

HOV Services Limited



25th ANNUAL REPORT 2012

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CORPORATE INFORMATION

Registered Office & Head office

3rd 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) -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

VP-Corporate Affairs
& Company SecretaryMr. Bhuvanesh Sharma
investor.relations@hovservices.comInvestor Relations, Media &
Analyst ContactMr. Shekhar Singh Batham
shekhar.batham@hovservices.com
investor.relations@hovservices.com**THE BOARD OF DIRECTORS**

Mr. Sunil Rajadhyaksha

Chairman & Executive Director

Mr. Surinder Rametra

Executive Director

Mr. Parvinder S Chadha

Executive Director

Mr. B R Gupta

Independent Director

Mr. Harish Bhasin

Independent Director

Mr. Prakash Shukla

Independent Director**THE EXECUTIVE MANAGEMENT**

Mr. James Reynolds

Chief Financial Officer & CAO, Global

Mr. Bhuvanesh Sharma

VP-Corporate Affairs & Company Secretary

Chairman Message:

Dear Members,

Over the journey of 25 years, we have experienced many changes in the industry. The coming and going of different technologies and all the ups and downs of the economy - but the one thing that has remained sustainable over the years, and is core to our success, is our commitment to our customers and partners and listening to meet their needs and help them be successful.



The journey started way back in 1989 when Company was incorporated as Codec Communications Private Limited, providing software services. During January 2002, it joined hands with a division of HandsOn group. Subsequent to this the Company acquired assets in F&A segment of BPO sector and developed and managed those acquired assets to grow.

In September 2006, it entered into public market by IPO and became a public company and currently its equity is listed both at National Stock Exchange and Bombay Stock Exchange.

In February 2007, the Company acquired Lason Inc, a global Business Process Outsourcing provider in the Transaction Management, Insurance and Tax and Enterprise Service Industries. With that acquisition, HOVS and its global workforce constituted more than 11,000 employees who served more than 50% of the FORTUNE 100® companies—including more than 4,000 active customers in the North American marketplace.

In April 2011, the Company took another leap step by merging its indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. ("SOURCECORP"), a portfolio company of Apollo Management V, L.P. The combined company emerged as SourceHOV Inc., reflecting the union of our two companies and our expanded capabilities. SourceHOV with over \$525 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 Player 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 the combination, the company's global workforce is now more than 14,200 employees operating from approximately 80 delivery centers in 13 countries including the U.S., Mexico, Canada, India, China, Philippines and others.

I am pleased to inform that today Your Company has no Debt, no Goodwill in Financial statements and enjoys the highest equity investment value through our one of the key portfolio company "SourceHOV". By doing that our India base is still better and strengthened than ever before.

We have long history of industry-leading performance and of sustained value-creation for all our stakeholders and confident to keep on doing.

Our second portfolio company HOVESPL had entered into environmental protection business and initiated its first project of building artificial reef at Mirya beach, Ratnagiri. Post completion of this

project HOVESPL would be a player in providing solutions in coastal protection management. With this new portfolio the HOVS had entered into another new business segment of environment solutions.

I am thankful to each one of you for showing trust and confidence in the management of the Company. By & large your Company's management is completely geared towards accomplishing new milestone, diversifying Company's growth and enhancing shareholders value.

Lastly, on behalf of Company's board of directors I would like to acknowledge efforts made by each and every employee of our HOVS family for their dedication towards work and for overcoming challenges encountered while executing new projects.

Best regards and thank you all,

Sunil Rajadhyaksha

Chairman & Executive Director

Directors' Report

Your Directors are pleased to present the Company's Twenty- Fifth 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 December 31, 2012.

The financial statements are prepared for the year comprising of the 12 (Twelve) months period ended on December 31, 2012 and are not comparable to the financial statements of previous year comprising of 9 (Nine) months ended December 31, 2011, as the financial year was changed to the calendar year ended December 31 in 2011.

FINANICAL RESULTS AND OPERATIONS:

Rs. In Million

Particulars	Consolidated		Standalone	
	Twelve months ended on December 31, 2012	Nine months ended on December 31, 2011	Twelve months ended on December 31, 2012	Nine months ended on December 31, 2011
INCOME				
Income from Operation	140.20	105.42	113.60	94.10
Other Income	15.58	9.88	14.73	10.01
	155.78	115.30	128.33	104.11
EXPENDITURE				
Purchase for resale	21.20	-	-	-
Staff Cost	96.59	57.58	87.61	57.65
General and Administrative Expenses	36.59	35.05	15.43	19.75
	154.34	92.63	103.04	77.40
Profit / (Loss) before Interest, Depreciation and Tax	(8.59)	22.67	25.29	26.71
Less: Interest	-	-	-	-
Less: Depreciation	4.99	2.76	3.42	2.76
Profit / (Loss) before Tax	(3.60)	19.91	21.87	23.95
Tax pertaining to earlier years	0.70	0.21	0.70	0.21
Less: Provisions for taxes				
Current Tax	7.77	8.38	7.77	8.38
Deferred Tax	(0.83)	(0.64)	(0.83)	(0.64)
Profit / (Loss) after Tax	(11.24)	11.96	14.23	16.00
Less:Minority Interest	(8.80)	-	-	-
Profit/(Loss) after minority interest	(2.43)	-	-	-
Add: Share of Profit/(Loss) from an Associate	51.23	(104.33)	-	-
Profit / (Loss) after Tax & Share of Profit/ (Loss) from an Associate	48.80	(92.37)	14.23	16.00

1. RESULTS OF OPERATIONS:**Consolidated Financial Performance for the Year ended December 31, 2012**

- Consolidated total Income for the current twelve month period was Rs. 140.20 million.
- EBIDT for the current twelve month period was Rs. 1.38 million.
- Net Profit was Rs. 48.80 million.
- The basic and diluted Earnings per share (EPS) for the twelve months period is 3.91.

