



KuberaCross-BorderFund

Building **Global Businesses**

Interim Report 2007

## About Us

Kubera Cross-Border Fund (KUBC) is a closed-end private equity fund listed on the London Stock Exchange (AIM) that is managed by Kubera Partners.

KUBC invests in businesses that leverage India-based resources for lower costs or greater access to talent. It focuses its investments on businesses that serve, or seek to serve, customers in North American and European markets for all or part of their activities. Investment targets for KUBC include Indian businesses that provide services to clients in developed country markets, and US-based companies whose business model may benefit substantially from the opportunity to utilize Indian outsourcing services. Although KUBC's investments focus primarily on businesses with links to India, if deemed appropriate, it may invest in businesses that utilize resources in other countries, such as China or the Philippines.

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## About the Fund

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Listing date	27 December 2006
Market listing	AIM (London Stock Exchange)
Total shares issued	206,000,000
Issue price	US\$1.00
Latest share price *	US\$1.02
Market capitalization *	US\$210.12 million
Stock code	KUBC
Country of incorporation	Cayman Islands

\* as at 8 August 2007

# Chairman's Statement

Martin Michael Adams

## Dear Shareholders:

I am pleased to present the first interim report of the Kubera Cross-Border Fund Limited ('the Company') for the period ended 30 June 2007.

As outlined in the Admission Document for the Company when its shares were admitted to trading on the AIM market of the London Stock Exchange on 27 December 2006, the Company, advised by Kubera Partners LLC, its investment manager ('the Manager'), invests in businesses that operate in a cross-border environment. These businesses primarily operate between the US and India, although investments in other geographies may also form part of the Company's portfolio if the Manager believes it can bring distinctive competence and value to such investments.

## Investments

The Manager has screened a large number of opportunities on behalf of the Company over the course of the first half of 2007. During this period, the Company completed two investments, in Kejriwal Stationery, the leading Indian manufacturer of paper-based stationery products for the US market, and Adayana Inc., an industry-leading US-based provider of e-learning and training services that has a large technology development unit in Hyderabad, India. Each investment amounted to US\$20 million (including the 8.8% co-investment by affiliates of the Manager), or an aggregate of US\$40 million, for substantial minority interests in both cases.

## Indian environment

The favorable economic and regulatory changes of the last decade have created a new generation of export-oriented Indian companies. Of particular note here is the desire of many of these businesses to grow through Western acquisitions, as evidenced by several substantial transactions announced in the last two years. These businesses, and their management teams, view 'intelligent' capital as a critical component of their growth strategies, which plays to the Company's strengths and focus.

The Indian environment for private equity investments, while undoubtedly competitive, has worked in the Company's favor. The Manager's skill set, network and experience in cross-border environments makes it, on behalf of the Company, a partner of choice for export-oriented Indian companies. This has created a strong investment pipeline for India-domiciled investments for the Company.

In India, we expect the Company to remain sector-agnostic provided there is an export component to the investee company's plans. In addition, we expect to see the Company's Indian portfolio consist largely of substantial minority holdings, as control positions are rarely available.

## US environment

In the US, the Company has moderated its investment pace to match the build-out of the Manager's New York team. With a full team now in place, the Manager expects both deal flow and transaction capability to rapidly reach that of the Manager's Indian operation.

The Company is differentiated in the US market because of its focus on business services and IT services (reflecting the experience of the Manager). However, the Company has elected to decline several of the more prominent IT services and outsourcing investment opportunities, primarily due to valuation concerns – these concerns have largely been borne out by the stock market performance of public companies in these sectors over the last six months, and we expect opportunities to become more attractive in the coming months as valuations continue to correct.

#### Public market investments

The Company has evaluated several potential investment opportunities in quoted companies, in the US, the UK and India. The majority of these are so-called PIPEs, which the Manager treats as it would any private equity opportunity. The Company may, however, accumulate positions in public companies where a private equity opportunity could take time to fructify or could benefit from a pre-existing equity interest.

#### Financial performance

The Company issued US\$206 million shares at US\$1.00 each on 27 December 2006, raising net proceeds of US\$199.8 million. In accordance with US GAAP, all costs relating to the issue of the shares were written off to the income statement. At 30 June 2007, the net asset value per share was US\$0.977 and US\$36.5 million had been invested. Substantially all cash held pending investment in companies is placed in low-risk money market instruments.

