India
Capital Growth Fund

Annual report and audited consolidated financial statements

For the year ended
31 December 2011

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Contents

Management and administration

Directors

Fred Carr (Chairman)
Jamie Cayzer-Colvin
Ashok Dayal
Peter Niven (appointed 11 August 2011)
John Whittle (appointed 17 November 2011)
Robin Nicholson (resigned 11 August 2011)
Andrew Maiden (resigned 17 November 2011)

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India Capital Growth Fund

Management and administration (continued)

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* India Investment Partners Limited was acquired by Caledonia Investments Plc during the year and was renamed Ocean Dial Asset Management Limited.

Chairman's statement

Economy and politics

2011 was a disappointing year in many ways. The Indian equity markets fell sharply, the Rupee depreciated materially against both Sterling and the US Dollar and the much hoped for political and economic reforms failed to materialise. World events exacerbated the internal issues: Unrest in North Africa and the Middle East drove up oil prices; concerns mounted over the financial stability of some European countries; the long-term future of the European currency was called into question; and there was near zero economic growth in most Western countries. In India, inflation stubbornly refused to abate, to which the Reserve Bank of India responded by tightening monetary policies. Furthermore, attempts to address corruption scandals have so far failed and the political logjam in infrastructure development has been intractable.

Against this background it is perhaps not surprising that the net asset value of the Company fell sharply, with a decline of 46.4% over the year. The Company has a declared policy of not hedging its exposure to the Indian Rupee and the depreciation of the Rupee against Sterling of almost 10% was a material contributor to this overall decline. The underlying portfolio fell 36.5% in local currency terms against a fall in the BSE Midcap index of 34.2% – an underperformance against the notional benchmark of some 2.3%. Much of this underperformance has come from our expectation that the industrial sector would start to improve and that the consumer would be hampered by tightening monetary policies and the macro environment. This unfortunately proved a premature expectation but, as I will go on to describe, the recovery that took place in January 2012 may well indicate a sea change in investor confidence since the late autumn.

Outlook

Since the year end, the Rupee and the Indian equity markets have rallied, such that by the end of this February the Rupee was up 5.1% against Sterling, the BSE Sensex was up 14.9% and the BSE Midcap Index was up 24.4%, both in local currency terms. Over this period the net asset value of the Company increased by 22.9% in Sterling terms and 16.7% in local currency terms, which is most encouraging. It is interesting to note that some of the worst performing holdings in the portfolio last year recovered the most in January and February. Despite worldwide traumas, the Indian economy continues to grow at around 7% and inflation is starting to reduce. India appears to be at the peak of its monetary cycle and there is a growing expectation that monetary policy will begin to ease. These are significant positives.

In early February I visited India to talk to opinion formers and the management of some of our investee companies. I was intrigued to hear a near uniform optimistic view of the economy and markets, unlike last year when there was a degree of pessimism among some pundits. Apart from the likelihood of inflation and interest rates falling, there seems to be a number of good reasons for the change of mood: The pressure on the Government to be seen to be pressing on faster with reform prior to the National Election in 2014; the feeling that bureaucrats have "bought into" the idea of fostering investor confidence in order to promote growth; the increasingly effective use of the Right To Information laws introduced a few years ago to help the drive against corruption; and a feeling that the world has woken up to the inadequacies of India and that this is now priced into the market – for example the problems caused for builders of new roads by the laws relating to property ownership. These were last revised in the 19th century, resulting in endless delays in starting construction while someone tries to work out which of the numerous grandchildren of the original owner has valid title. As a distinguished Government adviser told me, "India is a society in transition and an economy in turbulence".

If the political reforms addressing corruption, streamlining bureaucracy and facilitating major infrastructure investment, which to date have promised so much but delivered so little, can start to be realised, then our optimism will be justified. While the fiscal deficit remains a concern, foreign investors have generally held their nerve and progress on these matters should see foreign investment inflows returning with a double beneficial effect on both currency and markets.

The Company's portfolio held an average cash balance of 20% and further diversified its core holdings during the year. This has been a useful defence in the downturn and means the Company is well positioned for 2012.

Corporate governance

Sound corporate governance remains a priority for the Board. As noted in the Annual Report for 2010, the AIC Code has been adopted and we continue to report to shareholders against that benchmark. One area in which we were not previously fully compliant was the independence of the Audit Committee as one member was not wholly independent and there was no available alternative from within the Board. Given the pressure on the Total Expense Ratio arising from the fall in the value of the assets, increasing the size of the Board was considered inappropriate. Therefore Andrew Maiden, who represents the Administrator, Northern Trust, kindly agreed to step down from the Board and John Whittle, a Guernsey resident Chartered Accountant with wide experience, was appointed in his place. John has also been appointed to the Audit Committee alongside Peter Niven who chairs the Committee, such that the Committee is now made up of wholly independent directors. There are now no material areas of non-compliance with the AIC Code.

