



NINTH ANNUAL REPORT **2004-05**

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NINTH ANNUAL REPORT **2004-05**

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Board of Directors

Sify Limited

B Rama Raju
Chairman

R Ramaraj
Managing Director & CEO

T H Chowdary

C B Mouli

S K Rao

V Srinivas

R D Thulasiraj

Audit Committee

S K Rao
Chairman

C B Mouli
Financial Expert

R D Thulasiraj

Anil Ahuja
Chief Financial Officer

V Ramasubramanian
Company Secretary

Registered Office

2nd Floor, Tidel Park
4, Canal Bank Road
Taramani, Chennai – 600 113
India.

Bankers

State Bank of India
Citibank N.A.
IDBI Bank Limited
UTI Bank Limited
ABN Amro Bank
ICICI Bank Limited
HDFC Bank Limited

Auditors

BSR & Co.
Chartered Accountants
Chennai, India.

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DIRECTORS' REPORT

Dear Members,

Your Directors take pleasure in presenting the Ninth Annual Report together with the audited accounts of your company for the financial year ended March 31, 2005.

The year 2004-05 saw an upswing in Information Technology (IT) spends by companies in India in their quest to be more efficient and globally competitive. According to a survey by International Data Corporation (IDC) amongst the top enterprises in the country, there was an 11% increase in corporate IT spends over 2003-04. Banking, Telecom and Insurance led the rise in IT spends during the year.

The IDC survey revealed a marked change in the spending pattern compared to previous years. The investments in hardware, while being the largest in absolute terms, was only about 40% compared to the previous years 51% share of spends. Growth in packaged software and service was the highest, with services moving from a 17% share in 2003-04 to a 22% share in 2004-05. According to IDC, Indian corporations are no longer looking at IT investments as basic infrastructure, but are aligning their IT strategies with their business strategies. They believe this trend will continue with India emerging as the fastest growing IT & IT enabled services (ITES) market in the Asia Pacific Region in (ITES) 2005.

Similarly, an IMRB study shows that India is at the threshold of major Information and Communication Technology (ICT) initiatives at the Government level with several structural changes in the existing process of governance already under way. About 61% of the Central Government Ministries and Departments were found to have a precise definition of eGovernance, with spending on initiatives upto 60% over that in the previous year. This has impacted millions of lives in India already: School examination results online, updating voter lists online, filing of personal income tax online, payment of utility bill etc., the list of initiatives is continually growing. The Personal Computer (PC) and Internet are also finding increasing use in rural India for tele-medicine, information on weather, crop protection, market prices of agricultural output and other scientific information. This, in addition to increasing availability of local content and in Indian languages augurs well for the growth of Internet in India.

PC sales in 2004-05 registered a strong growth of 20% over 2003-04 on the back of strong household sales, according to the Manufacturers' Association of Information Technology. The home PC market surged by 35.6% to reach just over 1 million units during the year. The growth in PC sales was also attributed to significant increase in purchases by the telecom, banking, manufacturing, government as well as BPO and IT services segment. These factors, coupled with government initiatives on growing the Internet and broadband market as spelt out in the Broadband Policy 2004 will continue to drive Internet access penetration.

Sify's growth over the year is based on focusing on these opportunities in India. We have had major gains in the BFSI (Banking, Financial Services, Insurance) segment, in addition to the rapidly growing ITES, manufacturing and retail sectors, for corporate services. This was recognized during the course of the year when Sify was awarded the prestigious Frost and Sullivan Market Leadership award for IP-VPN markets for the year 2003.

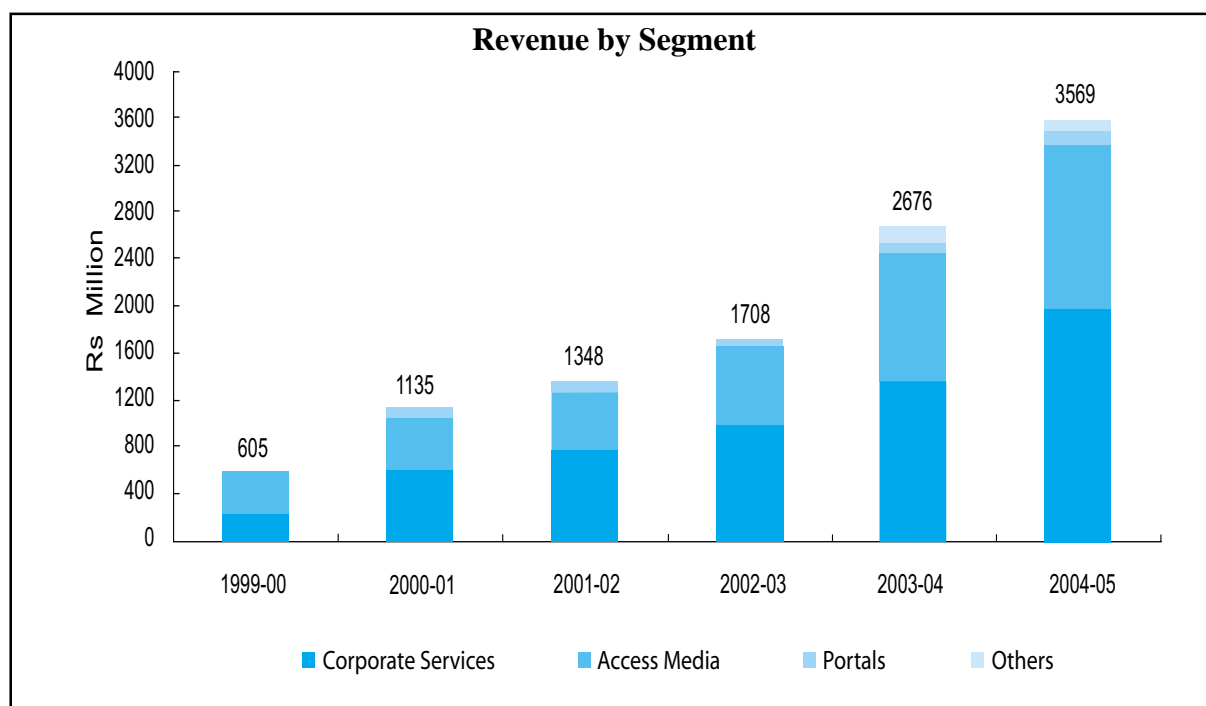
Today, India has an Internet user base of about 20 million users, over 60% of whom access the Internet from cyber cafes. Along with an increasing number of users who have a need for quality Internet access for information and communication, our iWay network continues to expand in existing and new cities and towns. The iWay and broadband home access business leverage and benefit from the expansion of the corporate connectivity business into smaller cities. Our business model of multiple revenue streams on a shared network, in combination with a rapidly deployable last mile wireless technology, has facilitated rapid expansion and penetration into newer cities. The year also saw a growing shift in user preference towards high-speed bandwidth, especially for downloads (movies, songs), online music and video streaming. This, along with increasing availability of content in Indian languages, and newer applications like online games, has seen strong growth in the number of broadband users over the last few quarters. Tie-ups with over 1000 Cable Television operators has enabled Sify to become the leader in the alternate medium to DSL for broadband delivery in India.

Sify has more than a million broadband users who access the Internet from homes and cybercafes. To address the need for suitable interactive content for broadband access that has so far not been available, we launched SifyMax.in, a complete broadband content site, that gives Internet users access to an enormous range of video and audio content. The video content includes news, movies, sports, astrology and others, while audio content is offered through catalogued music and multiple web radio channels.

Wireless Internet content is another fast growing area with more than 60 million mobile phone users in the country. To capitalise on this opportunity, Sify.com offers the '4545' wireless Internet value added service for content such as news, sports, entertainment, ring tones etc. Sify also launched 'Sify Mail on mobile' service whereby Sify.com mail subscribers can access their mailbox from their mobile phones using the 4545 service. The consumer portal leads in language versions, with content available in five Indian languages in addition to English. Sify has taken the lead in developing multi-lingual versions, as we believe availability of content in languages is crucial to getting many more Indians to access the Internet.

Review of Activities

- During the year, your company invested to strengthen its capability to aggressively grow the corporate business, broadband services, portal and international business. These investments have resulted in the network expanding from 63 cities to 99 cities, and a broader customer base across both the corporate and consumer segments.
- Sify continued to reaffirm its leadership in the marketplace. Total revenues grew by 33% over last year to Rs. 3,569 million. Network/data and security services to business enterprises (Corporate Services) continued to dominate top line revenues and accounted for 55% of Sify's revenues. Revenues from Sify's hi-speed Internet service to homes grew by more than 150% and revenues from franchised chain of cyber cafes grew by around 43% during the year.
- While Corporate Services continued to be profitable, the retail segment also contributed to the company's cash profits, before allocation of common overheads.
- The following shows Sify's revenues by segment:



Network/data & Managed services to corporate enterprises (Corporate Internet Services)

Corporate Network Services which accounted for 55% of the total revenue and recorded 43% growth over the previous year. Sify won the two largest IP VPN orders to be awarded during the year. The first was UCO Bank, the first bank to move to MPLS based IP VPN connectivity for its core-banking project. This engagement, covering around 240 locations in the first phase, has been fully implemented. The second large MPLS based IP VPN order was from The Oriental Insurance Company for a 430 location IP VPN connectivity. Sify won both these orders against major carriers in the country. Sify also won new engagements from Airtel, Google, amongst others, as well as repeat engagements from GE India, Hutch, HDFC Standard Life, Oracle, and Wipro Spectramind, amongst others. Sify also had key wins in the burgeoning retail market, with orders from Pantaloon, Vishal group, Haldiram's and Shoppers Stop.

Sify also made considerable progress in the market for International MPLS VPNs. We tied up with btaccess (subsidiary of PCCW) and with Global Crossing for providing International MPLS VPNs. These alliances will enable our corporate customers to seamlessly connect to their global operations, as they expand their businesses. The alliance with Global Crossing has yielded a number of wins, the notable ones being orders from Symbian, Equinix, GECIS and Seaton.

Sify, through Sify Assure, our Information Assurance practice, offers a comprehensive suite of services including Auditing of Policies and Procedures, Risk Assessment, Business Continuity, and framework compliance like COSO, COBIT, as well as BS7799 and SAS70. Sify completed a prestigious Risk Assessment project for a large carrier in the Middle East, which involved auditing 55 processes.

Sify has entered into arrangements with CPA firms in the USA whereby the company provides the expertise to facilitate Sarbanes Oxley Act (SOX) compliance by the US public companies. SOX compliance is a sizable business opportunity and it is expected to generate recurring revenues as various companies have to comply with SOX requirements annually on an ongoing basis. The security division had key wins from Tata Consultancy Services, Patni Computers, Hyundai Motor India and I-flex solutions for providing consulting services that involves security design, procurement and implementation.

The Application Services segment, which offers Messaging Solutions, Web based Application Solutions (including Knowledge Management, Sales Force Automation, Work Flow etc) saw addition of key clients including McDonald's master franchisee Hard Castle Restaurants, Indian Registrar of Shipping, and Champagne Indage. Today, over 30 banks in the country, including State Bank of India, Canara Bank, UCO Bank etc, use Sify's messaging solutions.

Sify's Hosting service further strengthened its place in the Indian market with key new assignments from BSNL, Cyber media Dice, Oriental Insurance and State Bank of India.

Forum, Sify's supply chain solution, had major wins from some leading consumer product manufacturers like Pidilite Industries, Perfetti Van Melle and TotalFinaElf for managing their distribution operations in India. There are now more than 2000 installations across the country where the product has been installed.

New Initiatives

Stability & Redundancy

Sify took several initiatives during the year in increasing redundancy on its entire network. International bandwidth is now procured from all the oceanic cables landing into India, while national bandwidth is procured from all the major private and public sector telcos, with redundancy built into all the major links. Base stations in major cities have been connected through fiber for providing redundancy on the last mile as well.

Tie-up with Infrastructure provider

To address the needs of large public sector / government agencies, large corporates, banks and financial services firms, Sify tied up with Power Grid Corporation of India Limited, an IP2 provider with over 20,000 route kilometers of fiber cable. This also significantly enhances Sify's capacity to provide bandwidth, including those in the gigabit range. With this alliance, Sify will terminate PGCIL's fiber in as many of its network centers as possible.

Remote Management Services for corporates in India and abroad

The technology division of Sify monitors and manages about 25,000 devices and applications over our network and data centers for corporate customers, in addition to remote support for all iWays. As a natural extension of this service, Sify launched a standalone Remote Management Service (RMS) for remotely managing and supporting infrastructure like data centers, networks, operating systems, databases and application layers. This is provisioned through a combination of specialized monitoring tools, infrastructure experts, a trouble ticketing system and a web based reporting portal. These services are being provided to clients both in India and abroad.

Infrastructure Data Management Services (IDMS)

Sify launched this initiative around its Hosting services to provide turnkey consultancy to customers intending to build Data Centers. Sify bagged consulting orders from Hindustan Petroleum and Punjab & Maharashtra Cooperative bank for their disaster recovery sites.

Quality

The technology development units of the company have been appraised at Maturity Level 3 of the Capability Maturity Model Integration (CMMI version 1.1). Sify's clientele, both corporate and retail, will benefit from Sify's structured quality software development methodology for higher levels of customer satisfaction. CMMI is the latest model for software organizations to map their quality levels, as well as for continuous process improvement. The appraisal covers Sify's software development units of Technology, Enterprise Application Services and the Forum division across 18 key process areas. Sify can now ensure implementation of organization-wide standard process and project management, develop low risk products, and train associates in the best quality practices in the industry.

Consumer Businesses (Internet Access & Portals)

Access Media

Access Media revenues grew by 29% over last year. This division now contributes to 39% of the company's turnover.

Cyber cafés

Sify's leadership position reached in the Public Internet Access business, through our iWays, has been strengthened with an expansion in revenue streams. In addition to browsing, a large number of these cafes offer Internet telephony for making International calls. The network has grown from 1,725 cafes last year to 2,471 this year, with more than 900,000 users availing these services during a quarter, across 90 cities. The number of Voice minutes doubled during the year on the back of aggressive pricing that was available on the high quality MPLS enabled network. Most iWays have been enabled for broadband speeds of 256 kbps, and this will facilitate applications like video streaming, apart from enabling faster downloads and superior video chat on multiple windows.

iWays are now also being extensively used by corporate field sales forces to securely access their intranets to post daily sales reports from remote locations in a cost effective manner. More than 150,000 candidates (300,000 over the last 3 years) appeared for online Bank Officers Examinations conducted by the Indian Institute of Banking & Finance through iWays during the year. This service is now being extended to insurance agents certification examinations and call centre selections processes.

The network of iWays is also being used as a place for making payments for e-transactions. Large portals that collect subscription fees from users are finding iWays, a convenient medium for enabling the end user to make payments. These include Bharatmatrimony.com (a large matrimonial site) and e-Prarthana.com (a site where devotees can offer donations).

Broadband: Sify has now become the leader in the alternate medium of hi-speed Internet service to homes. With more than 1000 Cable Television Operators in 52 cities, the service had more than 89,000 subscribers at the end of 2004-05. A combination of innovative and aggressive pricing, and multiple product offerings catering to the varied requirements of individual users has enabled this segment to grow rapidly during the year. At the same time, we are addressing a number of service issues arising from last mile delivery through cable, and spending resources on training of operators in addressing technology and customer service related issues.

Dial up: The dial-up market segment saw a sharp decline with revenues dropping by more than 45%. Bundled pricing by the public sector players BSNL and MTNL resulted in a sharp drop in the subscriber base and market share of most of the private ISPs.

New initiatives

Games

Increasingly, online computer games are regarded as the coolest form of entertainment across the world. To capitalize on this opportunity leveraging the strength of our iWays, Sify launched Games@iWay during the year with a number of 3D games including Counterstrike, Unreal Tournament 2004. Sify also tied up with Level Up, India to co-promote 'Ragnarok', India's first online game (MMORPG), and with Actoz Soft from Korea for their game A3. To promote games, Sify has also held competitions like UT2004 through multiplayer server, and also cosponsored the mega World cyber games chapter.

Gamedromes

In addition to these games being available at the iWays, Sify also started a chain of game parlours- gamedromes to promote these online and CD based games, and to create a gaming community. These gamedromes are predominantly run as a franchisee model. More than 150 franchisees have already signed up, with close to a 100 being operational.

Portals

The portals division operates Sify.com and Samachar.com, tailored for Indians around the world. The financial year 2004-05 culminated with the launch of SifyMax.in, India's first broadband portal, to address the need for relevant and interactive broadband content for more than a million of our broadband users. The portal gives Internet users access to an enormous range of music, news & exciting audio and video entertainment content. This includes ten radio channels with 24X7 music across genres like Bollywood hits, Indipop, Pop, and International in Hindi, English and Tamil. Music videos, movie clips with behind the scenes footage, interviews & the latest movies trailers from Hollywood, Bollywood and other Indian films are available to entertain users at the time of their choice. News from popular channels including BBC World and Aajtak ensure users can catch up with the news when convenient. Sifymax also aggregates the best pod casts web.

Both Sify.com and Samachar.com have content available in five Indian languages in addition to English. Sify has taken the lead in developing multi-lingual versions, as we believe availability of content in languages is crucial to getting many more Indians to access the Internet. Sify has been working with various agencies to offer language websites in 'dynamic web fonts' that makes browsing easy and error free. The division scored a first in the Indian Internet industry by offering the Indian Union Budget coverage in six languages.

Sify.com's mobile short code, 4545, gained popularity with more service offerings including ring tone downloads, mail on mobile, exam results, logos and picture messages, news, sports & entertainment content and astrological predictions. Sify.com is also the first Indian portal to offer mobile blogs (or moblogs), through 4545.

The advertisement solutions offered by Sify.com have consistently delivered value to clients. So Sify.com today has the highest monetisation per user among Indian portals, and is among the leading portals in advertisement revenue. The year saw significant client wins in Samsung Electronics, Ford Motors, Maruti Udyog, MakeMyTrip.com, Shaadi.com and others, in addition to renewals from advertisers like Citibank, MonsterIndia.com, and Bharat Matrimony.com.

eLearning

Sify's eLearning division is an end-to-end eLearning solutions provider focused on Custom Content Development and Learning Management Systems implementation for global clients. During the course of the year, the division continued to strengthen its presence with its customers including General Electric, Hyperion, and Microsoft.

Developing Market Leadership

Sify has ambitious plans to consolidate its position as a market leader and accelerate growth by:

- Consolidating its broadband and cyber cafe businesses
- Providing a comprehensive range of end to end solutions to corporates in India
- Providing Managed Network and Infrastructure services to corporates abroad

Financial Highlights

The Company registered sales of Rs. 3,569 million during the period under review, a 33% growth over the previous year. Cash profit, in Adjusted EBITDA terms was Rs 225 million. The net loss for the financial year was Rs.261million.

As the Company has incurred losses during the year, your directors do not recommend any dividend for the year under review.

SUBSIDIARY COMPANIES

Sify eLearning Limited, Satyam Webexchange Limited and Sify Plasticscommerce Limited

As the business including the assets of the above companies have already been transferred to the holding company for various strategical and business reasons, the Board of Directors of the respective companies have resolved to strike the name of the companies from the Register of Companies. Hence, they have filed the applications with the Registrar of Companies, Chennai, under the relevant provisions of the Companies Act, 1956 and obtained the letter confirming the striking of the names of the companies from the Register. Accordingly, the Annual Reports and the Statement of the holding company's interest under Section 212 of the Companies Act, 1956, with respect to the above companies, are not annexed to this Annual Report.

Safescrypt Limited

The Company has been continuously consolidating its position as a leading PKI & Digital certificate solutions provider in the country. The portfolio of services offered has been expanded to include data security services and solutions like Authentication and Access control, digital rights managements, contents encryption and document security solutions. These services complement Sify's existing network security and assurance services and enhance the breadth of the overall security solutions offered by Sify.

India World Communications Limited

In view of the change in the market conditions, the company has already transferred its business along with the assets to the holding company. The company is considering further course of action.

