



HOV SERVICES LIMITED

NINETEENTH ANNUAL REPORT

Financial Year 2006 - 2007

Contents	Pages
<i>Corporate Information</i>	2
<i>Directors' Report</i>	3
<i>Management Discussion and Analysis</i>	6
<i>Corporate Governance Report</i>	9
<i>Stand Alone Accounts:</i>	
<i>Auditors' Report</i>	18
<i>Balance Sheet</i>	21
<i>Profit and Loss Accounts</i>	22
<i>Cash Flow Statements</i>	23
<i>Schedules</i>	24
<i>Consolidated Accounts:</i>	
<i>Auditors' Report</i>	38
<i>Balance Sheet</i>	39
<i>Profit and Loss Accounts</i>	40
<i>Schedules</i>	41
<i>Subsidiary Companies:</i>	
<i>HOV Services, LLC</i>	53
<i>Bay Area Credit Service (I) Private Limited</i>	63
<i>Notice of Annual General Meeting</i>	79
<i>Proxy and Attendance Form</i>	86

Corporate Information

The Board of Directors

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

The Management Team

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

Company Secretary & Compliance Officer

Bhuvanesh Sharma

E-mail: investor.relations@hovservices.com

Auditors

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

Registered Office

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

Registrar & Share Transfer Agent

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

DIRECTORS' REPORT

Dear Shareholders,

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

1. Financial Results:

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

2. Results Of Operations

Performance on consolidated basis:

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

Performance on a standalone basis:

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

3. Dividend

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

4. Significant Developments

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

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

(1) Initial Public Offering

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

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

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

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

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

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

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

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

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

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

6. Particulars of Employees

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

7. Employee Relations

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

8. Directors Responsibility Statement

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

- a) that in preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; and
- b) that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss account of the Company for that the period; and
- c) that the directors have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) that the directors have prepared the annual accounts on a going concern basis.

9. Fixed Deposit

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

10. Management Discussion and Analysis

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

11. Corporate Governance

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

12. Auditors

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

13. Directors

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

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

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

15. Acknowledgement

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

For and on behalf of the Board of Directors

Place: Mumbai
Date: May 28, 2007

Surinder Rametra
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Global Business Process Outsourcing

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

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

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

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

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

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

Comprehensive Offering Portfolio

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

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

OPPORTUNITIES

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

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

Business process improvements:

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

Leverage Right Shore:

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

Leverage Marquee Clients:

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

THREATS

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

Raising Staff Cost:

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

Rupee Appreciation:

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

Proprietary Rights and Processes:

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

FUTURE OUTLOOK

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

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

INTERNAL CONTROL SYSTEMS

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

FINANCIAL PERFORMANCE

Revenues

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

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

Expenditures

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

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

Profit after Tax

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

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

Employee Relations

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

CORPORATE GOVERNANCE REPORT FOR THE FINANCIAL YEAR 2006-07

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

Company's Philosophy on Code of Governance

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

1. Board of Directors

a) Composition of Board

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

b) Non Executive Directors' Compensation and Disclosures

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

c) Other provisions related to Board and Committees

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

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

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

Composition of Board of Directors

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