil	Nil	2,80,000	5,000
5	Mr. Harish Bhasin	Nil	Nil	2,80,000	Nil
6	Mr. Prakash Shukla	Nil	Nil	1,20,000	Nil

Mr. Ajay Madan retired by rotation w.e.f July 21, 2010.

Mr. Prakash Shukla was appointed as independent director w.e.f July 21, 2010.

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

- 2) The Board of Directors in their meeting held on May 27, 2011 had subject to the approvals of Central Government and shareholders in 23<sup>rd</sup> AGM, approved re-appointment of Mr. Parvinder S Chadha, Mr. Sunil Rajadhyaksha and Mr. Surinder Rametra as whole-time directors of the Company w.e.f April 1, 2011 for a period of five years with a monthly remuneration of Rs. 4,00,000/- payable to each of the whole-time directors. The Company had made application on June 22, 2011 and June 23, 2011 to the Central Government for its approval.

### 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 21, 2010. Mr. B R Gupta has expertise of 44 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. Harish Bhasin	Member (Independent Director)
Mr. Prakash Shukla*	Member (Independent Director)
Mr. Ajay Madan**	Member (Independent Director)
Mr. Surinder Rametra	Member (Executive Director)

\* Member w.e.f. July 22, 2010

\*\*Member upto July 21, 2010

The details of Audit Committee Meetings held during the financial year 2010-2011 are as under:

Sr. No.	Date of Committee Meetings	Committee Strength	No. of Members Present
1	May 24, 2010	4	3
2	July 22, 2010	4	3
3	October 28, 2010	4	4
4	January 27, 2011	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. Harish Bhasin, Mr. B R Gupta and Mr. Prakash Shukla, all Independent Directors with Mr. Harish Bhasin as Chairman of the Compensation & Remuneration Committee.

The scope of work of the Committee includes:

- Make recommendation for the appointment of directors on 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 during the year under review the meeting of the Committee was held on May 24, 2010.

## 5. Investor Grievances Committee

The Company has set-up an Investor Grievances Committee which was re-constituted w.e.f. July 22, 2010 comprising of Mr. Harish Bhasin, Mr. B R Gupta and Mr. Sunil Rajadhyaksha as member and Mr. B R Gupta being the chairman of the Committee.

The Committee looks into the matters relating to redressal of shareholders and investors complaints such as transfer of shares, non-receipt of Annual Reports, non-receipt of dividend declared etc and other matters as required under clause 49 of listing agreement.

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 queries, 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 meetings of the Committee during the year were held on May 24, 2010 and October 28, 2010.

During the year under review the number of investors complaints received were 9. All of them were satisfactorily resolved/ replied, and no complaint/request is pending as on March 31, 2011.

## 6. Other Committees Constituted by the Board

The Board of Directors has re-constituted the other committees effective July 22, 2010 as detailed below;

- a) Investment /Acquisition Committee with following members;  
B R Gupta; Harish Bhasin; Surinder Rametra; Sunil Rajadhyaksha
- b) Capital Committee with following members;  
Parvinder S Chadha; Surinder Rametra Sunil Rajadhyaksha
- c) Steering Committee and Selection Committee were dissolved.

## 7. General Body Meetings

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

Year	Location	Date	Time	Special Resolutions passed
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
2009-10	Le Meridien, Raja Bahadur Mill Road Pune-411001	July 21, 2010	3:00 PM	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.
- The indirect subsidiary of the Company, HOV Services LLC ("HOV Services") was merged with SOURCECORP, Inc. ("SOURCECORP"), a portfolio company of Apollo Management V, L.P. The new company is SourceHOV Inc., reflecting the union of the two companies and expanded capabilities as Joint Venture described in Para 14 of the Directors' Report forming part of the Annual Report.
- During the year 2010-11, the Company declared an interim dividend of Rs. 2/- per equity share of Rs. 10/- each of the Company for every quarter; For 1<sup>st</sup> interim dividend record date was August 21, 2010 and payment date was August 27, 2010; For 2<sup>nd</sup> interim dividend record date was November 3, 2010 and payment date was November 18, 2010 and For 3<sup>rd</sup> interim dividend record date was February 2, 2011 and payment date was February 21, 2011.
- 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 Compensation & Remuneration Committee.
- Shareholding of Non-Executive Directors as on March 31, 2011 is as below:

Sr. No.	Name of Director	Number of shares held
1	Mr. B R Gupta	Nil
2	Mr. Harish Bhasin	Nil
3	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 are made available to the institutional investors and analysts and are displayed on the web site of the Company at [www.hovsltd.com](http://www.hovsltd.com).

All the information about the Company is promptly sent through facsimile, email and also posted 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.

The Company has taken up "Green Initiative in the Corporate Governance" for paperless compliances as per circular issued by the Ministry of Corporate Affairs ("MCA") on April 21, 2011, which provides for service of document by a company through electronic mode.

The Company will make the communication in electronic form to the e-mail address provided by you and made available to Company and R&T agent of the Company by the Depositories. Therefore, it is requested to register/ provide/update your e-mail address with Depositories and with the R&T Agent of the Company on the email id [hov.cs@karvy.com](mailto:hov.cs@karvy.com) created for the purpose.

**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 27, 2011.

**13. General Shareholder Information****a). Details of ensuing AGM:**

Day and Date	Time	Venue
Wednesday, August 3, 2011	11:00 AM	Le Meridien, Raja Bahadur Mill Road, Pune-411001

**b). Financial Year: April 1 to March 31****c). Financial Calendar for the Year 2011-2012:**

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, 2011
2 <sup>nd</sup> Quarter Results	On or before November 14, 2011
3 <sup>rd</sup> Quarter Results	On or before February 14, 2012
4 <sup>th</sup> Quarter Results	On or before May 30, 2012

d). **Date of Book Closure:** July 29, 2011 to August 3, 2011 (both days inclusive)

e). **Dividend payment date:**

Interim Dividend- August 27, 2010; November 18, 2010; & February 21, 2011

Final Dividend- August 22, 2011

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:**

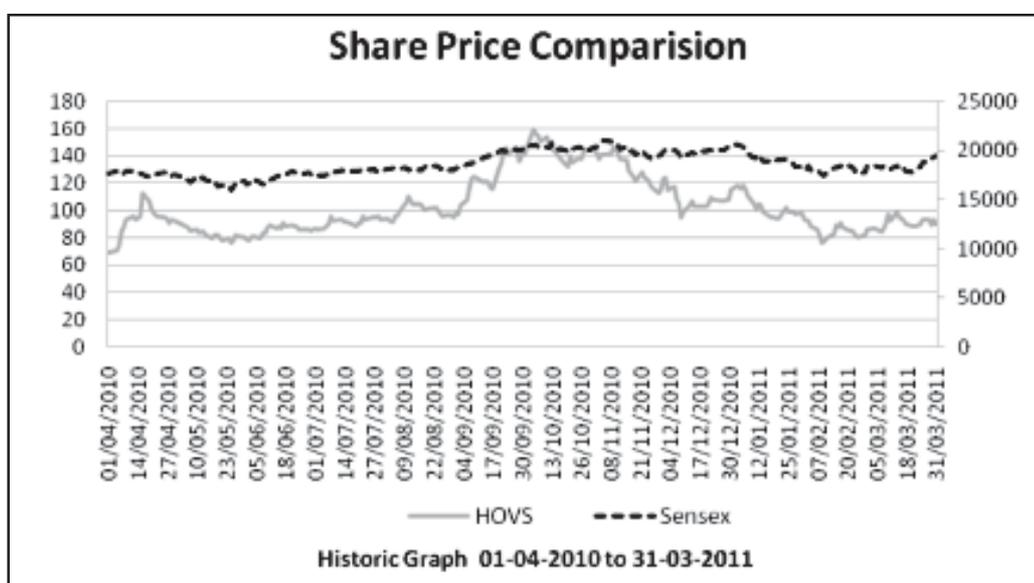
Monthly highs, lows and trading volume for FY 2010-11

Month	NSE			BSE			Total Trade Quantity
	High (Rs.)	Low (Rs.)	Trade Quantity	High (Rs.)	Low (Rs.)	Trade Quantity	
Apr-10	114.85	94.00	1,483,877	114.50	92.55	1,445,869	2,929,746
May-10	92.80	88.95	18,489	92.45	89.00	10,059	28,548
Jun-10	92.00	87.60	13,509	93.45	87.65	19,285	32,794
Jul-10	99.20	92.95	86,756	98.80	93.00	46,531	133,287
Aug-10	113.65	107.10	327,138	113.50	106.25	212,001	539,139
Sep-10	153.40	136.80	3,858,987	153.20	137.25	1,715,181	5,574,168
Oct-10	173.30	156.55	3,021,517	172.80	156.85	1,415,494	4,437,011
Nov-10	149.00	143.50	46,052	149.00	143.50	25,594	71,646
Dec-10	128.50	122.10	12,593	127.00	122.70	7,706	20,299
Jan-11	124.00	112.20	65,639	123.50	115.10	40,099	105,738
Feb-11	98.00	92.65	32,843	98.50	92.50	21,163	54,006
Mar-11	107.00	95.00	258,694	101.80	92.00	132,511	391,205

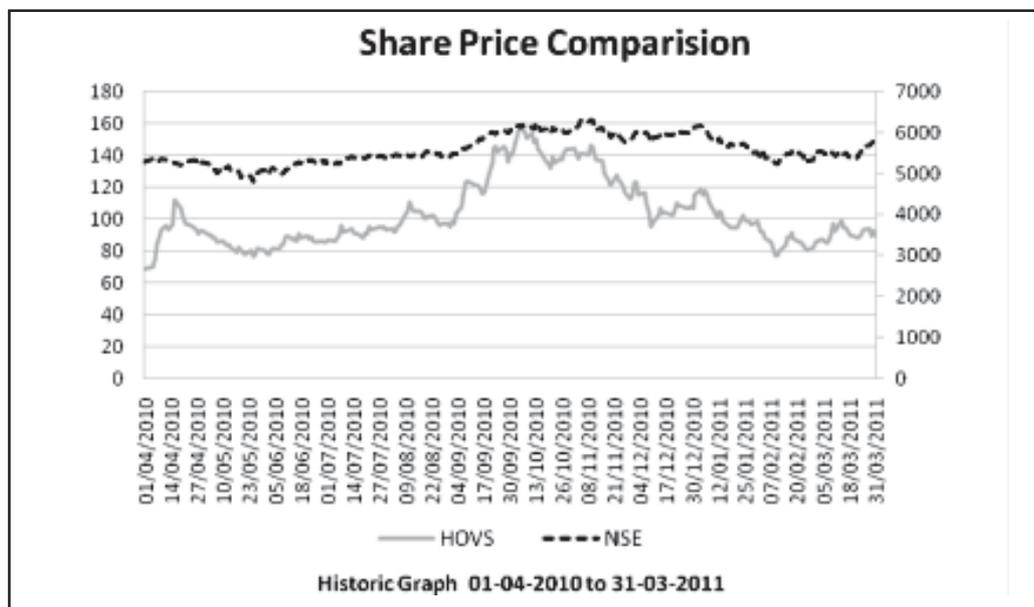
### HOV Services Limited's Share prices versus the NSE Nifty

