

# **KUBERA CROSS-BORDER FUND LIMITED**

Consolidated Financial Statements  
for the year ended 31 December 2015

# **Kubera Cross-Border Fund Limited**

## **Consolidated financial statements and notes to the consolidated financial statements for the year ended 31 December 2015**

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## **Chairman's Statement**

On behalf of the Board of Directors, I am pleased to present the audited financial statements of Kubera Cross-Border Fund Limited ("KUBC" or the "Fund") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015.

### **NAV and Discount**

The value of the Fund's net assets decreased from US\$ 56.90 million to US\$ 55.33 million during the year ended 31 December 2015. The Fund's net asset value ("NAV") per share has remained fairly constant at around US\$ 0.50 between 31 December 2014 and 31 December 2015.

The Fund's share price decreased from US\$ 0.26 as at 31 December 2014 to US\$ 0.20 as at 31 December 2015. The discount of the Fund's share price to NAV increased from 50 per cent as at 31 December 2014 to 60 per cent as at 31 December 2015.

### **Investment Manager**

Under the terms of the Investment Management Agreement, the Investment Manager has sole authority over the disposition and realisation of investments. With effect from 1 January 2016, the Fund will not pay the Investment Manager an investment management fee, in line with the resolutions approved at the shareholder Extraordinary General Meeting held in early 2013. The Manager's term will conclude on 26 December 2016, following which the Fund will be self-managed by its board of directors.

### **Portfolio Valuations**

The Fund's annual financial statements are prepared in accordance with US GAAP. The valuations of investments are reviewed and approved by the Audit Committee of the Board on a quarterly basis. All investments are recorded at estimated fair value, in accordance with ASC 820 that defines and establishes a framework for measuring fair value. The NAV is calculated on this basis. The methodology underlying the Fund's investment valuations is consistent with previous periods.

### **Audit Committee**

All Board members also comprise the Audit Committee. Following due consideration, it was resolved that the Audit Committee be disbanded from January 2016 and decisions normally reserved for an Audit Committee will be made by the Board as a whole.

### **Closing Remarks**

The Investment Manager's report provides information on the investment environment in India, together with progress regarding the implementation of the KUBC's realisation policy and performance of each of the Fund's investments. Further detailed information on investments, quarterly net asset values and other material events relating to the Fund are available through news releases made to the London Stock Exchange available on [www.londonstockexchange.co.uk](http://www.londonstockexchange.co.uk) under ticker KUBC and through the Fund's website at [www.kubercrossborderfund.com](http://www.kubercrossborderfund.com).

**Martin M. Adams**  
*Chairman*

## **Investment Manager's Report**

The benchmark 30-stock S&P BSE Sensex index closed at 26,118 on 31 December 2015, a decline of 4.7% during the year. In comparison, the mid-cap index (NIFTY Midcap) during the same period gained by 1.5% to close at 3,415.

During 2015, the US dollar appreciated by 4.7% against the Indian rupee, ending at 66.33 rupees to the US dollar on 31 December 2015, compared to 63.33 at the end of the previous year. The rupee has continued to depreciate since year end.

### **Portfolio summary**

At close of business on 31 December 2015, the Fund's unaudited net asset value per share ("NAV") was US\$ 0.50. The aggregate value of shareholder distributions to date together with the NAV amount to US\$ 0.83 per share. The denomination of the Fund is in US dollars; the Fund does not hedge the currency risk relating to its investments denominated in Indian rupees.

Since the inception of the Fund, the rupee has depreciated relative to the US dollar by over 46%. The Fund's performance in rupee terms, as of the 31 December 2015 NAV, amounts to a multiple of 1.10x of cost; in US dollar terms as mentioned above it is 0.83x (inclusive of total distributions of \$ 0.33/share).

The Manager, with the support of the Board, continues to explore every possibility of realizing value in the remaining holdings of the Fund. Apart from individual company sales processes, the Fund continues to also examine a full portfolio sale. There is no guarantee that any of these efforts will result in a positive outcome.

## Major Portfolio Holdings

Note: Fiscal years' end in 31 March. FY2016 is the fiscal year ending 31 March 2016 and estimates for this year are the portfolio company's board approved budgets or Kubera Partners' estimates – there is no assurance that these will be actual achieved results.



Synergies Castings Limited ('SCL') manufactures alloy and chrome-plated wheels for global and Indian Original Equipment Manufacturers ('OEMs'). The company has one of the few integrated chrome-plating facilities in the world, and is the only one in India, with the capability to manufacture large diameter wheels.

### Investment Summary

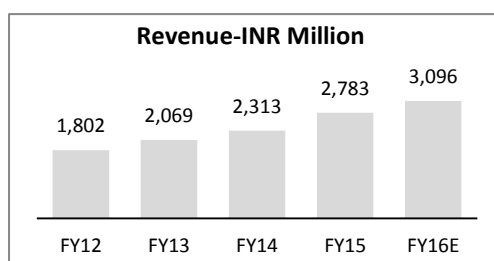
Investment Date	December 2007
Fund ownership	58.3%
Investment Amount	\$26.8 million
Current carrying value	\$19.43 million*
Current NAV	\$0.18 per share
Types of Security	Equity & Preference shares in India operating company
Selected Investor Rights	<b>Liquidity Preference Yes      Board Seats None</b>

\* Excludes co-investment by affiliates of the Investment Manager which amounts to 9% of every investment made by the Fund.

