

**Evolve India Holdings plc**

**Annual Report**

For the year ended 31 December 2008

# CONTENTS

	Page
Management and Administration	1
Chairman's Statement	2-3
Investment Manager's Report	4
Directors' Report	5-6
Statement of Directors' Responsibilities	7
Report of the Independent Auditors	8
Audited Financial Statements of the Company:	
- Income Statement	9
- Balance Sheet	10
- Statement of Changes in Equity	11
- Cash Flow Statement	12
- Notes to the Financial Statements	13-24

## Management and Administration

<b>Directors</b>	Mr Christopher William Knight (Non-executive Chairman) ("William Knight") * Mr Sanjeev Mohta (Non-executive Director) Mr Mehdi Dazi (Non-executive Director) all of the registered office below *Independent
<b>Company Secretary and Registered Office</b>	Andrew James Baker 15-19 Athol Street Douglas Isle of Man IM1 1LB
<b>Administrator</b>	Equity Limited 15-19 Athol Street Douglas Isle of Man IM1 1LB
<b>Investment Manager</b>	Evolve India Advisors Incorporated Sea Meadow House Blackburne Highway P.O Box 116 Road Town, Tortola British Virgin Islands
<b>Nominated Adviser</b>	Seymour Pierce Limited 20 Old Bailey London ECM 7EN
<b>Broker</b>	Fairfax I.S. PLC 46 Berkeley Square London W1J 5AT
<b>English Legal Advisers to the Company</b>	Travers Smith LLP 10 Snow Hill London EC1A 2AL
<b>Isle of Man Legal Advisers to the Company</b>	Cains Advocates Limited 15-19 Athol Street Douglas Isle of Man IM1 1LB
<b>Auditors</b>	KPMG Audit LLC Heritage Court 41 Athol Street Douglas Isle of Man IM99 1HN

## Chairman's Statement

2008 was both an eventful and difficult year for the investor community across the world. The collapse of major global firms has shaken global economies and financial markets. India, the exclusive investment focus of Evolve India Holdings plc ("EIH" or "the Company") was not immune with economic growth slowing to 6.6% during 2008-2009, as estimated by the Reserve Bank, and future growth forecasted to be between 5% and 6.5% for the financial year 2009-2010. Nevertheless, despite the slow-down, India will still rank amongst the world's faster growing economies and should continue to provide excellent opportunities to investors that are dedicated to building up exposure to the Indian private equity sector.

### Results

The net assets of EIH as at 31 December 2008 were valued at US\$46.3 million and net asset value ("NAV") per share at that date was US\$0.713, a reduction in NAV per share of 38% over the year based on 65,000,002 ordinary shares in issue. This reflected primarily the fall in market values as opposed to market changes in the trading performance of individual companies the Company has invested in. The loss for the year was US\$27.0 million. This loss was the result of unrealised write-downs on the investments of US\$24.9 million and short-term loan of US\$2.5 million.

To increase transparency to investors, the Company's investment portfolio has been redesignated in the year from available-for-sale financial assets to financial assets at fair value through profit or loss. As a result of this redesignation, fair value gains and losses are now recorded in the income statement, which the Board considers to be in line with best practice for investment companies. The redesignation has no effect on NAV.

The past year has been a year of consolidation for the Company with no new investments having been made during the year, the Company being fully committed in accordance with its Admission Document issued at the time of its admission to AIM. Investments at the year-end comprise two funds, Evolve India Fund ("EIF") and Evolve India Life Sciences Fund ("EILSF") and three direct/structured investments. A fourth direct/structured investment was realised during the year, generating net income of 1.09 times investment cost. EIF has invested in 10 underlying funds and made 8 co-investments; the fair value of its investment portfolio in US dollar terms being estimated at a multiple of 0.9 times investment cost as at 31 December 2008. The portfolio of EILSF has been valued at a multiple of 1.00 times investment cost in US dollar terms. It should be noted that the Bombay Stock Exchange Index ("BSE" index or "Sensex") lost about 61.5% in value in the calendar year 2008 but it has appreciated approximately 56.3% in value between 31 December 2008 and 31 May 2009. With around 20% of EIF's portfolio by cost in listed investments, the general increase in the Indian markets should be reflected positively in the next valuation of EIF's investment portfolio.

### Outlook

Due to the overall depressed economic outlook and high volatility in the financial markets, the private equity investment and exit activities in India have reduced significantly during 2008. During January to December 2008, private equity investments (excluding real estate transactions) worth US\$10.7 billion (across 399 deals) were made, which was lower when compared to US\$14 billion (excluding real estate deals) investments across 439 deals during the same period of the previous year. Private equity firms exited from 31 investments compared to 65 exits in 2007. According to a recent survey among private equity fund managers in India, about two-thirds of the respondents expect the number and size of investments to fall in 2009 and over 90% believe that exits will be fewer as compared to 2008. About half of the respondents believe that mid-market and buy-out transactions will take centre stage in 2009, whereas PIPE and pre-deals will reduce. The EIH Board anticipates that the strong and positive surprise Indian electoral result will have a hugely beneficial impact on the Indian economy and the domestic markets.

Once market conditions improve the Board will give consideration to further fundraising in order for EIH to be in a position to expand its portfolio and pursue a similar strategy of investing in existing private equity funds and co-investing with these and other such funds.

### Strategy

As the largest limited partner in EIF and with 70% of the Company's portfolio invested in it, the Board's stated aim is to continue to gain familiarity with the management teams of the underlying investee funds and their respective portfolios. The Board has sought to be represented on the Board of EIF and it is expected that representatives of the Company will be invited to attend EIF's annual meetings for its limited partners. The same applies to EILSF with whom the Company has one co-investment. Over time, the Board expects to balance investing through a fund of funds structure with a greater degree of co-investing with managers with whom the Company has developed a strong relationship.

## **Chairman's Statement (continued)**

### **Strategy**

As previously announced, the Company's management agreement with Evolve India Advisers Inc expires at the end of September, and the Board will shortly be making an announcement regarding the appointment of a new manager. As a consequence of the expiration of the management agreement, it is the intention of the Board that the Company changes its name to "EIH PLC". A resolution in connection with such name change will be put before shareholders at the forthcoming annual general meeting of the Company. A strong independent board is important for the future and to that end I am delighted to announce that Mr Anderson Whamond will be joining the Board as an independent director who will also serve on the Audit Committee. Mr Whamond has a background in investment banking and private equity investing in the emerging markets and is a resident of the Isle of Man.