It is to be noted that potential follow-on investments in portfolio companies are not specifically quantified, unless there is a contractual commitment to do so. In the case of both Adayana and Kejriwal Stationery, we are actively evaluating acquisitions that may give the Company the opportunity to invest further capital. Our anticipation is that the Company may invest an additional amount of between 50% and 100% of the original investment if such acquisitions come to fruition. The aggregate dollar amount invested to date should be evaluated in this context.

#### Prospects and shareholder information

Given the experience and track record of the Manager's partners the Company enjoys a competitive edge in the attractive cross-border niche in the India-centric private equity environment. The Board is confident, given the current pipeline of attractive investment opportunities as well as the Manager's team now being fully operational, that the proceeds of the initial public offering will be invested within 18 months from the date of Admission, subject to standard holdbacks, in companies demonstrating attractive potential long-term returns.

Information on existing and new investments, quarterly net asset values and other material events relating to the Company 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 or through the Company's website at [www.kuberacrossborderfund.com](http://www.kuberacrossborderfund.com).

Our thanks for your continued support.

**Martin M. Adams**  
Chairman

# Investment Manager's Report

Kubera Partners LLC

## Team

The Company and the Manager began effective operations at the time of the admission of the Company to the AIM market of the London Stock Exchange on 27 December 2006. Since then, the Manager has been fully occupied in making the Company's initial investments, and in building out its investment and support teams in Mumbai and New York – a process that is now largely complete – and is well positioned to meet the objectives laid out in the Company's Admission Document.

The Manager has built an investment team combining strong private equity and operational skill sets reflecting our strategy. Our professionals have several years of experience with leading consulting, IT and private equity firms including McKinsey and Company, AT Kearney, Cambridge Technology Partners and Rhone Capital. We have also built a strong support team in Mumbai to assist with our global operations, including finance, compliance, marketing and general administration. Details on the Manager and biographies of team members can be obtained at [www.kuberapartners.com](http://www.kuberapartners.com).

## Macro environment

The two most important macro trends that affect the Company's investment thesis – the growth in Indian GDP and the continued trend towards the offshoring of services and manufacturing in Western economies – remain firmly in place. Indian GDP growth was 9.1% during the first quarter of 2007, and the continued pressure on cost and efficiency in Western economies has driven strong offshoring growth, as evidenced by the strong performance of the leading India-

oriented IT and outsourcing companies. While we expect periodic political pressure in the West as well as greater efficiency imposed by a strengthening rupee, the underlying globalization thesis of the Company appears to be secure for the foreseeable future. China continues to dominate lower-end manufacturing but India is making impressive strides in products involving a significant design, engineering, services or customer support component.

## Investment environment and strategy

In both India and the US, we operate in a competitive private equity environment. In India, for example, US\$7.5 billion of private equity investments were consummated during the course of 2006. In our specific target area of cross-border businesses, our primary competition arises from global private equity firms that have operations in both Western economies and India. We have found that both in the US and in India, management teams are becoming increasingly aware of the importance of a stable value-added capital partner. Our exclusive focus on cross-border businesses, our integrated global approach, our network, and our track record generate proprietary deal flow, even when there is an intermediary involved or where there is competition. In both our investments to date, Adayana (in the US) and Kejriwal Stationery (in India), we were able to stop an intermediated process at an early stage and obtain superior terms as a consequence of our focus and expertise. While there is no assurance that this favorable environment will continue indefinitely, at this time we are well-positioned to continue sourcing attractive investments.

### Investment criteria and structure

In evaluating potential investments on behalf of the Company, we have created a formal deal 'escalation' process, with numerous checkpoints and investment committee deliberations, to ensure that our work at all times supports the investment thesis as well as the Company's mandate.

We seek to invest at least US\$20 million (between the Company and the co-investment by the Manager's affiliates) in any one investment round, but have evaluated several exceptions to this criterion when we see unusual upside potential, or believe there is a high likelihood of increasing our capital commitment over time. We have also evaluated several investments where the equity commitment would be in excess of US\$40 million, which is the upper limit of what is permissible for the Company - in such situations we engage co-investors as appropriate. In selected cases, we may take passive positions in listed companies where we see a potential path to a larger negotiated transaction, and have also evaluated certain fund investments where we can create a pass-through structure such that the Company's shareholders do not bear any additional economic burden.