Fred Carr | Chairman

14 MARCH 2012

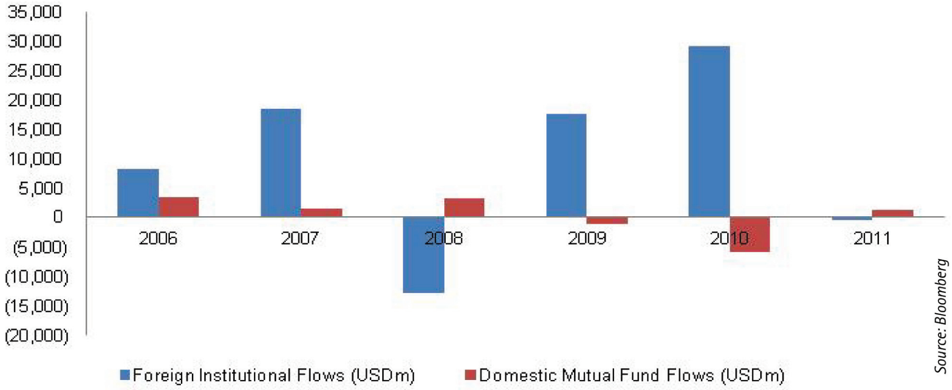
Investment manager's report

Introduction

2011 proved to be a particularly challenging year for India's equity markets. The BSE Midcap index closed down 34.2 per cent, while the BSE Sensex declined 24.6 per cent in local currency terms. This made India the second worst performing emerging market and is the second worst yearly performance in its history, after 2008. Against this backdrop the net asset value of the Company fell 46.4 per cent, of which 36.5 per cent came from the fall in net asset value in local currency terms and 9.9 per cent from the decline in the Rupee. A detailed discussion on the performance of the portfolio is included later in this report.

The year started off in the midst of the Euro crisis yet there was optimism at the domestic level, with expectations that the Indian Government would announce several pending policy initiatives to boost investments and drive growth. As the year progressed, policy paralysis, persistently high inflation and rising interest rates saw domestic issues overshadow global macro concerns. Moreover, the flight of capital to safety also exposed India's dependence on foreign capital to fund its current account deficit. Consequently, GDP growth slowed well below original expectations during the year. Despite the prevalent negative sentiment, India remained one of the fastest growing economies among the emerging markets with GDP growth in the region of 7 per cent. Structural drivers of investments, demographics and consumption still remain, albeit within the context of a short term cyclical slowdown. This is also reflected by the fact that long-term institutional investors continued to stay invested in India, with negligible FII outflows (see Chart 1) unlike that witnessed in many emerging markets in 2011.

Chart 1: Net equity flows to India



Source: Bloomberg

Economy and politics

2011 witnessed a gradual deterioration in India's macro environment as highlighted in Chart 2, leading to a decline in the growth momentum of the Indian economy. India's real GDP, which had maintained a trajectory of 8 per cent to 9 per cent per annum over the previous two years, slowed to its lowest level of 6.9 per cent during the quarter ended September 2011. Chart 3 shows that this decline occurred despite the services sector continuing to maintain growth above 9 per cent and a good monsoon that helped sustain agriculture growth at above 3 per cent. The slowdown was caused by the industrial sector, which grew only 3.2 per cent during the quarter. The index for industrial production went into negative growth trajectory in October 2011 (see Chart 4).

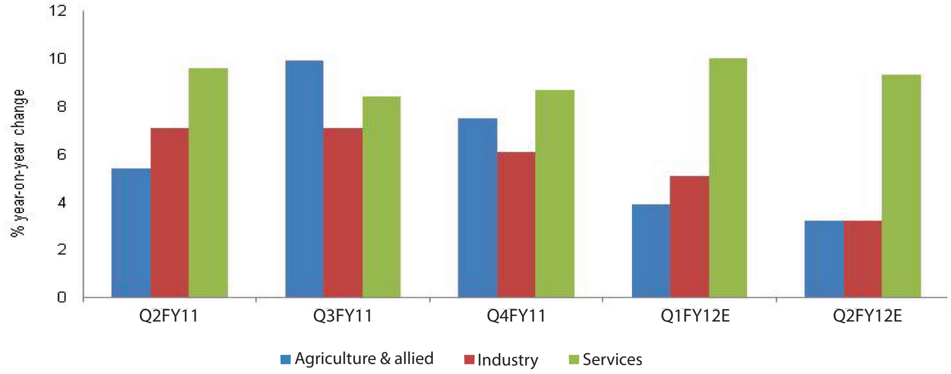
Chart 2: Macroeconomic indicators

Macro Indicators	FY10	FY11	FY12E
GDP growth	8	8.6	7
Fiscal deficit (per cent GDP)	6.4	5.1	5.8
Inflation (YOY per cent)	3.6	9.9	8.6
Current account deficit (per cent GDP)	-2.8	-2.6	-3.2