The Board is wholly confident that India continues to represent a substantial investment opportunity and thanks you for your trust and support and looks forward to another year of exercising our passion for Indian private equity investments.

**William Knight**  
**Chairman**  
**10 June 2009**

## Investment Manager's Report

EIH has committed US\$45.1 million of the net proceeds of its initial public offering to Evolve India Fund ("EIF"), an established US\$250 million hybrid private equity fund of funds, with a co-investment pool, that focuses on growth capital in India. The Company has also committed US\$6.0 million to Evolve India Life Sciences Fund ("EILSF") a private equity fund investing in life sciences businesses in India. In addition, the Company committed US\$14.0 million in direct/structured investments; these include two co-investments into the RSB Group of around US\$7 million, (a leading supplier to the automotive industry in India, based in Pune) and into Gland Pharma Limited of around US\$4.5 million (a leading Indian manufacturer of generic injectible drugs based in Hyderabad). The investment into Gland Pharma is also a co-investment with EILSF – see below. The balance of US\$2.5 million was made as a structured loan to Katra Holdings Limited. The loan is in default and the Board of EIH has initiated strong measures for its recovery. The outstanding loan has been fully provided for in the 2008 financial statements.

### EIF

Established in 2005, EIF was amongst the first fund of funds focused on India and has built a highly diversified portfolio covering all key sectors in India. The strategy of EIF is to focus on funds targeting growth capital investments in India. EIF has invested in ten underlying Indian private equity funds and made eight co-investments as at 31 December 2008. EIF's commitments to underlying funds have ranged between US\$7.5 million and US\$30 million. The total number of portfolio companies (direct, co-investments and underlying fund investments including those exited) is 110 in well diversified growth sectors of the Indian economy. The portfolio has had fifteen successful full exits and five partial exits, realising a multiple of above 2.5 times on the invested cost. During 2008, EIF had committed US\$7.5 million to IDFC Private Equity Fund III. One of EIF's co-investments (a US\$0.4 million shareholding in Centurion Bank of Punjab) was exited in 2008 at a gross multiple of 2.6 times investment cost and a gross IRR of 54%.

The listed co-investments include US\$6.1 million shareholding in Consolidated Construction Consortium Limited, US\$4.3 million shareholding in Zylog Systems Limited and US\$1.1 million shareholding into Eastern Silk Industries Limited. The unlisted investments held by EIF include US\$3.0 million shareholding in Emaar MGF Land Limited (a leading Indian real estate company), US\$10.0 million shareholding in RSB Group, a US\$12.5 million shareholding in Gland Pharma Limited and a project level funding of US\$21.1 million with Lodha Healthy Constructions and Developers Private Limited (a leading real estate developer in India).

The listed investments described above are made in US dollars and valued at their closing price on 31 December 2008.

As at 31 December 2008, EIF was 80% drawn-down and had returned around 12% of drawn-down capital to its investors. The total commitment of EIF to its underlying funds is US\$157.5 million and, out of this, approximately US\$110 million has been disbursed to the underlying funds. The total commitment of EIF to co-investments was US\$58.5 million as at 31 December 2008; all of which has been invested since the year-end.

### EILSF

EILSF is a Mauritius based private equity fund with the investment strategy of investing in Indian life sciences companies. The commitments of EILSF are US\$89.2 million. As at 31 December 2008 EILSF had made two investments in two unlisted companies, investing around US\$12.5 million into a shareholding in Gland Pharma Limited of Hyderabad (a leading Indian manufacturer of injectible generic drugs, in which EIF is also a co-investor), and around US\$6.5 million in Healthcare Global Enterprises Limited "a diagnostic" company headquartered in Bangalore.

Since the beginning of 2009, EILSF has committed approximately US\$5 million to an Indian pharmaceutical company and over the next few months EILSF expects to make further commitments totalling 10-15% of committed capital. Potential deal flow is robust and investments into companies in the medical devices and pharmaceutical businesses would further diversify the portfolio.

**For and on behalf of the Investment Manager**  
**Evolve India Advisors Incorporated**

## Directors' Report

The Directors hereby submit their annual report together with the audited financial statements of Evolvence India Holdings plc for the year ended 31 December 2008.

### The Company

The Company is incorporated in the Isle of Man and has been established to provide investors access to a diversified Indian private equity portfolio.

### Results and Dividend

The results of the Company for the year and the financial position of the Company at the end of the year are set in the attached financial statements.

Amount raised in IPO	US\$65.0 million
Net proceeds	US\$59.9 million
Committed to Evolvence India Fund (EIF)	US\$45.1 million
Committed to Evolvence India Life Sciences Fund (EILSF)	US\$ 6.0 million
Capital committed to current co/direct/structured investments	US\$14.0 million

Audited valuation as at 31 December 2008

* NAV	US\$46.3 million	(2007: US\$75.2 million)
* NAV per share	US\$0.713	(2007: US\$1.158)

The Company announces its audited net asset value of US\$0.713 per share as at 31 December 2008. The NAV per share of US\$0.713 as at 31 December 2008 represents a decline of 38% over the NAV per share of US\$1.158 as at 31 December 2007.

There being no available profits, the Directors recommend that no dividend be declared for the year. US\$1,950,000 was paid during the year in respect of a final dividend for the period ended 31 December 2007.

### Investment Policy

In recent years, the most attractive segment in India in which to invest has been in growth capital opportunities arising from the need by profitable Indian companies, with robust balance sheets, that require additional capital in order to meet a growing demand for their goods and/or services and benefit from the rapid expansion of the Indian economy, rising disposable incomes and growing exports.

The Company will continue to invest in a diverse portfolio of companies across India through its investments in EIF, EILSF as well as through direct investments. It is anticipated that once funds are fully invested, the Company will have an interest in a balanced portfolio of investments with a wide sectoral and regional spread in India and varied financial characteristics.

### Directors

The Directors during the year and up to the date of this Report were as follows.