When evaluating opportunities, we give precedence to the quality of the management team and the relationship we have formed with them. Given our value-added approach, this element is critical as it drives their receptivity to our advice and assistance. We conduct detailed diligence of the global market opportunity prior to

making any investment, in addition to standard legal, accounting, operational and business diligence. Of course a detailed economic model, allowing us to assess whether the investment generates base case returns in our target range, is the foundation for a decision to proceed with an investment.

Our investment structures for unlisted private companies are designed to mitigate downside risk and provide strong governance. These also occasionally have tangible economic value that equates to a lower effective valuation. We do not typically disclose the details of our specific structures for numerous reasons including protecting the underlying portfolio company in its day-to-day business operations in competitive environments, but as a matter of policy we generally seek a liquidity preference so as to greatly mitigate downside risk; often have redemption rights at a defined point (usually five years), again to mitigate downside risk; have several veto rights and governance provisions; have standard minority economic rights where appropriate, including pre-emptive, co-sale and tag-along rights; and typically take one or more seats on the company's board of directors.

It goes without saying that all these elements cannot guarantee superior returns, but we believe the probability of a favorable outcome is significantly increased as a consequence.

### Investments

During the period covered by this report, the Company completed two investments,

in Kejriwal Stationery, the leading Indian manufacturer of paper-based stationery products for the US market, and Adayana Inc., an industry-leading US-based provider of e-learning and training services that has a large technology development unit in Hyderabad, India. In both cases the Company obtained substantial minority interests in the underlying companies (in excess of 25%), significant downside protection features, and strong governance rights including board seats and several veto rights. We are engaged with both companies in assisting with their growth strategies, primarily in the following three areas: recruiting in the US and in India at a senior level, evaluating follow-on acquisitions, and improving board reporting and governance.

Given the unlisted and recent nature of these investments, it is too early to contemplate valuation changes. However, both companies continue to generate strong results. Kejriwal Stationery is now the leading Indian exporter of paper-based stationery products to the US, in less than three years; and Adayana has shown strong growth in both the US and the Indian markets. We will keep you informed as developments occur in our portfolio.

### Pipeline

The strength of our investment pipeline, developed in a short period, has been a source of satisfaction for us. We have developed a structured approach to sourcing investments based on past

experience. Components of our sourcing strategy include: a systematic outreach program to intermediaries in both India and the US; mining our individual networks; and a 'top-down' sector research effort in selected sectors that we believe are well-positioned for our involvement. As a consequence, we have screened a large number of potential investments, and expect this flow of opportunities to only get better.

We have been judicious in making investments and have brought stringent discipline to evaluation and diligence. In three cases over the last six months, we declined an investment opportunity well into the diligence stage as the facts did not support the investment thesis. While it is disappointing to decline investment opportunities at a late stage given our limited time and resources, we do not intend to compromise in our approach.

### Conclusion

We are pleased with the continued strength of our investment theses, our existing investments, the quality of our investment pipeline, and the composition of our team. We are confident that as our portfolio is built and then matures, investors in the Company will obtain unique exposure to the export side of the India story - India as a 'factory to the world' for products and services.

Kubera Partners LLC  
Investment Manager

# Investments

## ADAYANA

### Adayana Inc.

Adayana is a learning services outsourcing company that provides a range of technology-enabled learning services to a focused set of vertical markets that include automotive services; defense; food, agriculture and life sciences; and training outsourcing.

Adayana uses technology as an underlying enabler to support the training needs of its clients. The company effectively uses a cross-border business model, with sales, support, and other customer-facing functions in the US and other markets supported by a strong development organization in India.

An aggregate of US\$20 million was invested, of which a co-invest of 8.8% was provided by affiliates of the Investment Manager.

Domicile	US
Securities held	Series A Participating Preferred Stock; Series B Preferred Stock
Offices	Minneapolis, US and Hyderabad, India
Sector	Learning services
Website	<a href="http://www.adayana.com">www.adayana.com</a>
Acquisition date	26 June 2007
Purchase cost	US\$ 18,230,871
Book value	US\$ 18,230,871
Change on cost %	-
Ownership	Private



### Kejriwal Stationery

Kejriwal Stationery manufactures and distributes paper-related stationery products to customers predominantly in the US markets, using manufacturing operations in India. The Company also uses a cross-border model for customer service, logistics, technology and design innovation.

The Company's adherence to global pricing norms, high quality, and superior customer service has led to strong performance in recent years.