Sify Networks Private Limited

In view of the change in the market conditions, the company did not have major business operations during the year. The company is considering the further course of action.

Sify International Inc.

The company did not have any commercial operations during the year under review. The loss incurred by the company due to administration expenses amounts to Rs. 9.57 million. The company is considering further course of action.

Directors

Subsequent to the close of the year, SAIF Investment Company Limited and Venture Tech Solutions Private Limited, have terminated their rights and obligations conferred under the Investor Rights Agreement dated October 7, 2002 and consequently, Mr Ravi C Adusumalli, Mr Srinivasa C Raju and Mr Sandeep Reddy, their nominees, resigned from the Board. The Directors place on record their appreciation of the services rendered by Mr Ravi C Adusumalli, Mr Srinivasa C Raju and Mr Sandeep Reddy during their tenure as Directors of the Company.

Mr V Srinivas and Mr B Rama Raju, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. Your Directors recommend their re-appointment.

Dr S K Rao, Mr C B Mouli and Mr R D Thulasiraj, who were appointed as Additional Directors in July 2005, hold office upto the ensuing Annual General Meeting. Notices have been received from members proposing their appointment as Directors of the company.

In July 2005, Mr B Rama Raju was appointed as the Chairman of the Board of Directors.

Audit Committee

The Audit Committee was reconstituted in July 2005. The present Committee consists of Dr S K Rao, Mr C B Mouli and Mr R D Thulasiraj, which complies with the independent audit committee requirements of SEC and NASDAQ regulations.

Directors' responsibility statement

Your Directors state:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had 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 loss of the company for that period;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the annual accounts on a going concern basis.

Auditors

Our Statutory Auditors, BSR & Co., retire at the ensuing Annual General Meeting and are eligible for reappointment.

Fixed Deposits

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Conservation of Energy, Technology Absorption and Foreign Exchange

The particulars prescribed under clause (e) of sub section (1) of Section 217 of the Indian Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, are given in Annexure "A" of this report.

Employees' Particulars in terms of Section 217(2A) of the Indian Companies Act, 1956

The particulars of employees as required to be disclosed in accordance with the provisions of Section 217(2A) of the Indian Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, as amended, are annexed to the Directors' Report.

Associate Stock Option Plan

Members of the Company have so far allocated 1,833,000 equity shares to be issued as stock options to associates under the three Associate Stock Option Plans (ASOP 1999, ASOP 2000 and ASOP 2002).

The total number of options granted and outstanding under the various Associate Stock Option Plans as of March 31, 2005 is as below:

Options convertible to shares at the time of exercise : Nil

Options convertible to American Depository Receipts

at the time of exercise : 765,243

The particulars of Stock options under ASOP 1999, ASOP 2000 and ASOP 2002 are also disclosed in accordance with Clause 12 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999) by way of additional information in Annexure B.

Acknowledgement

Your Directors take this opportunity to thank all investors, customers, vendors, banks, regulatory and government authorities for their continued support. Your Directors also wish to place on record their appreciation of the valuable contributions made by the Associates at all levels.

For and on behalf of the Board

Chennai
September 6, 2005

B Rama Raju
Chairman

ANNEXURE A

Particulars furnished pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

- A *Conservation of energy*: The Company is not a manufacturing company and hence the details in respect of the above are not applicable.
- B *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.
- C *Technology Absorption* : Nil.
- D *Foreign Exchange Earnings and Outgo* :
- | | |
|---------------------------------|-------------------|
| Total Foreign Exchange earnings | : Rs. 273 million |
| Total Foreign Exchange outgo | : Rs. 453 million |

ANNEXURE B

The details of ASOP 1999, ASOP 2000 and ASOP 2002 are given below:

(a) No. of options granted	ASOP 1999 Nil	ASOP 2000 Nil	ASOP 2002 90,000
(b) The pricing formula	In accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and Guidelines for ADR Linked Option Scheme for Software Companies issued by Ministry of Finance (Investment Division).		
(c) Options vested	ASOP 1999 Nil	ASOP 2000 133,339	ASOP 2002 371,069
(d) Options exercised	ASOP 1999 Nil	ASOP 2000 113,943	ASOP 2002 365,342
(e) The total number of shares arising as a result of exercise of option	ASOP 1999 Nil	ASOP 2000 113,943	ASOP 2002 365,342
(f) Options lapsed	ASOP 1999 Nil	ASOP 2000 29,787	ASOP 2002 75,185
(g) Variation of terms of options	ASOP 1999 Nil	ASOP 2000 Nil	ASOP 2002 Nil
(h) Money realized by exercise of options (Rs.)	ASOP 1999 Nil	ASOP 2000 19,069,448	ASOP 2002 59,692,426
(i) Total number of options in force	ASOP 1999 Nil	ASOP 2000 7,770	ASOP 2002 757,473
(j) Employee-wise details of options granted			
(i) Senior managerial personnel			
Name of the Associate	ASOP 2002		
1. Anil Ahuja	75,000		
(ii) Number of employees received options amounting to 5% or more of options granted during the year - 1			
(iii) No employee was granted options during any one year, equal to or exceeding 1% or the issued capital (excluding outstanding warrants and conversion) of the Company at the time of grant.			
(k) Diluted Earnings Per Share (EPS) (on par value of Rs.10 per share) calculated in accordance with International Accounting Standard (IAS 33). :	Rs. Nil.		

Sify Limited (formerly Satyam Infoway Limited)

Annexure to Directors' Report for the year ended March 31, 2005

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, annexed to and forming part of the Directors' Report for the year ended 31st March 2005.

S.No.	Name	Designation	Qualification	Age in years	Date of Joining	Exp. in Years	Gross Remuneration Rs.	Previous Employment Designation
1	Ramaraj R	CEO & Managing Director	B.Tech '71, PGDM '73	55	01-Apr-98	32	4,458,600	Sterling Cellular Ltd - Director
2	Ajit G. Abraham	Chief Human Resources Officer	MA '81, Dip in Human Resources '88	46	03-May-99	23	4,197,524	Mobil India Ltd. - VP Human Resources
3	Rahul Swarup	President - Enterprise Solutions	B.Tech '83	45	17-Sep-99	16	5,801,604	Citi Bank - Vice President
4	Avinash J	President - Hosting Services	B.E. '83	44	11-Oct-99	21	2,979,933	Infosynth - Chief Consultant
5	Rustom Irani	Chief Technology Officer	B.Sc. '82, Dip in Comp. Programming '84	43	23-Dec-99	21	4,524,085	GE Capital - CIO & VP
6	George Zacharias	Chief Operating Officer	B.Tech. '80, PGDBM '82	46	01-Mar-00	23	7,526,659	Madura Garments - President
7	John Devasahayam	President - International Business	MA (Social Work) '80	47	04-Jul-03	18	4,392,625	Satyam Computer Services Limited
8	Shrikant P Joshi	President - Access Media	B.Tech '81, PGDM '83	47	03-Dec-01	22	4,270,075	Heinz- VP Sales
9	Harikumar S	Vice President - eLearning Services	B.Com '84	41	27-Mar-00	20	2,561,670	Firstware Software Solutions - CEO
10	Ramabhadran A P	Vice President - Retail Broad Brand	B.Com '85, PGDM '90	41	21-Apr-03	18	2,618,233	Bharti Infotel Limited - VP (Marketing)
11	Sushil Luniya	Vice President - Operations	B.E. '84, MBA '87	43	19-Mar-02	18	2,590,944	Apollo Tyres Ltd- Head Sales
Part of the year								
1	Anil Ahuja	Chief Financial Officer	B.Tech '72, PGDM '74	54	15-Jun-04	31	4,517,314	Bell Canada International - VP-Corp.Dev.
2	Dipan Bhattacharyya	Vice President - Enterprise Solutions	B.Tech '88, PGDM '91	39	1-Jun-00	17	3,008,838	GE Capital - Vice President
3	P J Nath	Vice President - Sales & Marketing	MMS '83	43	1-Jun-00	21	2,738,433	WIPRO Infotech Ltd - Head Corporate Business
4	Kannan VV	President - Interactive Services	BE '81, PGDM '83	46	16-Jul-99	22	1,466,407	GM Pens International - VP Marketing.

Note:

1. The remuneration includes Basic Salary, House Rent Allowance, Special Allowance, Leave Travel Assistance and other taxable perquisites.
2. None of the above employees is related to any of the Directors of the company.
3. Terms of employment of all the employees mentioned above are contractual.
4. None of the above employees either individually or together with spouse or children held more than 2% of the equity shares of the company.

Chennai
September 6, 2005

B Rama Raju
Chairman

R Ramaraj
Managing Director

**AUDITORS' REPORT TO THE MEMBERS OF
SIFY LIMITED**

- 1 We have audited the attached balance sheet of Sify Limited (the Company) as at 31 March 2005, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 4 Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;
 - c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt

with by this report are in agreement with the books of account;

- d) in our opinion, the Balance Sheet, the Profit and Loss account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable;
- e) on the basis of written representations received from the directors of the Company as at 31 March 2005 and taken on record by the Board of Directors, we report that no director is disqualified as on 31 March 2005 from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view, in conformity with the accounting principles generally accepted in India:
 - in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2005;
 - in the case of the Profit and Loss Account, of the loss of the Company for the year ended on that date; and
 - in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

for BSR & Co. (Formerly Bharat S Raut & Co.)
Chartered Accountants

Chennai
April 19, 2005

S Balasubrahmanyam
Partner
Membership No. 53315

Annexure to the Auditors' Report to the Members of Sify Limited as of and for the year ended 31 March 2005

With reference to the annexure referred to in paragraph 3 of the Auditor's report to the Members of Sify Limited on the financial statements for the year ended 31 March 2005, we report the following:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) The company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified once in three years. Accordingly no physical verification of fixed assets has been carried out during the year. In our opinion, the frequency of such verification is reasonable having regard to the size of the Company and the nature of its assets.
 - (c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.
 - (ii) (a) The inventory has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
 - (b) The procedures for the physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
 - (c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
 - (iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
 - (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.
 - (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
 - (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
 - (vi) The Company has not accepted any deposits from the public.
 - (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
 - (viii) According to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Companies Act, 1956 in respect of services carried out by the Company.
 - (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund and Excise duty.
- According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 March 2005 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, the following dues of Sales tax have not been deposited by the Company on account of disputes.

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where is dispute pending
Central Sales Tax	C Forms not produced for assessment	10,689,413	Asst. Yrs Rs. 2000-01 – 6,589,413 2001-02 – 3,185,000 2002-03 – 915,000	Commissioner of Commercial Taxes

- (x) The accumulated losses of the Company has exceeded fifty percent of its net worth at the end of the year. The Company has not incurred cash losses during the current year and in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions. The Company did not have any outstanding debentures during the year.
- (xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

- (xv) In our opinion and according to the information and explanations given to us, the terms and conditions on which the company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the company.
- (xvi) The company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year
- (xx) The Company has not raised any money by public issues during the year.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For BSR & Co. (Formerly Bharat S Raut & Co.)
Chartered Accountants

Chennai
April 19, 2005

S Balasubrahmanyam
Partner
Membership No. 53315

Balance Sheet

		Rs in Thousands	
	Schedule	As at 31 March 2005	As at 31 March 2004
SOURCES OF FUNDS			
Shareholder's Funds			
Share capital	1	353,803	349,010
Reserves and surplus	2	14,375,324	14,301,355
		14,729,127	14,650,365
Loan Funds			
Secured loans	3	9,903	11,002
		9,903	11,002
		14,739,030	14,661,367
APPLICATIONS OF FUNDS			
Fixed Assets	4		
Cost		3,897,501	3,309,118
Less: Depreciation		(2,539,218)	(2,029,063)
Net Book Value		1,358,283	1,280,055
Advances on capital account and capital work-in-progress		20,811	3,556
Investments	5	194,993	168,102
Current Assets, Loans and Advances			
Inventories	6	28,080	19,904
Sundry debtors	7	636,241	494,420
Cash and bank balances	8	1,349,797	1,434,420
Loans and advances	9	382,266	344,177
		2,396,384	2,292,921
Current Liabilities	10	1,452,380	1,049,208
Provisions	11	40,140	34,466
		1,492,520	1,083,674
Net Current Assets		903,864	1,209,247
Profit and Loss Account		12,261,079	12,000,407
		14,739,030	14,661,367
Significant accounting policies and notes to accounts	19		

The schedules referred to above and notes thereon form an integral part of these financial statements.

This is the Balance Sheet referred to in our report of even date.

for **BSR & Co.** (Formerly Bharat S Raut & Co.)
Chartered Accountants

S Balasubrahmanyam
Partner
Membership No : 53315

Chennai
April 19, 2005

for and on behalf of the Board of Directors

B Rama Raju
Director

Anil Ahuja
Chief Financial Officer

R Ramaraj
Managing Director

V Ramasubramanian
Company Secretary

Profit and Loss Account

		Rs in Thousands	
	Schedule	For the year ended 31 March 2005	For the year ended 31 March 2004
INCOME			
Sales and services	12	3,569,200	2,675,710
Other income	13	140,356	189,019
		3,709,556	2,864,729
EXPENDITURE			
Cost of software and hardware sold	14	356,488	214,326
Operating and administrative expenses	15	1,654,591	1,397,658
Personnel expenses	16	699,218	502,795
Financial expenses	17	12,701	9,549
Selling and marketing expenses	18	664,815	498,434
Depreciation		526,750	511,185
Provision for doubtful debts and advances written off		57,073	75,116
Provision for (increase) / decrease in value of Investments, net		(26,891)	68,574
Provision for accumulated losses of subsidiaries		25,483	53,737
		3,970,228	3,331,374
Loss before taxation		260,672	466,645
Provision for taxation		—	—
Loss after taxation		260,672	466,645
Loss carried forward from previous year		12,000,407	11,533,762
Loss carried to Balance Sheet		12,261,079	12,000,407
Earnings per share: (Rs.)			
Basic and Diluted		(7.41)	(13.52)
Weighted average number of shares in computing the above			
Basic and Diluted		35,156,120	34,519,545
Nominal value of share (Rs)		10.00	10.00
Significant accounting policies and notes to accounts	19		

The schedules referred to above and notes thereon form an integral part of these financial statements.
 This is the Profit and Loss Account referred to in our report of even date.

for **BSR & Co.** (Formerly Bharat S Raut & Co.)
 Chartered Accountants

S Balasubrahmanyam
 Partner
 Membership No : 53315

Chennai
 April 19, 2005

for and on behalf of the Board of Directors

B Rama Raju
 Director

Anil Ahuja
 Chief Financial Officer

R Ramaraj
 Managing Director

V Ramasubramanian
 Company Secretary

Schedules to the Balance Sheet

Rs in Thousands			Rs in Thousands		
	As at 31 March 2005	As at 31 March 2004		As at 31 March 2005	As at 31 March 2004
1. Share Capital			2 Reserves and Surplus		
Authorised			Securities premium		
37,500,000 equity shares			Balance at the beginning		
(As at 31 March 2004:			of the year	14,301,355	14,155,493
37,500,000) of Rs 10 each.	375,000	375,000	Add: Premium received		
	375,000	375,000	during the year	73,969	156,510
				14,375,324	14,312,003
Issued			Less: Expenses written off	-	(10,648)
35,386,480 equity shares					
(As at 31 March 2004: 34,907,195)			Balance at the end of the year	14,375,324	14,301,355
of Rs 10 each.	353,865	349,072			
Less : Shares forfeited 6,202			3 Secured Loans		
(As at 31 March 2004 : 6,202)			Vehicles purchased under finance lease		
equity shares of Rs 10 each	(62)	(62)	(Secured against the relevant assets)	9,903	11,002
				9,903	11,002
Subscribed and Paid-up					
35,380,278 equity shares					
(As at 31 March 2004: 34,900,993)					
of Rs 10 each.	353,803	349,010			
The Company has issued					
952,551 (As on 31 March 2004: 952,551)					
equity shares of Rs.10 each for					
Consideration other than cash	353,803	349,010			

4. Fixed Assets

Rs in Thousands										
	Original Cost					Depreciation				Net book value
	1 April 04	Additions	Additions from Subsidiaries	Deletions	31 March 05	1 April 04	For the year	Deletions	31 March 05	31 March 05 31 March 04
Leasehold land	5,132	-	-	-	5,132	247	85	-	332	4,800 4,885
Building	485,156	-	-	-	485,156	63,440	17,320	-	80,760	404,396 421,716
Plant and machinery	2,233,993	417,925	402	18,288	2,634,032	1,576,665	377,355	6,542	1,947,478	686,554 657,328
Furniture and fittings	246,440	49,498	45	7,257	288,726	164,589	55,281	6,259	213,611	75,115 81,851
Office equipment	52,567	13,674	132	717	65,656	32,269	11,445	404	43,310	22,346 20,298
Motor vehicles	19,975	8,800	-	8,290	20,485	5,504	4,282	3,390	6,396	14,089 14,471
Systems software	140,628	32,459	-	-	173,087	106,124	30,497	-	136,621	36,466 34,504
Intangible assets										
Web publication rights	98,226	-	-	-	98,226	64,475	20,004	-	84,479	13,747 33,751
IP VPN Licence Fee	-	100,000	-	-	100,000	-	1,481	-	1,481	98,519 -
Customer contracts	27,001	-	-	-	27,001	15,750	9,000	-	24,750	2,251 11,251
	3,309,118	622,356	579	34,552	3,897,501	2,029,063	526,750	16,595	2,539,218	1,358,283 1,280,055
As at March 31, 2004	2,952,075	3,71,582	14,825	29,364	3,309,118	1,536,347	511,185	18,469	2,029,063	1,280,055 -

- Buildings include assets capitalized pending transfer of title in favour of the Company amounting to Rs 327,030 (As at 31 March 2004 : Rs 327,030)
- Addition from subsidiaries represent assets acquired from subsidiary companies during the year
- Motor vehicles include assets purchased on finance lease - Rs 20,448 (As at 31 March 2004 : Rs 19,265)

Schedules to the Balance Sheet (Contd...)

	Rs in Thousands	
	As at 31 March 2005	As at 31 March 2004
5 Investments		
(Long term, At cost, Trade, Unquoted) in subsidiaries		
IndiaWorld Communications Limited (200,000 Equity shares of Rs 10 each fully paid up) (As at 31st March 2004: 200,000))	5,014,849	5,014,849
Less: Provision for decrease in value of Investment	(5,014,849)	(5,014,849)
	—	—
Sify International Inc. (formerly India Plaza.com Inc.) (100 Shares of common stock (As at 31 March 2004: 100) of USD 0.0001 fully paid up)	357,603	357,603
Less: Provision for decrease in value of Investment	(357,603)	(357,603)
	—	—
Satyam Webexchange Limited (3,000,000 Equity shares of Rs 10 each fully paid up) (As at 31 March 2004: 3,000,000)	30,000	30,000
Less: Provision for decrease in value of Investment	(30,000)	(30,000)
	—	—
Sify e-Learning Limited (formerly Satyam Education Services Limited) (4,900,000 Equity shares (As at 31 March 2004: 4,900,000) of Rs 10 each fully paid up)	49,000	49,000
Less: Provision for decrease in value of Investment	49,000	(49,000)
	—	—
Sify Plastics Commerce Limited (6,000,000 Equity shares (As at 31 March 2004: 6,000,000) of Re 1 each fully paid up)	4,120	4,120
Less: Provision for decrease in value of Investment	(4,120)	(4,120)
	—	—
Safescrypt Limited (9,000,000 Equity shares (As at 31 March 2004: 9,000,000) of Rs 10 each fully paid up)	90,000	90,000
Less: Provision for decrease in value of Investment	(78,423)	(52,695)
	11,577	37,305
Sify Networks Private Limited (formerly E Alcaytraz Consulting Private Limited) (81,820 Equity shares (As at 31 March 2004: 81,820) of Rs 10 each fully paid up)	32,755	32,755
Less: Provision for decrease in value of Investment	(4,247)	—
	28,508	32,755
	(A) 40,085	70,060
In Associates		
Trade (Unquoted)		
Cricinfo Limited (43,605 Ordinary shares (As at 31 March 2004: 43,605) of GBP 0.01 each fully paid up)	1,682,525	1,682,525
Less: Provision for decrease in value of Investment	(1,682,525)	(1,682,525)
	—	—
Refco-Sify Securities India Private Limited (15,490,800 Equity shares (As at 31 March 2004: 15,490,800) of Rs 10 each fully paid up)	154,908	154,908
Less: Provision for decrease in value of investment	—	(56,866)
	154,908	98,042
	(B) 154,908	98,042
	(A) + (B) 194,993	168,102

Schedules to the Balance Sheet (Contd...)