	Appointed	Resigned
Mr Khaled S M H Almehairi (Non-executive Chairman)	24 November 2006	28 October 2008
Mr Jegannathan Venkatarajan (Chief Executive Officer)	24 November 2006	24 January 2008
Mr Christopher William Knight (Non-executive Director)	24 November 2006	27 June 2008
Mr Mohamed Abdel-Hadi (Non-executive Director)	26 February 2007	28 October 2008
Mr Mehdi Dazi (Non-executive Director)	22 April 2008	-
Mr Jonathan Brown (Non-executive Director)	7 May 2008	27 June 2008
Mr Christopher William Knight (Non-executive Chairman)	28 October 2008	-
Mr Sanjeev Mohta (Non-executive Director)	28 October 2008	-

## **Directors' Report (continued)**

### **Directors' and Other Interests**

Mr Khaled S M H Almehairi a former director of the Company is a director of EIF. The Company has invested in EIF. Mr Khaled S M H Almehairi is also a director of EILSF and the chairman of the investment committee of EILSF. The Company has invested in EILSF. Mr. Jegannathan Venkatarajan was a director of Evolence India Advisors Inc. (the investment manager of the Company) and EIF Managers Limited (the investment manager of EIF).

None of the Directors nor any person connected with a director has any interest in the share capital of the Company.

### **Investment Manager**

Evolence India Advisors Inc gave notice of its intention to resign as the Investment Manager of the Company on 27 October 2008 which will take effect not later than 30 September 2009.

### **English Law Advisors to the Company**

Travers Smith LLP were appointed English legal advisors to the Company on 18 December 2008.

### **Independent Auditors**

Our auditors, KPMG Audit LLC, being eligible have expressed their willingness to continue in office in accordance with Section 12 (2) of the Companies Act 1982.

On behalf of the Board

### **William Knight**

Chairman  
10 June 2009



## **Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

On behalf of the Board

**William Knight**  
Chairman  
10 June 2009

# **Report of the Independent Auditors, KPMG Audit LLC, to the shareholders of Evolve India Holdings plc**

We have audited the financial statements of Evolve India Holdings plc for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1931 to 2004. We also report to if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and any other information accompanying the financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1931 to 2004.

**KPMG Audit LLC**  
*Chartered Accountants*  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man IM99 1HN

**Income Statement**  
for the year ended 31 December 2008

	Notes	For the year ended 31 December 2008	For the period from 10 November 2006 to 31 December 2007
		US\$	US\$
<b>Income</b>			
Interest income on cash balances		205,676	1,235,058
Interest income on short-term loans		1,244,157	539,572
Realised gain on available-for-sale investments		-	1,500,452
Realised gains on investments at fair value through profit or loss		490,168	-
Unrealised loss on investment at fair value through profit or loss	5	(24,899,491)	-
Excess provision for carried interest cost written-back		473,572	-
Other income		-	4,949
<b>Net investment (expense)/income</b>		<b>(22,485,918)</b>	<b>3,280,031</b>
<b>Expenses</b>			
Performance fees	8.2	(100,382)	-
Management fees	8.2	(149,482)	(77,572)
Administrative expenses		(270,583)	(202,542)
Transaction costs		-	(445,667)
Legal and other professional fees		(291,962)	(179,418)
Audit fees		(53,283)	(60,806)
Impairment provision	6	(3,614,519)	-
Other expenses		(5,737)	(68,240)
<b>Total operating expenses</b>		<b>(4,485,948)</b>	<b>(1,034,245)</b>
<b>(Loss)/profit before tax</b>		<b>(26,971,866)</b>	<b>2,245,786</b>
Income tax expense	15	-	-
<b>(Loss)/profit for the year/period</b>		<b>(26,971,866)</b>	<b>2,245,786</b>
<b>Basic and fully diluted (loss)/earnings per share (cents)</b>	13	<b>(41.50)</b>	<b>3.46</b>

The Directors consider that all results derive from continuing activities.

The accompanying notes form an integral part of these financial statements.

## Balance Sheet as at 31 December 2008

	Notes	31 December 2008 US\$	31 December 2007 US\$
<b>Non-current assets</b>			
Available-for-sale financial assets	5	-	53,837,671
Financial assets at fair value through profit or loss	5	36,149,784	-
<b>Total non-current assets</b>		<b>36,149,784</b>	<b>53,837,671</b>
<b>Current assets</b>			
Trade and other receivables	10	97,943	735,533
Short-term loans	6	-	10,320,000
Cash and cash equivalents	9	11,057,875	10,821,106
<b>Total current assets</b>		<b>11,155,818</b>	<b>21,876,639</b>
<b>Total assets</b>		<b>47,305,602</b>	<b>75,714,310</b>
<b>Equity</b>			
Issued share capital	12	1,274,510	1,274,510
Share premium		58,580,120	58,580,120
Revaluation reserve		-	13,148,279
Retained (loss)/earnings		(13,527,801)	2,245,786
<b>Total equity</b>		<b>46,326,829</b>	<b>75,248,695</b>
<b>Liabilities</b>			
Trade and other payables	11	978,773	465,615
<b>Total current liabilities</b>		<b>978,773</b>	<b>465,615</b>
<b>Total liabilities</b>		<b>978,773</b>	<b>465,615</b>
<b>Total equity and liabilities</b>		<b>47,305,602</b>	<b>75,714,310</b>

The financial statements were approved by the Board of Directors on 10 June 2009 and signed on their behalf by:

**William Knight**  
Director

**Sanjeev Mohta**  
Director

The accompanying notes form an integral part of these financial statements.

## Statement of Changes in Equity for the year ended 31 December 2008

	Share Capital US\$	Share Premium US\$	Revaluation Reserve US\$	Retained (Loss)/ Earnings US\$	Total US\$
Balance at 10 November 2006	-	-	-	-	-
Proceeds from shares issued	1,274,510	63,725,490	-	-	65,000,000
Share issue expenses	-	(5,145,370)	-	-	(5,145,370)
Net change in fair value of available-for-sale financial assets	-	-	13,148,279	-	13,148,279
Profit for the period	-	-	-	2,245,786	2,245,786
<b>Balance at 31 December 2007</b>	<b>1,274,510</b>	<b>58,580,120</b>	<b>13,148,279</b>	<b>2,245,786</b>	<b>75,248,695</b>
Balance at 1 January 2008	1,274,510	58,580,120	13,148,279	2,245,786	75,248,695
Reclassification to financial assets at fair value through profit or loss	-	-	(13,148,279)	13,148,279	-
Dividend paid	-	-	-	(1,950,000)	(1,950,000)
Loss for the year	-	-	-	(26,971,866)	(26,971,866)
<b>Balance at 31 December 2008</b>	<b>1,274,510</b>	<b>58,580,120</b>	<b>-</b>	<b>(13,527,801)</b>	<b>46,326,829</b>

The accompanying notes form an integral part of these financial statements.