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, 2011****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	9,202	90.73	10,344,770	8.28
5001 to 10000	437	4.31	3,581,630	2.87
10001 to 20000	254	2.50	3,946,470	3.16
20001 to 30000	73	0.72	1,868,940	1.50
30001 to 40000	38	0.37	1,376,120	1.10
40001 to 50000	28	0.28	1,326,920	1.06
50001 to 100000	61	0.60	4,709,360	3.77
100001 to above	49	0.48	97,756,010	78.26
<b>Total</b>	<b>10,142</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	CLEARING MEMBERS	57	16,496	0.13
2	FOREIGN INSTITUTIONAL INVESTORS	2	11,243	0.09
3	FOREIGN NATIONALS	3	461,745	3.70
4	H U F	345	129,705	1.04
5	BODIES CORPORATE	2	1,142,527	9.15
6	BODIES CORPORATES	359	1,024,222	8.20
7	NON RESIDENT INDIANS	113	352,052	2.82
8	PROMOTERS	6	6,069,079	48.59
9	RESIDENT INDIVIDUALS	9,255	3,283,953	26.29
	<b>Total</b>	<b>10,142</b>	<b>12,491,022</b>	<b>100.00</b>

## iii) Top Ten Shareholders as of March 31, 2011

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	EINDIA VENTURE FUND LIMITED	Bodies Corporate	476,506	3.81
7	ARJUN RAMESH	PUB	433,266	3.47
8	MUKUL MAHAVIR PRASAD AGARWAL	PUB	250,000	2.00
9	MERRILL LYNCH LP HOLDINGS INC.	Bodies Corporate	238,253	1.91
10	DR. XIN CHENG	Foreign National	223,950	1.79
	<b>TOTAL</b>		<b>8,478,133</b>	<b>67.87</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. 94.05 % of the Company's shares are held in electronic form as on March 31, 2011.

## 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 and hence there are no other particulars to be given under this head. None of the underlying equity shares were issued against 15,000,000 number of ADR/GDR previously announced by the Company.

## n) Plant/Office Locations

As the Company is engaged in Business Process Outsource (BPO) Industry, it does not have Plant. The Company has over 46 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](mailto: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 ("the Company"), for the year ended on March 31, 2011, as stipulated in clause 49 of the Listing Agreement of the said Company with the 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 the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and based on the representations given by the management of the company, we certify that the Company has generally 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 effectiveness with which the management has conducted the affairs of the Company.

For **Lodha & Company**  
**Firm Registration No. 301051E**  
**Chartered Accountants**

**Mumbai,**  
**Dated: May 27, 2011**

**A.M. Hariharan**  
**Partner**  
**M. No. 38323**

**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, 2011.

Sd/-

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, 2011, 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:  
8 subsidiaries included in the consolidated financial results whose financial statements reflect total assets of Rs. 104,672 Lacs as at March 31, 2011; as well as the total revenue of Rs. 70,782 Lacs for the year ended March 31, 2011. 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 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.
5. 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 notes appearing in Schedule 14 of Significant Accounting Policies and Notes to 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, 2011;
  - (ii) in the case of Consolidated Profit and Loss account, of the profit 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.**

Firm Registration No: 301051E  
Chartered Accountants

**A.M. Hariharan**

Partner  
Membership No. 38323

Place: Mumbai  
Date: May 27, 2011

**CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2011**

(Amount in Rs.)

	Schedule No.	As at March 31, 2011	As at March 31, 2010
<b>I SOURCES OF FUNDS</b>			
<b>Shareholders' Funds :</b>			
Share Capital	<b>1</b>	2,939,113,010	2,969,996,758
Reserves and Surplus	<b>2</b>	1,031,237,452	726,223,923
		3,970,350,462	3,696,220,681
<b>Loan Funds:</b>			
Secured Loans	<b>3</b>	5,387,511,373	5,207,941,390
<b>TOTAL</b>		<b>9,357,861,835</b>	<b>8,904,162,071</b>
<b>II APPLICATION OF FUNDS</b>			
<b>Goodwill arising out of consolidation</b>		7,207,069,420	7,286,161,556
<b>Fixed Assets :</b>	<b>4</b>		
Gross Block		1,649,966,184	921,407,545
Less: Accumulated Depreciation		739,383,667	459,289,115
Net Block		910,582,517	462,118,430
Capital Work- in- Progress		110,403,582	-
<b>Deferred Tax Asset (Net)</b>		41,398,990	19,732,124
<b>Current Assets, Loans and Advances :</b>			
Inventories (Consumables)		67,196,419	73,343,291
Sundry Debtors	<b>5</b>	1,338,793,637	1,391,893,594
Cash and Bank Balances	<b>6</b>	495,413,962	546,031,403
Loans and Advances	<b>7</b>	453,368,480	423,419,116
		2,354,772,498	2,434,687,404
<b>Less: Current Liabilities and Provisions:</b>			
Current Liabilities	<b>8</b>	1,167,022,090	1,214,412,346
Provisions	<b>9</b>	99,343,082	84,125,097
		1,266,365,172	1,298,537,443
<b>Net Current Assets</b>		1,088,407,326	1,136,149,961
<b>TOTAL</b>		<b>9,357,861,835</b>	<b>8,904,162,071</b>
Significant Accounting Policies and Notes forming part of the Consolidated Financial Statements	<b>14</b>	-	-

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**A.M. Hariharan  
PartnerParvinder S Chadha  
Chairman & Executive DirectorSunil Rajadhyaksha  
Executive DirectorSurinder Rametra  
Executive DirectorPlace: Mumbai  
Date: May 27, 2011Bhuvanesh Sharma  
Company Secretary &  
Compliance OfficerJames Reynolds  
Chief Financial Officer &  
CAO, Global

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011**

(Amount in Rs.)

	Schedule No.	For the year ended March 31, 2011	For the year ended March 31, 2010
<b>INCOME :</b>			
Income from Operations	10	7,092,537,452	8,483,934,751
Other Income	11	15,647,492	14,743,087
Foreign Exchange Variation (Net)		1,683,230	-
		7,109,868,174	8,498,677,838
<b>EXPENDITURE :</b>			
Personnel Expenses	12	3,607,221,963	4,474,596,594
Operating & Other Expenses	13	2,376,551,004	2,791,267,685
Interest & Finance Charges		292,754,921	336,252,290
Depreciation	4	291,636,233	252,165,334
Foreign Exchange Variation (Net)		-	50,946,432
MTM losses of derivative contracts		-	(36,739,297)
		6,568,164,121	7,868,489,038
<b>Profit/(Loss) before Exceptional Item &amp; Taxation</b>		<b>541,704,053</b>	<b>630,188,800</b>
Exceptional Item - Loss on sale of Assets (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>541,704,053</b>	<b>(697,446,691)</b>
<b>Provision for Taxation</b>			
Current Tax		3,883,100	48,778,773
MAT		33,089,455	-
MAT Credit Entitlement		(33,089,455)	-
Deferred Tax		521,957	15,098,128
<b>Profit/(Loss) after Taxation</b>		<b>537,298,996</b>	<b>(761,323,592)</b>
Tax Adjustment for earlier year		-	966
<b>Net Profit/(Loss) before Minority Interest</b>		<b>537,298,996</b>	<b>(761,324,558)</b>
Minority Interest		-	(2,919,994)
<b>Net Profit/(Loss) after Minority Interest for the year</b>		<b>537,298,996</b>	<b>(758,404,564)</b>
Profit brought forward from previous year		433,638,950	1,273,593,651
<b>Amount available for Appropriations</b>		<b>970,937,946</b>	<b>515,189,087</b>
<b>Appropriations:</b>			
Dividend Paid to Class A Preferred units		81,435,919	20,267,679
Interim Dividend on equity shares		74,946,132	24,982,044
Corporate Dividend Tax		12,447,615	4,245,699
Proposed Final dividend on equity shares		24,982,044	24,982,044
Corporate Dividend Tax on Proposed Final Dividend		4,052,712	4,149,205
Transferred to General Reserve		16,617,943	2,923,466
Balance of Profit carried to Balance Sheet		756,455,581	433,638,950
		<b>970,937,946</b>	<b>515,189,087</b>
<b>Basic &amp; Diluted Earnings per Share (EPS)</b>			
-before Exceptional Items		43.01	45.57
-after Exceptional Items		43.01	(60.72)
<b>Basic &amp; Diluted Earnings per Share (EPS) considering 10,467,532 Class A Preferred Units</b>			
-before Exceptional Items		23.40	24.80
-after Exceptional Items		23.40	(33.03)
(Equity Share, face value Rs.10 each) (Refer note no. 7 of notes to Financial Statements in Schedule 14B)			
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**

**A.M. Hariharan**  
Partner

**Parvinder S Chadha**  
Chairman & Executive Director

**Sunil Rajadhyaksha**  
Executive Director

**Surinder Rametra**  
Executive Director

Place: Mumbai  
Date: May 27, 2011

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

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

### Consolidated Cash Flow Statement for the year ended March 31, 2011

(Amount in Rs.)

	For the year ended March 31, 2011	For the year ended March 31, 2010
<b>A Cash flow from Operating Activities:</b>		
Net Profit/ (Loss) before Tax after Minority Interest	541,704,053	(694,526,697)
<b>Add Adjustments for:</b>		
Depreciation	291,636,233	252,165,334
Interest Expenses	292,754,921	336,252,290
Interest Income	(6,635,151)	(10,790,167)
Loss on Sale of Investment	-	1,327,635,491
Foreign Exchange Variation (Gain)/Loss	(60,754,660)	79,398,435
<b>Operating Profit before Working Capital changes</b>	<b>1,058,705,396</b>	<b>1,290,134,686</b>
<b>Adjustments for changes in Working Capital :</b>		
(Increase)/Decrease in Sundry Debtors	37,990,789	806,130,308
(Increase)/Decrease in Other Receivables	(34,740,358)	(10,195,530)
(Increase)/Decrease in Inventory (consumables)	5,350,722	6,963,026
Increase/(Decrease) in Trade and Other Payables	32,420,939	(33,295,792)
<b>Cash generated from Operations</b>	<b>1,099,727,488</b>	<b>2,059,736,698</b>
Taxes Paid	(50,497,434)	(11,222,245)
<b>Net cash from/(used in) Operating Activities - A</b>	<b>1,049,230,054</b>	<b>2,048,514,453</b>
<b>B Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets & CWIP (net)	(852,380,494)	(252,238,945)
Sale of Investments	-	(390,615,965)
Repayment of Minority Interest	-	(266,077,673)
Interest Expenses	(292,754,921)	(336,252,290)
Interest Received	6,635,151	10,790,167
<b>Net Cash from/(used in) Investing Activities - B</b>	<b>(1,138,500,264)</b>	<b>(1,234,394,706)</b>
<b>C Cash flow from Financing Activities:</b>		
Buyback of equity shares	-	(655,360)
Dividend paid	(181,047,939)	(45,249,723)
Corporate Dividend Tax paid	(16,596,820)	(4,245,699)
Proceeds/(Repayments) from/to loans, net	236,102,798	(788,027,774)
<b>Net cash from/(used in) Financing Activities - C</b>	<b>38,458,039</b>	<b>(838,178,556)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	(50,812,171)	(24,058,809)
Opening Cash and Cash Equivalents	545,685,795	569,744,604
<b>Closing Cash and Cash Equivalents</b>	<b>494,873,624</b>	<b>545,685,795</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**
**A.M. Hariharan**  
 Partner

**Parvinder S Chadha**  
 Chairman & Executive Director

**Sunil Rajadhyaksha**  
 Executive Director

**Surinder Rametra**  
 Executive Director

 Place: Mumbai  
 Date: May 27, 2011

**Bhuvanesh Sharma**  
 Company Secretary &  
 Compliance Officer

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

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2011**  
(Amount in Rs.)