[illegible]

Schedules to the Balance Sheet (Contd...)

	Rs in Thousands	
	As at March 31, 2005	As at March 31, 2004
10. Current Liabilities		
Current Liabilities		
Sundry creditors		
– For supplies	180,603	46,081
– For expenses	593,435	461,429
Dues to subsidiaries	–	30,924
Unearned income	395,311	332,067
Security deposits		
(Refer Schedule 19(C)(9))	77,269	55,884
Other liabilities	136,829	41,249
Advances from customers	64,248	77,963
Provident fund	4,685	3,611
	1,452,380	1,049,208
11. Provisions		
Provision for staff benefits	38,699	33,025
Provision for taxation	1,365	1,365
Provision for wealth tax	76	76
	40,140	34,466

Schedules to the Profit and Loss Account

	Rs in Thousands	
	For the Year ended March 31, 2005	For the Year ended March 31, 2004
12 Sales and Services		
Sales - Domestic	410,923	241,131
Services - Export	264,174	323,216
Services - Domestic	2,894,103	2,111,363
	3,569,200	2,675,710
13 Other Income		
Profit on sale of fixed assets (Net)	–	2,060
Gain on foreign exchange fluctuation (Net)	3,663	–
Interest income (Tax deducted at source for the year ended 31 March 2005 - Rs 14,101) (year ended 31 March 2004 - Rs 8,354).	52,702	48,509
Profit on sale of investment	15,710	120,036
Other income	13,683	18,414
Liabilities no longer required written back	30,924	–
Provision for expenses no longer required written back	23,674	–
	140,356	189,019
14 Cost of Software and Hardware Sold		
Opening inventory	19,904	37,356
Purchases (Net of capitalised for the year ended 31 March 2005: Rs.11,564) (year ended 31 March 2004: Rs.7,006)	364,664	196,874
Closing inventory	(28,080)	(19,904)
	356,488	214,326

	Rs in Thousands	
	For the Year ended March 31, 2005	For the Year ended March 31, 2004
15 Operating and Administrative Expenses		
Networking costs	915,519	783,323
Communication expenses	36,247	25,027
Cost of software packages for own use	2,455	2,588
Rent	82,945	48,812
Rates and taxes	16,186	14,365
Travelling expenses	107,591	56,067
Power and fuel	71,671	61,800
Legal and professional charges	99,052	84,972
Web development charges	11,076	4,827
Recruitment expenses	24,747	17,158
Training and development	6,079	3,405
Repairs and maintenance:		
– Plant and machinery	10,104	6,802
– Buildings	17,264	21,693
– Others	59,971	57,436
Hire charges of vehicles and equipment	6,700	3,286
Insurance	33,504	50,264
Outsourced manpower	108,564	49,707
Loss on foreign exchange fluctuation (Net)	–	51,210
Loss on sale of fixed assets (Net)	2,757	–
Miscellaneous expenses	42,159	29,366
	1,654,591	1,397,658
16 Personnel Expenses		
Salaries and wages	646,253	464,645
Contribution to provident and other funds	29,408	22,094
Staff welfare expenses	23,557	16,056
	699,218	502,795
17 Financial Expenses		
Interest on vehicles on leasing arrangement	870	1,062
Bank charges	11,831	8,487
	12,701	9,549
18 Selling and Marketing Expenses		
Advertisements	42,285	38,790
Market promotion expenses	87,752	103,666
Commission	25,670	20,631
Other selling expenses	509,108	335,347
	664,815	498,434

Schedules to the Balance Sheet and Profit and Loss Account for the year ended March 31, 2005

19. Significant Accounting Policies and Notes to Accounts

(In Rupees thousands, except share data and as otherwise stated)

A. BACKGROUND

1. Description of business

Sify Limited ("Sify" / "the Company") is engaged in providing various services, such as corporate network and data services, internet access services, online portal and content offerings and development of e-learning software. Sify was incorporated on 12 December 1995 and is listed on the NASDAQ. The Company is headquartered in Chennai, India.

B. SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation

The financial statements are prepared in accordance with the Generally Accepted Accounting Principles ("GAAP") under the historical cost convention on the accrual basis. GAAP comprises mandatory accounting standards issued by the Institute of Chartered Accountants of India ("ICAI") and the provisions of the Companies Act, 1956. These accounting policies have been consistently applied, except for applicable recently issued accounting standards made mandatory by the ICAI effective the current fiscal year that were adopted by the Company, as described below.

Effective the current fiscal year the Company has adopted the "Accounting Standard ("AS") 28 on Impairment of Assets" and "AS 29 on Provisions, Contingent Liabilities and Contingent Assets". The application of the Accounting Standards did not have any significant impact on the financial statements of the Company.

2. Use of estimates

The preparation of financial statements in conformity with GAAP requires the Company's Management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include estimates of provision for diminution in the value of investments, provision for doubtful debts and useful life of fixed assets. Actual results could differ from those estimates.

3. Revenue recognition

The operating segments of the Company are:

- Corporate network/data services, which provides private network services, messaging services and web hosting services to businesses;
- Internet access services to homes and through cyber cafés;
- Online portal services and content offerings; and
- Other services.

These segments recognise revenues on the following bases:

Corporate network/data services

Corporate network service revenues primarily include connectivity services and, to a lesser extent, the revenues from the sale of hardware and software purchased from third party vendors, installation of the link, and other ancillary services such as e-mail, e-fax and domain registration. The Company provides connectivity for a fixed period of time at a fixed rate regardless of usage. The revenue attributable to connectivity services is recognised ratably over the period of the contract. The software sold by the Company is off-the-shelf software, such as anti virus utilities and firewalls. The revenue attributable to hardware/software is recognised on delivery. The revenue

attributable to the installation of the link is recognised on completion of the installation work. All revenues are shown exclusive of sales tax and service tax and net of applicable discounts and allowances.

Web hosting service revenues primarily include co-location services and connectivity services. Revenue from hosting services is recognised over the period during which the service is provided.

3. Revenue recognition (Continued)

Internet access services to homes and through cyber cafés

Dial-up internet access is sold to customers either for a specified number of hours or for an unlimited usage within a specified period of time. Customers purchase a CD that allows them to access the internet. The amounts received from customers on the sale of these CDs are not refundable. Sify recognises revenue from sale of CDs based on usage by the customer. At the end of the specified period, the remaining unutilised hours, if any, are recognised as revenue. Revenue from unlimited internet access and electronic mail access is recognised over the specified period.

Public internet access is provided to customers through a chain of franchisee cyber café outlets, network of cable operators and to a lesser extent, Sify owned cyber cafés. The Company also provides internet access at homes through cables. Sify enters into an arrangement with franchisees that provides for the payment of an initial non-refundable franchisee fee in consideration for establishing the franchisee relationship and providing certain initial services. These initial services consist of a number of activities, including installing the broadband receiver equipment at the cyber café and connecting it to one of Sify's broadcasting towers, obtaining regulatory approvals for clearance of the site for wireless transmission at the allotted frequency range and other ancillary services. Initial franchisee fee is recognised as revenue at the time of commencement of operations by the franchisee. Internet access revenue is recognised based on usage by the customer.

The Company provides Internet Telephony Services "Voice over Internet Protocol" (VoIP) to make calls to destinations across the world using a PC through a product named "Way2Talk". VoIP is sold as packs, which allows the customers to access the service and use VoIP for a contracted number of hours within a specified period of time. The amounts received from customers on the sale of these packs are not refundable. The Company recognises revenue from sale of packs based on usage by the customer. At the end of the contracted period, the remaining unutilised hours, if any are recognised as revenue.

Online portal services and content offerings

The Company enters into contracts with customers to serve advertisements in the portal and the Company is paid on the basis of impressions, click-throughs or leads and in each case the revenue is recognised ratably over the period of the contract based on actual impressions/click throughs/ leads delivered. There are no performance obligations or minimum guarantees. Revenues from electronic commerce transactions are recognised when the transactions are completed.

Other services

The Company provides e-learning software development services to facilitate web-based learning in various organizations. Revenue from such projects is recognized on the fixed man-month rates or proportionate performance method, based on the terms of the contract.

Rs in Thousands unless as stated

4. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Direct costs are capitalised until fixed assets are ready for use. These costs include freight, installation costs, duties and taxes and other allocated expenses including finance cost relating to specific borrowing incurred during the construction period.

Assets acquired under a finance lease are capitalised and the corresponding lease liability is recorded at an amount equal to the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower, at the inception of the lease. Initial costs incurred in connection with specific leasing activities directly attributable to activities performed by the Company for a finance lease are also capitalised.

Depreciation on fixed assets is provided using the straight-line method based on the useful lives of the assets as estimated by the Management. Depreciation is charged on a pro-rata basis for assets purchased / sold during the year. Individual assets costing less than Rs 5 are depreciated in full in the year of acquisition.

Leasehold land is amortised using straight-line method over the shorter of the primary lease period or estimated useful life of the asset.

Software for internal use is acquired primarily from third-party vendors in ready-to-use condition. Costs for acquiring such software are capitalised. Capitalised software costs are amortised on straight-line basis over the estimated useful life of the software. Software acquired for internal use with estimated useful life of less than one year is expensed upon acquisition.

Management's estimate of the useful lives for various categories of fixed assets is given below.

Asset description	Estimated useful life (in years)
Buildings	28
Plant and machinery	
Computers, servers etc.	2
Others	5
Furniture and fittings	5
Office equipment	5
Motor vehicles	5
Software	2 - 3

Depreciation on assets acquired under a finance lease is provided using the straight-line method over the useful life of the asset.

Web publication rights are amortised over three to five years representing Management's estimate of the useful life of the asset.

Payments made to acquire customer contracts have been recorded as an intangible asset and are being amortised over three years representing Management's estimate of the useful life of the asset.

Payment made for Licence fee for Virtual Private Network (IP - VPN) Services has been recorded as an intangible asset and is being amortised over 15 years representing the estimated period of Licence.[Refer Note 19 (C) (15)].

5. Investments

Long-term investments comprise investments in subsidiaries and associates and are carried at cost with provision being made for diminution if any, other than temporary, in their value. Such diminution is determined for each investment individually on the basis of the past performance of such subsidiaries / associates and the future expected benefits to the Company from such investments.

6. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories comprises cost of purchase and all incidental costs incurred in bringing the inventories to their present location and condition. Cost of hardware and software purchased for the purpose of resale is determined using the first-in-first-out method. Inventory of CDs used for Internet service activities are stated at the weighted average cost.

7. Foreign currency transactions

Sales invoices, purchase invoices and expenses, denominated in foreign currencies are converted into reporting currency at the rates prevalent on the date of the transactions. Collections/ payments denominated in foreign currencies are converted at rates prevalent on the date of such collections/payments. Differences arising on such foreign currency transactions are charged / credited to the Profit and Loss account.

Monetary current assets and liabilities that are denominated in foreign currencies are translated at the exchange rate prevalent at the date of the Balance Sheet. The resulting difference is recorded in the Profit and Loss account except in case of exchange differences related to acquisition of fixed assets from a country outside India, which are adjusted to the carrying amount of related fixed assets.

Profit and loss items at the foreign branch are translated at the respective monthly average rate. Monetary items at the branch office at the Balance Sheet date are translated using the exchange rate prevalent at the date of the Balance Sheet. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

8. Retirement benefits to employees

Provident fund: Eligible employees receive benefits from a provident fund, which is a defined contribution plan managed by the Regional Provident Fund Commissioner, Chennai. Both the employee and the Company make monthly contributions to the provident fund plan equal to 12% of the covered employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity: The Company provides for gratuity, a defined benefit retirement Plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan commenced on 1 April 1997. The Plan provides a lump sum payment to vested employees at retirement, death or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company. The Company provides the gratuity benefit through annual contribution to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme the settlement obligation remains with the Company although the LIC administers the scheme and determines the contribution premium required to be paid by the Company.

Leave encashment: Provision for leave encashment is made by the Company based on the unavailed leave standing to the credit of employees in accordance with the service rules of the Company.

9. Earnings per share

Basic earnings per share is computed and disclosed using the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed and disclosed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the year.

10. Income taxes

Income tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with the income tax law) and deferred tax charge or credit (reflecting the tax effects of the timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities and assets are recognised using the tax rates that have been enacted or substantially enacted by the Balance Sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each Balance

Rs in Thousands unless as stated

Sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Current tax and deferred tax assets and liabilities are offset to the extent to which the Company has a legally enforceable right to set off and they relate to taxes on income levied by the same governing taxation laws.

C NOTES TO ACCOUNTS

1. During March 2005, the company sponsored an ADS Programme whereby a total of 1,130,526 shares were offered and were privately placed for ADS issue. The selling shareholders who participated in this programme were Venturetech Solution Private Limited, for 783,326 shares, Government of Singapore Investment Corporation for 305,500 shares and Monetary Authority of Singapore for 41,700 shares. The ADS have been purchased by Fiserv Securities Inc. for 300,000 ADS, Venture Tech Assets Ltd. for 483,326 ADS, Government of Singapore Investment Corporation for 305,500 ADS and Monetary Authority of Singapore for 41,700 ADS. Consequent to this, the shareholding of Venture Tech along with its affiliates has come down from 9.99% to 9.14%.

2. Associates stock option plan

The Company established a stock option plan in March 1999. The stock option plans are administered in accordance with the plans approved from time to time, which include:

- Associate Stock Option Plan 1999
- Associate Stock Option Plan 2000
- Associate Stock Option Plan 2002

As on date, the total allocation of stock options by the Company aggregates to 1,833,000 of which 132,579 stock options are outstanding (net of 863,742 options expired or forfeited by employees).

The Compensation Committee grants the options on the basis of performance, criticality and potential of the employees as identified by Management. The options are granted to identified employees at a price determined by the Compensation Committee either as equity share options or ADR linked options. The options are subject to progressive vesting over three-year period from the date of grant.

The following table summarizes the transactions of stock options:

The following table summarizes the transactions of stock options:

No. of options granted, exercised and forfeited	Year ended 31 March 2005	Year ended 31 March 2004
Options outstanding at the beginning of the year	1,259,500	390,560
Granted during the year	90,000	1,136,580
Total	1,349,500	1,527,140
Exercised during the year	(479,285)	(70,910)
Lapsed	(25,123)	(148,490)
Forfeited during the year	(79,849)	(48,240)
Outstanding at the end of the year	765,243	1,259,500
Vested and Exercisable at the end of the year	132,579	37,270

3. Segment reporting

The Company's operations predominantly relate to connectivity to enterprises and providing Internet access to retail subscribers (both home access and public access). The Company also operates a portal, "Sify.com", that provides a variety of

India-related content to audiences both in India and abroad, and which generates revenue from advertisements and other value added services.

The primary operating segments of the Company are:

- Corporate network/data services, which provides private network services, messaging services and web hosting to businesses;
- Internet access services to homes and through cyber cafés;
- Online portals services and content offerings; and
- Other services.

Accordingly, revenues represented by nature of service rendered comprise the primary basis of segmental information. Management believes it is not practical to provide secondary segmental disclosures, considering the diverse industrial classification of the Company's customers and their India centric focus.

Bandwidth costs, which form a significant part of the total expenses, are of three kinds – international, inter-city and last mile. These are allocated primarily between the corporate network/data services and internet access services businesses as described below:

The international bandwidth refers to bandwidth that is required for access to sites and offices outside the country. For all these businesses, bandwidth is allocated based on actual utilization captured by monitoring traffic per IP pool assigned, at the egress points. The Company has packet shapers in the main locations to monitor bandwidth use by each of the above categories of users. This information is used in determining norms like bandwidth per port and bandwidth per PC. The actual utilization are cross validated against assumptions / norms for each business.

The national bandwidth refers to the inter-city link bandwidth implemented within the country. Inter city bandwidth was allocated based on the number of subscribers or iway cafes at "non gateway" points and the bandwidth sold to and used by business enterprises (determined using packet shapers). However, due to strategic reasons aimed at furthering the corporate business, the national backbone was enhanced to carry traffic to the international fibre gateways moving away from its hybrid satellite and fibre gateways to only fibre gateways for international bandwidth. Local exit of international traffic through the satellite gateways has reduced and this traffic has been loaded onto the national backbone. National bandwidth costs are now allocated based on international bandwidth allocation ratios. This is since most of the traffic carried on the national backbone is finally aimed towards the international gateways. The Company believes that the resulting allocations are reasonable.

Last mile costs in the dial up access (E1/R2 costs) and spectrum fees for wireless connectivity that can be directly identified to the businesses are allocated directly.

Certain expenses, like depreciation and overheads incurred by the support functions including finance, human resources, administration, technology and corporate, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosure of these expenses and, accordingly, they are separately disclosed as "unallocated expenses" and adjusted only against the total income of the Company.

A significant part of the fixed assets used in the Company's business are not identifiable to any of the reportable segments and can be used interchangeably between segments. Management believes that it is not practicable to provide segment disclosures relating to total assets since a meaningful segregation of the available data is onerous.

Rs in Thousands unless as stated

The Company's operating segment information for the year ended 31 March 2005 is presented below:

Year ended March 31, 2005	Corporate network/ data services	Internet access services	Online portal Services and content offerings	Others	Total
Revenues	1,980,433	1,404,876	102,814	81,077	3,569,200
Operating expenses	(1,280,961)	(1,361,140)	(99,303)	(69,333)	(2,810,737)
Segment operating income	699,472	(43,736)	(3,511)	11,744	758,463
Unallocable expenses					(621,448)
Operating income/(loss)					(137,015)
Other income / (expense), net					87,654
Income before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					224,669
Depreciation and provision for losses in subsidiaries/investments/others					(525,342)
Interest income (net)					40,001
Net income/(loss) before taxes					(260,672)

The comparative values for the year ended 31 March 2004 are:

Year ended March 31, 2004	Corporate network/ data services	Internet access services	Online portal Services and content offerings	Others	Total
Revenues	1,366,248	1,088,440	68,606	152,416	2,675,710
Operating expenses	(791,292)	(1,188,365)	(90,891)	(54,232)	(2,124,780)
Segment operating income	574,956	(99,925)	(22,285)	98,184	550,930
Unallocable expenses					(563,549)
Operating income/(loss)					(12,619)
Other income / (expense), net					140,510
Income before interest, tax, depreciation and provision for losses in subsidiaries/investments/others					127,891
Depreciation and provision for losses in subsidiaries/investments/others					(633,496)
Interest income (net)					38,960
Net income/(loss) before taxes					(466,645)

Rs in Thousands unless as stated

4. Leases

The Company has entered into a leasing arrangement with banks for the lease of motor vehicles ("the leased asset") for periods upto 36 months. During the lease period, the Company has agreed to hypothecate and create an exclusive charge on the leased assets in favour of the banks and repay the principal amount of the loan along with interest thereon by way of instalments as agreed upon. The charge/security created in favour of the banks shall remain in force until such time all the dues under the agreement are fully discharged.

Minimum lease payments as at 31 March 2005 are as follows:

Minimum lease payments as at	March 31, 2005	March 31, 2004
Payable Not later than one year	6,506	6,545
Payable Later than one year and not later than five years	3,938	5,351
Total	10,444	11,896
Less: Amounts representing interest	541	894
Present value of minimum lease payments	9,903	11,002
Payable not later than one year	6,089	5,851
Payable later than one year and not later than five years	3,814	5,151

The Company, which is a dealer lessor, has leasing arrangement of leasing various types of routers, modems and other equipment for setting up virtual private network and providing bandwidth to its customers in corporate connectivity business. The leases are classified as capital leases and expire after a period of three years.