## Cash Flow Statement for the year ended 31 December 2008

	Notes	For the year ended 31 December 2008 US\$	For the period from 10 November 2006 (date of incorporation) to 31 December 2007 US\$
<b>Cash flows from operating activities</b>			
(Loss)/profit before tax		(26,971,866)	2,245,786
<i>Adjustments:</i>			
Interest income on cash balances		(205,676)	(1,235,058)
Interest income on short term loans		(1,244,157)	(539,572)
Realised gains on available-for-sale investments		-	(1,500,452)
Realised gains on investments at fair value through profit or loss		(490,168)	-
Unrealised loss on investment at fair value through profit or loss		24,899,491	-
Excess provision for carried interest written-back		(473,572)	-
Transaction costs		-	445,667
Impairment provisions		3,614,519	-
<b>Operating loss before working capital changes</b>		<b>(871,429)</b>	<b>(583,629)</b>
Increase in trade and other receivables		(15,205)	(82,738)
Increase in trade and other payables		250,880	162,832
		<b>(635,754)</b>	<b>(503,535)</b>
Interest received		988,109	1,121,835
Transaction costs paid		-	(142,884)
<b>Net cash generated from operating activities</b>		<b>352,355</b>	<b>475,416</b>
<b>Cash flows from investing activities</b>			
Purchase of financial assets		(6,768,000)	(42,727,600)
Repayment of short term loan	6	7,820,000	-
Issue of short term loans		-	(10,320,000)
Realised gains on available-for-sale financial assets		-	1,500,452
Realised gains on financial assets at fair value through profit or loss		490,168	-
Capital distribution received	5	292,246	2,038,208
<b>Net cash generated from/(used in) financing activities</b>		<b>1,834,414</b>	<b>(49,508,940)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	65,000,000
Share issue expenses		-	(5,145,370)
Dividend paid		(1,950,000)	-
<b>Net cash (used in)/generated from financing activities</b>		<b>(1,950,000)</b>	<b>59,854,630</b>
<b>Increase in cash and cash equivalents</b>		<b>236,769</b>	<b>10,821,106</b>
Cash and cash equivalents at beginning of the year/period		10,821,106	-
<b>Cash and cash equivalents at end of the year/period</b>	<b>9</b>	<b>11,057,875</b>	<b>10,821,106</b>

The accompanying notes form an integral part of these financial statement

# Notes to the financial statements for the year ended 31 December 2008

## **1 The Company**

Evolve India Holdings plc was incorporated and registered in the Isle of Man under the Isle of Man Companies Act 1931-2004 on 10 November 2006 as a public company with registered number 118297C.

Pursuant to a prospectus dated 19 March 2007 there was a placing of up to 65,000,000 Ordinary Shares of £0.01 each. The number of Ordinary Shares in issue immediately following the placing was 65,000,002. The shares of the Company were admitted to trading on AIM, a market of that name operated by the London Stock Exchange plc following the closing of the placing on 23 March 2007.

The Company's agents and the Investment Manager perform all significant functions. Accordingly, the Company itself has no employees.

The Company currently does not have a fixed life but the Board considers it desirable that Shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, at the annual general meeting of the Company in 2012 a resolution will be proposed that the Company ceases to continue as presently constituted. Shareholders holding at least fifty per cent. of the shares must vote in favour of this resolution for it to be passed. If the resolution is not passed, a similar resolution will be proposed at every third annual general meeting of the Company thereafter. If the resolution is passed, the Directors will be required, within 3 months of the resolution, to formulate proposals to be put to Shareholders to reorganise, unitise or reconstruct the Company or for the Company to be wound up.

## **2 Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below.

### **2.1 Basis of presentation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs requires the Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Judgements made by the Directors in the application of IFRSs that have a significant impact on the financial statements and estimates with a significant risk of material adjustment in the next financial year relate to valuation of investments – see note 5.

### **2.2 Investments at fair value through profit or loss**

The Company until 31 December 2007 designated its investments as available-for-sale financial assets. From 2008, the Company has re-designated its investments as financial assets at fair value through profit or loss. They are included in

non-current assets in the balance sheet. The investments are measured at fair value with gains and losses recognised through the income statement.

The fair value of investments at fair value through profit or loss in unlisted equity investments is estimated by the Directors, with the advice of the Investment Manager. In estimating the fair value of the Company's investments in private equity funds consideration is taken of the valuations of underlying investments performed by the directors and managers of those funds. The valuation of the unlisted holdings in the co-investments and underlying funds investments are performed by using the most appropriate valuation techniques, including the use of recent arms' length market transactions, use of market comparables, use of discounted cash flows or any other valuation technique that provides a reliable estimate. Under the discounted cash flow method, free cash flows have been discounted using an appropriate weighted cost of capital.

# Notes to the financial statements continued

## for the year ended 31 December 2008

### **2 Significant accounting policies - continued**

#### **2.2 Investments at fair value through profit or loss - continued**

Under the market comparables method, an appropriate multiple (e.g. EV/PBDIT or EV/Revenue or Price to Earnings multiple) has been used. From the equity valuation arrived at using the above approaches, adjustments have been made for company specific discounts/premiums, scale discounts, illiquidity discounts and forward looking financial discounts/premiums.

Listed holdings in the co-investments and underlying funds are valued based upon prevailing market prices as of the date of valuation. The exited investments have been valued using the respective exited multiples.

#### **2.3 Loans and receivables**

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

#### **2.4 Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### **2.5 Foreign currency translation**

The US dollar is the functional currency and the presentation currency. Monetary assets and liabilities denominated in foreign currencies as at the date of these financial statements are translated to US dollars at exchange rates prevailing on that date. Expenses are translated into US dollars based on exchange rates on the date of the transaction. All resulting exchange differences are recognised in the income statement.

#### **2.6 Interest income and dividend income**

Interest income is recognised on a time-proportionate basis using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

#### **2.7 Cash and cash equivalents**

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### **2.8 Segment reporting**

The Company has one segment focusing on maximising total returns through investing in an Indian private equity portfolio of investments. No additional disclosure is included in relation to segment reporting, as the Company's activities are limited to one business and geographic segment.