Source: ODAPL

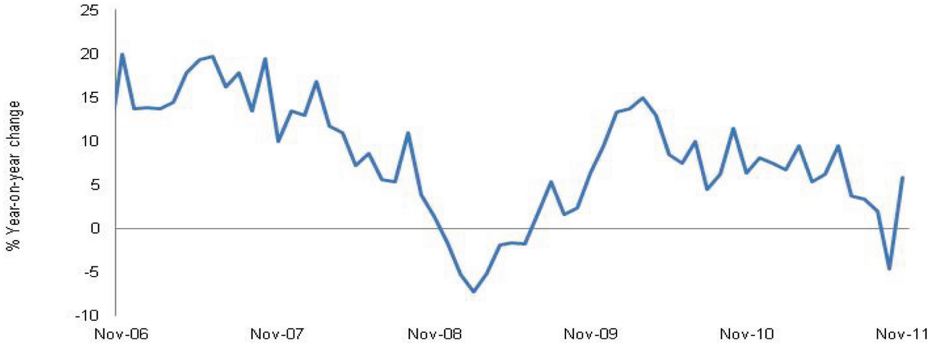
India Capital Growth Fund

Chart 3: Quarterly GDP growth components



Source: Edelweiss Securities Ltd

Chart 4: Index of industrial production



Source: Bloomberg

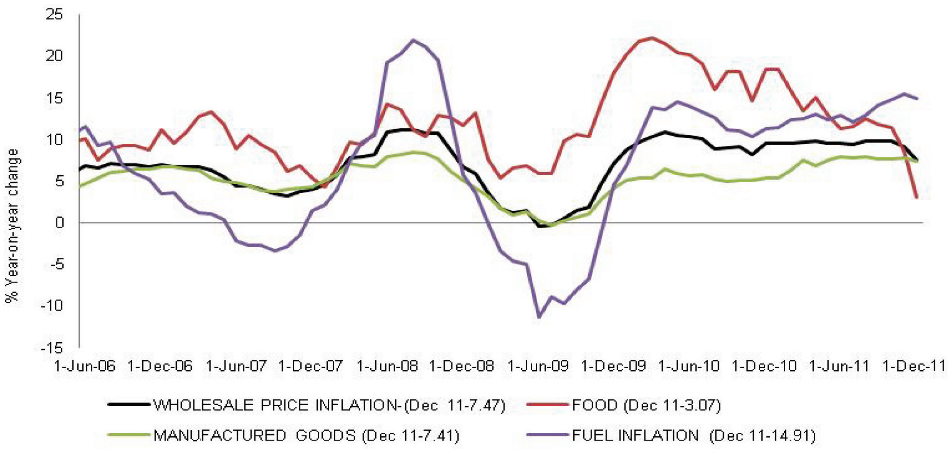
While the global environment did not help India's cause, the domestic issues, particularly at the political level, caused a major disappointment in 2011. The political landscape over the past several years has undergone a significant change. Rather than a few large national parties, politics is now dominated by several strong regional parties, each with a focus on its own local agenda. Consequently the resultant coalition national government is hampered in its ability to govern or pass any policy measures which are perceived to be non-populist. This was most evident in 2011 when several policy measures on reforms expected to be introduced were either withdrawn, reversed or just pushed back due to lack of consensus. Several of these, like increasing foreign direct investments in retail, airlines and insurance, were critical in attracting much needed foreign investments to push forward growth. Others, such as the goods & services tax (GST), land acquisition bill, mining bill, and direct tax code, critical for removing bottlenecks and improving efficiencies in the system, continue to be work in process.

However, the biggest issue was the impact of corruption investigations. This started with the telecoms sector but has since spread its wings across several other sectors, the most prominent among them being in the allocation of mining rights to companies. With several politicians and bureaucrats being jailed or under investigation, the entire decision making process within the Government came to a virtual standstill. The resultant delays in many projects has shaken business confidence and delivered a fatal blow to the recovery of infrastructure spending. Even in smaller projects, companies transacting with Government entities are seeing delayed payments, forcing them to focus on capital conservation rather than growth.

The above issues are, however, nothing new and have always been part and parcel of India's democracy. Nevertheless with 'policy paralysis' continuing well beyond a year, these issues have started to hurt the economy; particularly investments in the infrastructure sector, one of the key pillars to sustaining high GDP growth. There is scope for optimism however, as the Government, which until now interpreted the slowdown as a consequence of global factors, has accepted the reality of the situation and is actively trying to revive economic momentum. Recently there have been several meetings between Government officials and industrialists and once the state election in Uttar Pradesh, India's largest state, is over in March 2012, several policy measures aimed at reviving the investment climate are expected.

While the political climate has clearly not been conducive, the dominant theme for 2011 was persistently high inflation (Chart 5). The genesis of this can be attributed to two factors: (1) India's high dependence on commodity imports such as oil, for which 70 per cent of its demand is imported, which is leading to structurally higher prices across the economy; and (2) the Government's initiatives to bolster growth post the 2008 global financial crisis. The latter took the form of increased expenses, particularly in the rural economy through various subsidy initiatives as well as aggressive increases in the minimum support prices (MSP) which is the price at which the Government buys food grains from the farmers. The positive impact of these measures has been to increase income in the hands of rural India, leading to a rise in consumption demand from the rural economy. However, while many such expenditure schemes were originally intended to bolster growth in light of the weak global environment, the cost of these schemes has continued at elevated levels. This is one of the reasons why inflation has persisted at the 9 per cent level during 2010 and 2011.

Chart 5: India's wholesale price index and components



Source: Bloomberg

Whilst the Government continued with its expansionary policies, the Reserve Bank of India (RBI) made it clear that its main priority was to bring inflation under control, even at the expense of economic growth. Whilst it is argued that monetary policy has little effect in controlling food inflation, the principal concern of the RBI has been that the pickup in food prices feeds into core inflation via upward pressure on wages. After having made six interest rate increases in 2010 the RBI pursued the most aggressive tightening of rates (225bps in 2011 and 425bps since 2010) over the last decade. In fact from April 2011 onwards, the RBI started raising policy rates even though much of the incremental data was pointing at a decline in growth. The tighter rate cycle was also accompanied by a rise in the cash reserve ratios (CRR) of banks, which tightened liquidity in the system. While these rate increases did little to stem inflation in 2011, it impacted corporate balance sheets and corporate capital expenditure plans as the focus shifted to conserving capital amidst uncertain times.

