

SIFY LTD  
Form 20-F/A  
October 12, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F/A  
(Amendment No. 1)**

(Mark One)

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

**or**

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

**For the fiscal year ended March 31, 2006.**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

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

**Commission file number 000-27663**

**Sify Limited**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant's name into English)

Republic of India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor

No. 4, Canal Bank Road

Taramani, Chennai 600 113 India

(91) 44-2254-0770

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act: American Depositary Shares, each representing one Equity Share, par value Rs.10 per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

42,389,514 Equity Shares were issued and outstanding as of March 31, 2006

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17  Item 18

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

Yes  No

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**Explanatory Note**

The purpose of this Amendment No. 1 on Form 20-F/A to the annual report on Form 20-F of Sify Limited for the year ended March 31, 2006, filed with the U.S. Securities and Exchange Commission on June 30, 2006 (the Original Form 20-F Filing ) is to amend Item 18. Financial Statements and Item 19 Exhibits . to provide separate audited consolidated financial statements of Man Financial-Sify Securities India Private Limited (Man Financials) as on and for the fiscal year ended March 31, 2006 and the related audit report of KPMG. In addition, Sify Limited is including certifications of the chief executive officer and the chief financial officer.

Sify Limited s holding in Man Financials met a significant test of Rule 3-09 under Regulation S-X in 2006 and as a result, the financial statements of Man Financials are required to be filed.

The consolidated financial statements of Man Financials as on and for the year ended March 31, 2006 included in the amendment have been prepared by and are the responsibility of Man Financials and its management. These financial statements have not been prepared by Sify or its management. Accordingly, Sify and its management assumes no responsibility relating thereto.

This Form 20-F/A does not reflect events occurring after the Original Form 20-F Filing or modify or update those disclosures affected by subsequent events. Rather, except as described above, information is unchanged and reflects the disclosures made at the time of the Original Form 20-F Filing on June 30, 2006. Accordingly, this Form 20-F/A should be read in conjunction with the Original Form 20-F Filing and our filings made subsequent thereto, including any amendments to those filings. In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of each of Item 18 is set forth herein, including those portions of such text that have not been amended from that set forth in the Original Form 20-F Filing.

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**Currency of Presentation and Certain Defined Terms**

Unless the context otherwise requires, references in this annual report to we, us, the company, Sify or Satyam Infoway are to Sify Limited, a limited liability company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited, a leading Indian information technology services company which is traded on the New York Stock Exchange and the major Indian stock exchanges. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. Sify.com and SifyOnline are trademarks used by us for which we have obtained registration in India. In this annual report, references to \$, Dollars or U.S. dollars are to the legal currency of the United States, references to Rs., rupees or Indian rupees are to the legal currency of India and references to GBP are to the legal currency of the United Kingdom. References to a particular fiscal year are to our fiscal year ended March 31 of that year.

For your convenience, this annual report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this annual report, all translations from Indian rupees to U.S. dollars contained in this annual report have been based on the noon buying rate in the City of New York on March 31, 2006, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2006 was Rs.44.48 per \$1.00.

Our financial statements are prepared in Indian rupees and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. In this annual report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Information contained in our websites, including our corporate website, [www.sifycorp.com](http://www.sifycorp.com), is not part of this annual report.

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Item 18. Financial statements.

The portions of Sify's Annual Report on Form 20-F for the year ended March 31, 2006, filed with the U.S. Securities and Exchange Commission on June 30, 2006, set forth on pages 68 through 98, are incorporated herein by reference and together with the disclosure below constitute the Company's response to Item 18. Immediately following such disclosure, the following financial statements of Man Financial-Sify Securities India Private Limited shall be included.

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Man Financial-Sify Securities India Private Limited and Subsidiaries

**Consolidated Financial statements together with Auditors Report**

*as of March 31, 2006 and 2005(unaudited) and for the years ended March 31, 2006 and 2005(unaudited)*

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Man Financial-Sify Securities India Private Limited:

We have audited the accompanying consolidated statement of financial condition of Man Financial-Sify Securities India Private Limited and subsidiaries (collectively, the Company) as of March 31, 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These consolidated 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 the standards of the Public Company Accounting Oversight Board (United States). 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Man Financial-Sify Securities India Private Limited and subsidiaries as of March 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with US generally accepted accounting principles.

