

SIFY TECHNOLOGIES LTD
Form 20-F
July 31, 2013

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

FORM 20-F

(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, 2013.

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.

Date of event requiring this shell Company report _____

Commission file number 000-27663

Sify Technologies Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at Registrant's name into English)

Chennai, Tamil Nadu, India

(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor

4, Rajiv Gandhi Salai

Taramani, Chennai 600 113 India

(91) 44-2254-0770, Fax (91) 44 -2254 0771

(Address of principal executive office)

M.P.Vijay Kumar, Chief Financial Officer, (91) 44-2254-0770; vijaykumar.mp@sifycorp.com

Tidel Park, 2nd Floor, 4, Rajiv Gandhi Salai, Taramani, Chennai 600113 India

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each Exchange on which registered
American Depository Shares, each represented by One Equity Share, par value Rs.10 per share	NASDAQ Global Select Market

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

Title of each class	Name of each Exchange on which registered
None	Not Applicable

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

Not Applicable

(Title of class)

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

178,513,589 Equity Shares.

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**

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP **International Financial Reporting Standards as
issued by the International Accounting Standard Board** Other

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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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 Technologies 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. In January 2003, we changed the name of our Company from Satyam Infoway Limited to Sify Limited. In October 2007, we again changed our name from Sify Limited to Sify Technologies Limited. “Sify”, “SifyMax.in,” “Sify e-ports” and “Sify online” are trademarks used by us for which we have already obtained registration certificates in India. All other trademarks or trade names used in this Annual Report on Form 20-F for the year ended March 31, 2013 (the “Annual Report”) are the property of their respective owners. In this Annual Report, references to “\$,” “Dollars” or “U.S. dollars” are to the legal currency of the United States, and references to “Rs.,” “rupees” or “Indian rupees” are to the legal currency of India . References to a particular “fiscal” year are to our fiscal year ended March 31 of such year. References to the “Group” mean Sify Technologies Limited and its subsidiaries. References to “equity shares” refer to our Indian Equity Shares, which are not traded on an exchange in India or the United States. References to “ADS’s” refer to our American Depositary Shares, which are traded on the NASDAQ Global Select Market under the symbol “SIFY.”

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 reference rate in the City of Mumbai on March 31, 2013 for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI), which was Rs.54.39 per \$1.00.

Our financial statements are presented in Indian rupees and prepared in accordance with English version of International Financial Reporting Standards as issued by the International Accounts Standards Board, or IFRS. 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, is not part of this Annual Report.

Forward-Looking Statements

This Annual Report contains “forward-looking statements”, as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on our current expectations, assumptions, estimates and projections about our Company, our industry, economic conditions in the markets in which we operate, and certain other matters. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as 'anticipate', 'believe', 'estimate', 'expect', 'may', 'intend', 'will', 'project', 'seek', 'should' and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. These statements are subject to known and unknown risks, uncertainties and other factors, which may cause actual results or outcomes to differ materially from those implied by the forward-looking statements. Important factors that may cause actual results or outcomes to differ from those implied by the forward-looking statements include, but are not limited to, those discussed in the “Risk Factors” section in this Annual Report. In light of these and other uncertainties, you should not conclude that the results or outcomes referred to in any of the forward-looking statements will be achieved.

We operate in rapidly changing businesses, and new risk factors emerge from time to time. We cannot predict every risk factor, nor can we assess the impact, if any, of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. All forward-looking statements included in this Annual Report are based on information available to us, and reflect management’s beliefs, on the date hereof, and we do not undertake to update these forward-looking statements to reflect future events or circumstances. In addition, readers should carefully review the other information in this Annual Report and in our periodic reports and other documents filed with the United States Securities and Exchange Commission (“SEC”) from time to time.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Summary of Consolidated Financial Data

You should read the summary consolidated financial data below in conjunction with the Company's consolidated financial statements and the related notes, as well as the section entitled "Operating and Financial Review and Prospects," all of which are included elsewhere in this Annual Report. The summary consolidated statements of income data for the five years ended March 31, 2013, 2012, 2011, 2010 and 2009 and the summary consolidated Statement of Financial Position as of March 31, 2013, 2012, 2011, 2010 and 2009, have been derived from our audited consolidated financial statements and related notes to the consolidated financial statements which were prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). Historical results are not necessarily indicative of future results.