Going into 2012, a key concern is India's ballooning current account deficit. India, unlike most of Asia's emerging economies, has historically run a high current account deficit because of its dependence on commodity imports, especially oil and gold. This will persist with India likely to be among one of the top three current account deficit countries globally in 2012. This deficit is funded predominately through foreign investment inflows, but with global uncertainty, these inflows have dwindled and foreign exchange reserves have contracted from a high of USD320 billion, to USD290 billion at present. Moreover, with trade growing and corporates gaining greater access to foreign debt, there has been increased pressure to hedge US dollar exposure, putting additional pressure on the currency. The RBI's initial reluctance to support the currency in this environment for fear of stoking inflation, led to a collapse in the Rupee which fell almost 15 per cent over a month. This move was against the consensus view at the beginning of 2011 of an appreciation of the currency on the back of a strongly driven domestic economy in a weak global environment. The depreciation left many corporates with high foreign currency un-hedged borrowings lying exposed, which further damaged profitability.

We are however not as concerned as some about the current account deficit as we believe the Government has several policy measures at its disposal which can increase inflows. Some of these were implemented in Q4 2011 such as higher limits for investment in corporate and government local currency bonds, permission for international retail investors to invest in India, freeing up interest rates for NRI deposits and measures to reduce speculation. All these measures have already had the desired effect in improving the strength of the Rupee.

The key challenge, we believe, going into 2012 is the Government's ability to reignite the investment process. With many of those corporates who led the previous investment cycle constrained by overstretched balance sheets or poor business models, it is up to the Government to initiate the process. However, the deteriorating macro environment has also impacted the Government's flexibility. In addition, rising Government expenditure in excess of budget, mainly as a consequence of the depreciating Rupee, further inflated its subsidy costs. This is creating a fiscal problem, with the estimated fiscal deficit as a percentage of GDP for 2012 now at about 5.5 per cent to 5.8 per cent, versus the Government's budgeted target of 4.6 per cent. This will constrain the Government's ability to kick start the investment process unless it finds new means of generating revenues through divestment, taxes or by pushing reforms to increase private sector investments.

Clearly, future policy actions by the Government in early 2012 are key to restoring future growth.

Portfolio construction and performance

In the 2010 Annual Review we highlighted the intention to "de-risk" the portfolio. This has been achieved by increasing the number of holdings to reduce the concentration risk, increasing the liquidity of the stocks in the portfolio in terms of average daily turnover and strengthening the investment process and methods by which the portfolio is maintained. During 2011, we continued to sell large concentrated holdings of the legacy portfolio and also exited the largest of the unlisted companies in the portfolio, Marwadi Shares and Finance Limited. In light of the deteriorating macro environment we used our cash judiciously and held an average cash position of 20.3 per cent. At the same time we further built on the diversification of our core holdings. Our top 10 holdings have thus seen considerable change during the year and we are satisfied that the bulk of these will be strategic core holdings for the long term.

In 2011, the BSE Sensex was down 24.6 per cent and the BSE Midcap Index down 34.2 per cent. There was no sector in the BSE Midcap Index which contributed positively to returns; industrials, financials and metals were the worst performing sectors, while healthcare, consumer staples and IT performed relatively better.

The net asset value of the Company was down 36.5 per cent in Rupee terms. Within the portfolio, the average cash position of 20 per cent was the single largest contributor to positive attribution owing to overall weakness in the market. However, this was to a large extent offset by our low exposure to some of the defensive sectors such as the consumer discretionary and healthcare sectors, where the portfolio was underweight due to their high valuations. Positive relative performance was generated from the portfolio's positioning in the telecoms, energy, utilities and IT sectors, whilst the majority of negative performance came from the industrials, financials and materials.

Portfolio holdings which positively contributed were Eicher Motors (2.5 per cent weighting) and Cairn India (3.3 per cent weighting) giving 23 per cent and 4 per cent gains for the year respectively. Eicher Motors, a manufacturer of high end motorcycles and commercial vehicles, primarily in the 5 to 12 ton category, is a dominant operator in both of its core segments. In 2008, it entered into a joint venture with Volvo, Sweden for the sale and distribution of Eicher, as well as Volvo trucks and buses. This relationship has been further strengthened by Eicher setting up a manufacturing hub for Volvo engines for the global markets. We see this relationship as the driver for future growth as Eicher leverages on Volvo's technical expertise and brand strength while Volvo leverages on Eicher's manufacturing and sales and distribution strength.

Cairn India Limited, an oil and gas exploration company, has benefited from an increase in oil prices. Furthermore, the recent takeover by Vedanta Limited has provided the impetus for Cairn India to grow beyond its main fields in Rajasthan. The recent exploratory successes in a Sri Lankan gas field and the increasing production planned over the next three years from its existing fields augur well for Cairn India to grow.

The major disappointment in the portfolio came from its exposure to the industrial and financial sectors, which were principally affected by the 'policy paralysis' by the Government, compounded by the rising interest rate cycle and the depreciation of the Rupee. The resultant lack of confidence in the sustainability of business momentum, uncertainty of earnings and the likelihood of potential defaults due to excess leverage in certain companies resulted in a sharp fall in stock prices across the board. There appeared to be almost no discrimination by the market between the good and the bad.