Mumbai, India  
October 12, 2006.

KPMG

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Man Financial-Sify Securities India Private Limited and Subsidiaries  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
*In Rupees thousands, except share data and as otherwise stated*

	<b>As of March 31</b>	
	<b>2006</b>	<b>2005</b>
		Unaudited
<b>Assets</b>		
Cash	Rs 93,739	Rs 93,927
Cash-restricted	1,039,115	895,733
Interest bearing deposits with bank	102,250	
Deposits with clearing organizations and others	438,103	120,854
Receivable from broker-dealers and clearing organizations	138,301	133,484
Receivable from customers (Net of allowances of Rs 3,100 Previous year Rs 500)	621,233	394,620
Securities owned:		
Marketable, at market value	12,605	32,857
Not readily marketable, at estimated fair value	2,927	
Memberships in exchanges:		
Owned, at adjusted cost (fair value Rs.4,387 Previous year Rs 14,473)	4,387	14,473
Furniture and equipment-net	60,029	43,295
Other assets	89,619	54,169
Deferred tax asset	5,223	17,634
<b>Total assets</b>	<b>Rs 2,607,531</b>	<b>Rs 1,801,046</b>
<b>Liabilities</b>		
Payable to broker dealers and clearing organizations	366,210	246,254
Payable to customers	1,271,821	778,461
Accounts payable, accrued expenses, and other liabilities	200,838	137,762
<b>Total liabilities</b>	<b>1,838,869</b>	<b>1,162,477</b>
Commitments, contingencies and guarantees (Refer note 15)		
<b>Stockholders equity</b>		
Common stock at Rs. 10 par value: 65,000,000 shares authorized (2005 - 65,000,000); Issued and outstanding: 51,894,182 shares as of March 31, 2006 and 51,894,182 shares as of March 31, 2005	518,942	518,942
Additional paid-in capital	28,968	28,968
Retained earnings	220,752	90,659

<b>Total stockholders equity</b>	<b>768,662</b>	<b>638,569</b>
<b>Total liabilities and stockholders equity</b>	<b>Rs 2,607,531</b>	<b>Rs 1,801,046</b>

*See accompanying notes to consolidated financial statements*

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**Table of Contents****Consolidated Statements of Income***In Rupees thousands, except share data and as otherwise stated*

	<b>Year ended March 31</b>	
	<b>2006</b>	<b>2005</b>
		Unaudited
<b>Revenues</b>		
Commissions	Rs 674,045	Rs 410,038
Depository and Clearing fees	28,350	22,219
Interest and Dividends	64,910	56,718
Other income	29,304	15,316
<b>Total</b>	<b>Rs 796,609</b>	<b>Rs 504,291</b>
<b>Expenses</b>		
Employee compensation and benefits	259,099	124,324
Exchange expenses and clearance fees	27,479	21,417
Brokerage to other broker-dealers	96,168	52,771
Communications and data processing	12,949	11,423
Interest	9,967	12,347
Occupancy (Includes depreciation Rs 21,274 Previous year: Rs 17,165; includes amortization of membership right of BSEL Rs 1,188, Previous year: Rs 2,337)	67,616	63,478
Other expenses	98,887	56,383
Loss on Exchange Membership Rights (Refer note 7)	5,980	
<b>Total</b>	<b>578,145</b>	<b>342,143</b>
<b>Income before income taxes</b>	<b>218,464</b>	<b>162,148</b>
Income tax expense	(88,371)	(63,121)
<b>Net income</b>	<b>Rs 130,093</b>	<b>Rs 99,027</b>

*See accompanying notes to consolidated financial statements*

**Table of Contents****Consolidated Statement of Stockholders Equity***In Rupees thousands, except share data and as otherwise stated*

	<b>Common Shares No. of shares</b>	<b>Rs</b>	<b>Additional Paid-In Capital Rs</b>	<b>Retained Earnings Rs</b>	<b>Total Stockholders Equity Rs</b>
<b>Balance as of March 31, 2004</b> (Unaudited)	<b>38,727,002</b>	<b>387,270</b>		<b>(8,368)</b>	<b>378,902</b>
Issue of common stock (Unaudited)	<b>13,167,180</b>	131,672	28,968		<b>160,640</b>
Net Income(Unaudited)				99,027	<b>99,027</b>
<b>Balance as of March 31, 2005</b>	<b>51,894,182</b>	<b>518,942</b>	<b>28,968</b>	<b>90,659</b>	<b>638,569</b>
Net income				130,093	<b>130,093</b>
<b>Balance as of March 31, 2006</b>	<b>51,894,182</b>	<b>518,942</b>	<b>28,968</b>	<b>220,752</b>	<b>768,662</b>