# Notes to the financial statements continued

## for the year ended 31 December 2008

### 2 Significant accounting policies - continued

#### 2.9 Future changes in accounting policies

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date (accounting periods commencing after)
IAS 1 Presentation of Financial Statements (Revised)	1 January 2009
IAS 7 Statement of Cash Flows (Amended)	1 January 2010
IAS 23 Borrowing Costs (Amended)	1 January 2009
IAS 1 and IAS 32 Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amended)	1 January 2009
IAS 39 Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement (Amended)	1 July 2009
IFRS 5 Non-current Assets Held For Sale and Discontinued Operations (Amended)	1 January 2010
IFRS 7 Financial Instruments: Disclosures (Amended)	1 January 2009
IFRS 8 Operating Segments	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)	
IFRIC 15: Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17: Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18: Transfers of Assets from Customers	1 July 2009

Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Company plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements

IFRS 8 introduces the "management approach" to segment reporting, with information based on internal reports. Management are currently assessing the impact of this on the disclosures to be presented regarding segmental reporting.

The Directors do not expect the adoption of the other standards and interpretations to have a material impact on the Company's financial statements in the period of initial application.

### 3 Net asset value per share

The net asset value per share as at 31 December 2008 was US\$0.713 (2007: US\$1.158) per share based on 65,000,002 ordinary shares in issue as at that date (2007: 65,000,002 ordinary shares).

### 4 Dividends

The Directors declared a dividend of US\$0.03 per share for the period ended 31 December 2007 which was paid during the year. The Directors do not propose to declare a dividend for the year ended 31 December 2008.

## Notes to the financial statements continued for the year ended 31 December 2008

### 5 Investments

The Company until 31 December 2007 designated its investments as available-for-sale financial assets. From 2008, the Company has re-designated its investments as financial assets at fair value through profit or loss. The objective of the Company is to make indirect investments in Indian private equity funds and companies via Mauritian based investment funds and to also co-invest directly in certain portfolio companies of the underlying funds. As at 31 December 2008, the investment portfolio comprised the following assets:

Investments (unlisted)	Capital commitment	Capital invested	Capital distributions	Fair value adjustment	Fair value
	US\$	US\$	US\$	US\$	US\$
<i>Fund investments (equity)</i>					
Evolve India Fund PCC	45,120,000	36,096,000	(1,594,604)	(8,417,303)	26,084,093
Evolve India Life Sciences Fund	6,000,000	1,920,000	-	(310,194)	1,609,806
<i>Direct investments (equity)</i>					
EIF Co Invest VII (RSB Group)	6,969,600	6,969,600	-	(3,097,182)	3,872,418
EIF Co Invest X (Gland Pharma Limited)	4,510,000	4,510,000	-	73,467	4,583,467
	<b>62,599,600</b>	<b>49,495,600</b>	<b>(1,594,604)</b>	<b>(11,751,212)</b>	<b>36,149,784</b>

The fair value of the Company's investments has been estimated by the Directors with the advice of the Investment Manager. The movement in investments in the year was as follows:

	31 December 2008	31 December 2007
	US\$	US\$
Fair value brought forward	53,837,671	-
Capital calls	6,768,000	42,727,600
Carried interest adjustment	735,850	-
Capital distributions	(292,246)	(2,038,208)
Movement in fair value	(24,899,491)	13,148,279
<b>Fair value at year end</b>	<b>36,149,784</b>	<b>53,837,671</b>

The outstanding capital commitments as at 31 December 2008 were US\$13,104,000 (2007: US\$19,872,000).

#### **Evolve India Fund PCC (EIF)**

Evolve India Fund PCC, a protected cell company formed under the laws of Mauritius having limited liability, is a private equity fund of funds with a co-investment pool, focusing primarily on investments in India. The fund size of EIF is US\$250 million, of which approximately 60% will be invested in different private equity funds (including growth capital, mezzanine and real estate funds) with significant focus on India and the balance, not more than 40% percent, will be invested in co-investment opportunities, primarily in Indian companies or companies with significant operations in India. The fund investments of EIF include Baring India Private Equity Fund II, IDFC Private Equity Fund II, India Value Fund II (Formerly GW Capital), Leverage India Fund, New York Life Investment Management India Fund II, Ascent India Fund, JM Financial India Fund I, HI-REF International LLC Fund, NYLIM Jacob Ballas India Fund III and IDFC Private Equity Fund III. EIF was 80% drawn down as at 31 December 2008 and has invested around US\$161.3 million in 110 portfolio companies through ten underlying funds and eight co-investments. Of this US\$161.3 million, US\$58.5 million was invested in co-investments and the balance of US\$102.9 million (on investment cost basis) was invested in fund investments. Approximately US\$29.4 million of fund investments were liquid and the balance of US\$73.5 million were illiquid. As regards the co-investment portfolio of EIF, around US\$11.9 million were liquid and the balance US\$46.6 million were illiquid.

EIF has distributed 12% of its drawn down capital. It has received distributions amounting to US\$25.3 million out of which around US\$23.9 million has been distributed to its investors. During April and May 2008, EIF exited from its co-investment in Centurion Bank of Punjab realising a gross multiple of around 2.6x and an approximate IRR of 54%.

# Notes to the financial statements continued for the year ended 31 December 2008

## 5 Investments – continued

### *Valuation basis*

Audited financial statements for EIF for the year ended 31 December 2008 are not yet available. The investment in EIF has been fair valued based on a valuation performed by its investment manager of the portfolio at 31 December 2008, as adjusted for EIF expenses and carried interest cost. The valuation was reviewed by an independent specialist employed by EIF. Underlying listed investments have been valued as per the closing market prices of the respective companies listed on the Bombay Stock Exchange. For unlisted underlying investments, the following valuation methodologies have been used depending on the nature of the investment:

- comparables methodology – valuation of comparable listed companies was used as a benchmark to arrive at the valuation of portfolio companies.
- comparable transactions were utilised to arrive at the valuation where listed comparables were not available.
- discounted cash flows (DCF) methodology - free cash flows of portfolio companies were discounted by the weighted average cost of capital for the portfolio companies. The Capital Asset Pricing Model was used to calculate the cost of equity. The risk free rate was assumed at 8% and the market risk premium at 7%. The industry beta was calculated for a period of three years against the market returns represented by BSE Sensex.
- where DCF could not be performed, the investment was valued at cost.