Principal investments at 31 December, 2011

Federal Bank Limited

(3.8% of the portfolio)

Federal Bank is a long established private sector bank with a network of over 800 branches and a dominant presence in the southern Indian state of Kerala. The Bank is India's fifth largest private sector bank with a loan book of Rs34.6 billion and a deposit base of Rs47.2 billion. The Bank's advances are primarily dominated by the SME and retail segments which form approximately 29 per cent each of the loan book. It has a sustainable competitive advantage emanating from a steady customer base and a strong Tier 1 ratio of 14 per cent. The Bank is putting in place the building blocks necessary to capitalise on an economic recovery and to transform itself from a quasi-public sector bank to a private sector bank. A new management team, led by an ex Standard Chartered veteran is overseeing this transformation. Consequently a significant improvement in asset quality and efficiencies is anticipated, driving both its returns on equity and assets. Based on the closing market price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 9.1 and 0.9 times projected FY2013 book value.

Prime Focus Limited

(3.8% of the portfolio)

Prime Focus provides post production and visual effect services for film and television content. The company continues to be a market leader in India and is increasing its reach in the UK and North America. The company has state of the art facilities and was one of the four companies involved with visual effects for the film 'Avatar'. The real growth will however come from its conversion of films from 2D to 3D, for which it has developed a new proprietary conversion process. It already has a pipeline order book of over USD100m, which includes converting the entire 'Star Wars' series as well as tie-up with Warner Brothers to convert ten films from their catalogue. This order book growth has come as a result of credibility achieved through the successful conversion of Hollywood blockbusters such as 'The Chronicles of Narnia' and 'Harry Potter and the Deathly Hallows: Part 2'. With the company gradually transferring more business to India, margins are also likely to expand. Based on the closing price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 5.3, enterprise value to capital employed ratio of 0.9 and return on invested capital to weighted average cost of capital ratio of 1.2 (FY2013).

Cairn India Limited

(3.3% of the portfolio)

Cairn India is an oil and gas exploration company owned by Vedanta Group. It is currently the largest private exploration and production (E&P) focused operator in India with presence across the sedimentary basins. Cairn's Rajasthan block is the main producing asset for the company but it also has operating interests in producing fields in the KG Basin and the offshore Cambay Basin. The volumes from the Rajasthan block are expected to increase for the next three years with no subsidy risk. The key threat of Government approvals is now behind with Cairn agreeing to pay its share of royalties and local tax. Vedanta expects more exploration upsides from the existing assets. Based on the closing price on 31 December, 2011 the stock trades at a price to projected 2013 earnings ratio of 7.4, enterprise value to capital employed ratio of 1.2 and return on invested capital to weighted average cost of capital ratio of 1.8 (FY2013).

Jain Irrigation Systems Limited

(3.0% of the portfolio)

Jain Irrigation is the largest Micro Irrigation (MI) operator in India and the second largest in the world. Established in 1986, it is a transnational organisation headquartered at Jalgaon, Maharashtra. The company employs over 5,000 associates and manufactures a number of products, including drip and sprinkler irrigation systems, PVC (Poly vinyl chloride) and PE (Polyethylene) piping systems, plastic sheets, greenhouses, bio-fertilizers, solar products including water-heating systems, photovoltaic appliances and solar pumps. The company also processes fruits and vegetables into aseptic concentrates, frozen fruits and dehydrated vegetables respectively. It has 27 manufacturing plants spread over four continents and its products are supplied to 110 countries through 3,000 dealers and distributors worldwide. The estimated size of the MI industry is approximately Rs30 billion and is growing at more than 20 per cent per annum. Although MI adoption by farmers is growing at a fast pace, the penetration is still very low at only 8 per cent. However, due to the advantages of MI (improved yield and low water consumption) over conventional irrigation and strong Government support, the area under coverage for MI should improve further. Based on the closing price on 31 December, 2011 the stock trades at a price to projected FY2013 earnings ratio of 12.0, enterprise value to capital employed ratio of 1.3, and return on invested capital to weighted average cost of capital ratio of 1.0 (FY2013).

Manappuram Finance Limited
(2.9% of the portfolio)
Manappuram Finance (MFL) is a non banking financial company (NBFC) and is the flagship company of the Manappuram Group. MFL started out as a single branch business for gold lending and has grown to become the second largest gold lending NBFC in India. MFL's asset under management (AUM) has grown at CAGR 99 per cent through FY07 to FY11 while the branches have grown at CAGR 72 per cent over the same period. As at September 2011, it had over 2,500 branches across 22 states with AUM exceeding Rs106 billion, a workforce of about 19,800 and an active customer base of 1.52m. Historically, given the "urgent and essential" nature of the loans provided, the market has been led by the unorganised sector in spite of an existence of Public Sector Banks and Regional Rural Banks. However over the years, the organised sector has grown at CAGR of 68 per cent in FY07 to FY11 with an estimated market share of approximately 34 per cent as at FY11. Going forward, considering buoyant gold demand, significant gold holdings of Indian households and voluminous market size, there is further scope for strong growth for the operators in the organised sector. Based on the closing market price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 5.8 and 1.4 times projected FY2013 book value.