### Company Positioning

- **Targeting an attractive niche:** SCL is one of the few integrated chrome-plating facilities worldwide with an ability to produce large diameter wheels. It has a dominant market position in India.
- **Design and engineering capabilities:** SCL has a world class manufacturing facility that has been validated by most large OEMs; excellent, and award-winning, design and engineering capabilities.
- **Good mix of domestic and global OEM business:** SCL currently gets approximately 65% of its revenues from exports and the rest from the Indian market and has a strong order book both globally and in the domestic market.
- **Capable management team:** SCL is founded by four first-generation entrepreneurs with significant industry experience who hold the key positions in the organization.

### Current Situation



- The international & domestic order book continues to remain strong, as a result of a large increase in volume demand from General Motors for chrome alloy wheels.

- U.S. light vehicle sales in 2015 hit a new 15 year high with sales volume of 17.4 million - 5.8% YoY growth.
- The company continues to face working capital constraints, a continuing artifact of debt taken on during the macro crisis. Management has continued to find creative solutions, and is working on more long term fixes.
- For the first half of FY2016, the company recorded revenue of INR 1,410 million (YoY growth of 4%) and EBITDA of INR 198 million (YoY growth of 7%), with 34 bps improvement in EBITDA margins from 13.7% in H1FY15 to 14% in H1FY16.
- Business performance continues to remain strong and continued improvement is expected in the coming quarters.
- Strategic options continue to be evaluated, via a structured sale process.



Essel Shyam is the dominant market leader in providing technology led managed services to the broadcasting industry. It provides comprehensive, customized solutions across content operations (including content storage, enrichment and automated play-out) and distribution (including satellite broadcasting/ up-linking, digital streaming and cloud distribution).

### Investment Summary

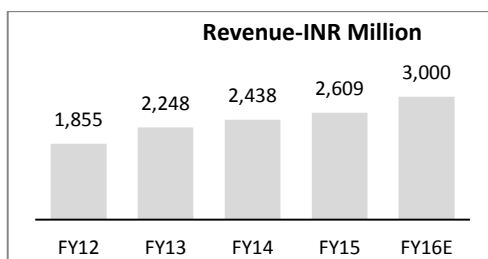
Investment Date	November 2008
Fund ownership	27.6%
Investment Amount	\$13.4 million
Current carrying value	\$27.6 million*
Current NAV	\$0.25 per share
Types of Security	Equity & Preference shares in India operating company
Selected Investor Rights	<b>Liquidity Preference Yes      Board Seats Two</b>

\* Excludes co-investment by affiliates of the Investment Manager which amounts to 9% of every investment made by the Fund.

### Company Positioning

- **Derivative play on media industry:** The media broadcasting industry in India is expected to witness high growth in the coming year with the launch of several new channels. As the largest outsourced provider of teleporting and other services, ESCL is well positioned to benefit from this growth.
- **Unique offering:** ESCL has a unique portfolio of offerings – teleporting, Digital Satellite News Gathering (DSNG) and system integration capabilities - for the media broadcast industry and has deep and long term customer relationships. It has a range of services for satellite-based communications which target the large government spending in this segment.
- **Strong performance record:** The company has been profitable since inception and has grown at ~20% CAGR for last ten years.
- **Strong management team:** ESCL has a strong and loyal team including the two founding directors with 70 employees having been with the firm for over 5 years.

### Current Situation



- The company continues to work, as disclosed earlier, on a potential initial public offering.
- We note two hurdles to an IPO since the end of the year: a. the fall in the Indian equities markets and the decline in the rupee-dollar exchange rate, which affects timing; and b. concerns expressed by the two promoter groups regarding the level of disclosure increasingly required by the Indian regulator about the other business affairs of promoters of public companies in India.

- We are working through these issues along with the lead banker and expect to have more clarity soon.
- Business performance continues to be strong, underpinning the demand for Payout and Teleport services of the company.
- For the first half of FY2016, ESCL recorded revenue of INR 1,445 million (YoY growth of 16%) and EBITDA of INR 437 million (YoY growth of 21%).
- The high margin, core business segment of teleport services continues to demonstrate good growth of 17% on a YoY basis, with more number of channels opting for payout services at higher rates.
- Overall EBITDA margins improved by 121 bps, on account of improvement in operating margins of other segments VSAT and Projects.
- The company plans to invest in newer technologies such as the leasing of content management facilities and cloud based content management services to maintain and expand its market share.



## Minor Portfolio Holdings: Investment holdings < 5%

### Investment Summary

Investment Amount	\$16.0 million
Current carrying value	\$1.4 million*
Current NAV	\$0.01 per share

\* Excludes co-investment by affiliates of the Investment Manager which amounts to 9% of every investment made by the Fund.



Ocimum offers genomics outsourcing services from offices in India and the US. The company provides information products and software solutions for the research community; basic reagents required in a genomics lab; and outsourced research services, including gene expression analysis, genotyping and hybridization services. The company's customers include some of the world's largest pharmaceutical and biotech companies.

### Current Situation

We are contemplating legal remedies.



Spark Capital ('Spark') is a full service investment bank with a strong presence in Southern India.

