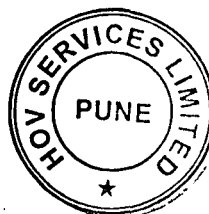




## **TWENTY FIRST ANNUAL REPORT FINANCIAL YEAR 2008-09**

**Certified True Copy**  
For HOV Services Limited

**Bhuvanesh Sharma**  
Company Secretary



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## CORPORATE INFORMATION

### The Board of Directors

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

### Executive Management Team

Mr. Suresh Yannamani	<i>President</i>
Mr. James Reynolds	<i>Chief Financial Officer &amp; Chief Accounting Officer</i>

### Company Secretary & Compliance Officer

Bhuvanesh Sharma  
 E-mail: investor.relations@hovservices.com

### Registered Office

HOV Services Limited  
 3<sup>rd</sup> Floor, Sharda Arcade,  
 Pune Satara Road, Bibwewadi,  
 Pune 411-037  
 Tel: (91 20) 2423 1623  
 Fax: (91 20) 2422 1460  
 E-mail: investor.relations@hovservices.com

### Head Office

Dowlath Towers,  
 10<sup>th</sup> Floor,  
 59, Taylors Road,  
 Kilpauk, Chennai-600 010  
 Ph: +91 44 42203000  
 Fax: +91 44 4285 8528

### Registrar & Share Transfer Agent

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

### Auditors

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

## DIRECTORS' REPORT

The Shareholders,

Your Directors are pleased to present their Twenty-First Annual Report on the Business and Operations of HOV Services Ltd. (the "Company" or "HOVS") together with Audited Statement of Accounts for the year ended March 31, 2009.

### 1. FINANCIAL RESULTS AND OPERATIONS:

The particulars of the Company and its Subsidiaries Consolidated financials statements are as below:

Particulars	For the year ended March 31, Rs. In Million			
	Consolidated		Standalone	
	2009	2008	2009	2008
<b>INCOME</b>				
Income from Operations	8,970.72	8,335.11	43.77	62.28
Other Income	21.72	744.87	2.99	0.29
	<b>8,992.44</b>	<b>9,079.98</b>	<b>46.76</b>	<b>62.57</b>
<b>EXPENDITURE</b>				
Staff Cost	4,518.83	4,220.09	37.27	24.31
General and Administrative Expenses	3,325.84	3,329.45	17.77	25.68
	<b>7,844.67</b>	<b>7,549.54</b>	<b>55.04</b>	<b>49.99</b>
<b>Profit/(Loss) before Interest, Depreciation and Tax</b>	<b>1,144.77</b>	<b>1,530.44</b>	<b>(8.28)</b>	<b>12.58</b>
Less: Interest	444.78	509.26	0.14	0.13
Less: Depreciation	236.53	169.78	3.78	1.65
<b>Profit/(Loss) before Tax</b>	<b>466.46</b>	<b>851.4</b>	<b>(12.20)</b>	<b>10.8</b>
Tax pertaining to earlier years	NIL	(0.08)	(0.01)	-
Less: Provisions for taxes				
Current Tax	13.86	27.77	NIL	1.2
Deferred Tax	(15.85)	0.14	3.30	0.01
Fringe Benefit Tax	4.92	1.56	0.26	0.3
<b>Profit/(Loss) after Tax</b>	<b>463.53</b>	<b>822.01</b>	<b>(15.75)</b>	<b>9.29</b>
Less: Minority Interest	(0.34)	277.59	NIL	-
<b>Profit/(Loss) after Tax After Minority Interest</b>	<b>463.87</b>	<b>544.42</b>	<b>(15.75)</b>	<b>9.29</b>

## 2. RESULTS OF OPERATIONS

### Performance on consolidated basis:

- Consolidated total Income for the current FY increased by 7.6% to Rs. 8,970.7 million from Rs. 8,335.1 million for the corresponding last fiscal year 2007-08.
- EBITDA increased by 7.39% for the FY to Rs.1,176.44 million from Rs.1,095.5 million over the corresponding last fiscal year 2007-08.
- Net Profit decreased by 14.8% for the current FY to Rs. 463.9 million from Rs.544.4 million over the corresponding last fiscal year.
- Rupee depreciation against the USD resulted in decrease of the company's Net Profit to the tune of Rs 80.6 million.
- The basic and diluted Earnings per share (EPS) is Rs 36.96 for the FY.