Sify Technologies Limited
Consolidated Statement of Income
(In thousands of Rupees, except share data and as otherwise stated)

**Year ended
March 31,**

	2013	2012	2011 Rs	2010 Rs	2009 Rs	2013 Convenience translation into US\$ in thousands, except share and per share data (See Note1)
Revenue	8,570,316	7,698,949	6,886,629	6,710,188	6,162,161	157,572
Cost of goods sold and services rendered	(4,750,879)	(4,660,773)	(4,209,430)	(4,096,538)	(3,613,349)	(87,348)
Other income	50,858	37,377	72,693	131,789	89,105	935
Selling, general and administrative expenses	(3,041,505)	(2,547,209)	(2,441,799)	(2,482,415)	(2,813,425)	(55,920)
Depreciation and amortization	(848,210)	(691,560)	(685,836)	(656,797)	(498,872)	(15,595)
Impairment loss on intangibles including goodwill	-	-	(1,857)	(47,269)	(15,200)	-
Income from legal settlement	-	-	-	561,120	-	-
Profit / (loss) from operating activities	(19,420)	(163,216)	(379,600)	120,078	(689,580)	(356)
Finance income	73,853	59,313	45,698	27,994	122,565	1,358
Finance expenses	(260,441)	(306,732)	(258,622)	(293,873)	(251,660)	(4,788)
Net finance income / (expense)	(186,588)	(247,419)	(212,924)	(265,879)	(129,095)	(3,430)
Profit from sale of equity accounted investee and	657,577					12,090

rights therein						
Share of profit of equity accounted investee (net of income tax)		27,298	73,032	91,135	64,091	-
Profit / (loss) before tax	451,569	(383,337)	(519,492)	(54,666)	(754,584)	8,300
Income tax (expense) / benefit	-	-	-	81,479	(97,049)	-
Profit / (loss) for the year	451,569	(383,337)	(519,492)	26,813	(851,633)	8,300
Attributable to:						
Equity holders of the Company	451,569	(383,337)	(519,492)	17,027	(900,574)	8,300
Non-controlling interest		-	-	9,786	48,941	-
	451,569	(383,337)	(519,492)	26,813	(851,633)	8,300
Earnings / (loss) per share						
Basic earnings / (loss) per share	3.43	(3.71)	(8.20)	0.33	(20.77)	0.06
Diluted earnings / (loss) per share	3.43	(3.71)	(8.20)	0.33	(20.77)	0.06

Particulars**(Rupees in thousands, except share and per share data)****Balance Sheet data**

	March 31,					Convenience translation into US\$ in thousands, except share and per share data (see note 2)
	2013	2012	2011	2010	2009	2013
	Rs	Rs	Rs	Rs	Rs	\$
Cash and cash equivalents including restricted cash	1,001,052	892,768	543,097	878,698	1,710,798	18,409
Net current assets	755,219	995,834	(36,354)	(46,814)	(175,993)	13,885
Total assets	11,799,408	10,582,818	9,238,371	9,345,824	9,145,555	216,944
Total equity attributable to equity shareholders of the Company	6,311,422	5,850,654	4,665,792	4,171,092	3,851,693	116,040
Cash Flow Data						
Net cash provided by (used in):						
Operating activities	463,407	600,214	225,359	759,802	(371,556)	8,520
Investing activities	(212,748)	(901,971)	(730,650)	(896,683)	(1,174,156)	3,911
Financing activities	11,232	536,407	551,700	(354,486)	968,797	207

Notes

- The convenience translation to U.S. Dollars was performed at the reference rate in the City of Mumbai for cable transfers as published by Reserve Bank of India on March 31, 2013 of Rs.54.39 per \$1.00, 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 this rate or at all.

2. Reference to shares and per share amounts refer to our equity shares. Our outstanding equity shares include equity shares held by a depository underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share.

Exchange Rates

Our functional currency is the Indian rupee. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables.

The following table sets forth the high and low exchange rates for the previous six months and is based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI).

Month	High Rs.	Low Rs.
June 2013	60.59	56.42
May 2013	56.50	53.74
April 2013	54.88	53.94
March 2013	55.05	54.09
February 2013	54.48	52.97
January 2013	55.33	53.29

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the reference rate in the City of Mumbai on business days during the period for cable transfers in Indian rupees as published by the Reserve Bank of India (RBI). The column titled 'Average' in the table below is the average of the last business day of each month during the year.

Fiscal Year Ended March 31	Period end Rs.	Average Rs.	High Rs.	Low Rs.
2013	54.39	54.53	57.22	50.56
2012	51.16	47.94	54.23	43.94
2011	44.65	45.58	47.57	44.03
2010	45.14	47.36	50.53	44.94
2009	50.95	45.91	52.06	39.89

On March 31, 2013, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs.54.39.

On July 30, 2013, the reference rate in the City of Mumbai for cable transfers in Indian rupees as published by RBI was Rs. 59.83

Capitalization and indebtedness

Not applicable.

Reasons for the offer and use of proceeds

Not applicable.

Risk Factors

This Annual Report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this Annual Report.

Risks Related to our Company and Industry

We may incur losses in the future and we may not achieve or maintain profitability.