*See accompanying notes to consolidated financial statements*

**Table of Contents****Consolidated Statements of Cash Flows***In Rupees thousands, except share data and as otherwise stated*

	<b>Year ended March 31,</b>	
	<b>2006</b>	2005
	Rs	Unaudited Rs
<b>Cash flows from operating activities</b>		
Net income	130,093	99,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,414	19,502
Loss on Exchange Membership Rights (Refer note 7)	5,980	
Deferred tax expense	12,411	10,671
Others	35	515
<b>Changes in operating assets and liabilities:</b>		
Interest bearing deposits with banks	(102,250)	149,455
Deposits with clearing organizations and others	(317,249)	66,566
Net receivable from broker-dealers and clearing organizations	(4,817)	(112,053)
Net receivable from customers	(226,613)	(326,844)
Marketable securities, net	20,252	42,973
Not readily marketable securities	(10)	
Other, net	(35,479)	34,951
Increase (decrease) in operating liabilities:		
Payable to broker dealers and clearing organizations	119,956	22,761
Payable to customers	493,360	(2,289,997)
Accounts payable, accrued expenses, and other liabilities	66,546	(385,037)
<b>Net cash provided by / (used in) operating activities</b>	<b>184,629</b>	<b>(2,667,510)</b>
<b>Cash flows from investing activities</b>		
Expenditure on furniture and equipment	(38,770)	(20,830)
Net movement in cash-restricted	(143,382)	2,222,653
Proceeds from sale of furniture, equipment	806	
<b>Net cash used in investing activities</b>	<b>(181,346)</b>	<b>2,201,823</b>
<b>Cash flows from financing activities</b>		
Payment of bank loans	(3,471)	(781)
Proceeds from issue of equity shares		160,641
<b>Net cash (used in)/ provided by financing activities</b>	<b>(3,471)</b>	<b>159,860</b>
Net decrease in cash	(188)	(305,827)
Cash at the beginning of the year	93,927	399,754
<b>Cash at the end of the year</b>	<b>93,739</b>	<b>93,927</b>

**Supplementary information:**

Cash paid for:

Interest	1,893	570
Taxes	91,875	64,051

Non-cash operating activities-: During the year, the Company exchanged its former membership rights having a carrying value of Rs 13,570 thousands for fresh exchange membership rights and ownership in the exchange pursuant to the scheme of corporatisation and demutualization (Refer note 7).

*See accompanying notes to consolidated financial statements*

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**Notes to the Consolidated Financial Statements**

**1. Organization and Nature of Business**

Man Financial-Sify Securities India Private Limited (formerly Refco-Sify Securities India Private Limited) ( the Company ) was incorporated on 29 December 1999 as a private limited company under the Indian Companies Act 1956.

The Company is a joint venture between Man Financial Holding Limited, UK, and Sify Limited, India with 70.15% and 29.85% share respectively. Man Financial Holding Limited became the holding company of the Company by virtue of the acquisition of 70.15% of the total equity share capital from Refco Group Inc.,USA ( Refco ).

The principal activity of the Company is to act as a stock and commodity broker for foreign institutional investors ( FIIs ), mutual funds, domestic financial institutions and retail investors. The Company also acts as a depository participant and provides depository services to foreign institutional investors ( FIIs ), mutual funds, domestic financial institutions and retail investors.

**2. Significant accounting policies**

***Basis of presentation***

The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP).

***Use of Estimates***

In conformity with U.S. GAAP, management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Some of the more significant estimates include allowances for doubtful accounts, depreciation of assets, valuation allowance for deferred tax assets and valuation of memberships in exchanges. Actual results could differ from those estimates.

***Principles of consolidation***

The consolidated financial statements of Man Financial-Sify Securities India Private Limited include the amounts of the Company and all of its majority-owned subsidiaries, where Man Financial-Sify Securities India Private Limited is able to exercise control over the operating and financial policies of the investees. All significant inter-company accounts and transactions are eliminated on consolidation.