<b>SCHEDULE 1 : SHARE CAPITAL</b>	<b>As at March 31, 2011</b>	<b>As at March 31, 2010</b>
<p><b>Authorised :</b> 30,000,000 (Previous year 30,000,000) Equity Shares of Rs.10 each.</p>	300,000,000	300,000,000
<p><b>Issued, Subscribed &amp; Paidup :</b> 12,491,022 (Previous year 12,491,022) Equity shares of Rs.10 each</p> <p><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) NIL (Previous year 63,023) shares were bought back during the year</p>	124,910,220	124,910,220
<p>10,467,532 (Previous year 10,467,532) Class A Preferred Units by HOV Services, LLC</p> <p><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.</p>	2,814,202,790	2,845,086,538
<b>Total</b>	<b>2,939,113,010</b>	<b>2,969,996,758</b>

(Amount in Rs.)

<b>SCHEDULE 2 : RESERVE AND SURPLUS</b>	<b>As at March 31, 2011</b>	<b>As at March 31, 2010</b>
<b>Capital Redemption Reserve</b>		
Opening balance as per last Balance Sheet	630,230	430,230
Add: Transferred from Securities Premium Account	-	200,000
	630,230	630,230
<b>Securities Premium Account</b>		
Opening balance as per last Balance Sheet	622,845,024	622,341,394
Less: Utilised towards buy back of equity shares	-	455,360
Less: Transferred to Capital Redemption Reserve	-	200,000
Add: IPO Issue Expenses no longer payable, written back	-	1,158,990
	622,845,024	622,845,024
<b>General Reserve</b>		
Opening balance as per last Balance Sheet	2,923,466	-
Add: Transferred from Profit & Loss Account	16,617,943	2,923,466
	19,541,409	2,923,466
<b>Profit &amp; Loss Account - (As per annexed account)</b>	756,455,581	433,638,950
<b>Foreign Exchange Translation Reserve</b>		
Opening balance as per last balance sheet	(333,813,746)	(125,073,249)
Addition during the year	(34,421,046)	(208,740,497)
	(368,234,792)	(333,813,746)
<b>Total</b>	<b>1,031,237,452</b>	<b>726,223,923</b>
<b>SCHEDULE 3 : SECURED LOANS</b>	<b>As at March 31, 2011</b>	<b>As at March 31, 2010</b>
Working Capital Loans (Secured against fixed & current assets of certain subsidiaries and also by way of corporate guarantee given by parent company)	5,387,511,373	5,207,941,390
<b>Total</b>	<b>5,387,511,373</b>	<b>5,207,941,390</b>

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2011**  
**SCHEDULE 4: FIXED ASSETS**

Amount in Rs.

Description	Gross Block (At Cost)				Accumulated Depreciation			Net Block	
	As at April 1, 2010	Additions	Deletions / Adjustments	As at March 31, 2011	As at April 1, 2010	Depreciation for the year	Deletions / Adjustments	As at March 31, 2011	As at March 31, 2010
Freehold Land	-	252,601,282	-	252,601,282	-	-	-	252,601,282	-
Building	12,946,469	125,993,677	(140,537)	138,799,609	2,251,674	457,560	(33,315)	136,123,690	10,694,795
Computers	540,974,205	237,397,382	(8,933,497)	769,438,090	248,488,994	228,210,822	(7,389,585)	469,310,231	292,485,211
Furniture & Fixtures	160,388,158	6,557,529	(2,320,416)	164,625,271	96,867,543	32,521,717	(2,261,479)	127,127,781	63,520,615
Office Equipments	174,911,763	109,175,626	(1,863,888)	282,223,501	104,868,295	24,683,147	(1,761,108)	127,790,334	70,043,468
Vehicles	14,735,661	10,251,417	(159,936)	24,827,142	2,463,219	3,581,573	(96,194)	5,948,597	12,272,442
<b>Intangibles</b>									
Software Product*	17,451,289	-	-	17,451,289	4,349,391	2,181,414	-	6,530,805	13,101,898
<b>Total</b>	<b>921,407,545</b>	<b>741,976,913</b>	<b>(13,418,274)</b>	<b>1,649,966,184</b>	<b>459,289,115</b>	<b>291,636,233</b>	<b>(11,541,681)</b>	<b>739,383,667</b>	<b>462,118,430</b>
Previous Year	1,202,381,399	252,238,945	(533,212,800)	921,407,545	515,394,730	252,165,334	(308,270,950)	459,289,115	462,118,430

\* Meant for Licence sale or otherwise

**SCHEDULES FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2011**  
(Amount in Rs.)

<b>SCHEDULE 5 : SUNDRY DEBTORS</b>	As at March 31, 2011	As at March 31, 2010
(Unsecured, Considered Good, unless stated otherwise)		
Outstanding for a period exceeding six months :		
Considered Good	17,600,851	20,733,885
Considered Doubtful	35,943,250	49,568,460
	<b>53,544,101</b>	<b>70,302,345</b>
Less: Provision for Doubtful Debts	(35,943,250)	(49,568,460)
	<b>17,600,851</b>	<b>20,733,885</b>
Other Debts	1,321,192,786	1,371,159,709
<b>Total</b>	<b>1,338,793,637</b>	<b>1,391,893,594</b>

<b>SCHEDULE 6 : CASH AND BANK BALANCES</b>	As at March 31, 2011	As at March 31, 2010
Cash in hand	787,478	784,053
Balances with Banks :		
(a) In Operating Accounts		
i) Earmarked for dividend	324,338	129,608
ii) Others	394,770,132	445,304,272
(b) In Fixed Deposits (including interest accrued of Rs. 177,247 ; Previous year Rs. 389,000) [of which FDRs of Rs. 2,16,000 (Previous Year Rs.2,16,000) are pledged with banks for guarantees issued]	99,532,014	99,813,470
<b>Total</b>	<b>495,413,962</b>	<b>546,031,403</b>

<b>SCHEDULE 7 : LOANS AND ADVANCES</b>	As at March 31, 2011	As at March 31, 2010
(Unsecured, Considered Good)		
Advance recoverable in cash or in kind	233,155,605	261,862,937
Security Deposits	109,182,142	127,938,689
Advance tax and Tax deducted at source	4,744,667	3,789,973
Advance Fringe Benefit Tax (Net of provision of Rs.261,215; previous year Rs.261,000)	194,769	238,555
Service Tax Recoverable	1,926,492	1,421,074
MAT Credit Entitlement	40,799,357	7,709,902
Due From Associates	63,365,448	20,457,986
<b>Total</b>	<b>453,368,480</b>	<b>423,419,116</b>

(Amount in Rs.)

<b>SCHEDULE 8 : CURRENT LIABILITIES</b>	As at March 31, 2011	As at March 31, 2010
Sundry Creditors	715,759,034	739,606,039
Other Liabilities	321,086,427	330,840,742
Deposits from Customers	129,852,291	138,083,526
Due To Associates	-	5,752,431
Unclaimed Interim Dividend*	324,338	129,608
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>Total</b>	<b>1,167,022,090</b>	<b>1,214,412,346</b>

<b>SCHEDULE 9 : PROVISIONS</b>	As at March 31, 2011	As at March 31, 2010
Provision for Taxes	2,538,418	6,999,193
Proposed Final Dividend	24,982,044	24,982,044
Dividend Distribution Tax	4,052,712	4,149,205
<b>Employee Benefits:</b>		
Leave Entitlement	31,733,639	26,868,802
Gratuity	36,036,269	21,125,853
<b>Total</b>	<b>99,343,082</b>	<b>84,125,097</b>

**SCHEDULES FORMING PART OF CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011**

<b>SCHEDULE 10 : INCOME FROM OPERATIONS</b>	For the year ended March 31, 2011	For the year ended March 31, 2010
Income From Services	7,092,537,452	8,483,934,751
<b>Total</b>	<b>7,092,537,452</b>	<b>8,483,934,751</b>

(Amount in Rs.)

<b>SCHEDULE 11 : OTHER INCOME</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Interest on fixed deposits	6,635,151	10,790,167
Other Income	9,012,341	3,952,920
<b>Total</b>	<b>15,647,492</b>	<b>14,743,087</b>

<b>SCHEDULE 12 : PERSONNEL EXPENSES</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Salaries, Wages and Bonus	3,438,087,263	4,162,384,671
Staff Welfare	28,166,306	56,266,530
Staff Insurance	140,968,394	255,945,393
<b>Total</b>	<b>3,607,221,963</b>	<b>4,474,596,594</b>

<b>SCHEDULE 13 : OPERATING AND OTHER EXPENSES</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Advertising & Publicity	1,971,940	3,714,612
Business Promotion Expenses	14,606,318	18,193,063
Communication Costs	151,268,253	286,795,178
Electricity charges	125,815,853	138,473,046
Insurance charges	28,435,053	31,481,782
Legal & professional fees	473,058,463	417,333,007
Postage & Delivery expenses	36,543,144	65,773,414
Office Supplies & Forms	364,172,597	407,038,393
Office, Administration & Other Expenses	304,930,653	286,446,152
Rates and Taxes	13,093,166	33,262,090
Rent charges	373,863,392	532,488,447
Loss on discarded/sale of Fixed Assets	-	484,040
Repairs & Maintenance :		
Building	71,236,203	86,818,220
Other	198,386,734	225,717,986
Bank Charges & Commission	11,094,675	52,716,077
Travel & Conveyance	208,074,560	204,532,178
<b>Total</b>	<b>2,376,551,004</b>	<b>2,791,267,685</b>

**SCHEDULE 14****SCHEDULES FORMING PART OF CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED ON MARCH 31, 2011.****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 8,800 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, 2011	Percentage of ownership Interest at March 31, 2010
HOVS Holdings Limited	Hong Kong	100	100
HOV SPV, LLC (Subsidiary w.e.f. March 1, 2011)	USA	100	NIL
HOV Services Beijing Limited (Subsidiary of Lason Inc w.e.f. April 1, 2010)	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
HOV Services, Inc. (Subsidiary of Rustic Canyon III, LLC)	USA	100	100
Lason India Private Limited (Subsidiary of HOV Services, Inc.)	India	100	100
Vetri Software (I) Private Limited (Subsidiary of Lason India Private Limited)	India	100	100

## 6. 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. 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 from our consulting services and reimbursable expenses billed to our clients is recognized when services are rendered.
- c) 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 licences 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
Building	30
Computers and office equipment	2 - 5
Leasehold Improvements	2 - 10
Furniture and fixture	2 - 7
Software	3 - 8
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 parent Company and Indian subsidiaries 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. The Board of Directors in their meeting held on March 12, 2011 had given approval to combine its wholly owned subsidiary HOV Services LLC with Source Corp Inc. In the combined entity SCH Services Inc., HOV Services and Source Corp Inc. Will each control fifty percent and after obtaining necessary approvals subsequent to the year end. The aforesaid combination stands effective April 29, 2011.
2. During the previous year 2009-10, the Board of Directors of the parent 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, 2011	As at March 31, 2010
1.	Estimated amount of contracts remaining to be executed on capital account, not provided for	65,563,811	12,516,066

**B) Contingent Liabilities:**

Sr. No.	Particulars	As at March 31, 2011	As at March 31, 2010
1	Bank Guarantees outstanding in respect of loan taken by Associate	111,019,644	135,561,059
2	Other Bank Guarantees	216,000	216,000
3	Disputed Income Tax Matters (Excluding Interest, if any)	3,680,005	3,680,005
4	Claims against the Company, not acknowledged as debt	9,867,000	9,867,000
5	Disputed Employees State Insurance (Excluding Interest, if any)	8,539,354	18,348,877
6	Disputed Income Tax- Transfer Pricing (Including interest upto the date of demand)	11,739,022	NIL
7	Disputed Excise Matters (Service Tax excluding interest, if any)	557,079	NIL
8	Disputed Provident Fund (Excluding interest, if any)	11,301,624	11,301,624

Based on internal assessment and legal advice, management is confident of a favorable outcome in respect of all these matters.