After the equity valuation of the portfolio companies calculated using the above valuation techniques, a set of discounts/premium factors were applied to arrive at the final valuation. These factors are:

- company premium discount (P/D) - portfolio companies were then benchmarked to various parameters like business model, management quality, track record, profitability margins and future prospects against comparable companies to arrive at the respective premium/discount for the portfolio company.
- scale discount (SD) - scale discounts accounts for the difference in the valuation multiples because of the difference in size of the target and comparable companies. The Investment Manager assumed a scale discount of 10% in cases where the target company was smaller by around 40%-50% or more in terms of revenues as compared to the mean of revenues of comparable companies.
- illiquidity discount (ILD) - illiquidity discount accounts for the inability to liquidate the investments in a public market for a short period. The Investment Manager assumed an illiquidity discount of 20% for companies below revenue size of Rs2,500 million and an illiquidity discount of 10% for revenues exceeding Rs2,500 million for financial year or trading period ended 31 December 2008, as the case may be.
- forward looking financials discount/premium (FD) - forward looking discount/premium was utilised for situations where the revenues of the portfolio companies and comparable companies were available for different periods.

For some unlisted investments, where the lead investor provided a detailed valuation report as at the valuation date certified by an independent third party, the investment in that portfolio company was valued on the basis of such detailed valuation report.

### **Evolve India Life Sciences Fund (EILSF)**

EILSF is a private equity fund formed under the laws of Mauritius having limited liability with the Investment strategy of investing in the life sciences space in India. The final closing of the fund occurred in June 2008 and the fund size of EILSF as at 31 December 2008 was US\$89.2 million. It has made two investments. EILSF was 32% drawn down as at 31 December 2008. No distributions have been made by EILSF during the year ended 31 December 2008.

The investment in EILSF has been fair valued based on the audited financial statements of EILSF as at 31 December 2008 taking into consideration the Company's share in loss on fair valuation of its investments amounting to US\$310,194. The valuation of EILSF's underlying investments was based on International Private Equity and Venture Capital Valuation Guidelines.

### **EIF Co Invest VII**

EIF has invested US\$6,969,600 in RSB Group through a special purpose vehicle (SPV), EIF Co Invest VII. RSB Group is a leading manufacturer of automotive components and construction aggregates. The valuation in RSB Group which is unlisted, is based on a valuation performed by EIF's investment manager and is based on an average valuation multiple of comparable companies giving a fair valuation loss of US\$3,097,182.

## Notes to the financial statements continued for the year ended 31 December 2008

### 5 Investments – continued

#### EIF Co Invest X

EIF has invested US\$4,510,000 in Gland Pharma Limited through an SPV, EIF Co Invest X. Gland Pharma Limited is a Hyderabad based pharmaceutical company. The investment in Gland Pharma has been fair valued as at 31 December 2008 based on the audited financial statements of EILSF as described above.

### 6 Short-term loans

	31 December 2008	31 December 2007
	US\$	US\$
Aqar Holdings	-	7,820,000
Katra Holdings Limited	2,500,000	2,500,000
Impairment provision of Katra Holdings Limited loan	(2,500,000)	-
<b>Total</b>	<b>-</b>	<b>10,320,000</b>

#### Aqar Holdings

The Company advanced US\$7,820,000 to Aqar Holdings, a Mauritian incorporated private company in June 2007. The loan was unsecured, subject to repayment within 12 months and accrued interest at a rate of 10% per annum. The loan amount (together with accrued interest) was repaid in full during the year.

#### Katra Holdings Limited

The Company advanced US\$2,500,000 to Katra Holdings Limited, a Mauritian incorporated private company in June 2007 which was subject to repayment on 4 September 2007. The loan bore interest at a rate of 15% until its repayment date with penalty interest at an aggregate rate of 22.5%, thereafter rising to 30% per annum on and after 4 December 2007. Katra Holdings Limited pledged its shareholding in its subsidiary, Kerala Ayurveda Ltd, India totalling 6,493,435 shares (61.52%) as security for the loan and the loan was personally guaranteed by Mr Ramesh Vangal. As no payments have been received to date, the Board decided to impair the full loan amount of US\$2,500,000 and related interest accrued to date of US\$1,114,519. The Company has initiated proceedings to recover the principal and the interest owing together with its costs.

### 7 Related parties and related party transactions

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions.

Mr Khaled S M H Almehairi, a former director of the Company is a director of EIF. The Company has invested in EIF. Mr Khaled S M H Almehairi is also a director of EILSF and the chairman of the investment committee of EILSF. The Company has invested in EILSF.

Mr Ezaldeen-El-Araj is a director of Evolve India Advisors Inc (EIA, the investment managers of the Company) and EIF Managers Limited, the investment manager of EIF.

Mr Jegannathan Venkatarajan, the former Managing Director and CEO of the Company, was also a director of Evolve India Advisors Inc and EIF Managers Limited. Mr. Jegannathan Venkatarajan resigned from all the above positions in 2008.

Save as disclosed above, none of the Directors or former directors had any interest during the period in any material contract for the provision of services which was significant to the business of the Company.

### 8 Charges and fees

#### 8.1 Nominated Adviser's fees

As nominated adviser to the Company for the purposes of the AIM Rules, Seymour Piece Limited is entitled to receive an annual fee of £25,000 in addition to reasonable costs and expenses incurred in carrying out its obligations under the nominated adviser agreement.

Advisory fees paid to the Nominated Adviser for the year amounted to US\$78,118 (period ended 31 December 2007: US\$40,687) of which US\$7,258 was prepaid as at 31 December 2008 (2007: US\$9,984).

## Notes to the financial statements continued for the year ended 31 December 2008

### 8.2 Investment Manager's fees

#### Annual fees

The Company entered into an Investment Management Agreement dated 1 March 2007 between the Company and the Investment Manager pursuant to which the Investment Manager agreed to provide investment management services to the Company in relation to the portfolio of assets held by it from time to time. In consideration for its services, whether itself or through sub-contractors, the Investment Manager is entitled to be paid by the Company an annual management fee of 1 percent of the Net Asset Value (NAV) of the direct investments, payable bi-annually in advance. Accordingly, no part of this fixed fee is payable to the Investment Manager in relation to uninvested cash. Evolve India Advisors Inc gave notice of its intention to resign as the Investment Manager on 27 October 2008 which will have effect not later than 30 September 2009.

Annual management fees for the year amounted to US\$149,482 (period ended 31 December 2007: US\$77,572) of which US\$149,482 was outstanding at 31 December 2008 (2007: US\$ 77,572).