The Company recognizes the sale transaction in the statement of profit and loss in accordance with the terms of the underlying agreements and the initial direct cost as expenses as incurred.

Gross Investment and minimum lease payments as at 31 March 2005 are as follows:

Gross Investment	Rs.
Receivable not later than one year	10,971
Receivable later than one year but not later than 5 years	20,959
Total	31,930
Less: Amount representing interest (Unearned finance income)	2,765
Present Value of minimum lease payments	29,165
Receivable not later than one year	9,430
Receivable later than one year but not later than 5 years	19,735

5. Related party transactions

Related Parties where control exists or with whom transactions have taken place during the year:

Subsidiaries	: Sify International Inc. (formerly known as India Plaza.com Inc.) IndiaWorld Communications Limited Safescript Limited Sify eLearning Limited (formerly Satyam Education Services Limited) Satyam Webexchange Limited Sify Baron Net Devices Limited (till June 2003) Sify PlasticsCommerce Limited E-Chem.com Limited (till August 2003) Kheladi.com India Private Limited (till April 2003) Sify Networks Private Limited (formerly E Alcatraz Consulting Private Limited)
Associates	: Satyam Computer Services Limited (Parent upto 15 December 2002) Wisden Cricinfo Limited (till February 2004) Cricinfo Limited Refco-Sify Securities India Private Limited
Key Management Personnel	: R Ramaraj, Managing Director

For the year ended 31, March 2005

Rs in Thousand unless as stated

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Sales and Services	-	48,713	48,713
Lease rentals for equipments given on lease	-	175	175
Purchases	1,883	-	1,883
Purchases of fixed assets	580	-	580
Other advances (net)	30,776	-	30,776
Expenses recovered (net)	-	1,219	1,219
Balances with related parties			
Debts due from	-	33,524	33,524
Debts due to	-	-	-
Advances recoverable from	351,954	1,123	353,077
Amounts provided	(349,108)	(1,123)	(350,231)

Details of managerial remuneration paid to Managing Director and payment to a Director are provided in Note C(11) and C(12) of Schedule 19.

The comparative values for the year ended 31 March 2004 are :

Particulars	Subsidiaries	Associates	Total
Transactions with related parties			
Sales and Services	1,004	39,470	40,474
Purchases	757	-	757
Purchases of fixed assets	11,539	-	11,539
Take over of net assets from subsidiaries	25,671	-	25,671
Interest earned	-	1,411	1,411
Investments made	183,394	-	183,394
Other advances (net)	61,715	(1,289)	60,426
Expenses recovered (net)	11,261	12,237	23,498
Written off against Provision	217,504	-	217,504
Balances with related parties			
Debts due from	-	13,030	13,030
Debts due to	30,924	-	30,924
Advances recoverable from	373,071	1,543	374,614
Amounts provided	(373,071)	(1,543)	(374,614)

Rs in Thousands unless as stated

6. Investments

Safescrypt Limited

Safescrypt Limited, a 100 % subsidiary of the Company has been consistently incurring losses. The Company believes that there has been a decrease in the value of investments and consequently an amount of Rs. 25,728 has been provided for the year ended 31 March 2005. The amount provided for the year ended 31 March 2004 was Rs.12,288.

Refco Sify Securities India Private Limited

Sify was holding 40% of the outstanding equity share capital of Refco Sify Securities India Private Limited (Refco-Sify), an associate company. On 20 February 2005, Refco-Sify announced rights issue of 13,167,180 equity shares of Rs.10 each to the existing shareholders at the rate of 34 equity shares for every 100 shares held at the rate of Rs.12.20 per equity share. The offer closed on 28 February 2005. Sify did not subscribe to the rights issue and Refco Securities exercised the offer including that of the rights renounced by Sify. Consequent to the rights issue Sify's holding in Refco-Sify has been reduced to 30%. Refco-Sify has earned a net profit of Rs.97,949 for the year ended March 31, 2005 as against a net profit of Rs. 151,779 for the year ended March 31, 2004.

As, a consistent track record of earning profits had not been established, the Company recorded a provision for decline in the value of investment upto 31 March 2004 of Rs.56,866. As Refco Sify has earned profits of Rs.30,087 in the quarter ended 30 June 2004, the Company believes that it has been able to demonstrate consistency of earning profits and accordingly the reduction in carrying amount of Rs. 56,866 has been reversed.

7. Legal proceedings

1. Sify and certain of its officers and directors are named as defendants in a securities class action lawsuit filed in the United States District Court for the Southern District of New York. This action, which is captioned In re Satyam Infoway Ltd. Initial Public Offering Securities Litigation, also names several of the underwriters involved in Sify's initial public offering of American Depositary Shares as defendants. This class action is brought on behalf of a purported class of purchasers of Sify's ADS from the time of Sify's Initial Public Offering (IPO) in October 1999 through December 2000. The central allegation in this action is that the underwriters in Sify's IPO solicited and received undisclosed commissions from, and entered into undisclosed arrangements with, certain investors who purchased Sify's ADS's in the IPO and the aftermarket. The complaint also alleges that Sify violated the United States federal securities laws by failing to disclose in the IPO prospectus that the underwriters had engaged in these allegedly undisclosed arrangements. More than 300 issuers have been named in similar lawsuits.

In July 2002, an omnibus motion to dismiss all complaints against issuers and individual defendants affiliated with issuers was filed by the entire group of issuer defendants in these similar actions. In October 2002, the cases against the Company's executive officers who were named as defendants in this action were dismissed without prejudice. In February 2003, the court in this action issued its decision on defendants' omnibus motion to dismiss. This decision denied the motion to dismiss the Section 11 claim as to the Company and virtually all of the other issuer defendants. The decision also denied the motion to dismiss the Section 10(b) claim as to numerous issuer defendants, including the Company. On June 26, 2003, the plaintiffs in the consolidated IPO class action lawsuits currently pending against Sify and over 300 other issuers who went public between 1998 and 2000, announced a proposed settlement with Sify and the other issuer defendants. The proposed settlement provides that the insurers of all settling issuers will guarantee that the plaintiffs recover \$1 billion from non-settling defendants, including the investment banks who acted as underwriters in those offerings. In the event that the plaintiffs do not recover \$1 billion, the insurers for the settling issuers will make up the difference. The Company believes that it has sufficient insurance coverage to cover the maximum amount that it may be responsible for under the proposed settlement. Although the Federal District Court has preliminarily approved the settlement, it is possible that the Federal District Court may not finally approve the settlement in whole or part. The maximum financial exposure under this, in the event that the plaintiffs recover nothing from the underwriter, is estimated to be USD 3.9 million, an amount the Company believes which is fully recoverable from Sify's insurer.

2. Sify is party to additional legal actions arising in the ordinary course of business. Based on the available information, as at 31 March 2005, Sify believes that it has adequate legal defenses for these actions and that the ultimate outcome of these actions will not have a material adverse effect on Sify. However in the event of adverse judgment in all these cases, the maximum financial exposure would be Rs 3,084.[As at 31 March 2004: Rs.2,234].

8. Unearned income

Deferred revenue includes the following amounts of unearned income, which were invoiced as at the end of the year:

- for the Company's corporate network / data services division, revenue relating to the connectivity / hosting charges;
- for the Company's internet access services and online portal services divisions, revenue relating to the internet access charges and the advertisement charges respectively; and
- for the Company's other services division, revenue relating to development of e-learning software.

9. Security deposits

The Company entered into sales and service agreements with certain parties (referred to as sales/service partners) as a part of its marketing initiative for providing Internet Access services. As per the terms of these agreements, the Company received interest free deposits from such partners. These deposits are repayable at the expiry/termination of the relevant agreements.

10. Commitment and contingencies

- i) Unexpired bank guarantees as at 31 March 2005 amounted to Rs 89,319 (As at 31 March 2004: Rs 94,749). As at 31 March 2005 no amount (As at 31 March 2004: Rs 10,000) is under lien with the Company's bankers against guarantees issued by the bankers to a subsidiary of the Company.
- ii) The Company has given a corporate guarantee, as at 31 March 2005 amounting to Rs 10,000 (As at 31 March 2004: Rs Nil) to the bankers in respect of a non-funded facility availed by a subsidiary of the Company.
- iii) Unexpired letters of credit as at 31 March 2005 amounted to Rs 180,546 (As at 31 March 2004: Rs 71,072).
- iv) Contracts pending to be executed on capital account as at 31 March 2005 and not provided for (net of advances: Rs 12,167) amounted to Rs.76,924 [as at 31 March 2004: Rs 34,438 (net of advances: Rs 3,556)].
- v) The Company has discounted cheques, as at 31 March 2005 amounting to Rs 308 (As at 31 March 2004: Rs 1,994).
- vi) The Company has discounted bills, as at 31 March 2005 amounting to Rs.50,000 (As at 31 March 2004: Rs 20,000).
- vii) In respect of contingencies arising on legal proceedings, refer to note C (6) of Schedule 19.

	Year ended March 31, 2005	Year ended March 31, 2004
11. Managerial remuneration		
Salary	2,400	2,400
Allowances	2,334	2,334
Total	4,734	4,734
Contribution to provident fund	288	288
Gratuity	96	96
12. Payment to other Director		
Consultancy fess	240	40
13. Auditors' remuneration		
Statutory audit	3,500	2,000
Other services	—	1,600
Out of pocket expenses	611	—
14. Expenditure in foreign currency		
Networking costs/Communication expenses	130,550	111,099
Travel	9,444	5,574
Legal and professional charges	36,089	31,945
Recruitment expenses	—	6,198
Royalty	292	251
Personnel expenses	55,816	14,114
Others	31,510	11,589
15. Value of imports on CIF basis		
Software/Hardware	16,075	35,082
Capital assets	173,173	143,437
16. Earnings in foreign currency		
Services income (FOB exports)	264,174	323,216
Interest income	9,098	9,415

17. ISP License Matters

In December 2004, the Government of India (GOI) issued guidelines for permission to offer Virtual Private Network (VPN) services by Internet Service Providers (ISPs). Consequently, the Company applied for the permission and the GOI has issued a Letter of Intent (LOI) to the Company on December 30, 2004 for amendment of the existing ISP license to include provision of VPN services. In January 2005, the Company paid Rs.100,000 as a one time entry fee and submitted a financial bank guarantee of Rs. 10,000 as required by the LOI. The one time fee entry fee of Rs.100,000 is evenly amortized over the estimated life of the licence

On 11 January 2005 the GOI issued provisional permission to the Company to offer VPN service in accordance with the new guidelines. Final permission to offer VPN service shall be effective only after the Company signs the amendment to the license agreement. However the provisional permission does not carry any terms and conditions relating to the license.

The Indian Department of Telecommunications, or DOT, also requires the ISP licensees to pay an annual fee of 8% of the adjusted gross revenues generated under the ISP license. To date, the DOT has not issued any guidelines or procedures for implementing this decision. However, it is our understanding that the license fee provisions will become effective only after amendments to the license. We believe that this will not have any effect on Sify's net earnings / losses for periods prior to January 1, 2005. The ISPAI has been contesting the DOT decision. If not successful, the DOT decision will have an impact on the earnings to the extent of annual fee and amortization of the license fee. The Company has provided for Rs.5,611 towards 8% revenue share on VPN revenue.

18. Other information

- Debts due from private companies as at 31 March 2005 in which a director of the Company is a director amounted to Rs. 817 (As at 31 March 2004: Rs. 2,755).
- The Company does not owe any amounts to small-scale industrial undertakings, which are due for more than 30 days.
- The Company has got a non-fund-based facility with a bank to the tune of Rs 100,000 (As at 31 March 2004: 100,000) for which a first charge is created on the Company's current assets.

(In Rupees thousands, except share data and as otherwise stated)

19. Quantitative information

	Year ended March 31, 2005		Year ended March 31, 2004	
	Qty	Value	Qty	Value
Opening Stock				
– Hardware	65,336	24,167	11,254	32,059
– Software	107	4,737	149	12,604
Purchases				
– Hardware	222,757	290,305	497,989	143,322
– Software	1,115	79,180	961	56,830
Sales				
– Hardware	258,680	295,453	443,907	165,467
– Software	1,068	96,593	1,003	75,664
Closing stock				
– Hardware	29,413	30,825	65,336	24,167
– Software	154	2,359	107	4,737

- The value of opening and closing stock stated above is exclusive of provision for slow moving inventory.
- The information stated above is exclusive of the quantities and values of gift vouchers.
- Sales include certain transfers at cost to fixed assets for own use.

20. Income tax

No provision for income tax has been made during the year, as the Company does not have any taxable income.

The Company has not recognised deferred tax asset in respect of losses carried forward as the Management feels it is prudent not to do so.

21. Cash flows

Cash flows are reported using the indirect method, whereby profit after tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions.

22. Prior period comparatives

Prior year comparative figures have been regrouped and reclassified wherever necessary to conform to the current period's classification.

Previous year figures include amounts arising on account of acquisition of business of certain subsidiary companies and hence are not comparable with that of the current period.

For and on behalf of Board of Directors

B. Rama Raju
Director

R Ramaraj
Managing Director

Anil Ahuja
Chief Financial Officer

V. Ramasubramanian
Company Secretary

Chennai
April 19, 2005

	Rs in Thousands	
Cash Flow Statement	For the year ended March 31, 2005	For the year ended March 31, 2004
Cash Flows from Operating Activities		
Loss before taxation	(260,672)	(466,645)
Adjustments for :		
Depreciation	526,750	511,185
Financial expenses (considered separately)	12,701	9,549
Provision (reversal) for decrease in value of investments, net	(26,891)	68,574
Provision for doubtful debts/advances	57,073	75,116
Provision for accumulated losses of subsidiaries	25,483	53,737
Provision for slow moving inventory	(3,586)	1,407
Liabilities no longer required written back	(30,924)	—
Provision for expenses no longer required written back	(23,674)	—
Effect of exchange difference on translation of cash and cash equivalents	(1,479)	47,063
Interest income (considered separately)	(52,702)	(48,509)
(Gain)/Loss on sale of fixed assets	2,757	(2,060)
(Gain)/Loss on sale of investments	(15,710)	(120,036)
Operating Profit before working capital changes	209,126	129,381
Adjustment for :		
(Increase)/decrease in sundry debtors	(198,894)	(244,898)
(Increase)/decrease in inventories	(4,590)	(16,045)
(Increase)/decrease in loans and advances	(22,878)	(86,974)
Increase/(decrease) in current liabilities and provisions	328,921	371,592
Net cash flow from operating activities (A)	311,685	359,094
Cash flow from investing activities		
Purchase of fixed assets and changes in capital work-in-progress	(640,190)	(384,306)
(Increase) in creditors for capital purchases	134,523	25,595
Sale proceeds of fixed assets	15,200	12,955
Sale of investments	15,000	281,871
Increase in advance for investments/to subsidiaries	(28,329)	(75,188)
Interest income received	70,212	31,395
Net cash flow from investing activities (B)	(433,584)	(107,678)
Cash flow from financing activities		
Proceeds from issuance of share capital	78,762	166,920
Loans availed against purchase of vehicle	8,480	11,966
Repayment of loans obtained against purchase of vehicles	(9,579)	(6,819)
Investment in finance leases	(29,165)	—
Financial expenses	(12,701)	(9,549)
Net cash from financing activities (C)	35,797	162,518
Effect of exchange differences on translation of cash and cash equivalents (D)	1,479	(47,063)
Net increase / (decrease) in cash and cash equivalents during the year(A+B+C+D)	(84,623)	366,871
Cash and cash equivalents at the beginning of the year	1,434,420	1,067,549
Cash and cash equivalents at the end of the year	1,349,797	1,434,420
Cash and cash equivalents which are restricted in nature		
- Margin money accounts	31,241	111,733

for **BSR & Co.** (Formerly Bharat S Raut & Co.)
Chartered Accountants

for and on behalf of the Board of Directors

S Balasubrahmanyam
Partner
Membership No: 53315

B. Rama Raju
Director

R Ramaraj
Managing Director

Chennai
April 19, 2005

Anil Ahuja
Chief Financial Officer

V Ramasubramanian
Company Secretary

Balance Sheet Abstract and General Profile of the Company under Part IV to Schedule VI of the Companies Act, 1956

I. Registration details

Registration no.	50809
State code	18
Balance Sheet date	March 31, 2005

II. Capital raised during the year (Amount in Rs. 000's)

Public issue	—
Rights issue	—
Bonus issue	—
Private placement	4,793

III. Position of mobilization and deployment of funds (Amount in Rs. 000's)

Total liabilities	14,739,030
Total assets	14,739,030

Source of Funds

Paid-up capital	353,803
Reserves and surplus	14,375,324
Secured loans	9,903
Unsecured loans	—

Application of Funds

Net fixed assets	1,379,094
Investments	194,993
Net current assets	903,864
Miscellaneous expenditure	—
Accumulated loss	12,261,079

IV. Performance of Company - continuing operations (Amount in Rs., 000's)

Turnover	3,709,556
Total expenditure	3,970,228
Profit/(Loss) before tax	(260,672)
Profit/(Loss) after tax	(260,672)
Earnings per share in Rs	(7.41)
Dividend %	—

V. Generic names of three principal products / services of the Company (as per monetary terms)

Item code no. (ITC Code)	
Product description	Internet Service Provider

for and on behalf of the Board of Directors

B Rama Raju
Director

R. Ramaraj
Managing Director

Chennai
April 19, 2005

Anil Ahuja
Chief Financial Officer

V Ramasubramanian
Company Secretary

Sify Limited (formerly Satyam Infoway Limited)



Statement pursuant to Section 212(1)(e) of the Companies Act, 1956, relating to the Subsidiary Companies

Rs in Thousands

Name of the Subsidiary Company	Safescrypt Limited	Sify Networks Private Limited	IndiaWorld Communications Limited	Sify International Inc.
Financial year of the subsidiary ended on	March 31, 2005	March 31, 2005	March 31, 2005	March 31, 2005
Shares of subsidiary company held on the above date and extent of holding				
i) Equity Shares	9,000,000 of Rs. 10 each	81,820 of Rs.10 each	200,000 of Rs.10 each	100
ii) Extent of holding (%)	100%	100%	100%	100%
Net aggregate amount of profits / (losses) of the subsidiary for the above financial year so far as they concern members of Sify Limited				
i) Dealt with in the accounts of Sify Limited	Nil	Nil	Nil	Nil
ii) Not dealt with in the accounts of Sify Limited	(33,207)	(2,976)	Nil	(9,569)
Net aggregate amount of profits / (losses) for previous financial years of the subsidiary as far as it concerns members of Sify Limited				
i) Dealt with in the accounts of Sify Limited	Nil	Nil	Nil	Nil
ii) Not dealt with in the accounts of Sify Limited	(200,685)	(68,264)	(10,325)	(187,078)
Chennai April 19, 2005	B. Rama Raju Director	R Ramaraj Managing Director	Anil Ahuja Chief Financial Officer	V Ramasubramanian Company Secretary

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Board of Directors

Safescrypt Ltd.

John Devasahayam
Managing Director

George Zacharias

Rahul Swarup

Ajit Abraham

Directors' Report

Dear Members,

Your Directors have the pleasure of presenting the Fifth Annual Report together with audited accounts of the Company for the year ended March 31, 2005.

Financial highlights

The Company has registered an income of Rs.37.39 million and a net loss of Rs.33.21 million during the year under review as compared to Rs.28.69 million and Rs.50.57 million respectively in the previous year. It is heartening to note that the revenue has gone up by 30% during the year under review compared to the last year.

As the company has incurred losses during the year, your Directors do not recommend any dividend for the year under review.

Review of activities

The Company consolidated its position as a leading Managed PKI Services provider and holds the largest market share in this segment. The Company also grew its presence significantly in the e-governance sector via a project in conjunction with the Directorate General of Foreign Trade for issuing digital certificates for the exporters / importers. The success of this initiative has spun off several new opportunities with ONGC, Northern Railways and other public sector undertakings.