### Current Situation

- KUBC continue to make progress towards a potential buyback.
  - During the first half of FY2016, the company generated INR 231 million in revenues and EBITDA of INR 71 million.
  - We expect the company to continue its growth trajectory in FY2016, while maintaining operating and profitability margins.
-

## **Independent Auditor's Report**

### **To the Shareholders and Board of Directors of Kubera Cross-Border Fund Limited**

We have audited the accompanying consolidated financial statements of Kubera Cross-Border Fund Limited ('the Company') and its subsidiaries (collectively referred to as 'the Group'), which comprise the consolidated statement of assets and liabilities, including the consolidated schedule of investments as of 31 December 2015 and 31 December 2014 and the related consolidated statement of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2015 and 31 December 2014, the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**KPMG**  
Mumbai, India  
17 March 2016

# Kubera Cross-Border Fund Limited

## Consolidated statement of assets and liabilities

as at 31 December 2015

(Stated in United States Dollars)

	<i>Note</i>	2015	2014
<b>Assets</b>			
Investments in securities, at fair value (cost: US\$ 61,670,923, previous year: US\$ 68,959,723)	4(a), 4(b)	<b>58,452,133</b>	58,314,228
Cash and cash equivalents	4(e), 7	<b>2,148,934</b>	3,830,802
Prepaid expenses		<b>31,202</b>	119,844
<b>Total assets</b>		<b>60,632,269</b>	62,264,874
<b>Liabilities</b>			
Accounts payable		<b>107,091</b>	213,573
Tax liability	4(g), 9	-	-
<b>Total liabilities</b>		<b>107,091</b>	213,573
<b>Net assets</b>		<b>60,525,178</b>	62,051,301
<b>Analysis of net assets</b>			
<b>Capital and reserves</b>			
Share capital	8	<b>1,097,344</b>	1,097,344
Additional paid-in capital	8	<b>111,886,393</b>	111,886,393
Accumulated deficit		<b>(57,656,985)</b>	(56,080,442)
		<b>55,326,752</b>	56,903,295
Non-controlling interest	10	<b>5,198,426</b>	5,148,006
		<b>5,198,426</b>	5,148,006
<b>Total shareholders' interests</b>		<b>60,525,178</b>	62,051,301
<i>Net asset value per share</i>		<b>0.50</b>	0.52

Approved by the Board of Directors on 17 March 2016 and signed on its behalf by:

Director

See accompanying notes to the consolidated financial statements.

# Kubera Cross-Border Fund Limited

## Consolidated schedule of investments

as at 31 December 2015

(Stated in United States Dollars)

Name of the entity	Industry	Country	Instrument	Number of shares	2015			Number of shares	2014		
					Cost	Fair Value	% of net assets		Cost	Fair Value	% of net assets
NeoPath Limited (Previously known as Venture Infotek Limited)	Investment holding company	Mauritius	Equity shares and Preferred shares	27,928,224	-	5,026,864	8.31%	27,928,224	-	5,165,272	8.32%
Essel Shyam Communication Limited	Media services	India	Compulsorily convertible preference shares and Equity shares	6,680,371	14,682,134	30,264,509	50.00%	6,680,371	14,682,134	28,206,539	45.46%
Synergies Castings Limited	Automotive components	India	Compulsorily convertible cumulative preference shares, Equity shares and loans	15,876,948	29,388,556	21,660,760	35.79%	15,876,948	29,388,556	23,125,577	37.27%
Others	Life sciences, Financial services, IT infrastructure	India	Compulsorily convertible preference shares, Equity shares and loans	3,874,241	17,600,233	1,500,000	2.48%	4,587,063	24,889,033	1,816,840	2.93%
<b>Total investments in securities and loans to portfolio companies</b>					<b>61,670,923</b>	<b>58,452,133</b>	<b>96.58%</b>		<b>68,959,723</b>	<b>58,314,228</b>	<b>94.0%</b>

# Kubera Cross-Border Fund Limited

## Consolidated statement of operations

as at 31 December 2015

(Stated in United States Dollars)

	<i>Note</i>	<b>2015</b>	2014
<b>Investment income</b>			
Interest	4(a)	5,877	2,275
Dividend	4(a)	369,317	726,588
Foreign exchange loss	4(c)	(4,719)	-
Other income		-	32,500
		<u>370,475</u>	<u>761,363</u>
<b>Expenses</b>			
Investment management fee	4(j), 5	1,602,516	1,902,080
Carried interest	4(k), 5	-	-
Professional fees		176,372	124,392
Audit fees		55,470	76,930
Insurance		84,934	97,011
Directors' fees and expenses	6	84,600	90,902
Administration fees		141,000	131,500
License fees		19,045	13,734
Custodian fees		9,265	10,044
Other expenses		52,465	23,577
		<u>2,225,667</u>	<u>2,470,170</u>
<b>Net investment loss before tax</b>		<b>(1,855,192)</b>	<b>(1,708,807)</b>
Taxation	4(g), 9	-	-
<b>Net investment loss after tax</b>		<b>(1,855,192)</b>	<b>(1,708,807)</b>
<b>Realized and unrealized gain / (loss) from investments</b>			
Net realized loss from investment in securities	4(a), 4(b)	(7,097,636)	(2,754,844)
Net change in unrealized gain from investments in securities	4(a), 4(b)	7,426,705	2,201,424
<b>Net gain / (loss) from investments</b>		<b>329,069</b>	<b>(553,420)</b>
<b>Net decrease in net assets resulting from operations</b>		<b>(1,526,123)</b>	<b>(2,262,227)</b>
Equity holding of parent		(1,576,543)	(2,271,507)
Non-controlling interest		50,420	9,280
		<u>(1,526,123)</u>	<u>(2,262,227)</u>

See accompanying notes to the consolidated financial statements.