#### Performance fees

The Investment Manager may also receive a performance fees (carried interest cost) from the Company as follows:

The Investment Manager will earn a performance fee calculated as 15% of the excess of any realisation made by the Company prior to 31 December 2009 upon exiting from any direct investments over the cost basis of its direct investment (after providing for relevant expenses incurred in making and exiting such investments). The payment of the performance fee is conditional on the Investment Manager achieving an 8% increase in the NAV of the direct investments, before taking into account any distributions of income or capital. No fee will be paid to the Investment Manager for commitments to Evolve Capital sponsored funds, which will include EIF and EILSF.

Performance fees for the year amounted to US\$100,382 (period ended 31 December 2007: Nil) on exit by the Company from Aqar Holdings at a gross return of 10%.

### 8.3 Administrator's and Registrar's fees

By a deed dated 28 December 2006 between the Company and Equity Limited agreed to provide general secretarial services to the Company for which it receives a fixed annual charge of £15,000; fees incurred on a time spent basis in accordance with the charging rates of Equity Limited in force from time to time; and all disbursements and expenses incurred by Equity Limited in connection with the provision by it of services to the Company. The fees are subject to Value Added Tax (VAT).

The Company and Equity Limited may terminate the deed on the giving of thirty days' prior written notice, or earlier in the event of, *inter alia*, material breach of the terms of the deed or commencement of winding up. The governing law of the deed is that of the Isle of Man.

Equity Limited may utilise the services of a CREST accredited registrar for the purposes of settling share transactions through CREST. The cost of this service will be borne by the Company. The Company pays the CREST Service Provider an annual fee of £1,000 plus a fee for each transfer registered.

Administration fees for the year amounted to US\$87,909 (period ended 31 December 2007: US\$39,646) of which US\$50,855 was outstanding at 31 December 2008 (2007: US\$nil).

CREST fees were US\$17,396 (period ended 31 December 2007: US\$21,354) of which US\$3,252 was outstanding at 31 December 2008 (2007: US\$3,655).

### 9 Cash and cash equivalents

	31 December 2008 US\$	31 December 2007 US\$
Bank balances	11,057,875	821,106
Short-term deposits	-	10,000,000
<b>Cash and cash equivalents</b>	<b>11,057,875</b>	<b>10,821,106</b>

## Notes to the financial statements continued for the year ended 31 December 2008

<b>10 Trade and other receivables</b>	31 December 2008 US\$	31 December 2007 US\$
Interest receivable on short-term loans	-	539,572
Interest receivable on short-term deposits	-	113,223
Prepaid expenses	81,653	66,636
Other receivables	16,290	16,102
<b>Total</b>	<b>97,943</b>	<b>735,533</b>

The Directors resolved to impair the short term loan receivable from Katra Holdings Limited and the related interest accrued up to 31 December 2008 amounting to US\$1,114,519 (note 6).

<b>11 Trade and other payables</b>	31 December 2008 US\$	31 December 2007 US\$
Transaction costs payable	302,783	302,783
Other creditors	413,712	162,832
Performance fees payable (carried interest cost)	262,278	-
<b>Total</b>	<b>978,773</b>	<b>465,615</b>

<b>12 Share capital</b>	Number	US\$
Ordinary shares of £0.01 each	65,000,002	1,274,510
<b>In issue at 31 December 2008/2007</b>	<b>65,000,002</b>	<b>1,274,510</b>

The authorised share capital of the Company is £700,000 divided into 70 million ordinary shares of £0.01 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's assets.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board manages the Company's affairs to achieve shareholder returns through capital growth rather than income, and monitors the achievement of this through growth in net asset value per share.

The Company's capital comprises share capital, share premium and reserves. The Company is not subject to externally imposed capital requirements.

### 13 (Loss)/earnings per share

#### *Basic and Fully Diluted*

Basic and fully diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year/period.

	2008	2007
(Loss)/profit attributable to equity holders of the Company (US\$)	(26,971,866)	2,245,786
Weighted average number of ordinary shares in issue	65,000,002	65,000,002
<b>Basic earnings per share (cents per share)</b>	<b>(41.50)</b>	<b>3.46</b>

There is no difference between the basic and fully diluted loss per share for the year.

## Notes to the financial statements continued for the year ended 31 December 2008

### 14 Directors' remuneration

The maximum amount of remuneration payable to the Directors permitted under the Articles of Association is £200,000 per annum. The Directors are each entitled to receive reimbursement of any expenses incurred in relation to their appointment. Total fees and expenses paid to the Directors for the year amounted to US\$182,213 (period ended 31 December 2007: US\$106,710) and insurance expenses of US\$33,952 (period ended 31 December 2007: US\$29,098).

### 15 Taxation

The Company is resident for taxation purposes in the Isle of Man by virtue of being incorporated in the Isle of Man and is technically subject to taxation on its income but the rate of tax is zero. The Company is required to pay an annual corporate charge of £250 per annum.

The Company invests in a number of Mauritian incorporated companies and funds, which in turn invest in India. The Company is therefore exposed to Mauritian tax on the investee companies and to Indian tax on underlying investments of those companies. However, pursuant to the Double Taxation Treaty between India and Mauritius, the Mauritian incorporated companies and funds are entitled to significant tax benefits.

There is no Mauritian tax payable on distributions paid to the Company from Mauritian investee companies.

### 16 Financial instruments

The Company's activities expose it to a variety of financial risks: equity market risks, foreign exchange risk, credit risk, liquidity risk and interest rate risk.

#### *Equity market risks*

The Company's investments are subject to equity market risks. The investments are concentrated in India. The Company's strategy on the management of investment risk is driven by the Company's investment objective. The main objective of the Company is to maximise the total returns to investors by making investments in Indian private equity funds and direct investments in a wide range of industry sectors in India. Investments in India may be difficult, slow or impossible to realise. The Company is subject to general risks incidental to equity investments in the relevant market sectors, including general economic conditions, poor management of the target company, increasingly competitive market conditions, changing sentiments and increasing costs, amongst others. The marketability and value of any investment will depend on many factors beyond the control of the Company and therefore the Company can give no assurance that an exit from any investment will be achieved.

The investment portfolio is subject to market price sensitivity related to the Indian equity market.

A substantial portion of the Company's investments are or will be in unlisted companies, whose securities are considered to be illiquid. Illiquidity may affect the ability of the primary and underlying funds to acquire and dispose of such investments.