## 3. Significant Developments:

### i) Highlights of Business Performance:

- Added over \$17.5 million in customer contracts in the 4<sup>th</sup> Fiscal Quarter with \$12.5 million from existing customers.
- Substantial savings from integration and rationalization of global operations helped defray overall increases in costs in India with 11,419 associates across over 40 delivery centers in India, China, Mexico, U.S. & Canada.
- By right shoring we were able to successfully transition some key business processes from US to our near shore and off shore operations in Mexico, India and China.
- Diversified Client Base with low Customer Concentration with and minimal exposure to financial services companies.
- Top 100 clients represent over 79% of total revenues with the largest customer representing only 16% of total revenues.
- Over 50% of leading FORTUNE 100® companies as reference-able clients in our core Service offerings.

### ii) Key Accomplishments and Noteworthy Items:

- Company maintained strong liquidity position with DSO of 51.6 days, Debt to Equity Ratio of 1.33 and Net Bank Debt of \$110.9 million at March 31, 2009;
- Successfully continue to leverage Company's Top Tier BPO Service Provider with established reputation for Reliable, High Quality and Secure services;
- International Association of Outsourcing Professionals (IAOP) ranked the Company:
  - Best 20 Leaders by Industry Focus: Health Care;
  - Best 10 Companies by Service Offered: Document Management;
  - Best 10 Leaders by Service Offered: Financial Management;
  - Best 20 Leaders by Region Served: India;
  - Best 20 Leaders by Region Served: Canada;



**ANNUAL REPORT 2008-09***iii) Material transaction proposal:*

The proposal was received by the Company in June 2008 and was reported in Annual Report of 2007-08. The Board of Director's in their meeting held on October 8, 2008 keeping in view the market conditions, proposed to postpone considering the Transaction in the best interest of the shareholders.

*iv) Issue of ADR/GDR*

The Shareholders in their Annual General meeting held on July 21, 2007 approved the issue of up to 15,000,000 number of Global Depository Receipts (GDRs), American Depository Receipts (ADRs), Foreign Currency Convertible Bonds (FCCBs), and / or Equity Shares through Depository Receipt Mechanism (hereinafter referred to as ("DR")) per SEBI guidelines and subject to all rules and regulations. The Company also received In-Principal approval from Bombay Stock Exchange Limited vide its letter dated November 29, 2007 and from National Stock Exchange Limited vide its letter dated November 29, 2007 for issue and allotment of equity shares not exceeding 15,000,000 to be allotted towards the proposed DRs. The Company has not issued any of the aforesaid equity shares post approval.

*v) Buyback of Equity Shares:*

During the year under review the Board of Directors approved buy back of equity shares of the Company through open market stock exchanges route. The details of the same are as follows:

<b>Structural details of the buyback program:</b>	
Date of Board Resolution approving Buy back	January 13, 2009
Date of Public Notice cum Public Announcement	January 13, 2009, Published on January 15, 2009
Maximum Offer size	10,00,000 Equity Shares
Minimum Offer size	2,50,000 Equity Shares
<b>Maximum Offer Price:</b>	Rs. 50/- Per Equity Share (Aggregate Amount Not more than Rs. 5.00 Crore).
<b>Date of Opening of the Buy back:</b>	February 2, 2009
<b>Duration of the program:</b>	Up to January 12, 2010 (12 months from the date of Board resolution)
<b>Number of shares bought back:</b>	
As on March 31, 2009	43,023 Equity Shares
As on June 26, 2009	63,023 Equity Shares
<b>Details of the shares bought back:</b>	
As on March 31, 2009	43,023 Equity Shares were bought back at average rate of Rs. 28.67 per equity share.
As on June 26, 2009	63,023 Equity Shares were bought back at average rate of Rs. 29.65 per equity share.
<b>Execution method:</b>	Open Market Purchases through Stock Exchanges.
<b>Buyback price and the aggregate amount paid on buyback:</b>	
As on March 31, 2009	43,023 Equity Shares bought back @ Rs. 28.67, aggregating amount Rs. 12,33,279/-

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As on June 26, 2009	63,023 Equity Shares bought back @ Rs. 29.65, aggregating amount Rs. 18,85,680/-
Sources from which buyback is financed:	Share Capital And Free Reserves Account
Amount by which the share capital and free reserves including share premium are reduced on account of buyback of the shares:	Total share capital and free reserves including share premium are reduced by Rs. 4,30,230/- and Rs. 8,09,572/- respectively.
Un-cancelled shares:	Total equity shares bought back as on March 31, 2009 were 43,023 out of which 35,620 shares were extinguished; remaining equity shares of 7,763 extinguished in April, 2009.
Amount transferred to Capital Redemption Reserve Account	An amount of Rs. 4,30,230/- transferred to Capital Redemption Reserve Account.

## 4. Appropriations:

**Dividend**

Your Company intends to conserve available resources to invest in the growth of the business and pursue strategic growth opportunities. Accordingly your Directors do not recommend any dividend for the year.