# Kubera Cross-Border Fund Limited

## Consolidated statement of changes in net assets

as at 31 December 2015

(Stated in United States Dollars)

	2015	2014
<b>Operations</b>		
Net investment loss	(1,855,192)	(1,708,807)
Net realized loss from investments in securities	(7,097,636)	(2,754,844)
Net change in unrealized gains from investments in securities	7,426,705	2,201,424
<b>Net decrease in net assets resulting from operations</b>	<b>(1,526,123)</b>	<b>(2,262,227)</b>
<b>Capital share transactions</b>		
Issuance of shares	-	-
Redemption of shares	-	(88,500)
<b>Decrease in net assets resulting from capital share transactions</b>	<b>-</b>	<b>(88,500)</b>
<b>Decrease in net assets</b>	<b>(1,526,123)</b>	<b>(2,350,727)</b>
Net assets, beginning of year	62,051,301	64,402,028
Net assets, end of year	60,525,178	62,051,301

# Kubera Cross-Border Fund Limited

## Consolidated statement of cash flows

as at 31 December 2015

(Stated in United States Dollars)

	2015	2014
<b>Cash flow from operating activities</b>		
Net decrease in net assets resulting from operations	<b>(1,526,123)</b>	(2,262,227)
<i>Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by / (used in) operating activities</i>		
Net unrealized gain from investments in securities	<b>(7,426,705)</b>	(2,201,424)
Realized loss from investment in securities	<b>7,097,636</b>	2,754,844
Proceeds from sale of investment in securities	<b>191,165</b>	201,630
Change in operating assets and liabilities:		
(Increase) / Decrease in prepaid expenses	<b>88,641</b>	(2,460)
Increase / (Decrease) in accounts payables	<b>(106,482)</b>	100,548
<b>Net cash used in operating activities</b>	<b>(1,681,868)</b>	(1,409,089)
<b>Cash flow from financing activities</b>		
Capital distribution to non-controlling interest shareholders	-	(88,500)
<b>Net cash used in financing activities</b>	-	(88,500)
Net decrease in cash and cash equivalents	<b>(1,681,868)</b>	(1,497,589)
Cash and cash equivalents, beginning of year	<b>3,830,802</b>	5,328,391
<b>Cash and cash equivalents, end of year</b>	<b>2,148,934</b>	3,830,802

See accompanying notes to the consolidated financial statements.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 1. Organization and principal activity

Kubera Cross-Border Fund Limited ('the Fund') was incorporated in the Cayman Islands on 23 November 2006 as an exempted company with limited liability.

The Fund is a closed-end investment company trading on the AIM market of the London Stock Exchange. The Fund makes private equity investments in cross-border companies, primarily in businesses that operate in the US-India corridor.

The Fund is managed by Kubera Partners, LLC ('the Investment Manager'), a Delaware limited liability company. The Investment Manager is responsible for the day-to-day management of the Fund's investment portfolio in accordance with the Fund's investment objective and policies and has full discretionary investment management authority.

The Fund is a Limited Partner in Kubera Cross-Border Fund LP ('the Partnership'), an exempted limited partnership formed on 28 November 2006, in accordance with the laws of Cayman Islands. The primary business of the Partnership is to purchase and sell investments for the purpose of carrying out an investment strategy that is consistent with the strategy described in the Admission Document and Offering Memorandum of the Fund.

Kubera Cross-Border Fund (GP) Limited, a company incorporated under the laws of the Cayman Islands and a wholly owned subsidiary of the Fund, serves as the General Partner of the Partnership.

The Partnership holds 100% ownership in Kubera Cross-Border Fund (Mauritius) Limited ('Kubera Mauritius'), a company incorporated in Mauritius. The primary business of Kubera Mauritius is to carry on business as an investment holding company.

Kubera Mauritius holds 100% ownership in New Wave Holdings Limited, a company incorporated in Mauritius. The primary business of New Wave Holdings Limited is to carry on business as an investment holding company.

FIM Capital Limited (formerly IOMA Fund and Investment Management Limited), ('the Administrator') is the administrator of the Fund and performs certain administrative and accounting services on behalf of the Fund.

### 2. Basis of Preparation

The accompanying consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles ('US GAAP'). The Fund is an investment company and follows the accounting and reporting guidance in Financial Accounting Standards Board ('FASB') Accounting Standards Codification Topic 946.

#### *Functional currency*

The measurement and presentation currency of the financial statements is the United States dollar rather than the local currency of Cayman Island reflecting the fact that subscriptions to and redemptions from the Company are made in United States dollars and the Company's operations are primarily conducted in United States dollars.



# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 2. Basis of Preparation (*Continued*)

#### *Basis of consolidation*

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiary, Kubera Cross-Border Fund (GP) Limited and its majority owned subsidiaries, the Partnership, Kubera Mauritius and New Wave Holdings Limited (together referred to as the ‘Group’). All material inter-company balances and transactions have been eliminated.

### 3. Use of estimates

US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, the consolidated results of operations during the reporting period and the reported amounts of increases and decreases in net assets from operations during the reporting period. Significant estimates and assumptions are used for, but not limited to, accounting for the fair values of investments in portfolio companies. Management believes that the estimates made in the preparation of the financial statements are prudent and reasonable. Actual results could differ from those estimates. Changes in estimates are reflected in the financial statements in the period in which the changes are made and if material, these effects are disclosed in the notes to the financial statements.

### 4. Significant accounting policies

#### *a. Investment transactions and related investment income and expenses*

Investments in securities are held in the custody of Kotak Mahindra Bank Limited. Investment transactions are accounted for on a trade date basis.

Realized gains and losses and movements in unrealized gains and losses are recognized in the statement of operations and determined on a weighted average cost method basis. Movements in fair value are recorded in the statement of operations at each valuation date.

Dividend income is recognized when the right to receive dividend is established and is presented net of withholding taxes. Interest income and expense are recognized on an accruals basis except for securities in default for which interest is recognized on a cash basis.

#### *b. Fair value*

##### *Definition and hierarchy*

Investments are recorded at estimated fair value as at the balance sheet date. The Group follows ASC 820 “Fair Value Measurements and Disclosures” which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (*Continued*)

#### b. Fair value (*Continued*)

##### *Definition and hierarchy (Continued)*

ASC 820 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value as determined by the Board of Directors are classified and disclosed in one of the following categories:

*Level I* - Unadjusted quoted prices in active markets for identical assets or liabilities that the Group has the ability to access.

*Level II* - Observable inputs other than quoted prices included in Level 1 that are not observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

*Level III* - Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Group's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

In determining fair value, the Group uses various valuation approaches. Inputs that are used in determining fair value of an instrument may include price information; quotations received from market makers, brokers, dealers and / or counterparties (when available and considered reliable); credit data; volatility statistics and other factors. Inputs, including price information, may be provided by independent pricing services or derived from market data. Inputs can be either observable or unobservable.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level III. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (*Continued*)

#### b. Fair value (*Continued*)

##### *Valuation*

##### *Listed equity securities*

Investments in equity securities that are freely tradable and are listed on a national securities exchange are valued at their last sales price as of the valuation date. These investments are classified as Level I in the fair value hierarchy and include common stocks and preferred stock.

##### *Private company*

Investment in private company consists of a direct ownership of common and / or preferred stock of a privately held company. The transaction price, excluding transaction costs, is typically the Group's best estimate of fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values in the investment's principal market under current market conditions.

The Group performs ongoing reviews based on an assessment of trends in the performance of each underlying investment from the inception date through the most recent valuation date. These assessments typically incorporate the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets and changes in financial ratios or cash flows.

##### *Valuation process*

The Group establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level III of the fair value hierarchy are fair, consistent, and verifiable. The Group designates the Investment Manager to oversee the entire valuation process of the Group's investments.

The Investment Manager is responsible for reviewing the Group's written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies.

Valuations determined by the Investment Manager are required to be supported by market data, third-party pricing sources; industry accepted pricing models, or other methods the Investment Manager deems to be appropriate, including the use of internal proprietary pricing models.

In completing the valuations of investments in equity shares, preferred shares, compulsorily convertible preference shares, compulsorily convertible cumulative preference shares and loans having a fair value of US\$ 58,452,133 (previous year: US\$ 58,314,228), the Investment Manager considers the following:

- recent prices of similar investments, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. Comparable transactions look at multiples such as the EV/EBITDA ratio, among others; and

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (Continued)

#### b. Fair value (Continued)

##### Valuation process (Continued)

- discounted cash flow projections based on reliable estimates of future cash flows. The projected income and expense figures are mathematically extended with adjustments for estimated changes in economic conditions. The discount rates used for valuing equity securities are determined based on historic equity returns for other entities operating in the same industry for which market returns are observable. The discount rate adopted for the investments ranged from 12.6% - 16.4%.

There are significant uncertainties surrounding these assumptions and the impact of such uncertainty cannot be quantified.

The following table summarizes the valuation of the Group's investments based on ASC 820 fair value hierarchy levels as of 31 December 2015.

	Total	Level I	Level II	Level III
Investments in securities and loans to portfolio companies	58,452,133	-	-	58,452,133
<b>Total</b>	<b>58,452,133</b>	<b>-</b>	<b>-</b>	<b>58,452,133</b>

The changes in the investments classified as Level III are as follows:

Balance at 1 January 2015	57,997,388
Net change in unrealized gains	454,745
Balance at 31 December 2015	58,452,133

The following table summarizes the valuation of the Group's investments based on ASC 820 fair value hierarchy levels as of 31 December 2014.

