WNS (HOLDINGS) LTD
Form 20-F
August 01, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number 001-32945

WNS (Holdings) Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable	Jersey, Channel Islands
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

Gate 4, Godrej & Boyce Complex
Pirojshanagar, Vikhroli(W)
Mumbai 400 079, India
(91-22) 4095-2100
(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each represented by one Ordinary Share, par value 10 pence per share	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2008, 42,363,100 ordinary shares, par value 10 pence per share, were issued and outstanding, of which 19,415,759 ordinary shares were held in the form of 19,415,759 American Depositary Shares, or ADSs. Each ADS represents one ordinary share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

If this report is an annual report, indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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WNS (HOLDINGS) LIMITED

CONVENTIONS USED IN THIS ANNUAL REPORT

In this annual report, references to US are to the United States of America, its territories and its possessions. References to UK are to the United Kingdom. References to India are to the Republic of India. References to $ or dollars or US dollars are to the legal currency of the US and references to Rs. or rupees or Indian rupees are to tl legal currency of India. References to pound sterling or £ are to the legal currency of the UK. References to pence are to the legal currency of Jersey, Channel Islands. Our financial statements are presented in US dollars and are prepared in accordance with US generally accepted accounting principles, or US GAAP. References to a particular fiscal year are to our fiscal year ended March 31 of that year. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Names of our clients are listed in alphabetical order in this annual report, unless otherwise stated.

We also refer in various places within this annual report to revenue less repair payments, which is a non-GAAP measure that is calculated as revenue less payments to automobile repair centers and more fully explained in Item 5. Operating and Financial Review and Prospects. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP.

We also refer to information regarding the business process outsourcing industry, our company and our competitors from market research reports, analyst reports and other publicly available sources. Although we believe that this information is reliable, we have not independently verified the accuracy and completeness of the information. We caution you not to place undue reliance on this data.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, will, project, seek, should and simi Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be materially incorrect. These factors include but are not limited to:

- technological innovation;
- telecommunications or technology disruptions;
- future regulatory actions and conditions in our operating areas;
- our dependence on a limited number of clients in a limited number of industries;
- our ability to attract and retain clients;
- our ability to expand our business or effectively manage growth;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- negative public reaction in the US or the UK to offshore outsourcing;
- regulatory, legislative and judicial developments;
- increasing competition in the business process outsourcing industry;

political or economic instability in India, Sri Lanka and Jersey;

worldwide economic and business conditions;

our ability to successfully grow our revenues, expand our service offerings and market share and achieve accretive benefits from our acquisition of Aviva Global Services Singapore Private Limited, or Aviva Global, and our master services agreement with Aviva Global Services (Management Services) Private Limited, or AVIVA MS, as described below; and

our ability to successfully consummate strategic acquisitions.

These and other factors are more fully discussed in Item 3. Key Information D. Risk Factors, Item 5. Operating and Financial Review and Prospects and elsewhere in this annual report. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans, objectives or projected financial results referred to in any of the forward-looking statements. Except as required by law, we do not undertake to release revisions of any of these forward-looking statements to reflect future events or circumstances.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected consolidated statement of income data presented below for fiscal 2008, 2007 and 2006, and the selected consolidated balance sheet data as of March 31, 2008 and 2007, have been derived from our consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of income data presented below for fiscal 2005 and 2004 and the selected consolidated balance sheet data as of March 31, 2006, 2005 and 2004 have been derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with US GAAP. Our historical results do not necessarily indicate our results expected for any future period.

You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects, and our consolidated financial statements included elsewhere in this annual report.

	For the Year Ended March 31,				
	2008	2007	2006	2005	2004
	(US dollars in millions, except share and per share data)				
Consolidated Statement of Income Data:					
Revenue	$ 459.9	$ 352.3	$ 202.8	$ 162.2	$ 104.1
Cost of revenue(1)	363.3	271.2	145.7	140.3	89.7
Gross profit	96.5	81.1	57.1	21.9	14.4
Operating expenses:					
Selling, general and administrative expenses(1)	72.7	52.5	36.3	24.9	18.8
Amortization of intangible assets	2.9	1.9	0.9	1.4	2.6
Impairment of goodwill, intangibles and other assets(2)	15.5				
Operating income (loss)	5.5	26.8	19.9	(4.4)	(7.0)
Other income, net	9.2	2.5	0.5	0.2	0.3
Interest expense		(0.1)	(0.4)	(0.5)	(0.1)