We have a net profit of Rs. 452 million (\$ 8.30 million) for the year ended March 31, 2013 with an accumulated deficit of Rs. 13,539 million (\$249 million) as at March 31, 2013, Net profits for the year ended March 31, 2013 included an exceptional profit of Rs. 658 million (\$12 million) on account of sale of our entire stake in MF Global Sify Securities India Private Ltd. We may in the future incur net losses and suffer negative operating cash flows. We expect to increase our expenditures as we continue to expand our services, promote our brand, and invest in the expansion of our infrastructure. We have and in the future may incur expenses in connection with investments in data centers and infrastructure. Accordingly, we will need to generate significant additional revenues in order to become profitable. Our business model is not yet proven in the Indian ITES space, and we cannot assure you that we will improve our profitability or that we will not incur operating losses in the future. If we are unable to become profitable and continue to sustain losses, we will be unable to build a sustainable business and our results of operations will be adversely affected. In this event, the price of our ADSs and the value of your investment may decline.

Our profits may be impacted consequent to the withdrawal of incentive for exports availed under the “Served from India” Scheme on account of changes in Indian Government policy.

The Government of India had introduced the “Served from India” Scheme (the “Scheme”) in order “to accelerate growth in export of services so as to create a powerful and unique Served from India brand, instantly recognized and respected world over.”

Under the Scheme, all service providers (the exporter of various services) are entitled to a customs duty credit called ‘Duty credit scrip’ at 10% of the foreign exchange earned during the financial year. A service provider will be eligible for such duty credit scrip only on satisfaction of two conditions: (a) the service provider should export services; and (b) the service provider should earn foreign exchange. This duty credit may be used for settling the customs duty payable to the Government of India on the import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, provided it is part of their main line of business.

The new Foreign Trade (2009-2014) policy announced by The Commerce Ministry of Government of India, on August 27, 2009 has explicitly excluded the telecom Sector, which is the sector in which we operate, from the purview of Served from India Scheme (SFIS). As a result of this new policy document, we are not eligible for the export incentive on Foreign Exchange earnings from all existing business streams other than e-learning and Infrastructure management services prospectively.

The loss of credits from the above scheme may adversely impact the financial condition and operating results. Effective August 2009 and subsequent notification in 2011, this benefit was withdrawn for our exports, which has adversely affected our results of operations.

We may fail to meet our obligations of export under Export Promotion Capital Goods Scheme (EPCG) and be subjected to penalties

During the year 2012-13, we have started availing the duty benefit for our import of capital goods under EPCG scheme available for export of services. Under such scheme, we are eligible to import capital goods without import duty with an obligation to generate export revenues to the extent of 8 times of value of such duty benefit availed. Though there are export revenues at present, we may fail to fulfill such obligation in the future. In case of shortfall in fulfillment of export obligation, we may be subjected to repay the duty benefit availed along with penal interest.

The global economic environment increased pricing pressure and decreased utilization rates could negatively impact our revenues and operating results.

Spending on technology products and services in most parts of the world has been rising for the past several years. However, there was a decline in the growth rate of global IT purchases due to the economic slowdown and we believe the market may not recover in near term.

With regard to the domestic Indian economy, pricing and competition continue to be under pressure. Lead times for orders or contracts have become much longer, as we have longer credit periods. These factors have affected and would affect the growth in demand for our corporate business.

Overseas economic performance also has a bearing on our Infrastructure and e-Learning businesses. Currency fluctuations will also lead to variations in revenue. The Infrastructure Managed Services, National Long Distance ('NLD') / International Long Distance ('ILD') business and eLearning may be affected in terms of prices and growth.

Reduction in IT spending and extended credit terms arising from or related to the economic slowdown, and any resulting pricing pressures, reduction in billing rates, increased credit risk may adversely impact our revenues, gross profits, operating margins and results of operations.

Currency fluctuations may affect the results of our operations or the value of our ADSs.

The exchange rate between the Indian rupee and the U.S. dollar has changed significantly in recent years and may continue to fluctuate substantially in the future.

We use derivative financial instruments, such as foreign exchange forward and option contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and payable and forecast cash flows denominated in US dollar. We may not purchase derivative instruments for a sufficient amount to adequately insulate ourselves from foreign currency exchange risks.

For the year ended March 31, 2013, we have recognized a gain of Rs. 18.88 million (\$0.35 million) on foreign exchange translations. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively and make them expensive.

Further, the policies of the Reserve Bank of India (RBI) may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. On August 2, 2011, the RBI issued Comprehensive Guideline on Derivatives to the banks/dealers with regard to suitability and appropriateness policy for offering derivative products to users. In addition, a high-level committee appointed by the Reserve Bank of India had recommended that India move to increased capital account convertibility, and proposed a framework for such increased convertibility. Full or increased capital account convertibility, if introduced, could result in increased volatility in the fluctuations of exchange rates between the Indian rupee and US dollar. Our US customers may leave us exposed to fluctuation in revenues based on currency fluctuations.