	Total	Level I	Level II	Level III
Investments in securities	58,314,228	316,840	-	57,997,388
<b>Total</b>	<b>58,314,228</b>	<b>316,840</b>	<b>-</b>	<b>57,997,388</b>

The changes in the investments classified as Level III are as follows:

Balance at 1 January 2014	58,468,954
Proceeds from sale	(20,000)
Change in net unrealized gain	(451,566)
Balance at 31 December 2014	57,997,388

Total realized and unrealized gains and losses, if any, recorded for the Level III investments is reported in net realized gain (loss) on investments in securities and net change in unrealized gain (loss) on investments in securities respectively, in the statement of operations. Investment in securities includes loans given to subsidiaries of portfolio companies as financial support for working capital requirement with a fair value of US\$2,767,207.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (*Continued*)

#### b. Valuation process (*Continued*)

During the year ended 31 December 2015, the Group did not have any transfers between any of the levels of the fair value hierarchy.

#### c. Foreign currency translation

Assets and liabilities denominated in a currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate as at the reporting date. Purchases and sales of investments and income and expenses denominated in currencies other than U.S. dollars are translated at the exchange rate on the respective dates of such transactions.

The Group does not generally isolate that portion of the results of operations arising as a result of changes in the foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities. Accordingly, such foreign currency gain (loss) is included in net realized and unrealized gain (loss) on investments.

#### d. Buy back

The Fund repurchases its shares by allocating the excess of repurchase price over par value against additional paid-in capital.

#### e. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash within 90 days from the date of purchase. All cash balances are held at major banking institutions.

#### f. Related parties

Related parties include parties that are defined as such under FASB Accounting Standards Codification Topic 850-10-20 whereby amongst other criteria, parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

#### g. Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Group. Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between carrying amount of existing assets and liabilities in the consolidated financial statements and their respective tax bases and operating losses carried forward. Deferred tax assets and liabilities are measured using prevailing 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 the consolidated statement of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is not more likely than not.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (*Continued*)

#### *h. Fair value of financial instruments other than investment in securities*

The Group's investments are accounted as described in Note 4(a). The Group's financial instruments include other current assets, accounts payable and accrued expenses, which are realizable or to be settled within a short period of time. The carrying amounts of these financial instruments approximate their fair values.

#### *i. Comprehensive income*

The Group has no comprehensive income other than the net loss disclosed in the statement of operations. Therefore, a statement of comprehensive income has not been prepared.

#### *j. Investment management fees*

On 17 January 2013 and subsequently on 7 June 2013, the Board of Directors of the Fund fixed management fees for the years ending 31 December 2013, 2014 and 2015 on the following basis.

If, at any time prior to 31 December 2015, the Net Asset Value is less than 15 per cent of the Net Asset Value as at 1 January 2013, the investment management fees shall be varied by the Independent Board Members to either of the following:

- (a) 2 per cent of the Net Asset Value per annum (based on the Net Asset Value at the end of the previous quarter) less the administration fee payable to the Administrator for such period; or
- (b) a fixed amount per annum to be determined by the Independent Board Members (which shall be adjusted to take into account the administration fee payable to the Administrator).

Based on above, the Board has determined that it shall pay a management fee to the Investment Manager which shall be:

- US\$1,997,079 per annum for the period from 1 January 2013 to 31 December 2014 less the administration fee payable to the Administrator for such period;
- US\$1,697,515 for the period from 1 January 2015 to 31 December 2015 less the administration fee payable to the Administrator.

#### *k. Carried interest*

Under the terms of the Partnership Agreement, Kubera Cross-Border Incentives SPC – Carried Interest SP, the Special Limited Partner of the Partnership and an affiliate of the Investment Manager, is entitled to receive a carried interest from the Partnership equivalent to 20 per cent, of the aggregate return over investment received by the Partnership following the full or partial cash realization of an investment.

Aggregate return, for the purposes of calculating the carried interest, is defined as the net realized gains reduced by the net unrealized losses of the Partnership to the date of such distribution. Realized and unrealized gains or losses on each investment are determined on the most recent announced Net Asset Value ('NAV') immediately prior to the date of such distribution.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 4. Significant accounting policies (*Continued*)

#### *k. Carried interest (Continued)*

The payment of carried interest is conditional upon the fact that the last announced adjusted NAV of the Fund prior to the date of distribution should be equal to or greater than the Par Value. The adjusted NAV is arrived at by adding back the value of any income or capital distributions made by the Fund to its shareholders.

In addition, the carried interest payment is adjusted such that, the aggregate cumulative amount of carried interest paid at the date of such distribution will equal 20 per cent, of the eligible carried interest proceeds. Eligible carried interest proceeds may not be less than zero.

#### *l. Recent accounting announcements*

There are no recent accounting pronouncements that will have a material impact on the Group's financial condition or results of operations.

#### *m. Net asset value per share*

The net asset value per share is computed by dividing the net assets attributable to the shareholders by the number of shares at the end of the reporting period.

### 5. Investment management fees and carried interest

#### *Investment management fees*

For the year ended 31 December 2015, the Fund paid / provided for US\$ 1,602,516 towards the investment management fee. (Previous year: US\$ 1,902,080)

#### *Carried interest*

During the year ended 31 December 2015, no carried interest was paid / provided for by the Fund. (Previous year: Nil)

### 6. Directors' fees and expenses

The Fund pays each of its directors an annual fee of £20,000 and the Chairman is paid an annual fee of £25,000, plus reimbursement for out-of-pocket expenses incurred in the performance of their duties. The members of the Audit Committee are paid an annual fee of £2,000 and the Chairman of the Audit Committee is paid an annual fee of £5,000. Mr. Raghavendran has waived his director's fees as he has interest in the Investment Manager.