Income (loss) before income taxes		14.7		29.2		19.9		(4.7)		(6.8)
Provision for income taxes		(5.2)		(2.6)		(1.6)		(1.1)		
Net income (loss)	$	9.5	$	26.6	$	18.3	$	(5.8)	$	(6.7)
Income (loss) per share/ADS:										
Basic	$	0.23	$	0.69	$	0.56	$	(0.19)	$	(0.22)
Diluted	$	0.22	$	0.65	$	0.52	$	(0.19)	$	(0.22)
Weighted average shares/ADSs outstanding (basic)		42,070,206		38,608,188		32,874,299		30,969,658		30,795,888
Weighted average shares/ADSs outstanding (diluted)		42,945,028		41,120,497		35,029,766		30,969,658		30,795,888

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	As of March 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(US dollars in millions)				
Consolidated Balance Sheet Data:					
Assets					
Cash and cash equivalents	$ 102.7	$ 112.3	$ 18.5	$ 9.1	$ 14.8
Bank deposits and marketable securities	8.1	12.0			
Accounts receivable, net	47.9	40.6	28.1	25.2	18.1
Other current assets(3)	23.4	18.5	10.8	9.7	9.5
Total current assets	182.1	183.4	57.4	44.0	42.5
Deposits and deferred tax asset	15.4	6.2	4.3	2.6	1.3
Goodwill and intangible assets, net	96.9	44.5	42.5	26.7	27.6
Deferred contract costs non current	1.3				
Property and equipment, net	50.8	41.8	30.6	24.7	15.3
Total assets	346.5	275.9	134.8	98.0	86.6
Liabilities and Shareholders Equity					
Note payable				10.0	
Accrual for earn out payment	33.7				
Total current liabilities	78.1	63.4	53.3	54.8	39.4
Deferred tax liabilities non-current	1.8	0.0	2.3		
Other non-current liabilities(4)	5.7	7.0	1.0	0.2	0.5
Total shareholders equity	227.2	205.5	78.2	43.0	46.7
Total liabilities and shareholders equity	$ 346.5	$ 275.9	$ 134.8	$ 98.0	$ 86.6

The following tables set forth for the periods indicated selected consolidated financial data:

	For the Year Ended March 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(US dollars in millions, except percentages and employee data)				
Other Consolidated Financial Data:					
Revenue	$ 459.9	$ 352.3	$ 202.8	$162.2	$104.1
Gross profit as a percentage of revenue	21.0%	23.0%	28.1%	13.5%	13.8%
Operating income (loss) as a percentage of revenue	1.2%	7.6%	9.8%	(2.7)%	(6.7)%
Other Unaudited Consolidated Financial and Operating Data:					
Revenue less repair payments(5)	$ 290.7	$ 219.7	$ 147.9	$ 99.0	$ 49.9
Gross profit as a percentage of revenue less repair payments	33.2%	36.9%	38.6%	22.1%	28.9%
Operating income (loss) as a percentage of revenue less repair payments	1.9%	12.2%	13.4%	(4.4)%	(14.1)%
Number of employees (at period end)	18,104	15,084	10,433	7,176	4,472

Notes:

(1) Includes the following share-based compensation amounts:

	For the Year Ended March 31,				
	2008	2007	2006	2005	2004
	(US dollars in millions)				
Cost of revenue	$ 2.4	$ 1.0	$ 0.1	$ 0.0	$ 0.0
Selling, general and administrative expenses	4.4	2.7	1.8	0.2	0.2

(2) We recorded an impairment charge of $8.9 million on the goodwill, $6.4 million on intangible assets and $0.2 million on other assets acquired in the purchase of Trinity Partners Inc., or Trinity Partners.

(3) Consists of funds held for clients, employee receivables, prepaid expenses, prepaid income taxes, deferred tax assets and other current assets.

(4) Consists of obligation under capital leases non-current, deferred revenue non-current, deferred rent and accrued pension liability.