***Securities Transactions***

The Company executes transactions on behalf of its clients and does not trade on its own account. Transactions executed as agents for customers are recorded on trade date basis. The Commission income and related expenses are reported on the trade date basis.



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Amounts receivable and payable for securities transactions that have not reached their contracted settlement date are recorded net on the statement of financial condition.

Marketable securities are valued at market value and securities not readily marketable

are valued at fair value as determined by management.

***Revenue***

Commission, Clearing fees and related expenses are recorded on a trade-date basis as securities transactions occur.

Interest income and depository fees are recognized on an accrual basis.

***Foreign Currencies transactions***

The consolidated financial statements are reported in Indian Rupees (Rs), the national currency of India, which is also the functional currency of the Company. Assets and liabilities denominated in foreign currencies are expressed in the functional currency at the rates of exchange as of the balance sheet date. The unrealized gain or loss resulting from this translation is reflected in the statements of income. Income and expenses in foreign currencies are expressed in the functional currency at exchange rates prevailing when income is earned or expenses are incurred.

***Furniture and equipment***

Furniture and equipments are stated at cost of acquisition less accumulated depreciation thereon. Cost includes all expenses incidental to the acquisition of fixed assets, while maintenance and repairs are charged to expense when incurred.

Depreciation is provided over the estimated useful lives of the assets on the double-declining balance method.

Capitalized costs of computer software obtained for internal use represent costs incurred to purchase computer software from third parties. Capitalized costs are amortized on a straight line basis over the estimated useful life of the software.

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***Exchange membership rights***

The Company has recognised the Exchange Membership Rights of Bombay Stock Exchange Limited ( BSEL ) (initial Membership Card of The Stock Exchange, Mumbai) as an intangible. The Exchange Membership Rights are amortised over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

***Income Taxes***

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

***Retirement benefits to employees***

**Provident Fund**

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer make monthly contributions to the plan, each equal to a specified percentage of 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 all employees. The Gratuity Plan commenced in April 2005. The plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee s salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions 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. The Gratuity Plan is accounted for in accordance with SFAS No. 87, *Employers Accounting for Pensions*.

**Table of Contents****3. Cash-restricted**

Restricted cash as of March 31, 2006 includes fixed deposits of Rs 750,615 thousands (Rs 474,489 thousands as at March 31, 2005) placed with banks as margins for bank guarantees issued to clearing organisations and fixed deposits of Rs 288,500 thousands (Rs 421,244 thousands as at March 31, 2005) specifically earmarked as liens to clearing organizations towards margins.

**4. Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations at 31 March 2006 consist of the following:

	<b>As of March 31, 2006</b>			
	<i>Receivable</i>	<i>Payable</i>	<i>Receivable</i>	<i>Payable</i>
			Unaudited	
			(Rs. in thousands)	
Clearing organizations -				
- Unsettled trade	133,898	83,344	121,616	23,358
- Margin deposit		26,960		17,400
Broker-Dealer	4,403	255,906	11,868	205,496
<b>Total</b>	<b>138,301</b>	<b>366,210</b>	<b>133,484</b>	<b>246,254</b>

**5. Receivable From and Payable to Customers**

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

**6. Securities**

Marketable securities consist of investments in units of mutual funds. These are considered to be trading securities and are reported at fair value. Securities not readily marketable represent investments in equity shares of Bombay Stock Exchange Limited, obtained by the Company pursuant to the exchange transaction explained in Note 7.

**Table of Contents****7. Membership in Exchanges**

Exchange Membership Rights to the BSEL consists of a trading right (intangible) which represents right to conduct business on the exchange and equity shares of the exchange (securities not readily marketable), which represents ownership rights.

The Company acquired the BSE membership rights on 6 December 2000. This was classified as an intangible asset and is being amortised over a period of 10 years, the useful life as estimated by the management.

During the year, The Bombay Stock Exchange (Corporatisation and Demutualisation) Scheme 2005 ( the scheme ) was approved by Securities Exchange Board of India ( SEBI ) (with effect from 19 August 2005 ( the due date )) which converted The Stock Exchange, Mumbai ( BSE ) from an Association of Person to a corporate body in the name of Bombay Stock Exchange Limited ( BSEL ).

