HOV Services
Exceed Expectations

22nd Annual Report 2009-10

Table of Content

Corporate Information

Registered Office	3rd Floor, Sharda Arcade, Pune Satara Road, Bibwewadi, Pune-411 037 Tel: (91 20) - 24231623; Fax : (91 20) - 24221470
Head Office	Dowlath Towers, 10th Floor, 59 Taylors Road, Kilpauk, Chennai-600 010; Tel : (91 44) - 42203000; Fax: (91 44)-42858528.
Registrar & Share Transfer Agent	Karvy Computershare Pvt Ltd., 17-24, Vittal Rao Nagar, Madhapur, Hyderabad–500 081 Tel: (91 40)-23420815; Fax: (91 40)–23420814
Auditors	Lodha & Co., Chartered Accountants, 6 Karim Chambers 40, Ambalal Doshi Marg, Mumbai - 400 023, Maharashtra, India Tel: (91 22) 2265 1140; Fax: (91 22) 2269 1414
Investor Relations, Media & Analyst Contact	Mr. Shekhar Singh Batham shekhar.batham@hovservices.com investor.relations@hovservices.com
Company Secretary & Compliance Officer	Mr. Bhuvanesh Sharma investor.relations@hovservices.com

The Board of Directors

Mr. Parvinder S Chadha	**Chairman & Executive Director**
Mr. Surinder Rametra	**Executive Director**
Mr. Sunil Rajadhyaksha	**Executive Director**
Mr. B R Gupta	**Director**
Mr. Ajay Madan	**Director**
Mr. Harish Bhasin	**Director**
Mr. Prakash Shukla	**Director**

The Executive Management

Mr. Suresh Yannamani	**President**
Mr. James Reynolds	**Chief Financial Officer & CAO, Global**
Mr. Kenneth Shaw	**Executive Vice President HR, Global**

Mission, Vision and Values

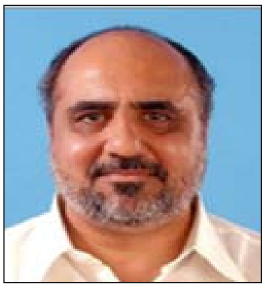
"*The mission of HOVS is to deliver significant, identifiable value and improve return-on investment for our customers by delivering business solutions*"

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

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

Chairman's Message

Dear Shareholders,



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

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

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

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

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

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

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

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

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

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

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

With regards,

Parvinder S Chadha
Chairman & Executive Director

Directors' Report

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

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

FINANICAL RESULTS AND OPERATIONS:

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

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

*Includes Exceptional items of Rs. 1327.64 Million.

1. **RESULTS OF OPERATIONS:**

Performance on Consolidated basis:

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

Performance on Standalone basis:

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

2. **SIGNIFICANT DEVELOPMENTS:**

(a) Key Highlights during the year were:

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

(b) Key Accomplishment and Noteworthy Items:

International Association of Outsourcing Professionals (IAOP) ranked us:

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

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

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

(d) *Buyback of Equity Shares:*

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

Structural details of the buyback program:

Date of Board Resolution for approval of Buy back	January 13, 2009
Date of Public Notice cum Public Announcement	January 13, 2009
Maximum Offer size	10,00,000 Equity Shares
Minimum Offer size	2,50,000 Equity Shares
Maximum Offer Price:	Rs. 50/- Per Equity Share(Aggregate Amount Not more than Rs. 5.00 Crores).
Date of Opening of the Buy back:	February 2, 2009
Duration of the Buy back:	Up to January 12, 2010 (12 months from the date of Board resolution)
Execution method:	Open Market Purchases through Stock Exchanges.
Sources from which buy back is financed:	Share Capital And Free Reserves

	FY March 31, 2010	**FY March 31, 2009**	**Total**
Number of shares bought back:	20,000	43,023	63,023
Details of the shares bought back:	20,000 Equity shares at average rate of Rs. 32.62 per share	43,023 Equity shares at average rate of Rs. 28.67 per share	63,023 Equity shares at average rate of Rs. 29.92 per share
Buyback price and the aggregate amount paid on buyback:	20,000 Equity shares at average rate of Rs. 32.62 per share; aggregating amount Rs. 6,52,400	43,023 Equity shares at average rate of Rs. 28.67 per share; aggregating amount Rs. 12,33,280	63,023 Equity shares at average ate of Rs. 29.92 per share; aggregating amount Rs. 18,85,680