(5) Revenue less repair payments is a non-GAAP measure. See the explanation below, as well as Item 5. Operating and Financial Review and Prospects Overview and notes to our consolidated financial statements included elsewhere in this annual report. The following table reconciles our revenue (a GAAP measure) to revenue less repair payments (a non-GAAP measure):

	For the Year Ended March 31,				
	2008	2007	2006	2005	2004
	(US dollars in millions)				
Revenue	$ 459.9	$ 352.3	$ 202.8	$ 162.2	$ 104.1
Less: Payments to repair centers	169.2	132.6	54.9	63.2	54.2
Revenue less repair payments	$ 290.7	$ 219.7	$ 147.9	$ 99.0	$ 49.9

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We have two reportable segments for financial statement reporting purposes WNS Global BPO and WNS Auto Claims BPO. In our WNS Auto Claims BPO segment, we provide claims handling and accident management services, where we arrange for automobile repairs through a network of repair centers. In our accident management services, we act as the principal in our dealings with the repair centers and our clients. The amounts invoiced to our clients for payments made by us to repair centers is reported as revenue. Since we wholly subcontract the repairs to the repair centers, we use revenue less repair payments as a primary measure to allocate resources and measure operating performance.

Revenue less repair payments is a non-GAAP measure. We believe that the presentation of this non-GAAP measure in this annual report provides useful information for investors regarding the financial performance of our business and our two reportable segments. See Item 5. Operating and Financial Review and Prospects Results by Reportable Segment. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP. Our revenue less repair payments may not be comparable to similarly titled measures reported by other companies due to potential differences in the method of calculation.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those described in the following risk factors and elsewhere in this annual report. If any of the following risks actually occur, our business, financial condition and results of operations could suffer and the trading price of our ADSs could decline.

Risks Related to Our Business

We may be unable to effectively manage our rapid growth and maintain effective internal controls, which could have a material adverse effect on our operations, results of operations and financial condition.

Since we were founded in April 1996, and especially since Warburg Pincus & Co., or Warburg Pincus, acquired a controlling stake in our company in May 2002, we have experienced rapid growth and significantly expanded our operations. Our revenue has grown at a compound annual growth rate of 50.6% to $459.9 million in fiscal 2008 from $202.8 million in fiscal 2006. Our revenue less repair payments has grown at a compound annual growth rate of 40.2% to $290.7 million in fiscal 2008 from $147.9 million in fiscal 2006. Our employees have increased to 18,104 as of

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March 31, 2008 from 10,433 as of March 31, 2006. In January 2008, we launched a 133-seat facility in Bucharest, Romania, to deliver finance and accounting, and customer support services across a range of industries in French, German, Italian and Spanish to clients with European operations. In addition, in fiscal 2008, we set up new delivery centers in Pune, Mumbai, Gurgaon, and Bangalore. Our majority owned subsidiary, WNS Philippines Inc., set up a delivery center in the Philippines in April 2008. WNS Philippines Inc. is a joint venture company set up with Advanced Contact Solutions, Inc., a leader in business process outsourcing, or BPO, services and customer care in the Philippines. We now have delivery centers in five locations in India, Sri Lanka, Romania, the Philippines and the UK. In fiscal 2009, we intend to set up new delivery centers in Mumbai, Nashik, Gurgaon and Pune. In July 2008, we entered into a transaction with AVIVA International Holdings Limited, or AVIVA, consisting of a share sale and purchase agreement pursuant to which we acquired from AVIVA all the shares of Aviva Global and a master services agreement with AVIVA MS, or the AVIVA master services agreement, pursuant to which we will provide BPO services to AVIVA s UK and Canadian businesses. Aviva Global was the business process offshoring subsidiary of AVIVA. See Item 5. Operating and Financial Review and Prospects Overview Recent Developments for more details on this transaction. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities.

This rapid growth places significant demands on our management and operational resources. In order to manage growth effectively, we must implement and improve operational systems, procedures and internal controls on a timely basis. If we fail to implement these systems, procedures and controls on a timely basis, we may not be able to service our clients needs, hire and retain new employees, pursue new business, complete future acquisitions or operate our business effectively. Failure to effectively transfer new client business to our delivery centers, properly budget transfer costs or accurately estimate operational costs associated with new contracts could result in delays in executing client contracts, trigger service level penalties or cause our profit margins not to meet our expectations or our historical profit margins. As a result of any of these problems associated with expansion, our business, results of operations, financial condition and cash flows could be materially and adversely affected.

A few major clients account for a significant portion of our revenue and any loss of business from these clients could reduce our revenue and significantly harm our business.

We have derived and believe that we will continue to derive in the near term a significant portion of our revenue from a limited number of large clients. For fiscal 2008 and 2007, our five largest clients accounted for 57.3% and 55.2% of our revenue and 42.2% and 45.7% of our revenue less repair payments, respectively.