#### 4 Employee Benefits:

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

<b>I</b>	<b>Assumptions</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	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 9.25%
	Salary Escalation (Different rates for different subsidiaries)	5% to 10%	5% to 10%
<b>II</b>	<b>Table showing changes in present value of obligations</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Present value of obligations as at beginning of year	36,481,194	30,095,665
	Interest cost	2,250,807	1,865,444
	Current Service Cost	14,687,258	3,925,973
	Benefits Paid	(3,048,648)	(2,215,504)
	Actuarial (gain)/Loss on obligations	4,801,011	2,809,616
	Present value of obligations as at end of year	55,171,622	36,481,194
<b>III</b>	<b>Table showing changes in the fair value of plan assets</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Fair value of plan assets at beginning of year	15,355,341	15,518,830
	Expected return on plan assets	1,498,701	1,343,679
	Contributions	5,300,498	669,322
	Benefits paid	(3,092,755)	(2,215,504)
	Actuarial Gain / (Loss) on Plan assets	73,568	39,014
	Fair value of plan assets at the end of year	19,135,353	15,355,341
<b>IV</b>	<b>Table showing fair value of plan assets</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Fair value of plan assets at beginning of year	15,355,341	15,518,830
	Actual return on plan assets	1,498,701	1,343,679
	Contributions	5,300,498	669,322
	Benefits Paid	(3,092,755)	(2,215,504)
	Fair value of plan assets at the end of year	73,568	39,014
	Funded status	19,135,353	15,355,341

<b>V</b>	<b>Actuarial Gain/Loss recognized</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Actuarial gain/(Loss) for the year -Obligation	3,611,943	3,281,590
	Actuarial (gain)/Loss for the year - plan assets	73,568	39,014
	Total (gain)/Loss for the year	4,727,443	2,770,602
	Actuarial (gain)/Loss recognized in the year	4,727,443	2,770,602
<b>VI</b>	<b>The amounts to be recognized in the Balance Sheet</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
	Present value of obligations as at the end of year	55,171,622	36,481,194
	Fair value of plan assets as at the end of the year	19,135,353	15,355,341
	Funded status	(36,036,269)	(21,125,853)
	Net Asset/(liability) recognized in balance sheet	(36,036,269)	(21,125,853)
<b>VII</b>	<b>Expenses recognized in statement of Profit &amp; loss</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
	Current Service cost	14,687,258	3,925,973
	Interest Cost	2,250,807	1,865,444
	Expected return on plan assets	(1,498,701)	(1,343,679)
	Net Actuarial (gain)/Loss recognised in the year	4,771,550	2,770,602
	Expenses recognised in statement of Profit & loss	20,210,914	7,218,340

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

<b>Particulars</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
<b>A) Opening Balance of Goodwill</b>	<b>7,286,161,556</b>	<b>9,281,592,294</b>
B) Less: Deletion on account of exchange gain/loss	(79,092,136)	(1,055,540,879)
C) Less: Deletion on account of Sale of Companies	NIL	939,889,859
<b>D) Closing balance of Goodwill ( A+B-C)</b>	<b>7,207,069,420</b>	<b>7,286,161,556</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, 2011	For the year ended March 31, 2010
Net Profit/(Loss) before exceptional items as per Profit and Loss Account (Rs.)	537,298,996	569,230,927
Weighted average number of equity shares	12,491,022	12,492,315
Basic and Diluted Earning per share	43.01	45.57
Weighted average number of equity shares including Class A Preferred units	22,958,554	22,959,847
Basic and Diluted Earning per share	23.40	24.80
Nominal value per Equity Share (Rs.)	10	10

EPS for the year after exceptional item is

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
Net Profit/(Loss) as per Profit and Loss Account (Rs.)	537,298,996	(758,404,564)
Weighted average number of equity shares	12,491,022	12,492,315
Basic and Diluted Earning per share	43.01	(60.72)
Weighted average number of equity shares including Class A Preferred units	22,958,554	22,959,847
Basic and Diluted Earning per share	23.40	(33.03)
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 with whom transactions have been entered during the year:

Sr. No.	Name
1	HOV Re, LLC
2	Hands On Ventures, LLC
3	Rustic Canyon, LLC
4	Tracmail (India) Private Limited
5	Bay Area Credit Services LLC
6	Tracmail AR Services India Private Limited
7	HOV AR Management Services Private Limited

### 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)

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,	
			2011	2010
1	HOV Re, LLC	Rent paid	7,819,106	21,842,699
		Advances paid	2,292,435	987,923
2	Rustic Canyon, LLC	Sale of Investments	NIL	544,235,105
		Outstanding received	NIL	11,706,279
3	Bay Area Credit Services, LLC	Services Rendered	14,348,296	6,647,248
		Advances paid	28,254,354	NIL
		Balances written back	1,118,936	NIL
4	Tracmail (India) Private Limited	Rent paid	NIL	23,760,000
5	Tracmail AR Services India Private Limited	Advances paid	1,478,311	NIL
6	HOV AR Management Services Private Limited	Outstanding paid	5,752,431	NIL
7	Mr. Sunil Rajadhyaksha	Managerial Remuneration	2,400,000	9,303,784
8	Mr. Parvinder S Chadha	Managerial Remuneration	2,400,000	2,400,000
9	Mr. Surinder Rametra	Managerial Remuneration	2,400,000	2,400,000

Balances with the related parties referred in (a) and (b) above in the ordinary course of business are as under as of March 31, 2011:

Amount in Rs.

Name of the Related party	Nature	Balances As at March 31,	
		2011	2010
Bay Area Credit Services, LLC	Receivable	61,800,398	18,078,812
HOV Re, LLC	Receivable	NIL	2,292,435
Tracmail AR Services India Private Limited	Receivable	1,478,311	NIL
Tracmail (India) Private Limited	Corporate Guarantees	111,019,644	135,561,059
Hands On Ventures, LLC	Receivable	86,739	86,739
HOV AR Management Services Private Limited	Payable	NIL	5,752,431
Mr. Parvinder Chadha	Payable	290,159	246,777
Mr. Sunil Rajadhyaksha	Payable	451,688	422,480
Mr. Surinder Rametra	Payable	451,688	422,480

**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 except disclosed above.

**9. Future lease commitments**Finance Leases

Amount in Rs.

Particulars	As at March 31, 2011	As at March 31, 2010
<u>Not later than one year</u>		
Minimum lease payments	38,640,396	19,600,717
Less: Finance Charges	7,251,768	2,341,886
Present Value of minimum lease payments	31,388,628	17,258,831
<u>Later than one year, but not later than five years</u>		
Minimum lease payments	44,006,219	13,106,246
Less: Finance Charges	3,632,418	876,889
Present Value of minimum lease payments	40,373,701	12,229,347
<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	42,317,237	31,216,030
Vehicles	1,915,032	2,844,777

Operating Leases

Particulars	As at March 31, 2011	As at March 31, 2010
Operating lease rent recognized in Profit and Loss Account	69,304,397	73,768,368

## Minimum Lease Payments:

Particulars	As at March 31, 2011	As at March 31, 2010
Up to one year	52,374,048	66,065,753
One to five years	59,011,381	109,129,638
Beyond five years	-	-

**10. 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, 2011	As on March 31, 2010
<u>Deferred Tax Asset/(Liability):</u>		
On account of Depreciation	13,255,711	(296,912)
On account of expenditure debited to profit & loss account in current year but allowed for tax purpose in following year	28,143,279	20,029,036
<b>Net Deferred Tax Asset / (Liability)</b>	<b>41,398,990</b>	<b>19,732,124</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.

**11. Foreign Currency Exposure:**

Foreign exchange currency exposure not covered by derivative instruments are as under: -

Particulars	Currency type	As at March 31, 2011		As at March 31, 2010	
		Amount in Foreign currency (In USD)	Amount (In Rs.)	Amount in Foreign currency (In USD)	Amount (In Rs.)
Current Assets, Loans & Advances	US Dollar	130,858	5,842,810	1,135,417	51,252,715
Balance in EEFC Account	US Dollar	8,104	361,828	2,313	104,393

**12. 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.

- 13.** 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: Mumbai  
Date : May 27, 2011

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

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

### Information regarding Subsidiary Companies For the Year 2010-2011

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 Services LLC	3,516,225,631	(1,712,311,113)	1,803,914,518	1,803,914,518	-	3,281,368	(28,426,916)	-	(28,426,916)	-
2	HOVS Holdings Ltd.	6,357	69,614,067	69,620,424	69,620,424	-	11,366,716	(494,483)	-	(494,483)	-
3	HOV Services (Beijing) Ltd.	40,185,447	(78,306,411)	38,120,964	38,120,964	-	56,976,783	(41,581,469)	-	(41,581,469)	-
4	HOV Enterprise Services, Inc.	123,572,134	(12,492,713)	111,079,422	111,079,422	-	31,195,770	(22,050,894)	1,720	(22,052,614)	-
5	Rustic Canyon III, LLC	622,844,595	250,218	623,094,813	623,094,813	-	-	-	-	-	-
6	Meridian Consulting Group, LLC	49,181,662	226,396,887	275,578,550	275,578,550	-	407,674,569	109,675,356	5,387,853	104,287,503	-
7	Lason, Inc.	537,432,092	1,789,469,930	6,349,508,436	6,349,508,436	-	6,579,060,666	357,491,197	(1,894,751)	359,385,948	-
8	Lason India Pvt. Ltd.	20,185,310	253,780,199	615,727,838	615,727,838	-	1,158,177,029	66,174,396	(8,980,070)	75,154,466	-
9	Vetri Software (I) Pvt. Ltd.	100,000	56,500,000	56,600,000	56,600,000	-	142,061,775	636,726	33,550	603,176	-

**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, 2011, 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, 2011 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, 2011 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, 2011;
  - 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*

**A. M. Hariharan**  
Partner  
Membership No.38323  
Firm Registration No. 301051E

Place: Mumbai  
Date: 27<sup>th</sup> May, 2011

**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, 2011 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.
- 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 except the following :

NAME OF THE STATUTES	NATURE OF DUES	PERIOD TO WHICH IT RELATES	AMOUNT (IN RS.)	FORUM WHERE DISPUTED
Central Excise Act, 1944	Service tax	2008-09	557,079	Customs Excise Service Tax Appellate Tribunal

10. The Company has no accumulated losses at the end of the financial year and has not incurred cash losses in the current and 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 banks/financial institutions. 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 terms and conditions on which the Company has given guarantees for loans taken by others from banks and financial institutions, are not, prima facie prejudicial to the interest of the Company.