#### *Foreign exchange risk*

A significant portion of the investments of the Company, the primary funds and the underlying funds are made in securities of companies in India and the income and capital realisations received from such investments as well as the income and capital realisations received from any direct investments will be denominated in Indian Rupees, whereas the capital contributions by the Company are in US dollars. The Company's other operations are also conducted in other jurisdictions which generate revenue, expenses, assets and liabilities in currencies other than the US dollars. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to these currencies. The currency giving rise to this risk is primarily the Indian Rupee.

The Company's policy is not to enter into any currency hedging transactions.

At the reporting date the Company had the following exposure:

Currency	31 December 2008 %	31 December 2007 %
Pound sterling	(0.16)	(0.07)
Indian Rupee	78.03	71.54
US dollars	22.13	28.53
	<b>100.00</b>	<b>100.00</b>

## Notes to the financial statements continued for the year ended 31 December 2008

### 16 Financial instruments

#### *Foreign exchange risk continued*

The following table sets out the Company's total exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities:

31 December 2008	Monetary assets US\$	Monetary liabilities US\$	Net exposure US\$
Pound sterling	66,807	(139,307)	(72,500)
Indian Rupee	36,149,784	-	36,149,784
US dollars	11,089,011	(839,466)	10,249,545
	<b>47,305,602</b>	<b>(978,773)</b>	<b>46,326,829</b>

  

31 December 2007	Monetary assets US\$	Monetary liabilities US\$	Net exposure US\$
Pound sterling	9,984	(64,462)	(54,478)
Indian Rupee	53,837,671	-	53,837,671
US dollars	21,866,655	(401,153)	21,465,502
	<b>75,714,310</b>	<b>(465,615)</b>	<b>75,248,695</b>

At 31 December 2008, had the Indian Rupee strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets attributable to equity holders of the Company and the loss per the income statement would have increased or decreased by US\$1,807,489 (2007: US\$2,691,884).

#### *Credit risk*

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This relates also to financial assets carried at amortised cost, as they have a short term maturity.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	31 December 2008 US\$	31 December 2007 US\$
Available-for-sale financial assets	-	53,837,671
Financial assets at fair value through profit or loss	36,149,784	-
Trade and other receivables	97,943	735,533
Short-term loans	-	10,320,000
Cash and cash equivalents	11,057,875	10,821,106
	<b>47,305,602</b>	<b>75,714,310</b>

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Directors do not expect any counterparty other than Katra Holdings Limited and Mr Vangal to fail to meet its obligations.



## Notes to the financial statements continued for the year ended 31 December 2008

### 16 Financial instruments continued

#### Liquidity risk

The Company manages its liquidity risk by maintaining sufficient cash balances to meet its obligations. The Company's liquidity position is monitored by the Investment Manager and the Board.

Residual undiscounted contractual maturities of financial liabilities:

<b>31 December 2008</b>	Less than 1 month US\$	1-3 months US\$	3 months to 1 year US\$	1-5 years US\$	Over 5 years US\$	No stated maturity US\$
<b>Financial liabilities</b>						
Trade and other payables	-	-	978,773	-	-	-
	-	-	<b>978,773</b>	-	-	-

<b>31 December 2007</b>	Less than 1 month US\$	1-3 months US\$	3 months to 1 year US\$	1-5 years US\$	Over 5 years US\$	No stated maturity US\$
<b>Financial liabilities</b>						
Trade and other payables	465,615	-	-	-	-	-
	<b>465,615</b>	-	-	-	-	-

The Company has also outstanding capital commitments of US\$13,104,000 as at 31 December 2008 (2007: US\$19,872,000).

#### Interest rate risk

Short-term loans bear interest at fixed rates as detailed in note 6. Cash held by the Company is invested at short-term market interest rates.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial assets and liabilities at the earlier of contractual re-pricing or maturity date, measured by the carrying values of assets and liabilities:

<b>31 December 2008</b>	Less than 1 month US\$	1-3 months US\$	3 months to 1 year US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Financial assets</b>							
Financial assets at fair value through profit or loss	-	-	-	-	-	36,149,784	36,149,784
Trade and other receivables	-	-	-	-	-	97,943	97,943
Short-term loans	-	-	-	-	-	-	-
Cash and cash equivalents	11,057,875	-	-	-	-	-	11,057,875
<b>Total financial assets</b>	<b>11,057,875</b>	-	-	-	-	<b>36,247,727</b>	<b>47,305,602</b>
<b>Financial liabilities</b>							
Trade and other payables	-	-	-	-	-	(978,773)	(978,773)
<b>Total financial liabilities</b>	-	-	-	-	-	<b>(978,773)</b>	<b>(978,773)</b>
<b>Total interest rate sensitivity gap</b>	<b>11,057,875</b>	-	-	-	-	-	-

## Notes to the financial statements continued for the year ended 31 December 2008

### 16 Financial instruments continued

*Interest rate risk continued*

**31 December 2007**

	Less than 1 month US\$	1-3 months US\$	3 months to 1 year US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Financial assets</b>							
Available-for-sale financial assets	-	-	-	-	-	53,837,671	53,837,671
Trade and other receivables	113,223	-	539,572	-	-	82,738	735,733
Short-term loans	-	-	10,320,000	-	-	-	10,320,000
Cash and cash equivalents	10,821,106	-	-	-	-	-	10,821,106
<b>Total financial assets</b>	<b>10,934,329</b>	<b>-</b>	<b>10,859,572</b>	<b>-</b>	<b>-</b>	<b>53,920,409</b>	<b>75,714,310</b>
<b>Financial liabilities</b>							
Trade and other payables	(302,783)	-	-	-	-	(162,832)	(465,615)
<b>Total financial liabilities</b>	<b>(302,783)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(162,832)</b>	<b>(465,615)</b>
<b>Total interest rate sensitivity gap</b>	<b>10,631,546</b>	<b>-</b>	<b>10,859,572</b>	<b>-</b>	<b>-</b>		

No financial assets are subject to fair value interest rate risk. No sensitivity is provided with respect to variable interest rate movements as the effect is considered not significant.

### 17 Comparatives

The comparatives are for the period from 10 November 2006 (date of incorporation) to 31 December 2007.

### 18 Post balance sheet events

There were no significant post balance sheet events that required to be disclosed or adjusted in the financial statements.