First Magnus Financial Corporation, or FMFC, a US mortgage lender, was one of our major clients from November 2005 to August 2007. FMFC was a major client of Trinity Partners which we acquired in November 2005 from the First Magnus Group. In August 2007, FMFC filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code. For the three months ended June 30, 2007 and 2006, FMFC accounted for 3.7% and 6.5% of our revenue, and 6.0% and 7.5% our revenue less repair payments, respectively. In fiscal 2007, FMFC accounted for 4.3% of our revenue and 6.8% of our revenue less repair payments. The loss of revenue from FMFC materially reduced our revenue in fiscal 2008.

Our contracts with another major client, AVIVA, provide Aviva Global, which was AVIVA s business process offshoring subsidiary, options to require us to transfer the relevant projects and operations of our facilities at Sri Lanka and Pune to Aviva Global. On January 1, 2007, Aviva Global exercised its call option requiring us to transfer the Sri Lanka facility to Aviva Global effective July 2, 2007. Effective July 2, 2007, we transferred the Sri Lanka facility to Aviva Global and we lost the revenues generated by the Sri Lanka facility. From April 1, 2007 through July 2, 2007, the Sri Lanka facility contributed $2.0 million of revenue and for the three months ended June 30, 2007 and 2006, the Sri Lanka facility accounted for 1.8% and 2.7% of our revenue, respectively, and 2.8% and 3.1% of our revenue less repair payments, respectively. In fiscal 2007 and 2006, the Sri Lanka facility accounted for 1.9% and 3.3% of our revenue, respectively, and 3.0% and 4.5% of our revenue less repair payments, respectively. With the transaction that we entered into with AVIVA in July 2008 described above, we have, through the acquisition of Aviva Global, resumed control of the Sri Lanka facility and we will continue to retain ownership of the Pune facility and we expect these facilities to continue to generate revenues for us under the AVIVA master services agreement. However, we may in the future enter into contracts with other clients with similar call options that may result in the loss of revenue that may have a material impact on our business, results of operations, financial condition and cash flows, particularly during the quarter in which the option takes effect.

In addition, the volume of work performed for specific clients is likely to vary from year to year, particularly since we may not be the exclusive outside service provider for our clients. Thus, a major client in one year may not provide the same level of revenue in any subsequent year. The loss of some or all of the business of any large client could have a material adverse effect on our business, results of operations, financial condition and cash flows. A number of factors other than our performance could cause the loss of or reduction in business or revenue from a client, and these factors are not predictable. For example, a client may demand price reductions, change its outsourcing strategy or move work in-house. A client may also be acquired by a company with a different outsourcing strategy that intends to switch to another business process outsourcing service provider or return work in-house.

Our revenue is highly dependent on clients concentrated in a few industries, as well as clients located primarily in Europe and the United States. Any decrease in demand for outsourced services in these industries or economic slowdowns or factors that affect the worldwide economic and business conditions could reduce our revenue and seriously harm our business.

A substantial portion of our clients are concentrated in the banking, financial services and insurance, or BFSI, industry and the travel industry. In fiscal 2008 and 2007, 57.4% and 61.8% of our revenue, respectively, and 32.7% and 38.7% of our revenue less repair payments, respectively, were derived from clients in the BFSI industry. During the same periods, clients in the travel industry contributed 22.5% and 22.8% of our revenue, respectively, and 35.6% and 36.6% of our revenue less repair payments, respectively. Our business and growth largely depend on continued demand for our services from clients in these industries and other industries that we may target in the future, as well as on trends in these industries to outsource business processes. A downturn in any of our targeted industries, particularly the BFSI or travel industries, a slowdown or reversal of the trend to outsource business processes in any of these industries or the introduction of regulation which restricts or discourages companies from outsourcing could result in a decrease in the demand for our services and adversely affect our results of operations. For example, following the mortgage market crisis, in August 2007, FMFC, a US mortgage services client, filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code. FMFC was a major client of Trinity Partners which we acquired in November 2005 from the First Magnus Group and became one of our major clients. In fiscal 2008 and 2007, FMFC accounted for 0.9% and 4.3% of our revenue, respectively, and 1.4% and 6.8% of our revenue less repair payments, respectively. For the three months ended June 30, 2007 and 2006, FMFC accounted for 3.7% and 6.5% of our revenue, respectively, and 6.0% and 7.5% our revenue less repair payments, respectively. The downturn in the mortgage market could result in a further decrease in the demand for our services and adversely affect our results of our operations.