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: Mumbai  
Date: 27<sup>th</sup> May, 2011

**A. M. Hariharan**  
Partner  
Membership No.38323  
Firm Registration No. 301051E

**BALANCE SHEET AS AT MARCH 31, 2011**

(Amount in Rs.)

	Schedule No.	As at March 31, 2011	As at March 31, 2010
<b>I) SOURCES OF FUNDS</b>			
<b>Shareholders' Funds :</b>			
(a) Share Capital	1	124,910,220	124,910,220
(b) Reserves and Surplus	2	691,711,369	641,960,443
		816,621,589	766,870,663
Deferred Tax Liability (Net)		3,362,368	2,840,411
<b>TOTAL</b>		<b>819,983,957</b>	<b>769,711,074</b>
<b>II) APPLICATION OF FUNDS</b>			
<b>Fixed Assets :</b>	3		
(a) Gross Block		27,071,901	25,590,489
(b) Less: Accumulated Depreciation		12,969,780	9,246,990
(c) Net Block		14,102,121	16,343,499
<b>Investments</b>	4	706,156,024	706,110,844
<b>Current Assets, Loans and Advances :</b>			
(a) Sundry Debtors	5	39,149,076	45,721,853
(b) Cash and Bank Balances	6	57,019,710	30,032,239
(c) Loans and Advances	7	42,759,627	12,765,696
		138,928,413	88,519,788
<b>Less: Current Liabilities and Provisions:</b>			
(a) Liabilities	8	7,292,507	6,569,414
(b) Provisions	9	31,910,094	34,693,643
		39,202,601	41,263,057
<b>Net Current Assets</b>		99,725,812	47,256,731
<b>TOTAL</b>		<b>819,983,957</b>	<b>769,711,074</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

**A.M. Hariharan**  
Partner

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

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

Place: Mumbai  
Date: May 27, 2011

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2011** (Amount in Rs.)

	Schedule No.	For the year ended	
		March 31, 2011	March 31, 2010
<b>INCOME :</b>			
Income from Operations	10	247,401,392	74,911,795
Other Income	11	2,281,825	2,816,245
		<b>249,683,217</b>	<b>77,728,040</b>
<b>EXPENDITURE :</b>			
Personnel Expenses	12	56,307,124	32,053,182
Operating Expenses	13	30,578,974	20,476,051
Depreciation	3	3,722,790	3,512,160
Foreign Exchange Variation (Net)		1,821,171	3,034,516
		92,430,059	59,075,909
Less: Corporate Charges recovered from a Subsidiary Company		(9,828,060)	(15,904,170)
		82,601,999	43,171,739
<b>Profit / (Loss) before Taxation</b>		<b>167,081,218</b>	<b>34,556,301</b>
<b>Provision for Taxation</b>			
Current Tax		379,832	6,345,000
MAT		33,089,455	-
MAT Credit Entitlement		(33,089,455)	-
Deferred Tax		521,957	(1,024,321)
<b>Profit / (Loss) after Taxation</b>		<b>166,179,429</b>	<b>29,235,622</b>
Tax Adjustments for earlier year		-	966
<b>Net Profit/ (Loss) for the year</b>		<b>166,179,429</b>	<b>29,234,656</b>
Profit brought forward from previous year		15,561,723	47,609,525
<b>Amount available for Appropriations</b>		<b>181,741,152</b>	<b>76,844,181</b>
<b>Appropriations:</b>			
(a) Interim Dividend on equity shares		74,946,132	24,982,044
(b) Proposed Final Dividend on equity shares		24,982,044	24,982,044
(c) Corporate Dividend Tax		12,447,615	4,245,699
(d) Corporate Dividend Tax on Proposed Final Dividend		4,052,712	4,149,205
(e) Transfer to General Reserve		16,617,943	2,923,466
(f) Balance carried to Balance Sheet		48,694,706	15,561,723
		<b>181,741,152</b>	<b>76,844,181</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) Significant Accounting Policies and Notes forming part of these Financial Statements.	14	13.30	2.34

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

**For LODHA & CO.**  
Chartered Accountants

**A.M. Hariharan**  
Partner

Place: Mumbai  
Date: May 27, 2011

**For and on behalf of the Board**

**Parvinder S Chadha**  
Chairman & Executive Director

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**Sunil Rajadhyaksha**  
Executive Director

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

**Surinder Rametra**  
Executive Director

## Cash Flow Statement for the year ended March 31, 2011

(Amount in Rs.)

Particulars	For the year ended March 31, 2011	For the year ended March 31, 2010
<b>A Cash flow from Operating Activities:</b>		
Net Profit/(Loss) before tax	167,081,218	34,556,301
<b>Add: Adjustments for :</b>		
Depreciation	3,722,790	3,512,160
Interest Income	(679,068)	(2,742,101)
Loss on sale of fixed Asset	-	484,040
Foreign Exchange (Gain)/Loss, net	1,821,171	3,034,516
<b>Operating Profit before Working Capital changes</b>	<b>171,946,111</b>	<b>38,844,916</b>
<b>Adjustments for changes in Working Capital :</b>		
(Increase)/Decrease in Sundry Debtors	4,751,606	(40,672,521)
(Increase)/Decrease in Other Receivables	2,857,009	4,895,774
Increase/(Decrease) in Trade and Other Payable	944,538	(3,109,005)
<b>Cash generated from Operations</b>	<b>180,499,264</b>	<b>(40,836)</b>
Taxes Paid (including Fringe Benefit Tax)	(36,334,003)	(827,872)
<b>Net cash from/(used in) Operating Activities - A</b>	<b>144,165,261</b>	<b>(868,708)</b>
<b>B Cash flow from Investing Activities:</b>		
Purchase of Fixed Assets	(1,481,412)	-
Sale of Fixed Asset	-	141,630
Investment in Subsidiaries	(45,180)	(6,452)
Interest Received	679,068	2,742,101
<b>Net Cash from/(used in) Investing Activities - B</b>	<b>(847,524)</b>	<b>2,877,279</b>
<b>C Cash flow from Financing Activities:</b>		
Buyback of equity shares	-	(655,360)
Dividend paid	(99,928,176)	(24,982,044)
Corporate Dividend Tax	(16,596,820)	(4,245,699)
<b>Net cash from/(used in) Financing Activities - C</b>	<b>(116,524,996)</b>	<b>(29,883,103)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	26,792,741	(27,874,532)
Opening Cash and Cash Equivalents	29,686,631	57,561,163
<b>Closing Cash and Cash Equivalents</b>	<b>56,479,372</b>	<b>29,686,631</b>
<b>Notes:</b>		
1 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.		
2 Pledged FDRs & funds earmarked for dividend has been excluded from Cash and Cash equivalents and included in Other Receivables.		
3 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 &amp; Executive Director

**Sunil Rajadhyaksha**

Executive Director

**Surinder Rametra**

Executive Director

**A.M. Hariharan**

Partner

**Bhuvanesh Sharma**Company Secretary &  
Compliance Officer**James Reynolds**Chief Financial Officer &  
CAO, Global

Place: Mumbai

Date: May 27, 2011

## SCHEDULES FORMING PART OF THE BALANCE SHEET

(Amount in Rs.)

SCHEDULE 1 : SHARE CAPITAL	As at March 31, 2011	As at March 31, 2010
<b>Authorised :</b> 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 12,491,022) Equity shares of Rs.10 each, fully paid up	124,910,220	124,910,220
<b>Out of the above Equity Shares</b> (a) 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 (b) NIL (Previous year 63,023) shares were bought back during the year		
<b>Total</b>	<b>124,910,220</b>	<b>124,910,220</b>

SCHEDULE 2 : RESERVES AND SURPLUS	As at March 31, 2011	As at March 31, 2010
<b>(a) Capital Redemption Reserve</b> Opening balance as per last Balance Sheet Add: Transfer from Securities Premium Account	630,230 -	430,230 200,000
	630,230	630,230
<b>(b) Securities Premium Account</b> Opening balance as per last Balance Sheet Less: Utilised towards buy back of equity shares Less: Transfer to Capital Redemption Reserve Add: IPO Issue Expenses no longer payable, written back	622,845,024 - - -	622,341,394 455,360 200,000 1,158,990
	622,845,024	622,845,024
<b>c) General Reserve</b> Opening balance as per last Balance Sheet Add: Transfer from Profit & Loss Account	2,923,466 16,617,943	- 2,923,466
	19,541,409	2,923,466
<b>(d) Profit and Loss Account</b> (As per annexed account)	48,694,706	15,561,723
<b>Total</b>	<b>691,711,369</b>	<b>641,960,443</b>

**SCHEDULE FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2011**  
**SCHEDULE 3: FIXED ASSETS**

(Amount in Rs.)

Description	Gross Block (At Cost)			Accumulated Depreciation			Net Block		
	As at April 1, 2010	Additions	Deletions/ Adjustments	As at March 31, 2011	As at April 1, 2010	Depreciation for the year	Deletions/ Adjustments	As at March 31, 2011	As at March 31, 2010
<b>Intangibles:</b>									
Software Product*	17,451,289	-	-	17,451,289	4,349,390	2,181,414	-	10,920,485	13,101,899
<b>Tangibles:</b>									
Plant & Machinery:									
1) Computer including Computer Software	5,899,623	1,379,933	-	7,279,556	4,375,993	1,311,420	-	1,592,143	1,523,630
2) Office Equipment	2,239,577	88,479	-	2,328,056	521,607	229,475	-	1,576,974	1,717,970
Furniture & Fixtures	-	13,000	-	13,000	-	481	-	12,519	-
<b>Total</b>	<b>25,590,489</b>	<b>1,481,412</b>	<b>-</b>	<b>27,071,901</b>	<b>9,246,990</b>	<b>3,722,790</b>	<b>-</b>	<b>14,102,121</b>	<b>16,343,499</b>
Previous Year	27,815,266	-	2,224,777	25,590,489	7,333,936	3,512,160	1,599,106	16,343,499	

\* Meant for License sale or otherwise

(Amount in Rs.)