Redington (India) Limited
(2.6% of the portfolio)
Redington is a high quality IT hardware distributor, which has built strong competitive advantages through financing channel partners and providing after-sales service in a commoditised industry. Increasingly it is the leverage in its financing arm which offers credit to its channel partners which will improve its penetration and profitability ratios. The recent trend of increasing usage of smartphones and iPads has been the short-term growth impetus for Redington. Increasing preference for branded consumer electronics and IT products remain long-term growth drivers for the company. It is also planning to leverage its distribution network to offer warehousing and logistics for FMCG companies. Based on the closing price on 31 December, 2011 the stock trades at a price to projected FY2013 earnings ratio of 11.2, enterprise value to capital employed ratio of 1.4 and return on invested capital to weighted average cost of capital ratio of 1.3 (FY2013).

Eicher Motors Limited
(2.6% of the portfolio)
Eicher is a manufacturer of heavy commercial vehicles and high end motorcycles and provides related component and design services, with commercial vehicles being the key revenue and profit driver. In 2008, Volvo entered into a JV with Eicher as joint promoters of the commercial vehicles business. Post the entry of Volvo, the commercial vehicle business was transferred into a separate subsidiary (VECV) in which Eicher holds a 54.4 per cent stake and the balance is held by Volvo. Volvo also acquired an 8.1 per cent stake in Eicher. Eicher plans to achieve success in the HCV segment due to the combined strength of Volvo's technological expertise and high quality standards, together with Eicher's distribution and low cost manufacturing. Capacity expansion, new model introduction and fresh styling should help the business grow in excess of the motorcycle industry average. VECV will also manufacture engines for supplying to Volvo's global requirements. Based on the closing price on 31 December, 2011 the stock trades at a price to projected FY2012 earnings ratio of 11.5, enterprise value to capital employed ratio of 2.5 and return on invested capital to weighted average cost of capital ratio of 3.2 (CY2012).

Indian Bank Limited
(2.5% of the portfolio)
Indian Bank, established in 1907, is a south India based mid-sized public sector bank with total business of Rs2.0tn. It operates with a branch network of 1,927 and more than 1,200 ATMs with

pan-Indian presence. Tamil Nadu and Andhra Pradesh account for 55 per cent+ of its branch network. India Bank's advances are primarily dominated by the corporate and commercial segment which constitutes 54 per cent of the loan book. The retail segment constitutes 14 per cent of the loan book while the small and medium enterprises segment constitutes around 12 per cent, the balance being the agriculture segment. Indian Bank's return on equity of in excess of 20 per cent and its return on assets of 1.3 per cent are among the best in the mid cap PSU banks sector and have been consistent over the past few years. Based on the closing market price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 3.8 and 0.7 times projected FY2013 book value.

Jammu and Kashmir Bank Limited

(2.5% of the portfolio)

Jammu and Kashmir Bank, which is majority owned by the state government, is a virtual monopoly in its home state. 60 per cent of its 558 branch network operates within the state and currently generates two-thirds of its earnings. While political turbulence within the region has subdued economic progress for many years now, the recent political stability and the USD7 billion infrastructure investment plan announced last year is likely to reignite economic activity. The Bank will be a direct beneficiary of this policy. The large population provides the Bank with a stable and low-cost retail deposit base that accounts for 60 per cent of total deposits. The profitability of Bank's operations "at home" is therefore superior to its pan-India operations, both on account of the lower liability cost as well as higher asset yields. The Bank's balance sheet is best placed among the peers for an acceleration of growth with a Tier I ratio of 11.3 per cent, high NPL coverage of 92 per cent, a healthy deposit franchise and strong net interest margins of 3.7 per cent. Based on the closing market price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 3.6 and 0.7 times projected FY2013 book value.

IndusInd Bank Limited

(2.4% of the portfolio)

IndusInd Bank commenced operations in 1994 as a "new age" private sector bank with service offerings across the retail and corporate segments. The bank operates through a network of 365 branches and 674 ATMs with representative offices in Dubai and London. The Bank has assets of over Rs515 billion and loans of over Rs324 billion with a dominant exposure to commercial vehicle finance. The new management team, led by Managing Director Mr Romesh Sobti, took charge in February 2008 and has since been effecting structural and operational changes to improve productivity and efficiency. This has led to a strong improvement in core operating performance. The Bank's net interest margin has improved to 3.3 per cent from 1.8 per cent in Q4 FY08, fee income to average assets has increased to 1.7 per cent from 1.1 per cent in Q4 FY08, cost to income ratio has declined to 50 per cent from 69 per cent in Q4 FY08 and the return on assets has improved to approximately 1.5 per cent from 0.3 per cent in Q4 FY08. Having achieved these better profitability returns, the management's focus is now on building scale. The management's interests are well aligned with shareholders, with an equity ownership scheme which is quite unusual in Indian circles. The Bank has the opportunity to capitalise on its niche presence in vehicle financing as well as utilising the new management's relationships to build assets in the corporate sector. The Bank has been able to achieve above industry loan growth which we expect to continue. Based on the closing market price on 31 December, 2011, the stock trades at a price to projected FY2013 earnings ratio of 10.6 and 2.0 times projected FY2013 book value.

Conclusion

2011 saw deteriorating fundamentals for the Indian economy. Persistent and high inflation, rising interest rates, worsening fiscal deficit, negative capital flows in the balance of payments, and exasperation with the ruling administration best sums up the year. However it is the slowing growth, led by decreasing investment which is the key concern going into 2012.