An aggregate of US\$20 million was invested, of which a co-invest of 8.8% was provided by affiliates of the Investment Manager.

Domicile	Singapore
Securities held	Convertible Redeemable Preference Shares
Offices	Mumbai, India and New York, US
Sector	Stationery products
Website	<a href="http://www.kejriwalgroup.net">www.kejriwalgroup.net</a>
Acquisition date	3 April 2007
Purchase cost	US\$ 18,230,871
Book value	US\$ 18,230,871
Change on cost %	-
Ownership	Private

# Balance Sheet (unaudited)

as at 30 June 2007

	Notes	US\$
<b>Investments</b>	3	36,474,762
<b>Current assets</b>		
Cash and cash equivalents		160,835,550
Accrued interest		4,110,676
		164,946,226
<b>Current liabilities</b>		
Accrued expenses		120,378
		120,378
<b>Net current assets</b>		164,825,848
<b>Net assets</b>		201,300,610
<b>Shareholders' equity</b>		
Issued capital	4	2,060,000
Share premium		203,940,000
Accumulated losses		(4,699,390)
		201,300,610
<b>Number of shares in issue</b>		206,000,000
<b>Net asset value per share</b>	5	0.977

# Statement of Income (unaudited)

for the period ended 30 June 2007

	Notes	US\$
<b>Income</b>		
Investment income	6	4,962,937
<b>Total income</b>		<b>4,962,937</b>
<b>Expenses</b>	7	
Organization and listing expenses		7,344,759
Investment management fee		1,995,615
Broker fee		20,092
Directors' fees		65,238
Professional fees		25,555
Insurance		200,101
Other expenses		10,967
<b>Total expenses</b>		<b>9,662,327</b>
<b>Loss before tax</b>		<b>(4,699,390)</b>
<b>Taxation</b>	8	<b>-</b>
<b>Net loss</b>		<b>(4,699,390)</b>

# Statement of Changes in Shareholders' Equity (unaudited)

for the period ended 30 June 2007

	Issued capital US\$	Share premium US\$	Accumulated losses US\$	Total US\$
Balance as at 23 Nov 2006 (incorporation date)	-	-	-	-
Issue of shares	2,060,000	203,940,000	-	206,000,000
Net loss for the period	-	-	(4,699,390)	(4,699,390)
<b>Balance as at 30 June 2007</b>	<b>2,060,000</b>	<b>203,940,000</b>	<b>(4,699,390)</b>	<b>201,300,610</b>

# Statement of Cash Flows (unaudited)

for the period ended 30 June 2007

	US\$
<b>Cash flows from operating activities</b>	
Net loss for the period	(4,699,390)
Adjustments for:	
Increase in interest receivable	(4,110,676)
Increase in accrued expenses	120,378
<b>Net cash used in operating activities</b>	<b>(8,689,688)</b>
<b>Cash flows from investing activities</b>	
Purchase of investments	(36,474,762)
<b>Net cash used in investing activities</b>	<b>(36,474,762)</b>
<b>Cash flows from financing activities</b>	
Issue of ordinary shares	2,060,000
Proceeds from share premium	203,940,000
<b>Net cash provided by financing activities</b>	<b>206,000,000</b>
Net increase in cash and cash equivalents	160,835,550
Cash and cash equivalents at the beginning of the period	-
<b>Cash and cash equivalents at the end of the period</b>	<b>160,835,550</b>

# Notes to the Financial Statements (unaudited)

for the period ended 30 June 2007

## 1. The Company

Kubera Cross-Border Fund Limited was incorporated on 23 November 2006 as a closed-end, Cayman Islands company established to make investments in businesses that leverage India-based resources for lower costs or greater access to talent. The Company has appointed Kubera Partners LLC ('the Investment Manager') as its investment manager. The Company focuses its investments on businesses that serve, or seek to serve, customers in North American and European markets for all or part of their activities. Investment targets for the Company include Indian businesses that provide services to clients in developed country markets, and US-based companies whose business model may benefit substantially from the opportunity to utilise Indian outsourcing services.

The registered office of the Company is PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange, on 27 December 2006.

## 2. Summary of significant accounting policies

### Basis of accounting

The financial statements expressed in US dollars have been prepared under the historical cost convention and in conformity with US GAAP.