Further, a downturn in worldwide economic and business conditions may result in our clients reducing or postponing their outsourced business requirements, which may in turn decrease the demand for our services and adversely affect our results of operations. In particular, our revenues are highly dependent on the economic health of Europe and the United States. In fiscal 2008 and 2007, 74.5% and 76.3% of our revenue, respectively, and 59.7% and 62.0% of our revenue less repair payments, respectively, were derived from clients located in Europe. During the same periods, 24.7% and 22.9% of our revenue, respectively, and 39.1% and 36.8% of our revenue less repair payments, respectively, were derived from clients located in North America (primarily the United States). Any weakening of the European or United States economy may have an adverse impact on our revenue.

Other developments may also lead to a decline in the demand for our services in these industries. For example, consolidation in any of these industries or acquisitions, particularly involving our clients, may decrease the potential number of buyers of our services. Any significant reduction in or the elimination of the use of the services we provide within any of these industries would result in reduced revenue and harm our business. Our clients may experience rapid changes in their prospects, substantial price competition and pressure on their profitability. Although such pressures can encourage outsourcing as a cost reduction measure, they may also result in increasing pressure on us from clients in these key industries to lower our prices, which could negatively affect our business, results of operations, financial condition and cash flows.

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Our senior management team and other key team members in our business units are critical to our continued success and the loss of such personnel could harm our business.

Our future success substantially depends on the continued service and performance of the members of our senior management team and other key team members in each of our business units. These personnel possess technical and business capabilities including domain expertise that are difficult to replace. There is intense competition for experienced senior management and personnel with technical and industry expertise in the business process outsourcing industry, and we may not be able to retain our key personnel. Although we have entered into employment contracts with our executive officers, certain terms of those agreements may not be enforceable and in any event these agreements do not ensure the continued service of these executive officers. The loss of key members of our senior management or other key team members, particularly to competitors, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee attrition. These factors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The business process outsourcing industry relies on large numbers of skilled employees, and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees. The business process outsourcing industry, including our company, experiences high employee attrition. In fiscal 2008, our attrition rate for associates (employees who execute business processes for our clients following their completion of a six-month probationary period) was approximately 38.4% which we believe is broadly in line with our peers in the offshore business process outsourcing industry. There is significant competition in India for professionals with the skills necessary to perform the services we offer to our clients. Increased competition for these professionals, in the business process outsourcing industry or otherwise, could have an adverse effect on us. A significant increase in the attrition rate among employees with specialized skills could decrease our operating efficiency and productivity and could lead to a decline in demand for our services.

In addition, our ability to maintain and renew existing engagements and obtain new businesses will depend, in large part, on our ability to attract, train and retain personnel with skills that enable us to keep pace with growing demands for outsourcing, evolving industry standards and changing client preferences. Our failure either to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new employees successfully could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may not be successful in achieving the expected benefits from our transaction with AVIVA in July 2008, which could have a material adverse effect on our business, results of operations, financial condition and cash flows. Furthermore, the bank loan that we have incurred to fund the transaction may put a strain on our financial position.

In July 2008, we entered into a transaction with AVIVA consisting of a share sale and purchase agreement pursuant to which we acquired all the shares of Aviva Global and the AVIVA master services agreement pursuant to which we will provide BPO services to AVIVA s UK and Canadian businesses. We completed the acquisition of Aviva Global in July 2008. Aviva Global was the business process offshoring subsidiary of AVIVA with facilities in Bangalore, India, and Colombo, Sri Lanka. There are also two facilities in Chennai and Pune, India, which are operated by third party BPO providers but in respect of which Aviva Global has exercised its option to require such BPO providers to transfer such facilities to Aviva Global. The completion of the transfer of the Chennai facility occurred in July 2008. Completion of the transfer of the Pune facility is expected to occur in August 2008. The total consideration for the transaction was approximately £115 million (approximately $229 million based on the noon buying rate as of June 30, 2008), subject to adjustments for cash, debt and the enterprise values of the companies holding the Chennai and Pune facilities which will be determined on their respective transfer dates to Aviva Global. We incurred a bank loan of $200 million to fund, together with cash in hand, the consideration for the transaction.