In accordance with the scheme, the members of the former BSE, in exchange of their initial BSE membership rights received fresh membership rights of BSEL (i.e. right to trade on BSEL without placement of cash deposit) as well as equity shares of BSEL.

The carrying value of the initial BSE membership rights on the due date in the records of the Company was Rs 13,570 thousands. Consequent to the corporatisation of BSE, the Company computed the fair value of the membership rights of BSEL and shares of BSEL as follows:

Membership rights BSEL	On the basis of the benefits which the Company would get over the current deposit based membership right of BSEL
Equity shares of BSEL	On the basis of the fair value of the equity shares of BSEL determined by the management

The difference between the aggregate of the fair values of the membership right of BSEL and the equity shares of BSEL and the carrying value of the initial BSE membership right of Rs 5,980 thousands has been written off to profit and loss account during the year as follows:

	<b>Carrying Value as at 19 August 2005 (Rs in thousands)</b>	<b>Fair Value as at 19 August 2005 (Rs in thousands)</b>	<b>Write off to Profit &amp; Loss Account (Rs in thousands)</b>
<b>Initial BSE Membership Card Shares in BSE Limited at cost</b>	13,570	4,673 2,917	8,897 (2,917)
<b>Total</b>	<b>13,570</b>	<b>7,590</b>	<b>5,980</b>

**Table of Contents****8. Furniture and equipment**

A listing of furniture and equipment by asset category is set out below:

	<b>As of March 31,</b>	<b>2005</b>
	<b>2006</b>	Unaudited
	<b>(Rs. in thousands)</b>	
Furniture, fixtures and equipment	18,323	10,841
Computer hardware and software	122,738	92,295
Vehicles	6,108	6,390
	147,169	109,526
Less : Accumulated depreciation and amortization	87,140	66,231
<b>Furniture and equipment-net</b>	<b>60,029</b>	<b>43,295</b>

**9. Other assets**

Other assets consist of the following:

	<b>As of March 31,</b>	<b>2005</b>
	<b>2006</b>	Unaudited
	<b>(Rs in thousands)</b>	
Interest accrued but not due	27,034	14,557
Prepaid expenses	20,901	14,161
Advance-tax net of provision for tax	31,948	16,036
Loans to staff	1,905	3,195
Others	7,831	6,220
<b>Total</b>	<b>89,619</b>	<b>54,169</b>

**10. Accounts payable, accrued expenses and other liabilities**

Accounts payable, accrued expenses and other liabilities consist of the following:

	<b>As of March 31</b>	
	<b>2006</b>	<b>2005</b>
	Unaudited	
	<b>(Rs in thousands)</b>	
Accrued expenses	97,457	69,104
Withholding tax payable	30,394	21,752
Provision for Gratuity	1,404	2,048
Bank overdraft	54,547	25,145
Others	17,036	19,713
<b>Total</b>	<b>200,838</b>	<b>137,762</b>



**Table of Contents****11. Employee benefits**

The following table sets forth the funded status of the plans and the amounts recognized in the Company's balance sheet.

	<b>As of March 31,</b>	
	<b>2006</b>	2005
	Unaudited	
	<b>(Rs in thousands)</b>	
<i>Change in benefit obligations</i>		
Projected benefit obligations at beginning of the year	2,100	1,233
Service cost	1,416	785
Interest cost	157	82
Benefits payments		
Actuarial (gain)/loss on obligations	457	
Projected benefit obligations at the end of the year	4,130	2,100
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of the year		
Return on plan assets		
Employer contributions	2,264	
Actual benefits paid		
Plan assets at the end of the year	2,264	
<i>Funded status</i>	(1,866)	(2,100)
Unrecognized actuarial loss		
Net prepaid (accrued) gratuity cost	<b>(1,866)</b>	
Accumulated benefit obligation	<b>1,341</b>	1,181

The components of the net gratuity cost are reflected below:

	<b>As of March 31,</b>	
	<b>2006</b>	2005
	Unaudited	
	<b>(Rs. in thousands)</b>	
Service cost	1,416	785
Interest cost	157	82
Expected return on assets		
<b>Net gratuity cost</b>	<b>1,573</b>	<b>867</b>

**Table of Contents**

The actuarial assumptions used in determining the benefit obligation and the net gratuity cost are given below:

	<b>As of March 31,</b>	
	<b>2006</b>	2005 Unaudited
Discount rate	7.50%	7.00%
Rate of increase in compensation levels	6.00%	5.00%
Rate of return on plan assets	7.50%	7.00%

The expected long term rate of return is an average of the expected long term returns for the fund held with LIC.