The company, in addition to being a leading Licensed Certifying Authority, has now set course to becoming a leading Data Security Solutions provider in the country. A world class Disaster Recovery Site has been established at Bangalore to secure continuity of services to all the corporate and retail customers.

The current financial year holds significant promise for the company. Awareness levels and benefits of PKI have grown in the market. This, coupled with the additional lines of business that the company is adding to the portfolio this year, is expected to enhance the business of the company.

Directors

Mr Rahul Swarup, Director of the company retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment. Your Directors recommend his reappointment.

Audit Committee

The present Audit Committee of the Board of Directors of the company comprises of Mr George Zacharias, Mr Ajit Abraham and Mr Rahul Swarup.

Directors' responsibility statement

Your Directors state :

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had selected such accounting policies and applied them consistently and made judgements 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

Registered Office

2nd Floor, Tidel Park
4, Canal Bank Road
Taramani, Chennai - 600 113

Auditors

Karra & Co., Chartered Accountants
19, II Street, East Abhiramapuram
Mylapore, Chennai - 600 004

of the financial year and of the loss of the company for that period;

- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the annual accounts on a going concern basis.

Auditors

Our Statutory Auditors, M/s Karra & Co., Chennai retire at the ensuing Annual General Meeting and are eligible for reappointment.

Fixed Deposits

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Conservation of energy, technology absorption and foreign exchange

The particulars prescribed under clause (e) of subsection (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure "A" of this Report.

Employees particulars in terms of Section 217(2A) of the Companies Act, 1956.

As there were no employees drawing remuneration more than the limit prescribed under Section 217(2A) of the Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, statement under Section 217(2A) is not annexed.

Acknowledgement

The Board wishes to thank the customers, members, banks and suppliers for their continued support. Your Directors take this opportunity to place on record the valuable contribution and support received from the associates of the Company.

For and on behalf of the Board

Chennai	John Devahasayam	George Zacharias
April 13, 2005	Managing Director	Director

Annexure "A"

Particulars furnished pursuant to the Companies (Disclosures of particulars in the Report of Board of Directors) Rules, 1988.

- A Conservation of energy:** The Company is not a manufacturing company and hence the details in respect of the above are not applicable.
- B 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.
- C Technology absorption :** Nil
- D Foreign exchange earning :** Rs.1.21 million
Foreign exchange outgo : Rs.7.86 million

Auditors' Report to the Members of Safescrypt Limited

We have audited the attached Balance Sheet of Safescrypt Limited as at 31st March 2005 and the Profit and Loss account of the Company for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- 1 As required by the Companies (Auditor's Report) Order, 2003 Issued by the Ministry of Finance (Department of Company Affairs, New Delhi dated 12.6.03) in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 2 Further to our comments in the annexure referred to in paragraph (1) above:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of the books of account;
 - (c) The Balance Sheet, Profit and Loss account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet, Profit and Loss account and the Cash Flow Statement dealt with by this report comply with the accounting standards specified by the Institute of Chartered Accountants of India referred to in sub-section (3C) of Section 211 of the Companies Act;
 - (e) On the basis of written representations received from the directors, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2005 from being appointed as a director under section 274 (1)(g) of the Companies Act, 1956.
 - (f) In the absence of any notification from the Central Government with respect to the cess payable under section 441(A) of the Companies Act, 1956, no quantification is made. Hence, no opinion is given on cess unpaid or paid, as per the provisions of Section 227(I) (g) of the Companies Act, 1956.
 - (g) In our opinion, and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (1) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2005;
 - (2) in the case of the Profit and Loss Account, of the Loss of the Company for the year ended on that date; and
 - (3) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Karra & Co.**
Chartered Accountants

Chennai	V Venkateswara Rao
April 13, 2005	Partner Membership No.200/22370

Annexure to the Auditors' Report

The Annexure referred to in paragraph 1 of the auditors' report to the Members of Safescrypt Limited for the year ended 31st March 2005. We report as required under paragraphs 4 and 5 that:

- i. (a) The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets;
- (b) The Company has a regular programme of physical verification of its fixed assets, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets;
- (c) Since the company has not disposed off any of its fixed assets during the year, the company continues to be a going concern.
- ii. (a) The physical verification of inventory has been conducted by the management at reasonable intervals.
- (b) The procedures for physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- iii. (a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956;
- (b) Since the Company has not given any loans the question of rate of Interest and other terms and conditions of loans does not apply;
- (c) Since the Company has not given any loans the question of payment of principal and interest does not arise;
- (d) Since the company has not given any loans there is no question of overdue amount more than Rs. One Lakh either on principal and interest;
- (e) The Company has not taken any loans, secured or unsecured to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956;
- (f) Since the Company has not taken any loans the question of rate of Interest and other terms and conditions of loans does not apply;
- (g) Since the Company has not taken any loans the question of payment of principal and interest does not arise;
- iv. According to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of the business for the purchase of plant and machinery, computer hardware and software, equipment and other assets and for the purchase of inventory and sale of goods and services. There is no continuing failure to correct major weaknesses in internal control;
- v. (a) According to the Information and explanations given to us, there are no transactions that need to be entered into a register in pursuance of section 301 of the Act.
- (b) Since there are no transactions the question of transactions being made at reasonable prices does not arise.
- vi. The Company has not accepted any deposits from the public. Therefore, the directives Issued by RBI and the provision of Sec. 58-A and Sec. 58-AA or any other provisions of the Companies Act, 1956 and the rules framed there under do not apply.
- vii. The company has in general an adequate internal audit system commensurate with the size and nature of its business.
- viii. Maintenance of cost record has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956 for any of the job of the Company.
- ix. (a) According to the Information and explanations given to us, the company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income Tax, Sales Tax, Service Tax, wealth tax, customs duty, excise duty, cess and any other statutory dues with the appropriate authorities to the extent applicable.
- (b) According to the Information and explanations given to us, there is no dispute in respect of Income Tax/ Sales Tax/ service tax/ wealth tax/ customs duty/ excise duty and cess.
- x. The Company has been registered for a period less than five years, and hence the question of compliance with this clause does not apply.
- xi. There are no dues to a financial Institution or bank or debenture holders, and hence the question of default does not arise.
- xii. The Company has not granted any loans or advances, and hence the question of maintenance of documents and records does not apply.
- xiii. The Company is not a chit fund or nidhi or mutual benefit fund or society, and hence the provisions of any special statute does not apply.
- xiv. The Company is not dealing or trading in shares, securities, debentures and other investments and hence maintenance of records regarding the same does not apply.
- xv. According to the information and explanations given to us, the Company has not given any guarantee for any loans taken by others from bank or financial Institutions.
- xvi. The Company has not applied for any term loan during the year under audit.
- xvii. The funds raised on short-term basis have been used for long term Investment during the year under audit.
- xviii. The Company has not made preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- xix. The Company has not issued any debentures and hence the question of creation of Security for the same does not arise.
- xx. The Company has not made public Issue during the year under audit.
- xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For **Karra & Co.**
Chartered Accountants

V Venkateswara Rao
Chennai
April 13, 2005

V Venkateswara Rao
Partner
Membership No. 200/22370

Balance Sheet

Rs in Thousands			
	Schedule	As at March 31, 2005 Rs.	As at March 31, 2004 Rs.
I. Sources of funds :			
1. Shareholder's funds			
(a) Share capital	1	90,000	90,000
		90,000	90,000
II. Application of funds :			
1. Fixed assets			
(a) Gross block	2	150,710	148,866
(b) Less: Depreciation		117,678	94,592
(c) Net block		33,032	54,274
(d) Capital Work in Progress		—	—
		33,032	54,274
2. Current assets, loans and advances			
(a) Sundry debtors	3	2,380	4,922
(b) Inventories	4	1,114	856
(c) Cash and Bank balances	5	3,704	1,842
(d) Loans and advances	6	7,814	4,837
		15,012	12,457
Less: Current liabilities and provisions			
(a) Current liabilities	7	183,730	171,242
(b) Provisions	8	8,207	6,387
		191,937	177,629
Net current assets		(176,925)	(165,172)
3. Miscellaneous expenditure (Preliminary Expenses)			213
4. Profit & Loss Account		233,892	200,685
		90,000	90,000

Significant accounting policies and notes to accounts

15

The Schedules referred to above and notes thereon form an integral part of these financial statements.
This is the Balance Sheet referred to in our report of even date.

for **Karra & Co.**
Chartered Accountants

V Venkateswara Rao
Partner

Chennai
April 13, 2005

for and on behalf of the Board of Directors

John Devasahayam
Managing Director

George Zacharias
Director

Profit and Loss Account

		Rs in Thousands	
	Schedule Reference	Year Ended March 31, 2005 Rs.	Year Ended March 31, 2004 Rs.
Income			
Services			
– Web Services		11,483	9,419
– Enterprise Sales		10,720	7,500
– Training		170	345
– Mass Market Products		14,670	8,465
– Sify Secure Products		300	196
Other Income	9	49	2,764
		37,392	28,689
Expenditure			
Cost of Hardware Sold	10	3,267	2,845
Cost of Direct Service	11	14,009	16,645
Personnel Expenses	12	19,523	18,493
Operating and Administration Expenses	13	10,066	14,126
Financial Expenses	14	393	(437)
Miscellaneous Expenditure Written Off		212	213
Income Tax-2003-2004		22	
Depreciation		23,106	27,370
		70,599	79,255
Profit Before Taxation and non - recurring / Extraordinary Items		(33,207)	(50,566)
Provision for taxation		–	–
Profit after taxation		(33,207)	(50,566)
Add: Balance brought forward from previous year		(200,685)	(150,119)
Profit available for appropriation		(233,892)	(200,685)
Balance carried to Balance Sheet		(233,892)	(200,685)

Significant accounting policies and notes to accounts

15

The Schedules referred to above and notes thereon form an integral part of these financial statements.
 This is the Profit and Loss Account referred to in our report of even date.

for **Karra & Co.**
 Chartered Accountants

V Venkateswara Rao
 Partner

Chennai
 April 13, 2005

for and on behalf of the Board of Directors

John Devasahayam
 Managing Director

George Zacharias
 Director

Schedules forming part of the Balance Sheet

	As at March 31, 2005	As at March 31, 2004
Rs in Thousands		
1. Share capital		
Authorised :	200,000	200,000
2,00,00,000 equity shares of Rs.10/- each		
Issued and Subscribed :	90,000	90,000
90,00,000 equity shares of Rs.10/- each fully paid-up		
	90,000	90,000

2. Fixed Assets

DETAILS	GROSS BLOCK AT COST				ACCUMULATED DEPRECIATION				NET BLOCK	
	Opening Block	During the year		Closing	Opening	During the year		Closing	Opening	Closing
	as on 01.04.04	Additions	Deletions	Block as on 31-03-05	as on 01.04.04	Additions	Deletions	Block as on 31-03-05	as on 01.04.04	as on 31-03-05
1. Leasehold Improvements	2,139	–	–	2,139	132	428	–	560	2,007	1,579
2 Furniture and Fixtures	121	–	–	121	7	24	–	31	114	90
3. Plant and Machinery- Computers	15,733	865	–	16,598	13,726	1,918	–	15,644	2,007	954
Plant and Machinery- Computers (100%)	–	14	–	14	–	14	–	14	–	–
Plant and Machinery- Others (20%)	1,811	94	–	1,905	726	370	–	1,096	1,085	809
Plant and Machinery- Others (100%)	21	11	–	32	21	11	–	32	–	–
4. Office Equipments	13,979	810	(20)	14,769	5,515	2,857	(20)	8,352	8,464	6,417
5. System Software	31,851	69	–	31,920	30,001	841	–	30,842	1,850	1,078
6. System Software (100%)	5	2	–	7	5	2	–	7	–	–
7. Technical Knowhow Fees	82,753	–	–	82,753	44,187	16,551	–	60,738	38,566	22,015
8 Vehicle	452	–	–	452	271	90	–	361	181	91
Total	1,48,865	1,865	(20)	1,50,710	94,591	23,106	(20)	1,176,77	54,274	33,033

	As at March 31, 2005	As at March 31, 2004
3. Sundry debtors (unsecured)		
Considered good*		
(a) Debts outstanding for more than six months	1,063	1,355
(b) Others	1,317	3,567
	2,380	4,922

	As at March 31, 2005	As at March 31, 2004
4. Inventories		
Closing Stock		
As certified by the Management	1,114	856
	1,114	856
5. Cash and bank balances		
Balances with non-Scheduled Banks on current accounts		
ICICI Bank Ltd	3,609	1,842
UTI Bank Ltd	95	-
	3,704	1,842

Schedules forming part of the Balance Sheet

	Rs in Thousands	
	As at March 31, 2005	As at March 31, 2004
6. Loans and Advances (Considered good unless otherwise stated)		
Travel Advance	(72)	680
Rental Deposits	5,382	2,910
Prepaid Expenses	832	554
Staff Advance	(1)	79
TDS on Interest	19	19
TDS Receivables on Web Service	418	262
Advances given to suppliers	98	190
Other Current Assets	30	–
Deposits	1,107	143
	7,814	4,837

7. Current Liabilities

Advance from Partners	3,992	4,853
Sundry Creditors	1,283	2,454
Advance recd from Customers	1,004	674
TDS Payable	243	299
Unearned Income	13,282	9,103
PF Recovery	122	141
Professional Tax	–	85
Sify Ltd - Current Account	158,356	149,254
Royalty Payable	4,205	3,797
Other Liabilities	1,242	582
	183,730	171,242

8. Provisions

Provision for Expenses	7,441	5,392
Provision for Doubtful Debts	766	995
	8,207	6,387

Schedules to the Profit and Loss Account

	Year Ended March 31, 2005	Year Ended March 31, 2004
9. Other Income		
Interest on Deposits - Gross	31	2
Miscellaneous Income	18	2,762
	49	2,764
10. Cost of Hardware Sold		
Opening Stock	856	257
Purchases	3,525	3,444
Closing Stock	1,114	856
	3,267	2,845
11. Cost of direct service		
Software Maintenance	5,408	8,821
Royalty to Verisign	6,855	4,906
Other Direct Costs	1,746	2,918
	14,009	16,645

	Rs in Thousands	
	Year Ended March 31, 2005	Year Ended March 31, 2004
12. Personnel Expenses		
Salaries	18,122	17,312
Contribution to P.F. and Gratuity	996	1,034
Staff welfare expenses	20	57
Recruitment Charges	384	90
	19,523	18,493

13. Operating and Administration Expenses

Rent	2,084	780
Rates and taxes	121	44
Insurance	110	98
Travelling and conveyance	3,268	5,476
Communication	781	736
Printing and stationery	202	156
Power and fuel	–	10
Advertising	48	374
Marketing expenses	42	1,476
Repairs and maintenance	–	–
– Machinery / Computers	516	412
– Others	330	308
– Buildings	146	–
Legal and Professional charges	319	645
Auditors' remuneration	878	895
Subscriptions	5	75
Training and development	5	314
PF Administration Charges	96	106
Business Promotion	55	–
Office & Administration Expenses	395	177
Seminar & Conference	6	106
Backup charges	56	30
Licence Fees	57	62
Consumables	102	445
Freight Charges	26	12
Courier Charges	89	32
Loss on Sale of Fixed Assets	–	71
Bad & Doubtful Debts Written off	182	1,050
Miscellaneous expenses	–	5
Commission on sale	76	226
Web Development charges	35	–
Interest & Penalties	31	5
	10,066	14,126

14. Financial Expenses

Interest on car loans	–	12
Bank Charges	45	102
Bank Guarantee Charges	414	425
Exchange Rate Fluctuation	(67)	(976)
	(393)	(437)

15. Significant Accounting Policies And Notes To Accounts

Rs in Thousands unless as stated

COMPANY OVERVIEW

Safescrypt Limited ("Safescrypt" or "Company") was incorporated on July 17, 2000 in Chennai, India, with the objective of providing digital certificate based authentication service for web sites, Corporates / individuals to conduct e-commerce on the net, as also to provide consultancy services to Companies / Firms intending to set-up security systems for e-commerce transactions. Safescrypt is a 100% owned subsidiary of SIFY Limited.

A. SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation of financial statements

The financial statements are prepared under the historical cost convention, in accordance with Indian Generally Accepted Accounting Practices (GAAP) on the accrual basis. GAAP comprises the mandatory accounting standards and statements issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act 1956. These accounting policies have been consistently applied. All amounts are stated in Indian rupees except as otherwise specified.

2. Revenue Recognition

Income received on account of web certification, viz. Global server ID, Secured Server ID 2 years SSID, 2 years GSID, SSID renewal in Enterprise Business viz Document Signing solution Crypto Model, PKI (Onsite Lite), Safe CN (Ver 1.0), VTN Managed PKI Service & Class 3 Consumer digital Certificate is deferred over the period of the Certificate validity, which is for a period of One/Two year. Revenue is recognized on per month basis for that part of Financial year, during which the period of the certificate runs. Billing towards on time installation / training thereon is recognized upon completion of the same immediately. Income received on Mass Market Products and Sify Secure Products which consists of Safedox software, Smart Cards, Ikeys, Firewalls & Consumer certificates are recognised upon sale of the products except the consumer certificate which is deferred over the period of its validity.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of provision for doubtful debts, useful life of Fixed Assets etc. Actual results could differ from the estimates.

4. Fixed Assets and Depreciation

Fixed assets are stated at the cost of acquisition less accumulated depreciation. Direct costs related to acquisition of Fixed Assets are capitalized until the assets are ready to be put to use. These costs include freight, installation costs, duties and taxes and other allocated expenses, including finance cost relating to specific borrowing incurred during the construction period.

Depreciation on Fixed Assets is provided using the straight-line method based on the useful lives of the assets, as estimated by the management. Depreciation is charged on the pro-rata basis of assets purchased / sold during the year.

Individual assets costing less than Rs.5 are depreciated in full in the year of acquisition. Cost of application software is charged to the Profit and Loss account in the year in which it is acquired.

The management's estimated useful lives for various categories of fixed assets are as follows:

Assets Category	Life (in Years)
Plant and Machinery	
Computer Equipment	2
Others	5
Office Equipment	5
Motor Vehicles	5
Systems Software	3
Technical Know-how Fee	5
Lease Hold Improvements	5
Furniture & Fixtures	5

5. Inventories

Inventories are stated at lower of cost or net realizable value. Cost of hardware and software purchased for the purpose of resale is determined using the first-in-first out method.

6. Preliminary Expenses

The Company has adopted the procedure of writing-off Preliminary Expenses over a 5-year period.

7. Foreign Currency Transactions and Translations

Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transactions. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at the Balance Sheet date. Difference between year-end rate and the original rate is accounted for, as exchange gain or loss and dealt with in the profit and loss account.

8. Retirement benefits to employees

Retirement benefits to employees are provided for by contribution to specific funds like Provident Fund and Gratuity Funds. The company's contribution to Provident Fund is charged to accounts on accrual basis. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC).

B. NOTES TO ACCOUNTS:

The previous year figures have been regrouped / reclassified, wherever necessary, to conform to the current year's presentation.

1. Deferred Income

Deferral Income is calculated on the basis of the unutilized period of time for which the period of web certificate and consumer certificate have not been completed at the Balance Sheet date and represents revenue, which is expected to be earned in future periods.

2. Commitments and Contingencies

- Unexpired Bank Guarantees as on March 31, 2005 amounted to Rs.10,065/- (Rupees one crores & sixty five thousand)
- Unexpired Letters of Credit given by Bank(s) on behalf of Company for purchase of raw material amounted to Rs. Nil.
- Estimated amount of contracts to be executed on Capital Account and not provided for in books is Nil.
- Claims against the Company not acknowledged as debts amounted to Rs.Nil
- In respect of assets taken on Financial Lease, the aggregate of future Lease Rentals to be paid amounted to Rs.Nil.