The Fund does not remunerate its directors by way of share options and other long term incentives or by way of contribution to a pension scheme.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 7. Cash and cash equivalents

	2015	2014
Cash at bank	548,934	830,802
Time Deposits	1,600,000	3,000,000
	2,148,934	3,830,802

### 8. Share capital and additional paid-in capital

	2015	2014
Authorized share capital:		
1,000,000,000 ordinary shares of \$0.01 each	10,000,000	10,000,000

	Number of Shares	Share Capital	Additional paid-in capital	Total
As at 1 January 2014	109,734,323	1,097,344	111,886,393	112,983,737
Capital distribution	-	-	-	-
As at 31 December 2014	109,734,323	1,097,344	111,886,393	112,983,737
<b>As at 1 January 2015</b>	<b>109,734,323</b>	<b>1,097,344</b>	<b>111,886,393</b>	<b>112,983,737</b>
<b>Capital distribution</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As at 31 December 2015</b>	<b>109,734,323</b>	<b>1,097,344</b>	<b>111,886,393</b>	<b>112,983,737</b>

Share capital consists of a single class of ordinary shares.

### 9. Income taxes

Under the laws of the Cayman Islands, the Fund, Kubera Cross-Border Fund (GP) Limited and Kubera Cross-Border Fund LP, are not required to pay any tax on profits, income, gains or appreciations and, in addition, no tax is to be levied on profits, income, gains, or appreciations or which is in the nature of estate duty or inheritance tax on the shares, debentures or other obligations of the Fund and its Cayman based subsidiaries, or by way of withholding in whole or part of a payment of dividend or other distribution of income or capital by the Fund and its Cayman based subsidiaries, to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Fund and its Cayman based subsidiaries.

Under laws and regulations in Mauritius, the Fund's majority owned subsidiaries, Kubera Cross-Border Fund (Mauritius) Limited and New Wave Holdings Limited, are liable to pay income tax on their net income at a rate of 15%. They are however entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of Mauritius tax payable in respect of their foreign source income tax thus reducing their maximum effective tax rate to 3%. Both subsidiaries have received a tax residence certificate from the Mauritian authorities certifying that they are residents of Mauritius, which is renewable on an annual basis subject to meeting certain conditions and which make them eligible to obtain benefits under the Double Tax Avoidance Treaty between Mauritius and India.



# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 9. Income taxes (*Continued*)

<i>Tax reconciliation</i>	<b>2015</b>	<b>2014</b>
<b>Net decrease in net assets resulting from operations</b>	<b>(1,526,123)</b>	<b>(2,262,227)</b>
Add: Non allowable expense	<b>23,990</b>	<b>(7,271)</b>
Add: Loss of non-taxable entities	<b>2,096,432</b>	<b>2,347,257</b>
Less: Movement in unrealized gain on investment in securities / warrants	-	-
Add: Movement in net unrealized loss on investment in securities / warrants	-	-
Less: Movement in realized gain on investment in securities	-	-
Add: Movement in realized loss on investment in securities	<b>7,097,636</b>	<b>2,754,844</b>
Less: Movement in net unrealized gain on investment in securities	<b>(7,426,705)</b>	<b>(2,201,424)</b>
Less: Adjustment of brought forward loss	-	-
Net taxable income	<b>265,230</b>	<b>651,179</b>
Tax @ 15%	<b>39,785</b>	<b>97,677</b>
Foreign tax paid	<b>(75,616)</b>	<b>(148,767)</b>
Tax charge	-	-

The components of deferred tax balances are as follows:

	<b>2015</b>	<b>2014</b>
<b>Deferred tax assets</b>		
Business losses – New Wave Holdings Limited	<b>450</b>	<b>9</b>
Less: Valuation allowance	<b>(450)</b>	<b>(9)</b>
<b>Total deferred tax assets</b>	<b>Nil</b>	<b>Nil</b>

The Group has established a valuation allowance against the deferred tax asset related to business loss. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Accordingly, based on projections of future taxable income of the periods in which the deferred tax assets would be realizable, management is of the view that it is more likely than not, that the Group will not realize the benefits of the deferred tax assets. Accordingly, the Group has created a valuation allowance against the entire amount of deferred tax assets as of 31 December 2015.

ASC 740, “Accounting for Income Taxes” clarifies when and how to recognize tax benefits in the financial statements with a two-step approach of recognition and measurement. It also requires the enterprise to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll-forward of tax benefits taken that do not qualify for financial statement recognition. There are no uncertain tax positions and related interest and penalties as of 31 December 2015.

The Fund monitors proposed and issued tax law, regulations and cases to determine the potential impact to uncertain income tax positions. As at 31 December 2015, there are no potential subsequent events that would have a material impact on unrecognized income tax benefits within the next six months.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 10. Non-controlling interest

	2015	2014
Share capital	7,648,511	7,648,511
Accumulated share of loss	(2,450,085)	(2,500,505)
<b>Total</b>	<b>5,198,426</b>	<b>5,148,006</b>

Non-controlling interest is primarily composed of the partnership interests of Kubera Cross-Border Incentives SPC - Co-Investment Segregated Portfolio, a Cayman Islands company and an affiliate of the Investment Manager, in the consolidated affiliates.