<b>SCHEDULE 4 : INVESTMENTS</b>	As at March 31, 2011	As at March 31, 2010
<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 HOV SPV, LLC 1,000 (Previous year NIL) units of USD 1 each	45,180	-
In HOVS Holdings Ltd. 1,001 (Previous year 1,001) Equity share of Hongkong Dollar 1 each	6,457	6,457
<b>Total</b>	<b>706,156,024</b>	<b>706,110,844</b>

<b>SCHEDULE 5 : SUNDRY DEBTORS</b>	As at March 31, 2011	As at March 31, 2010
(Unsecured, considered good)		
Outstanding for a period exceeding six months :		
Due from Subsidiary Company		
HOV Services, LLC	-	510,115
Others	-	-
Outstanding for a period not exceeding six months :		
Due from Subsidiary Company		
HOV Services, LLC	12,316,747	36,399,147
HOV Services , Inc	20,989,519	-
Others	5,842,810	8,812,591
(Also, refer note no.7B of notes to Financial Statements in Schedule 14B)		
<b>Total</b>	<b>39,149,076</b>	<b>45,721,853</b>

<b>SCHEDULE 6 : CASH AND BANK BALANCES</b>	As at March 31, 2011	As at March 31, 2010
Cash balance in hand	31,196	10,742
<b>Balances with Scheduled Banks :</b>		
(a) In Current Accounts		
(i) Earmarked for dividend	324,338	129,608
(ii) Others	5,889,114	2,520,671
(b) Fixed Deposits (including interest accrued of Rs.177,247; previous year Rs 389,000)	50,775,062	27,371,218
[of which FDRs of Rs. 216,000 (Previous Year Rs.216,000) are pledged with banks for guarantees issued]		
<b>Total</b>	<b>57,019,710</b>	<b>30,032,239</b>

(Amount in Rs.)

<b>SCHEDULE 7 : LOANS AND ADVANCES</b>	As at March 31, 2011	As at March 31, 2010
(Unsecured, considered good)		
Amount due from Subsidiary Company:		
HOV Services, LLC	2,274,505	5,530,861
Advances recoverable in cash or in kind or for value to be received	699,936	500,737
Advance Fringe Benefit Tax (Net of provision of Rs.261,215; previous year Rs.261,000)	194,769	238,554
Security / Other Deposits	4,574,470	5,074,470
Service Tax Recoverable	1,926,492	1,421,074
MAT Credit Entitlement	33,089,455	-
<b>Total</b>	<b>42,759,627</b>	<b>12,765,696</b>

<b>SCHEDULE 8 : CURRENT LIABILITIES</b>	As at March 31, 2011	As at March 31, 2010
<b>Sundry Creditors:</b>		
Micro, Small & Medium Enterprises	-	-
(Refer Note No.13 of notes to financial statements in schedule 14 B)		
Due to Subsidiary Companies : Meridian Consulting Group, LLC	582,744	589,139
Other Creditors	5,114,590	5,186,571
Other Liabilities	1,270,835	664,096
Unclaimed Interim Dividend *	324,338	129,608
* There is no amount due and outstanding to be credited to Investor Education and Protection Fund		
<b>Total</b>	<b>7,292,507</b>	<b>6,569,414</b>

<b>SCHEDULE 9 : PROVISIONS</b>	As at March 31, 2011	As at March 31, 2010
Provision for Taxes (Net of Advance Tax of Rs. NIL provision of Rs. 31,600,000; previous year Rs.525,000)	2,538,418	5,446,919
Proposed Final Dividend	24,982,044	24,982,044
Corporate Dividend Tax	4,052,712	4,149,205
<b>Employee Benefits:</b>		
Leave Entitlement	336,920	115,475
<b>Total</b>	<b>31,910,094</b>	<b>34,693,643</b>

## SCHEDULES FORMING PART OF PROFIT AND LOSS FOR THE YEAR ENDED MARCH 2011

(Amount in Rs.)

<b>SCHEDULE 10 : INCOME FROM OPERATIONS</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Software and IT enabled services	247,401,392	74,911,795
<b>Total</b>	<b>247,401,392</b>	<b>74,911,795</b>
<b>SCHEDULE 11 : OTHER INCOME</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Interest Received (TDS Rs.103,988; Previous Year Rs.301,691)	679,068	2,742,101
Miscellaneous Income	1,602,757	74,144
<b>Total</b>	<b>2,281,825</b>	<b>2,816,245</b>
<b>SCHEDULE 12 : PERSONNEL EXPENSES</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Salaries, Wages and Bonus	51,890,292	30,834,478
Contribution to Provident and Other Funds	2,259,153	821,261
Staff Welfare	1,044,295	199,587
Recruitment and Training Expenses	80,051	45,815
Insurance Charges	1,033,333	152,041
<b>Total</b>	<b>56,307,124</b>	<b>32,053,182</b>
<b>SCHEDULE 13 : OPERATING EXPENSES</b>	<b>For the year ended March 31, 2011</b>	<b>For the year ended March 31, 2010</b>
Rent	9,124,750	4,186,414
Repairs & Maintenance:		
Building	296,448	143,776
Plant & Machinery	376,028	69,751
Others	320,003	234,747
Advertisement Expenses	1,261,621	810,617
Insurance charges	54,872	44,812
Legal & Professional fees	800,877	1,791,863
Public Relation Expenses	-	60,000
Auditors' Remuneration	2,251,070	2,214,190
Communication Costs	1,046,999	826,837
Office Upkeep & Maintenance	940,456	609,530
Sundry Balances Written off	-	57,301
Power & Fuel Expenses	5,620,035	2,142,254
Office, Administration & Other Expenses	1,812,792	1,379,676
Membership & Subscription Fees	841,000	-
Loss on Discarded/ Sale of Fixed Assets	-	484,040
Rates and Taxes	302,450	183,563
Bank Charges & commissions	106,396	8,059
Travelling & Conveyance Expenses	5,423,177	5,228,621
<b>Total</b>	<b>30,578,974</b>	<b>20,476,051</b>

**SCHEDULE 14**

**HOV SERVICES LIMITED**

**SCHEDULES FORMING PART OF FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2011**

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

**A. SIGNIFICANT ACCOUNTING POLICIES**

**1. 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.

**2. 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.

**3. 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.

**4. 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.

**5. Impairment of Assets:**

In accordance with AS 28 on 'Impairment of Assets' prescribed by the Companies (Accounting Standard) 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.

**6. 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.

**7. 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.

**8. 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.

**9. 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.

**10. 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.

**11. 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.

**12. 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.

**13. 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.

**14. 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, 2011	As at March 31, 2010
Bank Guarantees outstanding in respect of loans taken by		
—Subsidiaries	1,674,375,000	1,692,750,000
—Associates	111,019,644	135,561,059
Others	216,000	216,000
Disputed Excise Matter (Service Tax ), excluding interest, if any	557,079	NIL

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,	
	2011	2010
Net Profit/ (Loss) as per Profit and Loss Account (Rs.)	166,179,429	29,234,656
Weighted Average Number of Equity Shares (Nos.)	12,491,022	12,492,315
Basic and Diluted Earning per Equity Share (Rs.)	13.30	2.34
Nominal value per Equity Share (Rs.)	10	10

#### 4. Foreign Currency Exposures:

Foreign exchange currency exposure not covered by derivative instruments: -

Particulars	Currency type	As at March 31, 2011		As at March 31, 2010	
		Amount in Foreign currency (In USD)	Amount (In Rs.)	Amount in Foreign currency (In USD)	Amount (In Rs.)
Current Assets, Loans & Advances	US Dollar	927,740	41,423,578	1,135,417	51,252,715
Current Liabilities	US Dollar	13,051	582,745	37,063	1,673,019
Bank Guarantee given	US Dollar	37,500,000	1,674,375,000	37,500,000	1,692,750,000

#### 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:

(Amount in Rupees)

I	Assumptions	As on	As on
		March 31, 2011	March 31, 2010
	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	As on
		March 31, 2011	March 31, 2010
	Present value of obligations as at beginning of year	687,701	638,594
	Interest cost	55,016	51,088
	Current Service Cost	174,827	234,006
	Benefits Paid	(124,234)	NIL
	Actuarial (gain)/Loss on obligations	594,534	(235,987)
	Present value of obligations as at end of year	1,387,844	687,701

<b>III</b>	<b>Table showing changes in the fair value of plan assets</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Fair value of plan assets at beginning of year	886,761	694,450
	Expected return on plan assets	86,789	63,862
	Contributions	741,306	128,449
	Benefits paid	(124,234)	NIL
	Actuarial Gain / (Loss) on Plan assets	NIL	NIL
	Fair value of plan assets at the end of year	1,590,622	886,761
<b>IV</b>	<b>Table showing fair value of plan assets</b>	<b>As on March 31, 2011</b>	<b>As on March 31, 2010</b>
	Fair value of plan assets at beginning of year	886,761	694,450
	Actual return on plan assets	86,789	63,862
	Contributions	741,306	128,449
	Benefits Paid	(124,234)	NIL
	Fair value of plan assets at the end of year	1,590,622	886,761
	Extra Funding	202,778	199,060
	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, 2011</b>	<b>As on March 31, 2010</b>
	Actuarial gain/(Loss) for the year - Obligation	(594,534)	235,987
	Actuarial (gain)/Loss for the year - plan assets	NIL	NIL
	Total (gain)/Loss for the year	594,534	(235,987)
	Actuarial (gain)/Loss recognized in the year	594,534	(235,987)
<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, 2011</b>	<b>For the year ended March 31, 2010</b>
	Present value of obligations as at the end of year	1,387,844	687,701
	Fair value of plan assets as at the end of the year	1,590,622	886,761
	Funded status	202,778	199,060
	Net Asset/(liability) recognized in balance sheet	202,778	199,060

VII	Expenses Recognised in statement of Profit & Loss	For the year ended March 31, 2011	For the year ended March 31, 2010
	Current Service cost	174,827	234,006
	Interest Cost	55,016	51,088
	Expected return on plan assets	(86,789)	(63,862)
	Net Actuarial (gain)/Loss recognised in the year	(594,534)	(235,987)
	Expenses recognised in statement of Profit & Loss	737,588	(14,755)

## 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
3	HOV SPV, LLC (w.e.f March 1, 2011)

##### (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	HOV Services, Inc (Formerly known as Lason, Inc.)
6	Lason India Private Limited
7	Vetri Software (I) Private Limited

#### b) Associates with whom transactions have been entered during the year

1	HandsOn Venture, LLC
2	Bay Area Credit Service, LLC
3	HOV AR Management Services Private Limited (merged with Tracmail India Private Limited)

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

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,	
		2011	2010
HOV AR Management Services Private Limited	Associate		
Loan Given		598,862	255,024
Loan Repaid		598,862	255,024
Bay Area Credit Service, LLC	Subsidiary		
Services Provided (up to December 31, 2009)		NIL	26,055,849
HOV Services, Inc	Subsidiary		
Services Provided		180,643,593	NIL
Bay Area Credit Service, LLC	Associates		
Services Provided (from January 1, 2010)		14,348,296	6,647,248
Balances written back		1,118,936	NIL
HOV Services, LLC	Subsidiary		
Services Provided		52,409,503	40,066,758
Reimbursement of Expenses		9,828,060	15,904,170
Professional fees Reimbursed		NIL	1,421,360
Travelling Expenses Reimbursed		NIL	36,329

HOVS Holdings, Ltd Investment	Subsidiary	NIL	6,452
HOV SPV, LLC Investment	Subsidiary	45,180	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	NIL	96,000
Mr. Anil Rajadhyaksha Salary	Relative of Key Managerial Personnel	NIL	400,000

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

(Amount in Rs.)