### Cash and cash equivalents

Cash and cash equivalents of demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

### Interest income

Interest income is calculated on an accrual or, if applicable, effective yield basis.

### Valuation policy

The assets of the Company will be valued as follows:

- securities listed on a stock exchange or traded on any other regulated market will be valued at the last closing price on such exchange or market or, if no such price is available, at the mean of the bid and asked price on such day. If there is no such price or such market price is not representative of the fair market value of any such security, then the security should be valued based on quotations readily available from principle-to-principle markets, financial publications, or recognized pricing services, or a good faith estimate of fair value should be made in accordance with US GAAP, in consultation with the Investment Manager;
- if a security is listed on several stock exchanges or markets, the last closing price on the stock exchange or market which constitutes the main market for such security will be used;
- where the securities are not listed on any stock exchange, fair value shall be estimated with reference to US GAAP;

- if a revaluation of an unlisted security of the Company is proposed by the Investment Manager, it shall be accepted by the Company at its revised value only upon unanimous approval of the independent Directors of the Board;
- cash or other liquid assets will be valued at their face value with interest accrued to the end of the day;
- the value of accounts receivable, prepaid expenses and interest receivable and dividend income receivable will be the full amount thereof less any withholding tax unless the Board determines the value of the asset to be less than that amount;
- values expressed in a currency other than US dollars will be translated into US dollars at the average of the last available buying and selling price for such currency; and
- for avoidance of doubt, all derivatives, forwards or other option contracts on listed securities will be held at fair value. The Investment Manager may use such probable realization value estimated with care and in good faith by a competent professional appointed by the Investment Manager.

#### Foreign currency translations

The accounting records of the Company are maintained in US dollars. Foreign currency translations during the year are translated at the exchange rates that approximate those prevailing on transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into US dollars at exchange rates that approximate those prevailing on that date. Exchange gains and losses are calculated in income for the period.

### 3. Investments

Investments at value as at 30 June 2007:

	Number of shares	Closing balance US\$	Gain/(loss) US\$
<b>Unlisted securities</b>			
Kubera Cross-Border Fund LP <sup>1</sup>	–	36,457,070	–
Kubera Cross-Border Fund (GP) Limited <sup>2</sup>	200	17,692	–
<b>Total</b>		<b>36,474,762</b>	<b>–</b>

<sup>1</sup> The primary asset of which is its direct investment in Adayana Inc. and its indirect investment in Kejriwal Stationery Holdings Limited through Kubera Cross-Border Fund (Mauritius) Limited.

<sup>2</sup> The primary asset of which is its partnership interest in Kubera Cross-Border Fund LP.

#### 4. Share capital

##### Authorized:

1,000,000,000 ordinary shares of US\$0.01 each	US\$10,000,000
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##### Issued & allotted:

206,000,000 ordinary shares of US\$0.01 each	US\$2,060,000
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#### 5. Net asset value per share

The calculation of the net asset value per share is based on the net assets attributable to the shares as at 30 June 2007 of US\$ 201,300,610 or US\$ 0.977 per share.

#### 6. Investment income

The amount of the investment income as of 30 June 2007 of US\$ 4,962,937 comprises of interest income from deposits in bank and short-term, highly liquid investments:

Interest	US\$ 161,592
Income on short-term investments – realized	US\$ 690,669
Income on short-term investments – unrealized	US\$ 4,110,676
<b>Total</b>	<b>US\$ 4,962,937</b>

#### 7. Expenses

##### Investment management fee

Kubera Partners LLC, the investment manager, is entitled to receive an aggregate annual fee from the Company payable quarterly in advance at the rate of 2% of the net asset value of the Company.

##### Directors' fees

Each Director is paid a fee of £20,000 per annum and the Chairman is paid £25,000 per annum, plus reimbursement for out-of-pocket expenses incurred in the performance of their duties. Each of Messrs. Mahadeva and Raghavendran has waived his Director's fees for so long as he is interested in the Investment Manager.

#### 8. Taxation

Under the law of the Cayman Islands, the Company is 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 Company or by way of withholding in whole or part of a payment of dividend or other distribution of income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Company.

#### 9. Events after balance sheet date

There have been no material events since the balance sheet date.

# Notes

# Directors and Company Information

## Directors

Martin Michael Adams  
Robert Michael Tyler  
Pravin Ratilal Gandhi  
Kumar Mahadeva  
Ramanan Raghavendran

## Investment Manager

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