Rs in Thousands

3. Auditor's Remuneration	Year Ending March 31, 2005	Year Ending March 31, 2004
Statutory Audit	100	100
Tax Audit	25	15
Technical Audit	694	725
Service Tax	11	71
	830	911
4. Expenditure in Foreign Currency		
Travel / Boarding	78	466
Royalty / Know-how / Technical Fees	7,232	11,699
Others	39	39
Total	7,349	12,970
5. Value of imports on CIF basis		
Fixed Assets	479	441
Software purchases	27	NIL
Total	506	441
6. Earnings in Foreign Currency		
Web Certificate Income	1,208	287
Total	1,208	287

7. Leases

The company's leasing arrangement is in respect of operating leases for office premises. The leasing arrangement which is not non-cancelable is for a period for 5 years and is usually renewable by mutual consent and mutually agreeable terms. The aggregate lease rentals payable are charged to rent under operating and administration expenses schedule.

8. Quantitative Information

	Year Ending March 31, 2005		Year Ending March 31, 2004	
	Qty	Value	Qty	Value
Opening Stock	1,245	856	258	257
Add: Purchases	6,183	3,492	4,707	3,306
Less: Sales	5,610	3,234	3,720	2,707
Closing Stock	1,818	1,114	1,245	856

9. Income Tax

No provision for taxation has been made during the year, as the company does not have any taxable income.

The Company has not recognized the deferred tax asset in respect of carry forward losses as the management feels that it is prudent to do so.

for **Karra & Co.** For and on behalf of the Board of Directors
Chartered Accountants

V Venkateswara Rao **George Zacharias** **John Devasahayam**
Partner Director Managing Director

Chennai
April 13, 2005

Balance Sheet Abstract and general profile of the Company under Part IV to Schedule VI of the Companies Act, 1956

I. Registration Details

Registration No. 18-45386 State Code 18
Balance Sheet Date 31-3-2005

II. Capital raised during the Year (Amount in Rs 000's)

Public Issue Nil Rights Issue Nil
Bonus Issue Nil Private Placement Nil

III. Position of Mobilization and Deployment of Funds (Amount in Rs 000's)

Total Liabilities 90,000 Total Assets 90,000

Source of Funds

Paid-up Capital 90,000 Reserves and Surplus Nil
Secured Loans Nil Unsecured Loans Nil

Application of Funds

Net Fixed Assets 33,032 Investments Nil
Net Current Assets (176,925) Miscellaneous Expenditure Nil
Accumulated Loss 233,892

IV. Performance of Company (Amount in Rs 000's)

Turnover	37,392	Total Expenditure	70,599
Profit / (Loss)		Profit / (Loss)	
Before Tax	(33,207)	After Tax	(33,207)
Earnings per Share in Rs.	-	Dividend %	Nil

V. Generic Names of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code)	
Product Description	Digital ID Certification
Item Code No. (ITC Code)	
Product Description	Consultancy for Digital Certification

For and on behalf of the Board of Directors

Chennai
April 13, 2005

George Zacharias **John Devasahayam**
Director Managing Director

Cash Flow Statement for the year ended 31.3.2005

		1.4.2004 to 31.3.2005	(Rs.in '000) 1.4.2003 to 31.3.2004
A	Cash Flow from Operating activities		
	Net Profit/(Loss) before tax and extraordinary Items	(33,207)	(50,566)
	Adjustment for:		
	Depreciation	23,106	27,370
	Financial expenses considered separately	393	(437)
	Miscellaneous expenses written off	212	213
	Income tax	23,711	27,146
	Operating profit before working capital Changes	(9,496)	(23,420)
	Changes in Current Assets and Liabilities		
	(Increase)/Decrease in Sundry Debtors	2,542	1,984
	(Increase)/Decrease in Inventories	(258)	(856)
	(Increase)/Decrease in Loans & Advances	(2,977)	3,181
	Increase/(Decrease) in Current liabilities and provisions	14,308	30,537
	Cash generated from operating activities	4,119	11,426
	Net Cash generated from / (used in) operating activities	<u>4,119</u>	<u>11,426</u>
B	Cash Flow from Investing Activities		
	Purchase of Fixed Assets	(1,864)	(10,157)
	Net Cash from / (used in) Investing Activities	<u>(1,864)</u>	<u>(10,157)</u>
C	Cash Flow from Financing Activities		
	Financial expenses paid	(393)	437
	Repayment of Secured Loans		(377)
	Cash flow from Financing Activities	<u>(393)</u>	<u>60</u>
	Net increase / (decrease) in cash and cash equivalents	1,862	1,329
	Opening cash and cash equivalents	1,842	513
	Closing cash and cash equivalents		
	Cash on hand	—	—
	Cash at Bank	<u>3,704</u>	<u>1,842</u>
		<u>3,704</u>	<u>1,842</u>

As per our report annexed
For **M/s. Karra & Co.,**
Chartered Accountants

For and on behalf of the Board

V.Venkateswara Rao
Partner

John Devasahayam
Managing Director

George Zacharias
Director

Chennai
April 13, 2005

Board of Directors

Sify Networks Private Ltd.

Rahul Swarup
S Venkataramanan
R S Gayathri

Directors' Report

Dear Members,

Your Directors have the pleasure in presenting the Fifth Annual Report together with audited accounts of the Company for the year ended March 31, 2005.

Financial highlights

During the year under review, the company recorded an income of Rs.7.85 million as against Rs.31.67 million in the last year. However, the loss incurred during the year was Rs.2.98 million as compared to Rs.17.93 million in the previous year.

As the company has incurred losses during the year, your Directors do not recommend any dividend for the year under review.

Review of activities

During the year, the company was able to establish new revenue lines from the US and enhanced the existing revenue lines from the Middle East and Hong Kong. Focus was given to the strengthening of relationships established in the previous year, as also to identify and nurture partnerships that would result in good recurring revenues. The company plans to focus in BCP / DRP, Offshore Remote Network & Security Management areas and a thrust in the niche area of security software development.

The company plans to aggressively expand the business in the Middle East countries, such as Saudi Arabia, Kuwait, Jordan and UAE with the direct presence through the company's liaison office in the Dubai Internet City, UAE.

Change of name of the company

During the year under review, the name of the company has been changed from E Alcatraz Consulting Private Limited to Sify Networks Private Limited, in order to reflect the additional activities proposed to be undertaken by the company.

Shifting of Registered Office of the company

For administrative convenience and saving of operational costs, the registered office of the company has been shifted to TIDEL Park premises during the year.

Directors

Mr Rahul Swarup, Director of the company, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment. Your Directors recommend his reappointment.

Directors' responsibility statement

Your Directors state:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

Registered Office

2nd Floor, Tidel Park
4, Canal Bank Road
Taramani, Chennai - 600 113

Bankers

HDFC Bank Limited

Auditors

S Balasubramanian
Chartered Accountant
49/44 Brindavan Street
West Mambalam, Chennai - 600 033

- (ii) that they had selected such accounting policies and applied them consistently and made judgements 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 loss of the company for that period;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the annual accounts on a going concern basis.

Auditors

Our Statutory Auditor, Mr S Balasubramanian, Chartered Accountant, Chennai, retires at the ensuing Annual General Meeting and is eligible for reappointment.

Fixed Deposits

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Conservation of energy, technology absorption and foreign exchange

The particulars prescribed under clause (e) of subsection (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure "A" of this Report.

Employees particulars in terms of Section 217(2A) of the Companies Act, 1956.

As there were no employees drawing remuneration more than the limit prescribed under Section 217(2A) of the Companies Act, 1956, and

the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, statement under Section 217(2A) is not annexed.

Acknowledgement

The Board wishes to thank the customers and suppliers for their continued support.

for and on behalf of the Board

R S Gayathri
S Venkataramanan
Directors

Chennai,
April 15, 2005.

Annexure "A"

Particulars furnished pursuant to the Companies (Disclosures of particulars in the Report of Board of Directors) Rules, 1988.

- A Conservation of energy** : The Company is not a manufacturing company and hence the details in respect of the above are not applicable.
- B 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.
- C Technology absorption** : Nil
- D Foreign exchange earning** : Rs.6.81 million
- Foreign exchange outgo** : Rs.1.40 million

Auditors' Report to the Members of Sify Networks Private Limited

I have audited the attached Balance sheet of SIFY NETWORKS PRIVATE LIMITED (FORMERLY KNOWN AS E ALCATRAZ CONSULTING PRIVATE LIMITED) as at March 31, 2005 and the annexed Profit and Loss account for the year ended on that date and report that:

1. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.
2. I conducted audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, I enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said order.

4. Further, I report that:

- a) I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit;
- b) In my opinion, proper books of account as required by law have been kept by the company in so far as it appears from my examination of those books;
- c) The Balance sheet and the Profit and loss account dealt with by this report are in agreement with the books of account;
- d) In my opinion, the Balance sheet and the Profit and loss account comply with the accounting standards referred to in section 211(3c) of the Companies Act, 1956;
- e) To the best of my knowledge and belief, none of the directors is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274.
- f) In my opinion and to the best of my information and according to the explanations given to me, the said accounts read together with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:
 - i). In the case of the Balance sheet, of the state of affairs of the company as at March 31, 2005; and
 - ii) In the case of the Profit and loss account, of the loss of the Company for the year ended March 31, 2005.

Chennai
April 15, 2005

S.BALASUBRAMANIAN
Chartered Accountant

Annexure to the Auditors' Report

Annexure referred to in paragraph 3 of the auditor's report for the year ended March 31, 2005.

- (1) (a) The company has maintained a fixed asset register showing full particulars including quantitative details and situation of fixed assets.
- (b) All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in my opinion, is reasonable having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such verification.
- (c) The Company has disposed off substantial part of fixed assets during the year. According to the information and explanations given to me and in my opinion the same has not affected the status as a going concern.
- (2) The Company has no inventory.
- (3) (a) There is one party covered in the register maintained under section 301 of the Companies Act, 1956 from whom the company has taken loans in earlier years. The maximum amount involved was Rs.237612/- and the year-end balance of loans is Rs. Nil/-
- (b) In my opinion the rate of interest and other terms and conditions on which unsecured loans have been taken from / granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interests of the Company.
- (c) The Company has repaid the principal in full.
- (d) There is no overdue amount of loans taken from / granted to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
- (4) In my opinion, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of fixed assets and for sale of goods and for services rendered. The company has no inventory. During the course of audit, I have not observed any continuing failure to correct major weakness in internal controls.
- (5) (a) According to the information and explanations given to me, I am of the opinion that the company has entered all the transactions required to be entered in the register maintained under section 301 of the Companies Act, 1956.
- (b) In my opinion and according to the information and explanations given to me, the transactions made in pursuance of contracts and arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs..5,00,000/- in respect of any party during the year have been made at prices that are reasonable having regard to prevailing market prices at the relevant time.
- (6) In my opinion and according to the information and explanations given to me, the company has not accepted any deposits from the public and accordingly the directives issued under section 58A and 58AA of the Companies Act and the rules framed there under are not applicable.
- (7) The Company did not have an internal audit system during the financial year.
- (8) The Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956.
- (9) (a) The Company has been generally regular in depositing Provident Funds dues with appropriate authorities. I am informed that the provision of Employees' State Insurance Act is not applicable to the company for the year under review. However, there are no amounts outstanding as of 31/3/2005
- (b) According to the information and explanations given to me, there are no dues of income tax, customs duty, wealth tax, excise duty and cess, which have not been deposited on account of any dispute. Sales tax is not applicable to the company during the year under review.
- (10) The company has been in existence for less than five years and hence the requirement to indicate whether the accumulated losses is not less than 50% of its net worth and whether the company has incurred cash losses is not applicable.
- (11) The Company has no dues to financial institutions, banks or debenture holders.
- (12) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (13) In my opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order 2003 are not applicable.
- (14) In my opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order 2003 are not applicable.
- (15) In my opinion, the company has not given any guarantees for loans taken by others from banks or financial institutions.
- (16) In my opinion, the Company has not raised any term loans.
- (17) According to the information and explanation given to me and on an overall examination of the Balance Sheet of the Company, I report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short-term assets except permanent working capital.
- (18) In my opinion, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- (19) In my opinion, during the year covered by audit report the Company had not issued any debentures.
- (20) The company has not raised any money through public issues.
- (21) According to the information and explanations given to me, no fraud on or by the Company has been noticed or reported during the course of our audit.

Chennai
April 15, 2005

S. BALASUBRAMANIAN
Chartered Accountant

Balance Sheet

	Schedule	As at March 31, 2005	Rs in Thousands As at March 31, 2004
Sources of funds :			
Shareholders' funds			
Share capital	1	818	818
Reserves and surplus	2	62,049	62,049
Loan funds			
Unsecured Loan	3	—	7,954
		62,867	70,821
Application of funds :			
Fixed assets			
	4		
Gross block		—	10,844
Less: Accumulated depreciation		—	10,130
Net block		—	714
Current assets, loans and advances:			
Cash and bank balances	5	1,057	307
Interest accrued on deposit		—	37
Sundry Debtors	6	4,004	8,642
Loans and advances	7	595	1,650
		5,656	10,635
Less: Current liabilities and provisions:			
Current Liabilities	8	14,029	8,076
Provisions	9	—	717
		14,029	8,793
Net current assets		(8,373)	1,843
Profit and Loss Account		71,240	68,264
		62,867	70,821

Notes to the financial statements

14

The schedules 1 to 9 and 14 form an integral part of the financial statements

As per report of even date

For and on behalf of the Board

S Balasubramanian
Chartered Accountant

S Venkataramanan
Director

R S Gayathri
Director

Chennai
April 15, 2005

Profit and Loss Account

Rs in Thousands

	Schedule	Year ended March 31, 2005	Year ended March 31, 2004
Income			
Revenues and other income	10	7,846	31,674
		7,846	31,674
Expenditure			
Employee cost	11	6,841	23,940
Administration and other expenses	12	3,645	11,495
Business development expenses	13	201	763
Depreciation		135	2,403
Loss on sale of "capitalized software costs"		—	11,006
		10,822	49,606
Loss for the period		2,976	17,932
Add: Balance Brought forward		68,264	50,332
Balance carried to Balance Sheet		71,240	68,264

Notes to Financial Statements 14

The Schedules 10 to 14 form an integral part of the financial statements

As per report of even date

for and on behalf of the Board of Directors

S Balasubramanian
Chartered Accountant

S Venkataramanan
Director

R S Gayathri
Director

Chennai
April 15, 2005

Schedules forming part of the Balance Sheet

Particulars	Rs in Thousands	
	As at March 31, 2005	As at March 31, 2004
1. Share capital		
Authorised :		
1,50,000 equity shares of Rs.10/-	1,500	1,500
Issued, Subscribed and paid up		
81,820 equity shares of Rs.10/- fully paid (Previous year 81,820 equity shares of Rs.10/-)	818	818
Share application advance	—	—
2. Reserves and Surplus		
Security premium account	62,049	62,049
	62,049	62,049

3. Unsecured loan

Epown Ventures Private Limited	—	3,260
Sify Limited	—	2,400
N.S. Raghuram - Director	—	1,466
Spark Capital Advisors (I) P Ltd	—	238
S. Venkatramanan - Director	—	590
	—	7,954

4. Fixed Assets

Description of assets	Gross Block			Depreciation			Net Block		
	Original Cost	Deletions during the period	As at Mar 31, 2005	Upto 31.03.2004	On Deletions	for the period	Upto 31.03.2005	As at Mar 31, 2005	As at Mar 31, 2004
Leasehold improvements	1977	1977	—	1977	1977	—	—	—	—
Air-conditioners	483	483	—	329	353	24	—	—	154
Office equipments	422	422	—	269	290	21	—	—	153
Computers and Networking equipments	7791	7791	—	7437	7519	82	—	—	354
Furniture and fittings	171	171	—	118	126	8	—	—	53
	10844	10844	—	10130	10265	135	—	—	714
	10921	77	10844	7822	95	2403	10130	714	3099

Particulars	Rs in Thousands	
	As at Mar 31, 2005	As at Mar 31, 2004
8. Current liabilities		
Sundry creditors		
expenses	278	3,242
Outstanding liability		
GST payable	257	233
Provident fund payable	—	999
Professional tax payable	—	—
Managerial remuneration payable	—	1,189
Rent and amenities payable	—	66

5. Cash and bank balances

Cash on hand	—	14
Balances with scheduled banks		
-in current account	835	74
-in deposit account	223	219
	1,057	307

6. Sundry debtors - Unsecured, considered good

Receivables - Australia	—	194
Receivables - US	140	688
Receivables - Middle East	3,187	6,699
Receivables - Mauritius	—	203
Receivables - India	677	858
	4,004	8,642

7. Loans and advances

(unsecured and considered good)		
Advances recoverable in cash or in kind or for the value to be received	253	634
Rent and maintenance deposits, telephone, water	24	589
Prepaid expenses	—	170
Tax deducted at source	318	256
	595	1,650

Salary payable	—	1,347
TDS payable	—	866
Audit fees payable	—	—
Other liabilities	13,494	—
Deferred revenue	—	133
	14,029	8,076

9. Provisions

Gratuity	—	717
	—	717

Schedules forming part of the Profit & Loss Account

	Rs in Thousands	
	Year ended March 31, 2005	Year ended March 31, 2004
10. Revenue from Operations		
IT Professional Services Rendered		
On site - Overseas	6,622	25,197
IT Professional Services Rendered		
Offsite - Overseas	191	2,674
IT Professional Services Rendered		
Onsite - Domestic	1,020	3,786
Others Income		
Interest on fixed deposit and others	13	17
	7,846	31,674
11. Employee cost		
Salaries and allowance	7,236	22,079
Contribution to provident fund	232	917
Gratuity	(717)	717
Staff welfare expenses	90	228
	6,841	23,941
12. Administrative and other expenses		
AMC Charges	7	20
Audit fees	13	30
Bad debts written off	324	800
Bank charges	29	41
Communication expenses	265	830
Electricity charges	262	413
Exchange Difference (Net)	39	118
Hire charges	4	30
Insurance charges	14	9
Interest paid	12	173
Managerial remuneration	—	2,645
Newspapers, books and periodicals, subscription	17	35
Office maintenance	74	141
Printing and stationery	20	94
Professional fees	274	1,110
Registration, Rates and taxes	876	302
Rent and amenities	220	786
Repairs and maintenance - Office & computers	35	69
Staff Quarters maintenance	74	209
Techno commercial charges	—	125
Travelling and conveyance	1,085	3,516
Vehicle maintenance	—	—
	3,644	11,496
13. Business development expenses		
Promotional expenses	201	763
	201	763

14. Notes to the financial statements

Corporate Information

Sify Networks Private Limited is formerly known as E Alcatraz Consulting Private Limited (the Company) is in the business of developing software solutions for security issues related to

Internet and other networks. The Company is into providing consulting, developing, software and hardware, integrated platforms for e-commerce solutions and also offering a comprehensive range of Information security and business continuity services using an innovative business model. These service offerings are provided globally under the **EAP Global** brand name (www.eapglobal.com) and the Company is thus branded as EAP among its clientele.

Envisaged and promoted by first generation entrepreneurs, EAP seeks to become a leading global provider of high-quality Information Assurance Services and is working towards making the Vision a reality, albeit in a small way.

14.1 Statement of significant accounting policies

a. Basis of preparation of financial statements

The financial statements have been prepared on the historical cost basis in accordance with Generally Accepted Accounting Principles (GAAP) in India and comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India referred to in Section 211 (3C) of the Companies Act, 1956 (the Act). All items of income and expenditure that have a material bearing on the financial statements are recognized on accrual basis.

b. Fixed assets and depreciation

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Cost includes all expenses directly attributable to bringing the assets to its working condition for its intended use.