No assurance can be given that the transfer of the Pune facility to Aviva Global described above will be successfully completed on a timely basis or at all. Although, in the event there is any delay in the transfer of the facility, AVIVA MS has agreed to pay us an amount equal to the profit margin we would have received from such facility during the period of delay, a delay in the transfer may impact our ability to achieve the expected benefits from the transaction within a target time frame. In addition, we will need to integrate Aviva Global s various facilities with the rest of our business. We cannot assure you that such integration will be successful. Failure to integrate the acquisition or to manage growth effectively could adversely affect our business, results of operations, financial condition and cash flows. We may not be able to grow our revenues, expand our service offerings and market share, or achieve the accretive benefits that we expected from the acquisition of Aviva Global and the AVIVA master services agreement.

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Furthermore, the bank loan that we have incurred to fund the transaction may put a strain on our financial position. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on the bank loan, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes;
- require us to seek lender s consent prior to paying dividends on our ordinary shares; and
- limit our ability to incur additional borrowings or raise additional financing through equity or debt instruments.

In addition, the current rate of interest payable on the bank loan is US dollar LIBOR plus 3% per annum. However, this interest rate is subject to change as we have agreed that the arrangers for the bank loan have the right at any time prior to the completion of the syndication of the bank loan to change the pricing of the bank loan if any such arranger determines that such change is necessary to ensure a successful syndication of the bank loan. We expect the syndication of the bank loan to be completed by March 31, 2009. An increase of 1% in the interest rate payable on our outstanding bank loan will increase the interest payable by $2 million per annum. There is no assurance that the interest rate for the bank loan will not increase in the future and any increase in interest rate may adversely affect our business, results of operations, financial condition and cash flows.

Wage increases in India may prevent us from sustaining our competitive advantage and may reduce our profit margin.

Salaries and related benefits of our operations staff and other employees in India are among our most significant costs. Wage costs in India have historically been significantly lower than wage costs in the US and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, because of rapid economic growth in India, increased demand for business process outsourcing to India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the US and Europe, which may reduce this competitive advantage. In addition, if the US dollar or the pound sterling further declines in value against the Indian rupee, wages in the US or the UK will further decrease relative to wages in India, which may further reduce our competitive advantage. We may need to increase our levels of employee compensation more rapidly than in the past to remain competitive in attracting the quantity and quality of employees that our business requires. Wage increases may reduce our profit margins and have a material adverse effect on our financial condition and cash flows.

Our operating results may differ from period to period, which may make it difficult for us to prepare accurate internal financial forecasts and respond in a timely manner to offset such period to period fluctuations.

Our operating results may differ significantly from period to period due to factors such as client losses, variations in the volume of business from clients resulting from changes in our clients operations, the business decisions of our clients regarding the use of our services, delays or difficulties in expanding our operational facilities and infrastructure, changes to our pricing structure or that of our competitors, inaccurate estimates of resources and time required to complete ongoing projects, currency fluctuation and seasonal changes in the operations of our clients. For example, our clients in the travel industry experience seasonal changes in their operations in connection with the year-end holiday season and the school year, as well as episodic factors such as adverse weather conditions or strikes by pilots or air traffic controllers. Transaction volumes can be impacted by market conditions affecting the travel and insurance industries, including natural disasters, health scares (such as severe acute respiratory syndrome, or SARS, and avian influenza, or bird flu) and terrorist attacks. In addition, our contracts do not generally commit our clients to providing us with a specific volume of business.

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In addition, the long sales cycle for our services, which typically ranges from three to 12 months, and the internal budget and approval processes of our prospective clients make it difficult to predict the timing of new client engagements. Revenue is recognized upon actual provision of services and when the criteria for recognition are achieved. Accordingly, the financial benefit of gaining a new client may be delayed due to delays in the implementation of our services. These factors may make it difficult for us to prepare accurate internal financial forecasts or replace anticipated revenue that we do not receive as a result of those delays. Due to the above factors, it is possible that in some future quarters our operating results may be significantly below the expectations of the public market, analysts and investors.

Our clients may terminate contracts before completion or choose not to renew contracts which could adversely affect our business and reduce our revenue.