Name of the Party	Nature of Relationship	Balance as on	
		March 31, 2011	March 31, 2010
HOV Services, LLC Investment in Shares	Subsidiary	705,733,714	705,733,714
HOVS Holdings Limited Investment in Shares	Subsidiary	6,452	6,452
Meridian Consulting Group, LLC Creditors	Subsidiary	582,744	589,139
HOV Services, LLC (Debtor)	Subsidiary	12,316,747	36,909,262
HOV Services, Inc (Debtor)	Subsidiary	20,989,519	NIL
HOV Services, LLC (Receivables)	Subsidiary	2,274,505	5,530,861
HOV Services, LLC (Guarantee Given)	Subsidiary	1,674,375,000	1,692,750,000

Bay Area Credit Service, LLC			
Debtors	Associates	5,842,807	8,812,591
Creditors		NIL	1,083,879
Tracmail India Private Limited			
Guarantee Given	Associates	111,019,644	135,561,059
Hands On Venture, LLC			
Receivable	Associates	86,739	86,739
Mr. Surinder Rametra Remuneration payable	Key Managerial Personnel	451,688	422,480
Mr. Parvinder S Chadha Remuneration payable	Key Managerial Personnel	290,159	246,777
Mr. Sunil Rajadhyaksha Remuneration payable	Key Managerial Personnel	451,688	422,480
Mr. Anil Rajadhyaksha Salary payable	Relative of Key Managerial Personnel	74,427	74,427
Karan Negi Payable	Key Managerial Personnel	39,536	135,536

- 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 except disclosed above.

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

The shareholders in its Nineteenth Annual General meeting held on July 21, 2007 has approved to issue 1,100,000 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, 400,000 options were reserved for employees of the Company and 700,000 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	2010-11		2009-10	
	Directors	Other than Directors	Directors	Other than Director
Options outstanding at the beginning of the year	10,000	757,950	15,000	818,550
Options Granted during the year	NIL	NIL	NIL	NIL
Options Lapsed	5,000	222,450	5,000	60,600
Options outstanding at the end of the year	5,000	535,500	10,000	757,950

During the year, no employees has exercised the options, 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 750,000 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, 750,000 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. Managerial Remuneration:

(Amount in Rs.)

Particulars	For the year ended March 31	
	2011	2010
a) To Executive Directors - Salaries and Allowances	7,200,000	7,200,000
b) To Other Directors - Sitting Fees	680,000	470,000

#### 11. Deferred Tax Asset/ (Liability) comprise timing differences on account of:

(Amount in Rs.)

Particulars	As on March 31	
	2011	2010
Deferred Tax Liability: On account of Depreciation	(3,362,368)	(2,840,411)
<b>Net Deferred Tax Asset / (Liability)</b>	<b>(3,362,368)</b>	<b>(2,840,411)</b>

**12. Auditors' Remuneration:**

(Amount in Rs.)

Particulars	For the year ended March 31,	
	2011	2010
Payment to Statutory Auditors:		
Audit Fees	1,100,000	1,100,000
Limited Review Fees	990,000	990,000
Certification Fees	177,500	70,000
Advisory Services	-	NIL
Reimbursement of Out of Pocket Expenses (Included service tax of Rs. 231,861, previous year Rs. 228,403)	285,431	282,593
<b>Total</b>	<b>2,552,931</b>	<b>2,442,593</b>

**13.** 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.

**14.** 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 the Companies (Accounting Standards) Rules, 2006.

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

The Company has remitted Rs. 61,850,776/- in foreign currency on account of dividends 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	
	2011	2010	2011	2010	2011	2010
Dividend for the year 2010-11 & 2009-10	13	14	7,731,347	7,705,925	61,850,776	15,411,850

**16. 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,	
	2011	2010
<b>Earnings in Foreign Exchange</b>		
Income from Operations	247,401,392	74,911,795
<b>Expenditures in Foreign Currency</b>		
Travelling Expenses	65,275	NIL

17. The Board of Directors in their meeting held on March 12, 2011 had given approval to combine its wholly owned subsidiary HOV Services LLC with Source Corp Inc. In the combined entity SCH Services Inc., HOV Services and Source Corp Inc. will each control fifty percent and obtaining necessary approvals subsequent to the year end. The aforesaid combination stands effective April 29, 2011.
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: Mumbai  
Date : May 27, 2011

**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-2011

**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	819,984
Total Assets	819,984

**Sources of Funds**

Paid Up Capital	124,910
Reserve and Surplus	691,711
Secured Loans	NIL
Unsecured Loans	NIL
Deferred Tax	3,363

**Application of the Funds**

Net Fixed Assets	14,102
Capital WIP	NIL
Investments	706,156
Net Current Assets	99,726
Miscellaneous Exp	NIL
Accumulated Loss	NIL

**IV. Performance Of Company**

Income	247,401
Total Expenditure	82,602
Profit before Tax	167,081
Profit after Tax	166,179
Earnings Per Share in Rs.	13.30
Dividend%	80%

**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 23<sup>RD</sup> ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty-Third Annual General Meeting of the Members of HOV Services Limited will be held on Wednesday, the 3rd day of August, 2011 at 11:00 AM at Le Meridien, Raja Bahadur Road, Pune, Maharashtra, 411001 to transact the following business:

#### ORDINARY BUSINESS:-

1. To receive, consider and adopt the Balance Sheet as at March 31 2011 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 final dividend for the financial year ended March 31, 2011. The Board has recommended final dividend of Rs. 2/- [@ 20 %] per equity share of Rs. 10/- each.
3. To re-appoint Mr. B R Gupta as Director of the Company, who retires by rotation and who has given his consent for re-appointment.
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 modifications, the following resolution as a Special Resolution:**

**RESOLVED THAT** in accordance with the provisions of sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as "the Act"), read with Schedule XIII to the Act, including any statutory modification(s) or re-enactment thereof for the time being in force and subject to the approval of the Central Government, the consent of the Company be and it is hereby accorded to the re-appointment of Mr. Parvinder S Chadha as the Whole Time Director designated as Executive Director of the Company for a period of five years with remuneration of Rs. 4,00,000/- (Four Lakh Only) per month payable to him, with effect from April 1, 2011 as detailed below:

- a) Fees of Rs. 1,00,000/- per month
- b) Special Allowance - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% of fees per month and subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.
- c) Perquisites and Other Allowances - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% per month of total remuneration subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.

Perquisites shall include accommodation (furnished or otherwise) or House Rent allowance in lieu thereof, House maintenance allowance, reimbursement of expenses or allowances for utilities such as gas, electricity, water, servant/ gardener salaries, Leave Travel Allowance for self and family, club fees, bonus etc. and Provision for use of car with chauffeur and Telephone at residence; and Reimbursement of Medical expenses for self and dependant

family members; for the purpose of determining the perquisites, family means spouse, dependant children and dependant parents. Perquisites shall be evaluated as per Income Tax Rules, wherever applicable or at actual cost, as the case may be.

- d) Minimum Remuneration - where in any financial year during his tenure as whole time director, the Company has no profits or its profits are inadequate, the Company may pay remuneration to him by way of fees, dearness allowance, perquisites and any other allowance not exceeding the ceiling limits laid down in Section II of Schedule XIII of the Companies Act, 1956.

**RESOLVED FURTHER THAT** the Board be and is hereby authorized to take all such steps, as may be necessary, proper and expedient to give effect to this resolution.

**6. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:**

**RESOLVED THAT** in accordance with the provisions of sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as "the Act"), read with Schedule XIII to the Act, including any statutory modification(s) or re-enactment thereof for the time being in force and subject to the approval of the Central Government, the consent of the Company be and it is hereby accorded to the re-appointment of Mr. Sunil Rajadhyaksha as the Whole Time Director designated as Executive Director of the Company for a period of five years with remuneration of Rs. 4,00,000/- (Four Lakh Only) per month payable to him, with effect from April 1, 2011 as detailed below:

- a) Fees of Rs. 1,00,000/- per month.
- b) Special Allowance - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% of fees per month and subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.
- c) Perquisites and Other Allowances - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% per month of total remuneration subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.

Perquisites shall include accommodation (furnished or otherwise) or House Rent allowance in lieu thereof, House maintenance allowance, reimbursement of expenses or allowances for utilities such as gas, electricity, water, servant/ gardener salaries, Leave Travel Allowance for self and family, club fees, bonus etc. and Provision for use of car with chauffeur and Telephone at residence; and Reimbursement of Medical expenses for self and dependant family members; for the purpose of determining the perquisites, family means spouse, dependant children and dependant parents. Perquisites shall be evaluated as per Income Tax Rules, wherever applicable or at actual cost, as the case may be.

- d) Minimum Remuneration - where in any financial year during his tenure as whole time director, the Company has no profits or its profits are inadequate, the Company may pay remuneration to him by way of fees, dearness allowance, perquisites and any other allowance not exceeding the ceiling limits laid down in Section II of Schedule XIII of the Companies Act, 1956.

**RESOLVED FURTHER THAT** the Board be and is hereby authorized to take all such steps, as may be necessary, proper and expedient to give effect to this resolution.

**7. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:**

**RESOLVED THAT** in accordance with the provisions of sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 (hereinafter referred to as "the Act"), read with Schedule XIII to the Act, including any statutory modification(s) or re-enactment thereof for the time being in force and subject to the approval of the Central Government, the consent of the Company be and it is hereby accorded to the re-appointment of Mr. Surinder Rametra as the Whole Time Director designated as Executive Director of the Company for a period of five years with remuneration of Rs. 4,00,000/- (Four Lakh Only) per month payable to him, with effect from April 1, 2011 as detailed below:

- a) Fees of Rs. 1,00,000/- per month
- b) Special Allowance - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% of fees per month and subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.
- c) Perquisites and Other Allowances - Such sum as may be decided by the Board of Directors year to year, but not exceeding 100% per month of total remuneration subject to the overall ceiling laid down in Section 198, 309 and Schedule XIII of the Companies Act, 1956.

Perquisites shall include accommodation (furnished or otherwise) or House Rent allowance in lieu thereof, House maintenance allowance, reimbursement of expenses or allowances for utilities such as gas, electricity, water, servant/ gardener salaries, Leave Travel Allowance for self and family, club fees, bonus etc. and Provision for use of car with chauffeur and Telephone at residence; and Reimbursement of Medical expenses for self and dependant family members; for the purpose of determining the perquisites, family means spouse, dependant children and dependant parents. Perquisites shall be evaluated as per Income Tax Rules, wherever applicable or at actual cost, as the case may be.

- d) Minimum Remuneration - where in any financial year during his tenure as whole time director, the Company has no profits or its profits are inadequate, the Company may pay remuneration to him by way of fees, dearness allowance, perquisites and any other allowance not exceeding the ceiling limits laid down in Section II of Schedule XIII of the Companies Act, 1956.

**RESOLVED FURTHER THAT** the Board be and is hereby authorized to take all such steps, as may be necessary, proper and expedient to give effect to this resolution.