Depreciation

Depreciation on fixed assets is charged, from the date the asset has been installed and is ready to be put to use, on a straight-line basis over the economic useful lives of assets as estimated by management. Depreciation for assets acquired / sold during the period is charged on a pro-rata basis. Fixed assets individually costing Rs. 5,000/- or less are fully depreciated on acquisition. Management estimates the useful lives for the various fixed assets as follows:

Leasehold improvements	3 years
Air-conditioners	5 years
Office equipments	3 years
Computers, software and Networking equipments	3 years
Furniture and fixtures	5 years

c. Revenue

- Revenue from providing software security services on a time basis is recognized and billed to clients as per the terms of the specific contract.
- Interest from deployment of surplus funds is recognized using the time proportion method, based on interest rates implicit in the transaction.

d. Expenditure

Expenses are accounted on accrual basis and provisions are made for all known losses and liabilities.

e. Retirement benefit to employees

Provident fund

Provident fund is a defined contribution plan. Eligible employees and the Company make monthly contributions based on a specified percentage of the employee's basic salary as specified under The Employees' Provident Fund and Miscellaneous Provisions Act, 1952. The Company has no further obligations under the plan beyond its contribution. Subsequent to the acquisition of shares by Sify Limited, the company has no employees as at the year end.

Leave Encashment

The Company has a defined Leave Encashment Policy for all its employees.

f. Foreign currency transactions

The currency in which the Company normally transacts business is the Indian rupee and accordingly all items of expenditures, assets and liabilities are recorded and reported in Indian Rupees.

Foreign currency revenue and expense accounts are stated using an average exchange rate for the year.

Expenditure incurred in foreign currency is recorded at the rates of exchange prevailing on the date of the transaction. Differences arising in settlement of outstanding amounts are recognized in Profit and Loss Account.

14.2 NOTES ON ACCOUNTS**a. Earnings in foreign currency**

Particulars	Rs in Thousands	
	2004-05 (Rs in Thousand)	2003-04 (Rs in Thousand)
IT Professional Security Services rendered on site and offshore	6,813	27,871

b. Expenditure in foreign currency

Particulars	Rs in Thousands	
	2004-05 (Rs in Thousand)	2003-04 (Rs in Thousand)
CIF value of imports-capital goods	Nil	Nil
Travel-including travel advance	211	630
Professional Fees	317	142
Daily Allowances	870	3940

c. Contingent Liabilities

The Company is 100% EOU unit approved by Software Technology Parks of India (STPI). As per the STPI approval the company is entitled to import free of customs duty to the extent of Rs. 260/- Lakhs on import of capital goods and are also entitled to purchase Rs.100/- Lakhs of indigenous goods free of excise duty. However, the excise duty and customs duty exemptions are available only if the company achieves the stipulated export turnover over a period of five years. In the event of the Company not fulfilling its export obligations the Government of India can levy customs duty / excise duty / liquidated damages on the Company as decided by the Appropriate Authorities. The company has since applied to STPI and obtained NOC for closure of this license and the liability of Rs 2,24,192/- has been paid as determined by Customs Authorities.

d. Payment to Auditors

Particulars	2004-05	2003-04
Audit Fees	10/-	30/-
Out of Pocket Expenses	3/-	Nil

e. Managerial Remuneration

Names	2004-05	2003-04
Mr.S.Venkataramanan	Nil	1322/-
Mr.Rajiv Subramani	Nil	1322/-

f. Employees Stock Option Plan

The Company has adopted an Employees Stock Options Plan (ESOP) and Compensation Committee of the Board of Directors are authorized to make recommendations on the quantum of ESOPs to be issued to the employees of the Company. The Compensation Committee has not recommended any allotment so far.

g. Inventory Details

The Company is engaged in the business of software development and services. The Production and sale of such software cannot be expressed in any generic unit. Hence it is not possible to give the quantitative details of sales and certain information as required under paragraphs 3,4C and 4D of part II to Schedule VI to the Companies Act, 1956.

h. Others

- The Company does not owe any sum to any Small Scale Industrial Undertaking on the basis of the information received by the company as of 31.03.2005
- Estimated amount of contracts remaining to be executed on capital account and not provided for – Nil
- The Company has branches at Australia and London as per the approval obtained from Reserve Bank of India. No activity was performed at London Branch. The accounts includes the Australian branch details converted into Indian Rupees in accordance with the accounting policy specified in para 14.1 (f)
- Sundry Debtors

	Rs.4004
Amount due for a period less than six months	
- Considered good	Rs.Nil
Other debts – considered good	Rs.4004
- The company has provided a sum of Rs.717032/- towards gratuity till March 2004. The management has reversed the provision made in earlier years.
- Sundry Debtors, Sundry Creditors, Loans and Advances are subject to confirmation.

i. Comparative financial information

Previous years' figures have been rearranged / regrouped wherever necessary.

For and on behalf of the Board of Directors

S Balasubramanian
Chartered Accountants

Chennai April 15, 2005	S. Venkataramanan Director	R S. Gayathri Director
---------------------------	--------------------------------------	----------------------------------

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.	18-45471	State Code	18
Balance Sheet Date	31.03.2005		

II. Capital raised during the year (Amount in thousands)

Public Issue	–	Rights Issue	–
Bonus Issue	–	Private Placement	–

III. Position of mobilization and deployment of funds (Amount in thousands)

Total Liabilities	62,867	Total Assets	62,867
Paid-up Capital	818	Net Current Assets	8,373
Reserves and Surplus- Share Premium	62,049		
Secured Loans	–	Accumulated Losses	71,240
Unsecured Loans	–		

IV. Performance of Company (Amount in thousands)

Turnover	7846	Total Expenditure	10821
Loss Before Tax	(2975)	Loss After Tax	(2975)
Earnings per Share in Rs.	Loss	Dividend Rate %	–

V. Generic Names of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code)	85249009.10
Product Description	Software Services

For and on behalf of the Board of Directors

Chennai
April 15, 2005

S. Venkataramanan
Director

RS Gayathri
Director

Board of Directors

IndiaWorld Communications Ltd.

R Ramaraj
George Zacharias
Ajit Abraham

Directors' Report

Dear Members,

Your Directors have the pleasure of presenting the Thirteenth Annual Report together with audited accounts of the Company for the year ended March 31, 2005.

Operations

The Company had no operations and hence no revenue earned during the year under review. As the company has incurred losses during the year, your Directors do not recommend any dividend for the year under review.

Review of activities

In view of the change in the market conditions, the company has already transferred its business along with the assets to the holding company. Your Directors are considering further course of action.

Shifting of Registered Office of the company

For administrative convenience and saving of operational costs, the registered office of the company has been shifted from Mumbai, Maharashtra to Chennai, Tamilnadu, effective April 22, 2005, with the approval of the Company Law Board, Western Region Bench, Mumbai.

Directors

Mr George Zacharias, Director of the company, retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment. Your Directors recommend his reappointment.

Directors' responsibility statement

Your Directors state :

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had selected such accounting policies and applied them consistently and made judgements 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 loss of the company for that period;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that as the fixed assets of the company along with the business had already been transferred to the holding company, the annual accounts of the company had not been prepared on a going concern basis.

Secretarial Compliance Certificate

A Secretarial Compliance Certificate pursuant to Section 383A of the Companies Act, 1956 is attached herewith.

Registered Office

2nd Floor, Tidel Park,
4, Canal Bank Road,
Taramani, Chennai 600 113

Auditors

Karra & Co., Chartered Accountants
19, II Street, East Abhiramapuram
Mylapore, Chennai - 600 004

Auditors

Our Statutory Auditors, M/s Karra & Co., Chennai, retire at the ensuing Annual General Meeting and are eligible for reappointment.

Fixed Deposits

Your Company has not accepted any deposits and as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

Conservation of energy, technology absorption and foreign exchange

As there were no operations during the year, the particulars prescribed under clause (e) of subsection (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are not furnished.

Employee particulars in terms of Section 217(2A) of the Companies Act, 1956.

As there were no employees in service in the company, statement under Section 217(2A) is not annexed.

For and on behalf
of the Board

Ajit Abraham
George Zacharias
Directors

Chennai
April 19, 2005

Compliance Certificate

Name of the Company : India World Communications Limited
Registration No. : 11-67975
Authorised Capital : Rs.5,00,00,000/-
Paid up Share Capital : Rs.20,00,000/-

To

The Members
India World Communications Limited
The Enterprise Centre, 3rd Floor,
Unit No.302 & 303,
Off Western Express Highway,
Vile Parle (East),
Mumbai - 400 099.

We have examined the registers, records, books and papers of **INDIA WORLD COMMUNICATIONS LIMITED** (the Company) as required to be maintained under the Companies Act, 1956, (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on **31st March 2005**. In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the Company, its officers and agents, we certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in **Annexure 'A'** to this certificate, as per the provisions and the rules made there under and all entries therein have been recorded.
2. The Company has duly filed the forms and returns as stated in **Annexure 'B'** to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities within the time prescribed under the Act and the rules made there under.
3. The Company is a public limited company and has the minimum paid up capital.
4. The Board of Directors duly met **Five (5)** times on 19th April 2004, 19th July 2004, 15th October 2004, 21st December 2004 and 18th January 2005 in respect of which meetings proper notices were given and proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company was not required to close its Register of Members during the financial year ended 31st March 2005.
6. The **Thirteenth Annual General Meeting** for the financial year ended on **31st March, 2004** was held on **30th July 2004** after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. **One** Extra-Ordinary General Meeting was held during the financial year ended **31st March 2005** on **18th January 2005** for obtaining the approval of the shareholders for shifting the registered office of the company from the State of Maharashtra to the State of Tamil Nadu after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in the Minutes Book maintained for the purpose.
8. The Company has not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Act.
9. The Company has not entered into any contracts falling within the purview of Section 297 of the Act.
10. The Company was not required to make any entries in the register maintained under Section 301 of the Act.
11. As there were no instances falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of directors, members or Central Government.

12. The Company has not issued any duplicate share certificates during the financial year ended 31st March 2005.
13. The Company:
 - (i) has not effected allotment/transfer/transmission of securities during the financial year ended 31st March 2005.
 - (ii) has not deposited any amount in a separate Bank Account as no dividend was declared during the financial year ended 31st March 2005.
 - (iii) was not required to post warrants to any member of the Company as no dividend was declared during the financial year ended 31st March 2005.
 - (iv) has not declared any dividend, issued any share or debentures and has not accepted deposits, and hence the question of transfer of dividend in the unpaid dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued thereon which have remained unclaimed or unpaid for a period of seven years to Investor Education and Protection Fund does not arise.
 - (v) has complied with the requirements of Section 217 of the Act.
14. The Board of Directors of the Company is duly constituted. The appointment of Mr. Ajit Abraham who was earlier appointed as an additional director by the Board, as Director at the 12th Annual General Meeting held on 30th July 2004 was duly made. There was no appointment of alternate directors and directors to fill casual vacancy during the financial year ended 31st March 2005.
15. The Company has not appointed any Managing Director/whole-time Director/Manager during the financial year ended 31st March 2005.
16. The Company has not appointed any sole selling agents during the financial year ended 31st March 2005.
17. a) The company was not required to obtain any approvals of the Central Government, Company Law Board, Regional Director, Registrar and/or such authorities prescribed under the various provisions of the Act during the financial Year ended 31st March 2005.
b) The Company has submitted a petition before the Hon'ble Company Law Board, Western Region bench, Mumbai for shifting the registered office of the company from the State of Maharashtra to the State of Tamil Nadu.
18. The directors have disclosed their interest in other firms/ companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.
19. The Company has not issued any shares/ debentures/ other securities during the financial year ended 31st March 2005.
20. The Company has not bought back any shares during the financial year ended 31st March 2005 and hence the question of complying with the buy back provisions does not arise.
21. The Company has no preference shares capital and has not issued debentures and hence the question of redemption of preference shares/ debentures during the financial year under review does not arise.
22. There were no transactions necessitating the Company to keep in abeyance the rights to dividend, rights shares and bonus shares pending registration of transfer of shares.
23. The Company has not invited/ accepted any deposits including any unsecured loans falling within the purview of Section 58A during the financial year ended 31st March 2005.
24. The Company has not made any borrowings during the financial year ended 31st March 2005.
25. The Company has not made any loans or advances or given any guarantees or provided securities to other bodies corporate and

consequently no entries have been made in the register kept for the purpose.

26. The Company has not altered the provisions of the Memorandum of Association with respect to situation of the Company's registered office from one State to another during the financial year under scrutiny. During the year, the company has submitted a petition before the Hon'ble Company Law Board, Western Region Bench, Mumbai for shifting of its Registered office from the State of Maharashtra to the State of Tamil Nadu and alteration of the existing Clause II of the Memorandum of Association of the Company and the approval is awaited.
27. The Company has not altered the provisions of the Memorandum of Association with respect to the objects of the Company during the financial year under scrutiny.
28. The Company has not altered the provisions of the Memorandum of Association with respect to name of the Company during the financial year under scrutiny.
29. The Company has not altered the provisions of the Memorandum of Association with respect to share capital of the Company during the financial year under scrutiny.
30. The company has not altered its Articles of Association during the financial year ended 31st March 2005.
31. There was no prosecution initiated against or show cause notices received by the Company and no fines or penalties or any other punishment was imposed on the Company during the financial year, for offences under the Act.
32. The Company has not received any money as security from its employees during the financial year ended 31st March 2005.
33. As per the information and explanations furnished to us, the Company has not constituted a separate provident fund trust for its employees or class of its employees as contemplated under Section 418 of the Act.

Chennai
April 13, 2005

for R Sridharan & Associates
Company Secretaries
R. Sridharan
Partner
C.P. No.: 3239

'Annexure A'

Name of the Company : INDIA WORLD COMMUNICATIONS LIMITED

Registration Number : 11- 67975

Authorised Capital : Rs.5,00,00,000/-

Paid-up Capital : Rs. 20,00,000/-

Registers as maintained by the Company

Sl.No.	Section Number	Name of the Register
1.	108	Share Transfer Register
2.	150	Register of Members
3.	193	Minutes of the meeting of the Board of directors
4.	193	Minutes of the General Meetings
5.	301	Register of Contracts
6.	303	Register of Directors
7.	307	Register of Directors' Shareholding
8.	372A	Register of Investments/Loans/Guarantees and Securities
9.	-	Board Meeting Attendance Register
10.	-	General Meeting Attendance Register

‘Annexure B’

Name of the Company : INDIA WORLD COMMUNICATIONS LIMITED
Registration Number : 11- 67975
Authorised Capital : Rs.5,00,00,000/-
Paid-up Capital : Rs.20,00,000/-

Returns/ Documents/ Forms filed with the Registrar of Companies, Regional Director, Central Government or other authorities during the financial year ended 31st March 2005

FOR THE FINANCIAL YEAR 2004-2005 [01.04.2004 TO 31.03.2005]

REGISTRAR OF COMPANIES

Sl. No	Form No.	Relevant Section	Description	Date of filing	Whether filed within prescribed time Yes/No	If delay in filing whether requisite additional fee paid Yes/No	Remarks (ROC Receipt No/ Amount Paid)
1.	Sch VI	220	Balance Sheet for the financial year ended 31 st March 2004.	24.08.04	YES	NA	959732 Rs.500/-(N)
2.	Sch V	159	Annual Return made up to 30.7.2004 (Date of AGM).	24.08.04	YES	NA	959732 Rs.500/-(N)
3.	-	383A	Compliance Certificate issued by Mr.R.Sridharan, Partner, Mr.R.Sridharan & Associates, Company Secretaries, for the financial year ended 31.3.2004.	24.08.04	YES	NA	959732 Rs.500/-(N)
4.	23	192	Special Resolution under Section 17 of the Act for shifting the registered office of the company from the State of Maharashtra to the State of Tamil Nadu.	11.02.05	YES	NA	1033711 Rs.500/-

REGIONAL DIRECTOR

NIL

CENTRAL GOVERNMENT & OTHER AUTHORITIES

- i) The Company has submitted a petition under Section 17 of the Companies Act, 1956 with the Company Law Board, Western Region Bench, Mumbai on 23rd March 2005 for confirming the alteration of situation clause of the Memorandum of Association from the state of Maharashtra to the state of Tamilnadu.

Chennai
April 13, 2005

For R. Sridharan & Associates
Company Secretaries
R. Sridharan
Partner
C.P. No.: 3239

Auditors' Report to the Members of India World Communications Limited

We have audited the attached Balance Sheet of India World Communications Ltd. as at 31st March 2005 and the Profit and Loss account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- 1 As required by the Companies (Auditor's Report) Order, 2003 Issued by the Ministry of Finance (Department of Company Affairs, New Delhi dated 12.6.03) in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified In paragraphs 4 and 5 of the said Order.
- 2 Further to our comments in the annexure referred to in paragraph (1) above:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of the books of account;
 - (c) The Balance Sheet and the Profit and Loss account dealt with by this report are in agreement with the books of account;

- (d) In our opinion, the Balance Sheet and Profit and Loss account comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent applicable;
- (e) on the basis of written representations received from the directors, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2005 from being appointed as a director under section 274 (1)(g) of the Companies Act, 1956.
- (f) In the absence of any notification from the Central Government with respect to the cess payable under Section 441(A) of the Companies Act, 1956, no quantification is made. Hence, no opinion is given on cess unpaid or paid, as per the provisions of Section 227(i) (g) of the Companies Act, 1956.
- (g) Attention is drawn to (i)(c) of Annexure to the audit Report where the Company ceases to be a going concern for the reason stated in that clause.
- (h) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, along with the accounting policies and notes to accounts annexed hereto, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2005; and
 - (ii) in the case of the Profit and Loss Account, the Profit or Loss does not arise as there are no operations during the year under audit.