In July 2012, RBI has mandated conversion of Foreign currency balances lying in Export Earners Foreign Currency (EEFC) Account, before the end of subsequent month of the transaction. This may force us to convert foreign currency balances to INR at an unfavorable exchange rate, which will result in loss.

We may encounter legal confrontations as the Information Technology Act 2000 lacks specificity as to issues on online processes and/or Internet.

We believe that the Information Technology Act of 2000, (As amended by IT (Amendment) Act 2008 (the "ITA"), an Indian regulation, does not address all areas of online processes or the Internet. In exercise of the powers conferred by ITA 2000, the Government of India issued rules in April 2011 called Information Technology rules with stringent privacy norms for Internet Service Providers and the intermediary who is handling sensitive personal information. The ITA has mandated the service providers to maintain transactions, receipts, vouchers in specific formats. The records should be produced for inspection and audit by a government nominated agency or person. The Government of India is authorized to audit security and privacy protection measures. We are exposed to risks relating to unauthorized access, non-compliance of regulations by our franchisees for the cybercafés. Such events may negatively affect our reputation, and violations of the Information Act may result in fines, litigation or cause us to incur legal costs, which may adversely affect our business and results of operations.

Intense competition in our businesses could prevent us from improving our profitability and we may be required to further modify the rates we charge for our services in response to new pricing models introduced by new and existing competition which would significantly affect our revenues.

Our corporate network services compete with well-established companies, including Bharti Airtel, Tata Communications Limited or TCL, Reliance Infocomm, Tata Teleservices, and the Government-owned telecom companies, Bharat Sanchar Nigam Limited or BSNL and Mahanagar Telephone Nigam Limited or MTNL.

A significant number of competitors have entered India's Internet service provider industry. The large players, especially the state run telecommunication companies, may enjoy significant competitive advantages over us, including greater financial resources, which could allow them to charge prices that are lower than ours in order to attract subscribers. These factors have resulted in periods of significant reduction in actual average selling prices for

consumer Internet Service Provider (ISP) services. We expect the market for Internet access and other connectivity services to remain extremely price competitive. Increased competition may result in operating losses, loss of market share and diminished value in our services, as well as different pricing, service or marketing decisions. In addition, competition may generally cause us to incur unanticipated costs associated with research and product development. Additionally, we believe that our ability to compete also depends in part on factors outside our control, such as the availability of skilled employees in India, the price at which our competitors offer comparable services, and the extent of our competitors' responsiveness to their clients' needs. We cannot assure you that we will be able to successfully compete against current and future competitors, or that we will not lose key employees or customers to such competitors, which may adversely affect our business and results of operations.

Margin squeeze may affect the results of our operations.

Our margins have been stagnant recently due to competitive pricing pressure. Competition will continue to increase with the entry of new competitors into the enterprise service category. However, these competitors generally would prefer to operate with a few global customers who have business interest in India. They may attract customers for managed hosting services with their capability of superior network and competitive pricing. We expect the market for such services to remain extremely price competitive. Increased competition may result in the reduction in profit margin which would impact the results of our operations.

Procuring power at lower costs for data centers by the competitors may put us at a disadvantage in terms of pricing for our data center operations.

The single largest operating cost in data centers is power. Currently all data centers are now located in proximity to, or at the edge of major urban centers such as Mumbai, Chennai and Bengaluru. Inexpensive land and labor allow companies to locate new data centers in remote locations. We may neither be in a position to develop data centers at remote locations where power is cheap nor procure power at cheaper rates for our data centers. If our competitors procure power at lower cost, they may have an advantage over us with respect to pricing. Our inability to offer competitive pricing may result in loss of customers and will impact our business and result of operations.

We have added a number of new lines of business over the years, internet, MPLS VPN services, including the operation and licensing of public Internet cafés, as well as the provision of broadband services, security services, e-Learning software development services, managed network services, infrastructure management services and cloud offerings .

The risks we face in developing Internet service market include our inability to:

- continuously develop and upgrade our technology;
- maintain and develop strategic relationships with business partners;
- offer compelling online services and content;

We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network/data services and subscribers for our Internet access services as well as the loss of advertising revenues.

Despite our best efforts to optimize costs, our future operating results could fluctuate in part because our expenses are relatively fixed in the short term while future revenues are uncertain, and any adverse fluctuations could negatively impact the price of our ADSs.

Our revenues, expenses and operating results have varied in the past and may fluctuate significantly in the future due to a number of factors, many of which are outside