While most of these concerns are visible in the economic indicators, market performance and policymaker and media discussions, a fundamentally negative case can be made on almost any of the above points. Risks are high, but for the environment to improve it should not require all the problems to vanish. As long as some of the main issues are tackled, many of the other seemingly immovable problems are likely to address themselves.

Investment in the country's infrastructure and in its manufacturing capacity is crucial to future economic growth. An attempt to reverse the current economic slowdown will be driven by an improvement of the investment cycle. The lack of project announcements has been one of the main reasons behind not only the slowdown but also the persistency of inflation due to lack of capacity, fiscal deficit due to lack of revenues and not least the currency weakness due to concern over the sustainability of growth.

The interest rate cycle appears to have peaked and inflation has started trending downwards. In 2011, the objective of monetary policy was containing inflation. In 2012, this could shift to the revival of economic growth. Now that the Government has recognised the economic slowdown as a problem, we expect it to take measures to address the major causes. This is the principal reason for our positive outlook for the year ahead.

Ocean Dial Asset Management

March 2012

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

The Company

India Capital Growth Fund Limited (the "Company") was registered in Guernsey on 11 November 2005 and is an authorised closed-ended investment company. On 21 December 2011, the Company merged its two wholly owned Mauritian subsidiaries, amalgamating ICG U Limited with ICG Q Limited. At 31 December 2011, the Company has one wholly owned Mauritian subsidiary, ICG Q Limited comprising the "Group". The Company was admitted to trading on the AIM market of the London Stock Exchange ("AIM") on 22 December 2005.

Investment policy

The Group's investment objective is to provide long-term capital appreciation by investing (directly and indirectly) in companies based in India. The investment policy permits the Group to make investments in a range of Indian equity and equity linked securities and predominantly in listed mid and small cap Indian companies with a smaller proportion in unlisted Indian companies. Investment may also be made in large-cap listed Indian companies and in companies incorporated outside India which have significant operations or markets in India. While the principal focus is on investment in listed or unlisted equity securities or equity linked securities, the Group has the flexibility to invest in bonds (including non-investment grade bonds), convertibles and other types of securities. The Group may, for the purposes of hedging and investing, use derivative instruments such as financial futures, options and warrants. The Group may, from time to time, use borrowings to provide short-term liquidity and, if the Directors deem it prudent, for longer term purposes. The Directors intend to restrict borrowings on a longer term basis to a maximum amount equal to 25 per cent of the net assets of the Group at the time of the drawdown. It is the Group's declared policy not to hedge the exposure to the Indian Rupee.

Results and dividends

The Group's performance during the year is discussed in the Investment Manager's Report on page 4.

The results for the year are set out in the consolidated statement of comprehensive income on page 23.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2011.

Substantial interests

Shareholders who at 6 March 2012 held an interest of 3 per cent or more of the Ordinary Share Capital of the Company are stated in Table 1 below:

	NO. SHARES	% HOLDING
HSBC Global Custody Nominees (UK)	23,339,690	31.12
Chase Nominees Limited	5,841,007	7.79
Securities Services Nominees	5,801,500	7.74
Rathbone Nominees Limited	5,428,627	7.24
Nortrust Nominees Limited	5,200,000	6.93
BNY (OCS) Nominees Limited	3,840,000	5.12
Harewood Nominees Limited	2,900,000	3.87

Included within the shares held by HSBC Global Custody Nominees (UK) are 17,983,830 shares held on behalf of Caledonia Investment Plc.

In addition, the Cayzer Trust Company Limited which has a substantial shareholding in Caledonia Investments Plc holds 2,000,000 shares in the Company (2.67 per cent).

At 6 March 2012, the Investment Manager, Ocean Dial Asset Management Limited, and connected persons (not elsewhere disclosed) held in aggregate 2,201,634 (2.94 per cent) shares.

Warrants

The final exercise period for warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share ran from 27 April 2011 to 25 May 2011. No warrants were exercised during this period. As this was the final exercise period, all warrants and the subscription rights attached to such warrants lapsed and, with effect from 9 June 2011, the admission of the warrants to trading on AIM ceased.

Directors' responsibilities

The Directors are required by The Companies (Guernsey) Law, 2008 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the surplus or deficit of the Group for that year. In preparing those financial statements the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Statement

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors

The names of the Directors of the Company, each of whom served throughout the year unless stated otherwise, are set out on page 1.

Directors' interests

At 6 March 2012, Directors and their immediate families held the following declarable interests in the Company:

	Ordinary Shares
Fred Carr	80,000
Jamie Cayzer-Colvin	99,627

Jamie Cayzer-Colvin is a non-executive director of Ocean Dial Asset Management Limited, the Investment Manager and also an employee and Director of Caledonia Investments Plc and a non-executive director of Cayzer Trust Company Limited.

The arrangements with the Investment Manager are set out in Note 13.

Auditors

The Auditors, Ernst & Young LLP, have indicated their willingness to continue in office. Accordingly, a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Total Expense Ratio

The Total Expense Ratio ("TER") is the ratio of the Company's operating costs (excluding transaction charges and exchange losses on income transactions) to the average net assets of the Company.

The Company's TER for the year ended 31 December 2011 was 2.68 per cent (2010: 2.40 per cent).