**Transfer to Reserve**

Pursuant to the Section 77AA of the Companies Act, 1956 a sum equal to nominal value of the shares bought back is required to transfer to Capital Redemption Reserve account. The Company as of March 31, 2009 had bought back 43,023 equity shares. Therefore an amount of Rs. 4,30,230/- is transferred to Capital Redemption Reserve Account.

## 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 Company is not energy intensive. The Company conducted energy audit in some of the units and has implemented the recommendations in a phased manner. This has resulted in reduction of energy consumption during this financial year.

**Research and Development:** The Company has not undertaken any R&D activity in any specific area during the year under review, and hence no cost has been incurred towards the same. The Company believes technology deployment is strategic to its growth and has invested heavily in automation, capture, presentation and analytics. The Company has development teams in US, India and Mexico implementing its vision.

**Technology Absorption, Adaptation and Innovation:** The Company has been focused on providing end-to-end BPO services to Clients. The Company has heavily invested in technology innovation and is leveraging its global footprint to take advantage of shrinking distances and blurry traditional borders bypassed by global, stable, secure network infrastructure all while conforming to 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 and go through Six Sigma training as well and many are certified at various levels. The Company is constantly pursuing and adopting modern technologies and standards to grow its competitive advantages, to better serve its clients, retain employees and improve productivity and performance.

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**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 15(c) to the Accounts of the Annual Report.

**6. Particulars of Employees**

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the directors' report for the year ended March 31, 2009 is set out in the Annexure I to the Director's Report.

**7. Human Resources**

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 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. 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.

**11. 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.

**12. 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.

**13. Directors**

Mr. Rajeev Gupta, Director who retires by rotation prior to the Annual General Meeting notified his inability to continue his directorship due to pre-occupation. His notice was placed before the Board in its meeting held on June 4, 2009 and the same was accepted by the Board. The Board of Directors place on record their appreciation for the support rendered by him during the tenure as Director of the Company.



During the year under review Mr. Harish P Bhasin was inducted as an additional director w.e.f March 24, 2009 and holds office up to the date of ensuing Annual General Meeting. His appointment requires the approval of members at the ensuing Annual General Meeting. The Company has received a notice in writing from a member pursuant to Section 257 of the Companies Act, 1956 proposing the candidature of Mr. Harish P Bhasin for the office of Director, liable to retire by rotation.

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

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

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. We believe that the consolidated accounts present a full and fair picture of the state of affairs and the financial conditions. The Government of India has granted exemption to the Company from complying with section 212 for all the subsidiary companies vide its letter dated February 4, 2009. 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 in Pune, India.

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

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

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

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

Options were granted to employees at an exercise price not less than closing price of the stock exchange having highest trading volume, prior to the date of meeting of the Compensation & Remuneration Committee. Such 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.

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i) The details of Plan 2007 and Plan 2008 are as below:

	<b>Plan 2007</b>		
	<b>Parent</b>	<b>Subsidiary</b>	<b>Total</b>
<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</b>	<b>-</b>	<b>80,000</b>	<b>80,000</b>
<b>Options in force</b>	<b>169,650</b>	<b>663,900</b>	<b>833,550</b>
<b>Balance available</b>	<b>230,350</b>	<b>36,100</b>	<b>266,450</b>

	<b>Plan 2008</b>		
	<b>Parent</b>	<b>Subsidiary</b>	<b>Total</b>
<b>Approved Options</b>	<b>-</b>	<b>750,000</b>	<b>750,000</b>
Grant in 2008	-	-	-
<b>Total Grant</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Options Lapsed</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Options in force</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance available</b>	<b>-</b>	<b>750,000</b>	<b>750,000</b>

ii) Information of grant made to directors and employees:

<b>Options granted date</b>	<b>Directors (A)</b>	<b>Employees (B)</b>	<b>Total (A+B)</b>
July 21, 2007	7,500	640,000	647,500
October 25, 2007	0	20,000	20,000
July 30, 2008	7,500	183,550	191,050
October 8, 2008	0	55,000	55,000
<b>Total Granted</b>	<b>15,000</b>	<b>898,550</b>	<b>913,550</b>
<b>Options lapsed</b>	<b>0</b>	<b>80,000</b>	<b>80,000</b>
<b>Options outstanding</b>	<b>15,000</b>	<b>818,550</b>	<b>833,550</b>

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

<b>As of March 31, 2009</b>			
		<b>Plan 2007</b>	<b>Plan 2008</b>
a.	Options Granted:	9,13,550	Nil
b.	The Pricing formula:	Closing price of the stock exchange with highest trading volume, prior to the date of the meeting of the compensation & Remuneration Committee in which options are granted.	Closing price of the stock exchange with highest trading volume, prior to the date of the meeting of the compensation & Remuneration Committee in which options are granted