**Investment strategy for plan assets maintained by the LIC**

The LIC administers the plan fund and it independently determines the target allocation by asset category. The LIC primarily invests the fund in government securities and other debt instruments. The selection of investments and the asset category is determined by LIC. The LIC's strategy is to invest in a prudent manner to produce a return that will enable the fund to meet the required benefit obligations. The insurance industry in the country is highly regulated and the LIC, which is majority owned by the Government of India, functions within regulated investment norms. As such, while the return on investments is subject to market interest rate and other risks, no untoward losses are expected to the plan assets. No such events have occurred in the history of operations of the fund. As of 31 March 2006 all plan assets are invested in approved government securities only.

The benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

	<b>(Rs. in thousands)</b>
Future estimated payments during the year ending March 31,	
2007	69
2008	120
2009	386
2010	730
2011	1,074
Thereafter	8,426
<b>Total</b>	<b>10,805</b>

The employers best estimate of contribution expected to be paid to the plan during 2006-2007 amounts to Rs. 1,916 thousands.

**Provident fund**

The Company contributed Rs 2,280 thousands during the year ended March 31, 2006 (Rs 1,537 thousands during March 31, 2005) towards provident fund.



**Table of Contents****12. Income taxes***Components of the deferred tax balances*

The tax effects of temporary differences are reflected through a deferred tax asset/liability which is included in the statement of financial condition of the Company.

Components of the deferred tax balances are set out below:

	<b>As of March 31,</b>	
	<b>2006</b>	2005
		Unaudited
	<b>(Rs. in thousands)</b>	
<b>Deferred tax assets</b>		
Furniture and equipment	12,185	18,024
Allowances for Debtors	1,009	168
Gratuity	470	690
Membership in exchanges	3,881	2,272
	<b>17,545</b>	<b>21,154</b>
<b>Valuation allowance</b>	<b>(3,881)</b>	<b>(2,272)</b>
<b>Total deferred tax asset</b>	<b>13,664</b>	<b>18,882</b>
<b>Deferred tax liability</b>		
Undistributed earnings of subsidiaries	8,441	1,248
<b>Net deferred tax asset/(liability)</b>	<b>5,223</b>	<b>17,634</b>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent on the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of those deductible differences, net of existing valuation allowances as at 31 March 2006. The amount of deferred tax asset is considered realizable, however could be reduced in the near term, if estimates of future taxable income are reduced.

The Company would require taxable income of Rs 15,517 thousands in the future periods to be able to fully realize the benefit of net deferred asset recognized in these financial statements.

The net change in the total valuation allowance for the years ended March 31, 2006, and March 31, 2005 was an increase of Rs 1,609 thousands and an increase of Rs 2,272 thousands respectively. The valuation allowance as of March 31, 2006 relates to capital loss carried forward on membership in exchanges.

**Table of Contents****Reconciliation of tax rates**

The Indian statutory tax rate consists of a basic rate (30% in 2006; 35% in 2005) plus a surcharge, if any. During each of the years presented, legislation was enacted in the first few months of the fiscal year that changed the amount of the surcharge for that fiscal year and future years. The surcharge was changed to 12.2% of the basic rate and 4.55% of the basic rate during the years ended March 31, 2006 and 2005, respectively, and resulted in a total statutory tax rate of 33.66% and 36.5925% for the years ended March 31, 2006 and 2005, respectively.

The reported income tax expense differs from amounts computed by applying the enacted tax rates to income from continuing operations before income taxes as set out below:

	<b>Year ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
		Unaudited
	<b>(Rs in thousands)</b>	
<b>Income before income taxes</b>	218,464	162,148
<b>Statutory tax rate</b>	33.66%	36.59%
<b>Income tax expense at the statutory tax rate</b>	73,534	59,330
<i>Increase/(reduction) in taxes on account of:</i>		
Loss on misdeal	2,446	
Change in valuation allowance	1,609	524
Changes in statutory tax rate		1,751
Income charged at rates other than statutory tax rate	804	263
Fringe benefit tax	994	
Tax on undistributed earnings of subsidiaries	7,192	1,248
Others	1,792	5
<b>Income tax expense reported</b>	<b>88,371</b>	<b>63,121</b>

*Components of income tax expense/(benefit) from continuing operations*

Components of income tax expense/(benefit) from continuing operations are set out below:

	<b>Year ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
		Unaudited
	<b>(Rs. in thousands)</b>	
Current	75,960	52,450
Deferred	12,411	10,671
<b>Income tax expense/(benefit) reported</b>	<b>88,371</b>	<b>63,121</b>

Income taxes are substantially from domestic operations. An amount considered insignificant is from foreign operations.