Standalone Financial Performance:

- Total Income for the current twelve month period was Rs. 113.60 million.
- EBIDT for the current twelve month period was Rs. 25.29 million.
- Net Profit was Rs. 14.23 million.
- The basic and diluted Earnings per share (EPS) is Rs 1.14 for the Year under reporting.

2. SIGNIFICANT DEVELOPMENTS:

During the year following developments took place;

- i) In April 2012, HOVS LLC (the WOS of the Company) invested in a new company named "HOV Environment LLC", having equity interest of 61.10%; and
- ii) In October 2012, the Company had acquired building property admeasuring 13,243 Square feet area situated at Vashi Infotech Park, Vashi, Navi Mumbai.

3. Appropriations**(i) 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.

For the financial year 2012 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:** No amount was transferred to Reserve during the financial year ended December 31, 2012.

4. Subsidiary companies

The Company has the following subsidiary companies:

- i) HOVS LLC incorporated in Delaware under the laws of United States of America;
- ii) HOVS Holdings Limited incorporated under the Companies Ordinance of Hong Kong;
- iii) HOV Environment LLC incorporated in Nevada under the laws of United States of America; and
- iv) HOV Environment Solutions Private Limited incorporated in Maharashtra under Indian Company Laws.

5. ADR/GDR

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

6. Share Capital of the Company

The fully diluted outstanding share capital of the Company on consolidated basis comprise of 12,491,022 equity shares of Rs. 10/- (Ten Only) each.

7. Employee Stock Option Plan (ESOP)

Your 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

The information to be disclosed as per SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, is annexed to this report.

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: Your Company's operations involve low energy consumption. The Company strives to conserve energy on continuous basis.

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.

Technology Absorption, Adaptation and Innovation: 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, however during the year no such activities been carried out.

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 20.4 of Notes 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 had maintained cordial relations with all its employees and has taken utmost care of its employees deployed. All employees are aligned under our value system which propagates and practices being open, transparent and honest, collaborative, honoring commitments and demanding excellence among them.

11. Directors Responsibility Statement:

Information as per Section 217(2AA) of the Companies Act, 1956 is annexed and forms part of the report.

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 Report

The Company adheres to corporate governance guidelines to fulfill its responsibilities to all its stakeholders i.e. investors, customers, vendors, government, employees. Company believes that good corporate governance enhances accountability and increases shareholder value.

The Company complies with the corporate governance norms as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges and a report thereto is included in annexure to the Director's 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. Statutory 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. Your directors recommend their re-appointment. A resolution proposing their appointment at remuneration to be fixed by the Board of Directors is submitted at the Annual General Meeting.

16. Directors

There is no change in the Board of Directors during the year under review. Mr. Prakash Shukla, Director is to retire by rotation at ensuing 25th Annual General Meeting. Mr. Prakash Shukla confirmed his eligibility and willingness to continue the directorship of the Company, if appointed. It is considered prudent that Company should continue to avail the services of Mr. Prakash Shukla and therefore the Board recommends approving the proposed resolution relating to his re-appointment.

None of the Director was materially interested in any contracts or arrangements existing during or at the end of the financial year that was significant in relation to the business of the Company.

17. Subsidiary companies and consolidation of Accounts

As per Section 212 of the Companies Act, 1956, the Company is required to attach the directors' report, auditors' report, balance sheet, and profit and loss account, schedules to account and notes to the account of subsidiaries of your Company along with the balance sheet of your Company. However, general exemption is granted in terms of General Circular No. 2/2011 and No. 5/12/2007-CI-III dated February 8, 2011, issued by the Ministry of Corporate Affairs

under section 212(8) of the Companies Act, 1956 granting general exemption. Your Company is in compliance of the section read with the provisions of the circular and will not be attaching the accounts of the subsidiaries.

The audited annual accounts and related information of subsidiary companies, where applicable, will be kept in the head office and will be available for inspection, upon request by any of shareholders. These documents will also be available for inspection during business hours at our registered office. A statement showing details on the subsidiary companies as prescribed vide general circular is attached in separate section of this Annual Report.

18. Acknowledgement

Your Directors' place on record their appreciation for co-operation and support received from the Software Technology Parks of India, the Government of India, Governments of Maharashtra, Reserve Bank of India, other governmental agencies and NASSCOM and the National Stock Exchange and the Bombay Stock Exchange and, bankers and shareholders during the year.

Your Directors express their sincere appreciation for the efforts made by employees at all levels for their hard work, co-operation and support extended to your Company during the year.

For and on behalf of the Board of Directors

Place: Mumbai
Date: February 27, 2013

Sunil Rajadhyaksha
Chairman & Executive Director