**8. To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:**

**RESOLVED THAT** pursuant to Section 17 and all other applicable provisions if any, of the Companies Act, 1956 (including any amendment thereto or any re-enactment thereof), the approval of the members of the Company by way of a special resolution is accorded to amend, the existing Object Clause III by inserting the following new sub clause "71 to 75" after Clause 2 under Clause C:

- 71 To undertake, promote, sponsor and carry on in India or elsewhere the business to manufacture, produce, assemble, commission, alter, acquire, convert, commercialize, design, develop, demonstrate, equip, establish, fabricate, finish, hold, handle, install, hire, let on hire, lease, repair, maintain, modify, market, own, operate, protect, renovate, recondition, remodel, import, export, buy, sell, resell, exchange, service, turn to account and to act as agent broker, financier, stockiest, turn key supplier, contractor, promoter, consultant, engineer, collaborator or otherwise to deal in all types of non conventional energy generating, utilization and saving devices, all types of renewable energy and power systems and to generate, harness, develop, accumulate, distribute and supply electricity by setting up Power Plants for the purpose of light, heat, motive power and for all other purposes for which electric energy can be produced, to carry on and generate power, supply either by Hydro, Thermal, Oil, Bio-mass, Solid Fuels, Wastes such Municipal Solid Wastes, Bio-Gas, Natural Gas, Air, Sea Energy, Diesel Oil, Heavy Furnace Oil, Naptha, Or through Renewable Energy Sources such as Solar, Photo voltaic, Wind Mill, Garbage, Geothermal and or any other means, to produce, transmit, distribute, supply and sell such power or steam or fuel arising out in the process either directly or through transmission lines and facilities of Central or State Governments or private companies or Electricity Boards to Industries and to Central or State Governments, other consumers of electricity including for captive consumption for any industrial project promoted by this company or promoter companies generally to develop, generate, accumulate power at any other place and to transmit, distribute, sell, supply any such power.
- 72 To conceive, plan, survey, design, study, evaluate and to provide consultancy in all steps, processes, techniques and methods for setting up and operating of all types of power plants, infrastructure projects, facilities or works to be established in India or outside India and to build, construct, install, erect, undertake, lay down, commission, establish, own, operate, manage, control and administer, lease, transfer all types of power projects, infrastructure projects, facilities or works and undertake export and import of turnkey projects or technologies relating to the power generating by and through all types of renewable energy and power systems and infrastructure projects, there to either in full or in part in India or outside India.
- 73 To carry on the activity as growers, processors, dealers of plantations such as Jetropa, Neem or such other plantations which yield required natural or green fuel for Power, steam or fuel generation.
- 74 To construct, establish, operate, manage power stations, boiler houses, steam turbines, switch yards, transformer yards, substations, transmission lines, accumulators, workshops, and all such works necessary for generating, accumulating, distributing and supply of electricity, steam or fuel to construct, lay down, establish, fix, erect, equip and maintain power generating machinery and all other types of plant and machinery, electrical equipments and cables, computer and control equipment, transmission lines, accumulators, fittings and apparatus in the capacity of principals, contractors or otherwise.
- 75 To undertake, promote, sponsor and carry on globally, directly or indirectly the business to launch of fund(s) to invest in assets including – real estate, energy, transmission, mining, healthcare facilities, insurers, partnership with Insurers to become either TPA and or agents and education.

**RESOLVED FURTHER THAT** any one Director of the Board of Directors or Mr. Bhuvanesh Sharma, Company Secretary & Compliance Officer of the Company be and is hereby authorized to do all such acts, deeds, matters and to execute all such documents, instruments and writings as may be required in this connection or incidental to give effect to the above resolution and to delegate all or any of the powers herein vested in the Board of Directors to any Director(s) or to the Company Secretary, to give effect to this Resolution including but not limited to filing of necessary forms with the Registrar of Companies and to comply with all other requirements in this regard

By Order of the Board

**HOV Services Limited**

Place: Mumbai  
Date: May 27, 2011

**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;

**For Item No. 5 to 7**

The Company had appointed Mr. Parvinder S Chadha, Mr. Sunil Rajadhyaksha and Mr. Surinder Rametra as whole time directors with effect from April 1, 2006 pursuant to the Central Government approval vide its letter dated 2<sup>nd</sup> November 2007 with total remuneration payable approved by the Central Government to each of the Executive Directors was Rs. 4,00,000/- (Four Lacs Only) per month. The period of five years ended on March 31, 2011 and therefore there re-appointment was approved by the Board of Directors in its meeting held on May 27, 2011 subject to the approval of Members and Central Government.

The Company will be immensely benefited because of the varied experiences of Mr. Parvinder S Chadha, Mr. Sunil Rajadhyaksha and Mr. Surinder Rametra. The resolutions are recommended to the Members for approval.

Shareholders approval is also being sought to empower the Board to vary a terms of employment from time to time on the exigencies of business, but within the limits prescribed in the Companies Act, 1956 and approval of the Central Government.

**For Item No. 8**

The Board of Directors in their meeting held on May 27, 2011 had considered the other different business activities which can be carried out by the Company in the best interest of the shareholders. The inclusion of these business activities in the Object clause of Memorandum of Association of the Company requires member's approval. Therefore, the Board commends the resolution for the approval.

3. Pursuant to provision of Section 256 of the Companies Act, 1956 and Article 168 of Article of Association of the Company Mr. B R Gupta , 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, Plot No. 17 to 24, Vittalrao Nagar, Madhapur, Hyderabad, 500 081:
  - a. Change, if any in their address;
  - b. Request for nominations form as per the provisions of the Companies Act, 1956.
  - c. Request to register/ provide/update your e-mail address with Depositories and at [hov.cs@karvy.com](mailto:hov.cs@karvy.com).
7. Members holding share in dematerlized 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: Mumbai  
Date: May 27, 2011

**Bhuvanesh Sharma**  
Company Secretary &  
Compliance Officer

**BREIF RESUME OF DIRECTORS SEEKING APPOINTMENT/ RE-APPOINTMENT****B R Gupta**

Mr. B. R. Gupta, 71, is a Fellow of Insurance Institute of India, Law Graduate & Post Graduate. He is the former Executive Director (Investments) of Life Insurance Corporation of India. After superannuation he was reappointed as Investment Advisor by LIC of India & Investment Consultant by General Insurance Corporation of India. He has over 40 years of experience in Insurance, Investment and Financial Services Sector. Mr. Gupta has been a Director on the boards of ICICI Prudential Asset Management Company, National Stock Exchange, IDBI Capital Market Services Ltd, Mahindra and Mahindra Limited, Greaves Cotton Limited. He has been a member of Secondary Market Committee of Security Exchange Board of India, Debt Market Committee of National Stock Exchange & Governing Board of National Insurance Academy. Presently, he holds the position of Director in Aditya Birla Nuvo Ltd, J. B. F. Industries Ltd, J.B.F RAK LLC, Sagacious Financial Services Ltd. He has been an Advisor to IL&FS Academy for Insurance and Finance Ltd., (an initiative of IL&FS Group) for a number of years. Currently he is associated with Trinity Global Education Pvt Ltd as Advisor in the Financial Services Division.

**Parvinder S Chadha**

In a career that has evolved from a technology entrepreneur to the creator of global service enterprises privately held or publicly traded on US and Foreign Stock Exchanges, Mr. Chadha's accomplishments include more than 80 mergers, acquisitions and public offerings. In addition, through his vision, multiple private equity funds have been created and profitably deployed to acquire a myriad of assets ranging from mergers and acquisitions of businesses to the purchase of billions of dollars of commercial and consumer debt.

Before launching HOV, Mr. Chadha was Chairman and CEO of OSICOM Technologies, Inc., a technology company he founded with his wife, Sharon Chadha, in 1981. OSICOM was an innovator in the transition from mainframe-based to server-based networking technologies and later from overlay networks to converged data, voice and video networks. OSICOM became a public company in 1987 and, as a result of 14 technology acquisitions, became the incubator to three leading public technology companies: Sorrento Networks, Inc. (the pioneer in metro optical networking); Entrada Networks, Inc. (a leader in local area, wide area and storage area networking); and Netsilicon, Inc. (a pioneer in networking systems-on-silicon). OSICOM commanded a market value of more than \$1.5 billion in 2000 when they again embarked on a venture to build through acquisition a portfolio of potentially synergistic businesses at HandsOn Ventures, LLC.

Mr. Chadha holds a B.S. degree in electrical engineering from Punjab Engineering College, India, and completed graduate-level coursework in computer science at the Illinois Institute of Technology.

**Sunil Rajadhyaksha**

He co-founded Codec Pvt. Ltd. in 1989, an HOV acquisition and now a publicly traded company. With more than 30 years executive leadership experience, Mr. Rajadhyaksha has served as COO or Global President of companies deployed in the US and India. Mr. Rajadhyaksha's achievements include launching international operations for Bay Area Credit Service and its 1000 plus seat call center, and creating and deploying strategic and operational direction for Merit Optical Communications. Mr. Rajadhyaksha holds a B.S. degree in telecommunications and electronics from University of Pune, India, and a M.S. degree in electrical engineering from Illinois Institute of Technology.

**Surinder Rametra**

In 1983, Mr. Rametra founded Sun Computers and Software, Inc.; took that company public in 1994 under the name ATEC and as Chairman and CEO transformed the organization into a pharmaceutical enterprise, Interpharm Holdings, Inc., now traded on the American Stock Exchange. In a career that encompasses leadership to private enterprise and public charity, Mr. Rametra has been a director of Montana Life Assurance Company and Healthnet LLC; and founder of Silver Oak Hospital, Shanti Fund and Seva Bharti—charitable organizations.

Mr. Rametra holds a B.S. in Mechanical Engineering from the Punjab Engineering College, India, a Master's degree in Industrial Engineering from the Indian Institute of Technology and an MBA in Finance from New York University, where he studied under visiting professor Peter Drucker, a luminary icon of Business Branding and Process.

**HOVS**  
**HOV Services Limited**  
**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-Third Annual General Meeting of  
the Members of HOV Services Limited to be held on **Wednesday**, the **3<sup>rd</sup>** day of **August**, 2011 at **11:00 AM** at **Le  
Meridien, Raja Bahadur Mill Road, Pune, Maharashtra-411001** and at any adjournment thereof.

Signed this .....day of.....2011.

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

Client Id : ..... DP Id : .....

Signature : .....

Affix 15  
 paise  
 stamp  
 revenue

**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.

**HOVS**  
**HOV Services Limited**  
**ATTENDANCE SLIP**

I hereby record my presence at the Twenty-Third Annual General Meeting held on **Wednesday**, the **3<sup>rd</sup>** day of **August**, 2011 at **11:00 AM** at **Le Meridien, Raja Bahadur Mill Road, Pune, Maharashtra 411001**.

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

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

Client Id : ..... DP Id : .....

Name of Member / Proxy  
(In block letters)

Signature of Member / Proxy

**Notes:**

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



**HOV Services Limited**

**Registered Office:**

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

**Day and Date :** Wednesday, August 3, 2011

**Time :** 11:00 AM

**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) 44655000

Fax No. (040) 23420814

Email : einward.ris@karvy.com