**13. Stockholders equity**

The Company has only one class of common stock referred to as equity shares.

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**14. Financial Instruments**

***Financial Instruments With Off-Balance-Sheet Risk***

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker-dealer is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the purchase and sale of securities, which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to mitigate the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary. The Company mitigates the risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

***Concentrations of Credit Risk***

The Company and its subsidiaries are engaged in brokerage activities in which counterparties primarily include foreign institutional investors, financial institutions, mutual funds and retail investors. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**Table of Contents****15. Commitments and Contingent Liabilities*****Operating Lease Commitments***

The Company and its subsidiaries have obligations under long term operating leases with initial noncancelable terms in excess of one year. Aggregate annual rentals for office space at March 31, 2006, are approximately as listed below:

	<b>Rs. in thousands</b>
Lease rental commitments for the years ending March 31,	
2007	18,036
2008	16,572
2009	5,530
2010	
Thereafter	
<b>Total minimum lease commitments</b>	<b>40,138</b>

Rent expense for the current year aggregated to Rs 11,878 thousands and is included in the occupancy expense line item on the Consolidated Statement of Income.

***Guarantees***

FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements and to record a liability at inception of the guarantee. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company has outstanding financial guarantees granted on behalf of its subsidiary Man Financial Commodities, for statutory purposes. These guarantees are provided to trading exchanges. The current carrying amount of the liability and the maximum potential amount of future payments the Company could be required to make under the guarantee amounts to Rs 95,000 thousands as of March 31, 2006 (Rs 95,000 thousands as of March 31, 2005).

***Exchange Member Guarantees***

The Company is a member of various exchanges that trade and clear securities, commodities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would be restricted only to the extent of amounts due/receivable from the Exchange and would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership

agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

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**16. Related party transactions**

The Company has entered into transactions with the following related parties:

Significant stakeholders;

Affiliates of significant stakeholders; and

Employees/Directors of the Company.

***Other Income***

Other income includes service fee income and reimbursement for rent and electricity expenses of Rs 4,329 thousands (Rs 240 thousands during March 31, 2005) received from affiliates of significant stakeholders.

***Other Expenses***

Other expenses include internet expenses of Rs 1,399 thousands (Rs 7,459 thousand during March 31, 2005) paid to significant stakeholder-SIFY.

***Due from affiliates of significant stakeholders***

Balances with affiliates of significant stakeholders as of March 31, 2006 amounts to Rs 73 thousands (Rs. 646 thousands as of March 31, 2005) representing amount receivable for common expenses.

***Due from Employees***

The Company has advanced general purpose loans to employees bearing interest rates of 4% per annum, with an average tenure of 1 year. The loans are generally secured by the assets acquired by the employees. Employee loan balances outstanding as of March 31, 2006 was Rs 1,905 thousands (Rs 3,195 thousands as of March 31, 2005) are included in other assets. The interest income of these loans amounts to Rs 128 thousands for the year ended 31 March 2006 (Rs 64 thousands for the year ended 31 March 2005)

***Rent***

During the year ended March 31, 2006, the Company paid rent for premises to immediate families of management personnel amounting to Rs. 996 thousands (Rs.1,055 thousand during March 31, 2005).

**17. Fair Value of Financial Instruments**

Cash, Deposits with clearing organizations, receivable/payables to broker-dealers and clearing organizations, accounts payable, accrued expenses and other liabilities, receivable/payable to customers approximate fair value because of short term maturity of these instruments.

Securities owned are reported at fair value.