### 11. Transactions with related parties

A. The following table lists the related parties of the Fund:

Name	Nature of relationship
Ramanan Raghavendran	Director
Martin Michael Adams	Independent Director
Robert Michael Tyler	Independent Director
Kubera Partners LLC	Investment Manager
Kubera Cross-Border Incentives SPC – Carried Interest SP	Special Limited Partner of the Partnership

B. Transactions during the year with related parties and amounts outstanding as at 31 December 2015 are as disclosed below:

i. Transactions during the year

	2015	2014
Investment management fees paid to Investment Manager	1,602,516	1,902,080
Director fee, consultancy fees, audit committee member fee and reimbursement of expenses paid to Martin Michael Adams	40,962	44,208
Director fee, consultancy fees, audit committee member fee and reimbursement of expenses paid to Robert Michael Tyler	37,889	41,943

ii. There were no amounts outstanding as at 31 December 2015. (Previous year: Nil)

### 12. Financial instruments and associated risks

The Group's investment activities expose it to various types of risks, which are associated with the financial instruments and markets in which it invests. The financial instruments expose the Group in varying degrees to elements of liquidity, market and credit risk. Risk management is carried out by the Board, with assistance from the Investment Manager to the extent possible and as appropriate.

The following summary is not intended to be a comprehensive summary of all risks inherent in investing in the Group and reference should be made to the Fund's admission document for a more detailed discussion of risks.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### 12. Financial instruments and associated risks (*Continued*)

Considering the unlisted nature of investments, each of the risks viz. market risk, industry risk, credit risk, currency risk, liquidity risk and political, economic and social risk are considered by management while undertaking the fair value of investments on a quarterly basis and appropriately factored in wherever necessary to ensure that they are within the risk appetite.

#### a) *Market risk*

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market variables such as interest, foreign exchange rates and equity prices, whether those changes are caused by factors specific to the particular security or factors that affect all securities in the markets. Investments are typically made with a specific focus on India and thus are concentrated in that region. Political or economic conditions and the possible imposition of adverse governmental laws or currency exchange restrictions in that region could cause the Group's investments and their markets to be less liquid and prices more volatile. The Group is exposed to market risk on all of its investments.

#### b) *Industry risk*

The Group's investments may have concentration in a particular industry or sector and performance of that particular industry or sector may have a significant impact on the Group. The Group's investments may also be subject to the risk associated with investing in private equity securities. Investments in private equity securities may be illiquid and subject to various restrictions on resale and there can be no assurance that the Group will be able to realize the value of such investments in a timely manner.

#### c) *Credit risk*

Credit risk is the risk that an issuer/counterparty will be unable or unwilling to meet its commitments to the Group. Financial assets that are potentially subject to significant credit risk consist of cash and cash equivalents. The maximum credit risk exposure of these items is their carrying value.

#### d) *Currency risk*

The Group has assets denominated in currencies other than the US Dollar, the functional currency. The Group is therefore exposed to currency risk as the value of assets denominated in other currencies will fluctuate due to changes in exchange rates. The Group's cash and cash equivalents are held in US Dollars.

#### e) *Liquidity risk*

The Group is exposed to liquidity risk as a majority of the Group's investments are largely illiquid. Illiquid investments include any securities or instruments which are not actively traded on any major securities market or for which no established secondary market exists where the investments can be readily converted into cash. Reduced liquidity resulting from the absence of an established secondary market may have an adverse effect on the prices of the Group's investments and the Group's ability to dispose of them where necessary to meet liquidity requirements. However, the Group maintains sufficient cash and marketable securities, and aims to maintain flexibility in funding.

# Kubera Cross-Border Fund Limited

## Notes to the consolidated financial statements

for the year ended 31 December 2015

(Stated in United States Dollars)

### Financial instruments and associated risks (*Continued*)

*f. Political, economic and social risk*

Political, economic and social factors, mainly changes in Indian laws or regulations and the status of India's relations with other countries may adversely affect the value of the Group's investments.

### 13. Financial highlights

The financial highlights presented below consist of the Group's operating expenses and net operating loss ratios for the years ended 31 December 2015 and 31 December 2014, and the internal rate of return ("IRR") since the Fund's admission to trading on AIM, net of all expenses, including carried interest to the Investment Manager :

	2015	2014
Net operating loss	(2.49%)	(3.51%)
Operating expenses before carried interest	3.63%	3.84%
Carried interest	-	-
Operating expenses after carried interest	3.63%	3.84%
Cumulative IRR since inception (including realized & unrealized gains and losses)	(4.73%)	(4.92%)

The net operating loss and operating expenses ratios are computed as a percentage of the Group's average net asset value during the period. Both ratios are presented on an annualized basis. The IRR is computed based on the Fund's actual dates of the cash inflows (capital contributions), outflows (cash and stock distributions) and the ending net asset value at the end of the period / year (residual value) as of each measurement date.

### 14. Subsequent events

The Group further evaluated subsequent events from the balance sheet date through to 17 March 2016, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

## Corporate Information

### Board of Directors

Martin Michael Adams, Chairman  
Robert Michael Tyler  
Ramanan Raghavendran

### Investment Manager

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