Chennai
April 19, 2005

for **Karra & Co.,**
Chartered Accountants

V.Venkateswara Rao
Partner

Annexure to the Auditors' Report

The Annexure referred to in paragraph 1 of the auditors' report to the Members of India World Communications Ltd. for the year ended 31st March 2005. We report as required under paragraph 4 and 5 that:

- i. (a) The Company does not have any fixed asset during the year under audit.
(b) Since the Company does not have any fixed asset, the question of physical verification of its fixed assets does not arise.
(c) All the fixed assets of the company have been transferred to its parent SIFY Limited at Book Values on 01.07.2003. Since the Company has transferred the entire business including the Fixed Assets it ceases to be a going concern.
- ii. (a) The Company does not have any inventories and as such verification of stocks does not arise;
(b) Since there are no stocks the adequacy of procedures for physical verification does not arise;
(c) The question of maintaining proper records and material discrepancies does not arise as there is no stock;
- iii. (a) The company has not granted/taken loans, secured or unsecured to companies, firms or other parties listed in the Register maintained under section 301 of the Companies Act, 1956;
(b) The company has not given/taken any loans and hence the question of rate of Interest and other terms and conditions of loans does not apply;
(c) The company has not given/taken any loans and hence the question of payment of principal and interest does not arise;
(d) The company has not given/taken any loans and hence there is no question of overdue amount more than Rs. One Lakh either on principal or interest.
- iv. There are no purchase of plant and machinery, computer hardware and software, equipment and other assets during the year and hence the provisions of this clause on Internal Control are not applicable.
- v. (a) According to the Information and explanations given to us, there are no transactions that need to be entered into a register in pursuance of section 301 of the Act.
(b) Since there are no transactions the question of transactions being made at reasonable prices does not arise.
- vi. The Company has not accepted any deposits from the public. Therefore, the directives Issued by RBI and the provision of Sec. 58-A and Sec. 58-AA or any other provisions of the Companies Act, 1956 and the rules framed there under do not apply.
- vii. The clause relating to Internal Audit System is not applicable to the company during the year under audit.
- viii. Maintenance of cost record has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956 for any of the job of the Company.
- ix. (a) According to the Information and explanations given to us, the company does not have any liability during the year under audit in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income Tax, Sales Tax, Service Tax, wealth tax, customs duty, excise duty, cess and any other statutory dues with the appropriate authorities to the extent applicable.
(b) According to the Information and explanations given to us, there is no dispute in respect of Income Tax/ Sales Tax/ Service Tax / wealth tax/ customs duty/ excise duty and cess.
- x. The accumulated losses are more than 50% of the networth of the company and the company has incurred cash losses in the immediately preceding financial year.
- xi. There are no dues to a financial Institution or bank or debenture holders and hence the question of default does not arise.
- xii. The company has not granted any loans or advances and hence the question of maintenance of documents and records does not apply.
- xiii. The company is not a chit fund or nidhi or mutual benefit fund or society and hence the provisions of any special statute does not apply.
- xiv. The company is not dealing or trading in shares, securities, debentures and other investments and hence maintenance of records regarding the same does not apply.
- xv. According to the information and explanations given to us, the company has not given any guarantee for any loans taken by others from bank or financial Institutions.
- xvi. The company has not applied for any term loan during the year under audit.
- xvii. The Company does not have any operations and hence the deployment of short term funds for long term Investment and vice-versa does not arise.
- xviii. During the year under audit, the company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.
- xix. The company has not issued any debentures and hence the question of creation of Security for the same does not arise.
- xx. The company has not made any public Issue during the year under audit.
- xxi. According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year under audit.

for **Karra & Co.**
Chartered Accountants

V.Venkateswara Rao
Partner

Chennai
April 19, 2005

Balance Sheet

		Rs in Thousands	
	Schedule ref.	As at March 31, 2005	As at March 31, 2004
I. SOURCES OF FUNDS :			
Shareholders' funds			
(a) Share capital	1	2,000	2,000
		2,000	2,000
II. APPLICATION OF FUNDS :			
Fixed assets		—	—
Cost		—	—
Less: Depreciation		—	—
Net book value		—	—
Investments Non-Trade (Quoted)		—	—
Current assets, loans and advances		—	—
Current liabilities and provisions	2	8,325	8,325
		8,325	8,325
Net current assets		(8,325)	(8,325)
Miscellaneous expenditure (To the extent not written off or adjusted)		—	—
Preliminary expenses		—	—
Profit & Loss Account		10,325	10,325
		2,000	2,000
Significant accounting policies and notes to accounts	9		

The Schedules referred to above and notes thereon form an integral part of these financial statements.
 This is the Balance Sheet referred to in our report of even date.

for **Karra & Co.**
 Chartered Accountants

For and on behalf of the Board of Directors

V Venkateswara Rao
 Partner

George Zacharias
 Director

Ajit Abraham
 Director

Chennai
 April 19, 2005

Profit and Loss Account

		Rs in Thousands	
	Schedule ref.	Year ended March 31, 2005	Year ended March 31, 2004
INCOME			
Sales & Service	3	—	10,677
Other income	4	—	776
		—	11,453
EXPENDITURE			
Cost of service	5	—	5,019
Personnel expenses	6	—	3,141
Operating & administration expenses	7	—	4,976
Financial expenses	8	—	24
Depreciation		—	136
		—	13,296
Profit before taxation		—	(1,843)
Provision for taxation		—	—
Profit after taxation		—	(1,843)
		—	(1,843)
Add: Balance brought forward from previous year		(10,325)	(9,482)
Add: Transfer from reserve		—	1,000
Balance carried to Balance Sheet		(10,325)	(10,325)
Significant accounting policies and notes to accounts	9		

The Schedules referred to above and notes thereon form an integral part of these financial statements. This is the Profit and Loss account referred to in our report of even date.

for **Karra & Co.**
Chartered Accountants

for and on behalf of the Board of Directors

V Venkateswara Rao
Partner

George Zacharias
Director

Ajit Abraham
Director

Chennai
April 19, 2005

Schedules forming part of the Balance Sheet

Rs in Thousands		
Particulars	As at March 31, 2005	As at March 31, 2004
1. Share capital		
Authorised :		
5,000,000 equity shares of Rs.10 each	50,000	50,000
Issued, Subscribed and fully paid up :		
200,000 equity shares of Rs.10 each fully paid-up	2,000	2,000
	2,000	2,000
2. Current liabilities and provisions		
Sify Limited	8,325	8,325
	8,325	8,325

Schedules forming part of the Profit and Loss Account

Rs in Thousands		
Particulars	Year ended March 31, 2005	Year ended March 31, 2004
3. Sales and Service		
Advertising	—	11,179
Deferred income	—	(502)
	—	10,677
4. Other income		
Interest on deposits	—	37
Dividend received	—	18
Profit on sale of shares	—	304
Gain on exchange fluctuations (net)	—	45
Appreciation in investments	—	356
Brokerage received	—	0
Miscellaneous Income	—	4
Interest From IT Dept	—	11
	—	776
5. Cost of service		
Content & information charges	—	699
Internet service charges	—	4,320
	—	5,019
6. Personnel expenses		
Salaries	—	3,138
Contribution to Provident Fund	—	2
	—	3,141

Rs in Thousands		
Particulars	Year ended March 31, 2005	Year ended March 31, 2004
7. Operating & administration expenses		
Rent, rates and taxes	—	13
Travelling and conveyance	—	110
Communication -		
Mobile phone charges	—	2
Telephone expenses	—	6
Operating & Admn Exp	—	3,958
Printing and stationery	—	5
Postage, telegram & courier charges	—	11
Marketing and Promotion	—	13
Depository service charges	—	2
PF administration charges	—	0
Legal and professional charges	—	157
Auditors' remuneration	—	81
Preliminary expenses written off	—	44
Bad Debts	—	150
Advances written off	—	165
Donation	—	40
Short Provision for Income Tax AY 00-01	—	31
Amortisation of Investments	—	178
Brokerage & Delivery expenses	—	4
Miscellaneous expenses	—	4
	—	4,976
8. Financial Expenses		
Bank charges	—	24
	—	24

Schedules forming part of the Accounts for the year ended March 31, 2005. (Rs in Thousand unless as stated)

9. Significant accounting policies and notes to accounts

A. SIGNIFICANT ACCOUNTING POLICIES

COMPANY OVERVIEW

India World Communications Limited ("IndiaWorld" or "Company"), formerly known as Ravi Database Consultants Private Limited, was incorporated on July 31, 1992 in Mumbai, India, with the objective of providing web-based solutions and advertising services.

The Company is now a 100% owned subsidiary of Sify Limited (SIFY). SIFY acquired the shares from the original promoters in two tranches, in Dec 1999 and Feb 2000. The whole acquisition exercise got completed in July 2000.

1. Basis for preparation

The financial statements are prepared under the historical cost convention in accordance with the Generally Accepted Accounting Principles (GAAP) and comply with the mandatory accounting standards and statements issued by the Institute of Chartered Accountants of India and the Companies Act, 1956. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of provision for doubtful debts, useful life of fixed assets etc. Actual results could differ from the estimates.

3. Revenue recognition

Revenues from web-site design and development are recognized upon completion of the project once the customer's web links are commissioned and available on the world-wide-web.

Revenues from banner advertisements are recognized ratably over the period in which the advertisement is displayed.

4. Fixed assets and depreciation

Fixed assets are stated at the cost of acquisition less accumulated depreciation. Direct costs related to acquisition of fixed assets are capitalized until the assets are ready to be put to use.

Depreciation on fixed assets is provided using the written down value method as per Schedule XIV of the Companies Act for all the assets except for portal and content rights which is amortised over a period of 5 years under straight line method. Depreciation is charged on a pro-rata basis for assets purchased / sold during the year.

Individual assets costing less than Rs 5 are depreciated in full in the year of acquisition. Cost of application software is charged to the Profit and Loss account in the year in which it is acquired.

5. Preliminary expenses

The Company has adopted the procedure of writing-off preliminary expenses over a 5-year period.

6. Foreign currency transactions and translations

Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transaction. Current assets and liabilities denominated in foreign currency are translated at

the rate of exchange as at the Balance sheet date. Difference between year-end rate and the original rate is accounted for, as exchange gain or loss and dealt with in the profit and loss account. Exchange difference, if any, on acquisition of fixed assets is adjusted to the cost of the asset.

7. Retirement benefits to employees

Retirement benefits to employees are provided for by contribution to specific funds like Provident Fund. The Company's contribution to Provident Fund is charged to accounts on accrual basis.

B. NOTES TO ACCOUNTS

The accounting policies referred to above are not applicable fully for the current year since the Company has not done any operation and hence they are more relevant to the previous year.

The previous year figures have been regrouped / reclassified, where ever necessary, to conform to the current year's presentation. The business of the Company was transferred to Sify Ltd on 1st July, 2003.

1. Transfer of business

The Company has transferred all its business including its assets and liabilities to its parent company, Sify Ltd during the year 2003-04. Though the Company exists, it is no longer considered as going concern.

2. Commitments and contingencies

- a) Un expired Bank Guarantees as on March 31, 2005 is Nil.
- b) Un expired Letters of Credit given by Bank(s) on behalf of the Company for purchase of raw material as on March 31, 2005 is Nil.
- c) Estimated amount of contracts to be executed on capital account and not provided for in books as on March 31, 2005 is Nil.

Rs in Thousands

	Year ended March 31, 2005	Year Ended March 31,2004
3. Auditor's remuneration		
Statutory audit	—	60
Tax Audit	—	15
Service tax	—	6
Total	—	81
4. Earnings in Foreign Currency		
	—	11,128
Total	—	11,128

5. Quantitative Information

Since the Company does not deal in Stocks, no quantitative details are being furnished.

6. Income Tax

No provision for taxation has been made during the year, as the company does not have any taxable income.

Deferred Tax Asset: The company has not recognized the deferred tax Asset in respect of carry forward losses as the management feels it is prudent to do so.

7. Previous year figures are regrouped wherever necessary.

for and on behalf of Karra & Co. Chartered Accountants	for and on behalf of the Board of Directors	
V Venkateswara Rao Partner Chennai April 19, 2005	George Zacharias Director	Ajit Abraham Director

Balance Sheet Abstract and General Profile of the Company under Part IV to Schedule VI of the Companies Act, 1956

I. Registration Details

Registration No.	67975	State Code	11
Balance Sheet Date	31.03.2005		

II. Capital raised during the year (Amount in Rs `000)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

III. Position of mobilization and deployment of funds (Amount in Rs `000)

Total Liabilities	Total Assets		
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Source of Funds

Paid-up Capital	2,000	Reserves and Surplus	Nil
Secured Loans	Nil	Unsecured Loans	Nil

Application of Funds

Net Fixed Assets	Nil	Investments	Nil
Net Current Assets	(8,325)	Miscellaneous Expenditure	Nil
Accumulated Loss	10,325		

IV. Performance of Company (Amount in Rs `000)

Turnover	–	Total Expenditure	–
Profit / (Loss) Before Tax	–	Profit / (Loss) After Tax	–
Earnings per Share in Rs	–	Dividend %	–

V. Generic Names of Three Principal Products / Services of the Company (as per monetary terms)

Item Code No. (ITC Code)	
Product Description	Web-based Solutions
Item Code No. (ITC Code)	
Product Description	Internet Advertising Services
Item Code No. (ITC Code)	
Product Description	

Chennai April 19, 2005	For and on behalf of the Board of Directors George Zacharias Director	Ajit Abraham Director
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Board of Directors

Sify International Inc.

R Ramaraj

R S Gayathri

Directors' Report

Dear Members,

Your Directors have the pleasure in presenting the Sixth Annual Report together with audited accounts of the Company for the year ended March 31, 2005.

Financial highlights

The Company has registered an income of Rs.1.11 million and a net loss of Rs.9.57 million during the year under review as compared to a loss of Rs.0.61 million in the previous year.

As the company has incurred losses during the year, your Directors do not recommend any dividend for the year under review.

Review of activities

In view of the change in the market conditions, your Directors are considering further course of action.

Directors

Mr R Ramaraj, Director of the company retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment. Your Directors recommend his reappointment.

Directors' responsibility statement

Your Directors state:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had selected such accounting policies and applied them consistently and made judgements 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 loss of the company for that period;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the annual accounts on a going concern basis.

Auditors

Our Statutory Auditors, M/s Suri & Siva, Chennai, retire at the ensuing Annual General Meeting and are eligible for reappointment.

Conservation of energy, technology absorption and foreign exchange

As the provisions of clause (e) of subsection (1) of Section 217 of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are not applicable to the company, no information is furnished.

Employee particulars in terms of Section 217(2A) of the Companies Act, 1956.

As there were no employees in service in the company, statement under Section 217(2A) is not annexed.

For and on behalf of the Board

Chennai,
April 15, 2005

R Ramaraj
R S Gayathri
Directors

Office Address

Suite No.205
2880 Lakeside Drive
Santa Clara CA 95054

Auditors

Suri & Siva
Sriraman Enclave
New No. 6/1, III Main Road,
R.A. Puram
Chennai 600 028

Auditors' Report to the Members of Sify International Inc

We have audited the attached Balance Sheet of SIFY INTERNATIONAL INC. as at 31st March 2005 and also the Profit and Loss Account for the year ended on that date, both of which we have signed under reference of this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- 1) As required by the Companies (Auditors' Report) Order, 2003, as amended by the Companies (Auditor's Report) Amendment Order, 2004, issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956 and on the basis of the information and explanations given to us and the books and records examined by us in the normal course of our audit and to the best of our knowledge and belief, we report below on the matters specified in Paragraphs 4 and 5 of the said order.

i) FIXED ASSETS

- a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- b) We are informed that all the fixed assets have been physically verified by the management during the year and no material discrepancies have been noticed on such verification.
- c) No disposal of a substantial part of the fixed assets of the Company has taken place during the year.

ii) INVENTORY

The Company does not hold any inventory and hence no physical verification of inventory exists.

iii) LOANS TAKEN/GRANTED

- a) The Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act.
- b) The Company has taken unsecured loans from its Parent & Other Subsidiary Companies amounting to Rs. 1766 Lakhs.
- c) The rate of interest and other terms and conditions on which the Company took the unsecured loan, were prima facie and not prejudicial to the interests of the Company or its members.
- d) The payment of the principal amount and interest was as stipulated.

iv) INTERNAL CONTROL

The Company has adequate internal control procedures commensurate with the size of the Company and nature of its business and we have not come across any major weaknesses in internal control.

v) SECTION 301

The company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

vi) DEPOSITS FROM PUBLIC

The Company has not accepted any deposits from the public and consequently, the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable.

vii) INTERNAL AUDIT

The internal audit is conducted by an Internal Audit Wing of the Company and in our opinion, the internal audit system is commensurate with the size of the Company and the nature of its business.

viii) COST RECORDS

The Maintenance of Cost records u/s 209(1)(d) prescribed by the Central Government is not applicable to this company.

ix) PAYMENT OF STATUTORY DUES

According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing statutory dues.

x) ACCUMULATED LOSSES / CASH LOSSES

The company has incurred a cash loss of Rs.90.75 lakhs. Accumulated losses and accumulated cash losses of the Company to be carried forward to the subsequent years amounts to Rs. 1,966.47 lakhs and Rs. 1,961.53 lakhs respectively

xi) DEFAULT IN REPAYMENT OF DUES

The Company has not defaulted in the repayment of dues to any Financial Institution or Bank or Debenture Holders.

xii) GRANT OF SECURED LOANS AND ADVANCES

The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) SPECIAL STATUTE-CHIT FUND COMPANIES, NIDHIS /MUTUAL BENEFIT FUND/SOCIETIES

The company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the Order is not applicable.

xiv) COMPANY DEALING OR TRADING IN SHARES, SECURITIES ETC.,

According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the Order is not applicable.

xv) PROVISION OF GUARANTEE

As per the information furnished to us, the company has not furnished any guarantees.

xvi) TERM LOANS

The Company has not availed any Term Loan and hence no comments are offered in this regard.

xvii) USAGE OF FUNDS

All the funds raised by the Company are long term and have been used both for Long Term and Working Capital purposes.

xviii) PREFERENTIAL ALLOTMENTS

As the Company has not made any preferential allotment of shares during the year, paragraph 4 (xviii) of the order is not applicable.

xix) CREATION OF SECURITY FOR DEBENTURE ISSUE

The company has not issued any Debentures and hence paragraph 4 (xix) is not applicable.

xx) DISCLOSURE OF END USE OF FUND

The Company has not raised any money during the year through any public issue and hence paragraph 4 (xx) is not applicable.

xxi) FRAUDS

Based upon the audit procedures performed and information and explanations given by the Management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit for the year ended 31st March 2005.

xxii) LEAVE ENCASHMENT & RETIREMENT BENEFITS

Not Applicable to this Company.

2) Further to the above: -

- i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
- ii) In our opinion, proper books of accounts as required by law have been kept by the Company, so far as it appears from our examination of those books.
- iii) The Balance Sheet, Profit and Loss Account dealt with by this Report are in agreement with the books of accounts.

iv) In our opinion, the Balance Sheet, Profit and Loss Account dealt with by this Report, comply with the mandatory Accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable.

v) In our opinion and to the best of our information and according to the explanations given to us, the said Accounts, including the Balance Sheet, Profit and Loss Account dealt with by this Report read with the Notes thereon and documents annexed thereto, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India in the case of the

- i) Balance Sheet, of the state of affairs of the Company as on 31st March 2005,
- ii) Profit and Loss Account of the Loss of the Company for the year ended on that date

For **Suri & Siva**
Chartered Accountants
V Sivakumar
Partner
Membership No. 22379

Chennai,
April 15, 2005

Balance Sheet

	As at March 31, 2005	As at March 31, 2004
Sources of funds :		
Shareholders' funds		
Share capital	21,335	21,335
Loan Funds		
Secured Loans	176,562	168,351
	197,897	189,686
Application of funds :		
Fixed assets	651	943
Current assets, loans and advances:		
Cash and bank balances	539	867
Deposits	181	334
Loans and Advances	577	464
	1,297	1,665
Current liabilities and provisions	698	—
Net current assets	599	1,665
Profit and Loss Account	196,647	187,078
	197,897	189,686

For Suri & Siva
Chartered Accountants

for and on behalf of board of directors

V Sivakumar
Partner
Chennai
April 15, 2005

R S Gayathri
Director

R Ramaraj
Director

Profit and Loss Account

	Year ended March 31, 2005	Year ended March 31, 2004
Rs in Thousands		
Income		
Sales	1,114	—
Other income	—	—
	1,114	—
Expenditure		
Cost of Goods sold	—	—
Personnel expenses	6,761	—
Operating and administrative expenses	3,428	605
Financial expenses	—	—
Depreciation	494	—
	10,683	605
Loss before taxation	9,569	605
Provision for taxation	—	—
Loss after taxation	9,569	605
Add: Balance brought forward from previous year	187,078	186,473
Loss carried to Balance Sheet	196,647	187,078

For **Suri & Siva**
Chartered Accountants

for and on behalf of board of directors

V Sivakumar
Partner
Chennai
April 15, 2005

R S Gayathri
Director

R Ramaraj
Director

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

A BACKGROUND

1. Description of business

Sify International Inc (“Sify International” / “the Company”) was incorporated on 10 June 1999, in California, USA. The company is engaged in the business of providing network and allied services to Corporates.

Monetary current assets and liabilities are translated at the exchange rate prevalent at the date of the Balance Sheet. The equity share capital is stated at the exchange rate prevailing at the date of investment by the holding company. The resulting difference is recorded in the Profit and Loss account.

B SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation

Accounts are maintained on accrual basis. The transactions are in local currency (US Dollars) and are translated for reporting in Indian Currency as described in item 4 below.

2. Revenue recognition

The company provides network services and revenue is recognized on completion of obligation and obtaining sign off from customers.

3. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on Straight Line Method.

4. Currency translation

The currency in which the Company normally transacts business is US Dollar. All income and expenses are converted into reporting currency at the respective monthly average rate.

C NOTES TO ACCOUNTS

- The Company is a wholly owned subsidiary of Sify Ltd, India. The accounts are prepared and audited to attach with the accounts of Sify Ltd, India, the holding company so as to comply with the provisions of the Companies Act, 1956.
- Contingent liability - NIL
- No provision for taxation has been made for the current year as the company has no taxable income.
- Since the company does not deal in stocks, no quantitative details are being furnished.

For **Suri & Siva**
Chartered Accountants

for and on behalf
of the Board of Directors

V.Sivakumar
Partner
Membership No.22379

R.S.Gayathri
Director

R Ramaraj
Director

Chennai,
April 15, 2005



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Chennai - 600 113, India. Tel: +91 44 22540770.