The terms of our client contracts typically range from three to five years. Many of our client contracts can be terminated by our clients with or without cause, with three to six months notice and, in most cases, without penalty. The termination of a substantial percentage of these contracts could adversely affect our business and reduce our revenue. Contracts representing 26.4% of our revenue and 20.6% of our revenue less repair payments from our clients in fiscal 2008 will expire on or before March 31, 2009. Failure to meet contractual requirements could result in cancellation or non-renewal of a contract. Some of our contracts may be terminated by the client if certain of our key personnel working on the client project leave our employment and we are unable to find suitable replacements. In addition, a contract termination or significant reduction in work assigned to us by a major client could cause us to experience a higher than expected number of unassigned employees, which would increase our cost of revenue as a percentage of revenue until we are able to reduce or reallocate our headcount. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would adversely affect our business and revenue.

Some of our client contracts contain provisions which, if triggered, could result in lower future revenue and have an adverse effect on our business.

If our clients agree to provide us with a specified volume and scale of business or to provide us with business for a specified minimum duration, we may, in return, agree to include certain provisions in our contracts with such clients which provide for downward revision of our prices under certain circumstances. For example, certain client contracts provide that if during the term of the contract, we were to offer similar services to any other client on terms and conditions more favorable than those provided in the contract, we would be obliged to offer equally favorable terms and conditions to the client. This may result in lower revenue and profits under these contracts. Certain other contracts allow a client in certain limited circumstances to request a benchmark study comparing our pricing and performance with that of an agreed list of other service providers for comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the service we provide or to reduce the pricing for services to be performed under the remaining term of the contract.

Some of our client contracts provide that during the term of the contract and under specified circumstances, we may not provide similar services to their competitors. Some of our contracts also provide that, during the term of the contract and for a certain period thereafter ranging from six to 12 months, we may not provide similar services to certain or any of their competitors using the same personnel. These restrictions may hamper our ability to compete for and provide services to other clients in the same industry, which may result in lower future revenue and profitability.

Some of our contracts specify that if a change in control of our company occurs during the term of the contract, the client has the right to terminate the contract. These provisions may result in our contracts being terminated if there is such a change in control, resulting in a potential loss of revenue. Some of our client contracts also contain provisions that would require us to pay penalties to our clients if we do not meet pre-agreed service level requirements. Failure to meet these requirements could result in the payment of significant penalties by us to our clients which in turn could have an adverse effect on our business, results of operations, financial condition and cash flows.

We enter into long-term contracts with our clients, and our failure to estimate the resources and time required for our contracts may negatively affect our profitability.

The terms of our client contracts typically range from three to five years. In many of our contracts, we commit to long-term pricing with our clients and therefore bear the risk of cost overruns, completion delays and wage inflation in connection with these contracts. If we fail to estimate accurately the resources and time required for a contract, future wage inflation rates or currency exchange rates, or if we fail to complete our contractual obligations within the contracted timeframe, our revenue and profitability may be negatively affected.

Our profitability will suffer if we are not able to maintain our pricing and asset utilization levels and control our costs.

Our profit margin, and therefore our profitability, is largely a function of our asset utilization and the rates we are able to recover for our services. One of the most significant components of our asset utilization is our seat utilization rate which is the average number of work shifts per day, out of a maximum of three, for which we are able to utilize our work stations, or seats. If we are not able to maintain the pricing for our services or an appropriate seat utilization rate, without corresponding cost reductions, our profitability will suffer. The rates we are able to recover for our services are affected by a number of factors, including our clients perceptions of our ability to add value through our services, competition, introduction of new services or products by us or our competitors, our ability to accurately estimate, attain and sustain engagement revenue, margins and cash flows over increasingly longer contract periods and general economic and political conditions.

Our profitability is also a function of our ability to control our costs and improve our efficiency. As we increase the number of our employees and execute our strategies for growth, we may not be able to manage the significantly larger and more geographically diverse workforce that may result, which could adversely affect our ability to control our costs or improve our efficiency.

We have incurred losses in the past and have a limited operating history. We may not be profitable in the future and may not be able to secure additional business.

We have incurred losses in each of the three fiscal years from fiscal 2003 through fiscal 2005. In future periods, we expect our selling, general and administrative, or SG&A, expenses to continue to increase. If our revenue does not grow at a faster rate than these expected increases in our expenses, or if our operating expenses are higher than we anticipate, we may not be profitable and we may incur additional losses.

In addition, the offshore business process outsourcing industry is a relatively new industry, and we have a limited operating history. We started our business by offering business process outsourcing services as part of British Airways in 1996. In fiscal 2003, we enhanced our focus on providing business process outsourcing services to third parties. As such, we have only focused on servicing third-party clients for a limited time. We may not be able to secure additional business or retain current business with third-parties or add third-party clients in