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**Item 19. Exhibits**

<b>Number</b>	<b>Description</b>
1.1	Amended Articles of Association of Sify Limited. (1)
1.2	Memorandum of Association of Sify Limited. (2)
1.3	Amendment of Memorandum of Association. (3)
2.1	Deposit Agreement, dated as of October 18, 1999, among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (4)
2.2	Amendment No. 1 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (4)
2.3	Amendment No. 2 to Deposit Agreement among Sify Limited, Citibank, N.A. and holders from time to time of American Depositary Receipts issued thereunder (including, as an exhibit, the form of American Depositary Receipt). (5)
2.4	Subscription Agreement dated November 10, 2005 between Sify Limited and Infinity Capital Ventures, LP. (9)
2.5	Standstill Agreement dated November 10, 2005 by and among Sify Limited, Infinity Capital Ventures, LP and Mr Raju Vegesna. (9)
2.6	Shareholders Agreement dated December 20, 2005 between Sify Limited, Infinity Satcom Universal (P) Limited, and Sify Communications Limited. (10)
2.7	Shareholders Agreement dated November 25, 2005 between Sify Limited and Man Financial. (11)
4.1	Associate Stock Option Plan 2000 (6)
4.2	Associate Stock Option Plan 2002 (6)
4.3	Associate Stock Option Plan 2005 (12)
4.4	Form of Indemnification Agreement. (7)
4.5	License Agreement for Provision of Internet Service, including Internet Telephony dated as of April 1, 2002 by and between Sify Limited and the Government of India, Ministry of Communications and Information Technology, Department of Telecommunications, Telecom Commission. (3)
4.6	Bank Guarantee, dated as of November 4, 1998. (2)
4.7	Agreement, dated November 10, 2004, between Sify Limited, Satyam Computer Services Limited, SAIF Investment Company Limited and Venture Tech Solutions Pvt. Ltd. (8)
8.1	List of Subsidiaries. (12)

- 11.1 Code of Conduct and Conflict of Interest Policy (6)
- 12.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 12.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 13.1 Section 1350 Certification of Chief Executive Officer
- 13.2 Section 1350 Certification of Chief Financial Officer
- 15.1 Consent of KPMG (12)
- 15.2 Consent of KPMG

(1) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on February 17, 2005 and incorporated herein by reference.

(2) Previously filed as an exhibit to Amendment No. 1 to the Registration Statement on Form F-1 filed with the Commission on October 4, 1999 and incorporated herein by reference.

(3) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on July 1, 2002 and incorporated



herein by  
reference.

- (4) Previously filed as an exhibit to the Post-Effective Amendment No. 1 to Form F-6 filed with the Commission on January 5, 2000 and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Registration Statement on Form S-8 (File No. 333-101322) filed with Commission on November 20, 2002 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Annual Report on Form 20-F filed with the Commission on June 29, 2004 and incorporated herein by reference.
- (7) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on Form F-2 filed

with the  
Commission on  
October 13,  
1999 and  
incorporated  
herein by  
reference.

(8) Previously filed  
as an exhibit to  
the Report on  
Form 6-K filed  
with the  
Commission on  
November 30,  
2004 and  
incorporated  
herein by  
reference.

(9) Previously filed  
as an exhibit to  
the Report on  
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Commission on  
November 21,  
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reference.

(10) Previously filed  
as an exhibit to  
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Form 6-K filed  
with the  
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December 7,  
2005 and  
incorporated  
herein by  
reference.

(11) Previously filed  
as an exhibit to  
the Report on  
Form 6-K filed  
with the  
Commission on  
December 23,

2005 and  
incorporated  
herein by  
reference.

- (12) Previously filed  
as an exhibit to  
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Report on Form  
20-F filed with  
the Commission  
on June 30,  
2006 and  
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reference.
-

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SIFY LIMITED**

By: /s/ Raju Vegesna  
Name: Raju Vegesna  
Title: Chief Executive Officer & Managing  
Director

By: /s/ Durgesh Mehta  
Name: Durgesh Mehta  
Title: Chief Financial Officer

Date: October 12, 2006

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- (7) Previously filed as an exhibit to Amendment No. 2 to the Registration Statement on

Form F-2 filed with the Commission on October 13, 1999 and incorporated herein by reference.

- (8) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 30, 2004 and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on November 21, 2005 at incorporated herein by reference.
- (10) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on December 7, 2005 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Report on Form 6-K filed with the Commission on



December 23,  
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as an exhibit to  
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Report on Form  
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