Corporate governance

The Association of Investment Companies published in October 2010 the AIC Code of Corporate Governance (the "AIC Code") and the AIC Corporate Governance Guide (the "AIC Guide") which are designed to provide Boards of its member investment companies with a framework of best practice in respect of the governance of investment companies. The AIC Code has been endorsed by the Financial Reporting Council which has confirmed that by following the AIC Corporate Governance Guide, investment company boards should fully meet their obligations in relation to the UK Corporate Governance Code (the "UK Code"). The Company's shares are quoted on AIM, and as such the Company is not required to comply with the UK Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained. Accordingly the Board considers that it should seek to comply with the AIC Code.

On 30 September 2011, the Guernsey Financial Services Commission ("GFSC") issued a new Code of Corporate Governance (the "Code") which comes into effect on 1 January 2012. The Code replaces the existing GFSC guidance, "Guidance on Corporate Governance in the Finance Sector". The Code provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme. Companies reporting against the AIC Code of Corporate Governance are deemed to comply with the Code.

Corporate governance principles

The Board has considered the principles and recommendations of the AIC Code with reference to the AIC Guide. The Board considers that it has complied with the AIC Code during the year ended 31 December 2011 subject to the exceptions explained below.

The Board

The Board comprised the Chairman and four non-executive Directors and biographical details of each are set out on page 18. One member of the Board is a non-executive director of the Investment Manager and of another investment company for which the Investment Manager acts as investment manager and a Director of the largest shareholder (Caledonia Investments plc). All other members of the Board, including the Chairman, are independent of the Investment Manager. With the exception of the Company, there are no common directorships between members of the Board. There is no provision in the Company's Articles of Incorporation which requires Directors to seek re-election on a periodic basis, and hitherto only Directors appointed to fill a casual vacancy have sought re-election at the AGM immediately following their appointment. There is no limit on length of service, nor is there any upper age restriction on Directors. The Board considers that there is significant benefit to the Company arising from continuity and experience among Directors, and accordingly does not intend to introduce restrictions based on age or tenure. It does however believe that shareholders should be given the opportunity to review membership of the Board on a regular basis. The Board has thus resolved that, in addition to the Articles requirement for re-election at the AGM immediately following appointment, any Director who has served for more than nine years should offer him or herself for re-election annually, and that one third of the remaining Directors should retire by rotation at each AGM and be eligible to seek re-election.

Directors' remuneration

The level of Directors' fees is determined by the whole Board on an annual basis and therefore a separate Remuneration Committee has not been appointed. When considering the level of Directors' remuneration the Board considers the industry standard and the level of work that is undertaken. Since all Directors are non-executive, the Company is not required to comply with the principles of the UK Code in respect of executive directors' remuneration. Directors' fees are disclosed fully in each Annual Report. The fee payable to the Chairman is £25,000 per annum and £15,000 per annum to each other Director. With effect from 1 January 2012, the Chairman will be entitled to £25,000 per annum, the Chairman of the Audit Committee will be paid £19,000 per annum and fees to each other Director will increase to £16,000 per annum. Directors are reimbursed expenses properly incurred in connection with their duties. No additional sums were paid in the year to Directors for work on behalf of the Company outside their normal duties. None of the Directors had a service contract with the Company during the year and accordingly a Director is not entitled to any minimum period of notice or to compensation in the event of their removal as a Director.

Chairman, Senior Independent Director and Chief Executive

The Chairman of the Board is Fred Carr. In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence, and has determined that Mr Carr is an Independent Director. As the Chairman is an Independent Director, no appointment of a senior Independent Director has been made. The Company has no employees and therefore there is no requirement for a chief executive.

Board meetings

The Board generally meets on at least four occasions each year, at which time the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers to the Company.

Board meetings, Committee meetings and Directors' attendance

	BOARD MEETINGS HELD	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE HELD	AUDIT COMMITTEE ATTENDED
Fred Carr	4	4	–	–
Jamie Cayzer-Colvin	4	3	2	2
Ashok Dayal	4	4	–	–
Peter Niven (appointed 11 August 2011)	2	2	1	1
John Whittle (appointed 17 November 2011)	1	1	–	–
Robin Nicholson (resigned 11 August 2011)	2	2	1	1
Andrew Maiden (resigned 17 November 2011)	3	3	–	–

In addition to the four formal Board meetings held during the year, four formal committee meetings were held at which only two Directors were required to attend.

Performance evaluation

The Board formally considers on an annual basis its effectiveness as a Board, the balance of skills represented and the composition and performance of its committees. The Board considers that it has an appropriate balance of skills and experience in relation to the activities of the Company. The Chairman evaluates the performance of each of the Directors on an annual basis, taking into account the effectiveness of their contributions and their commitment to the role. The most recent performance review took place in June 2011. The performance and contribution of the Chairman is reviewed by the other Directors under the leadership of the Chairman of the Audit Committee. The conclusion of the 2011 review was that the skill sets of the members of the Board were complementary, and that the Board functioned effectively.

Nomination committee

The Board as a whole fulfils the function of a Nomination Committee. The size and independence of the Board is such that it is considered that the function of such a committee is best carried out by the Board as a whole. Any proposal for a new director will be discussed and approved by the Board. The Board will determine whether in future an external search consultancy or open advertising is used in the appointments of non-executive directors.

Audit committee

As at 31 December 2011 the Company's Audit Committee is comprised of Messrs Niven (Chairman) and Whittle. The Audit Committee has the following remit: to meet bi-annually and to consider, inter-alia: (a) annual and interim financial statements; (b) auditors' reports; and (c) terms of appointment and remuneration for the auditors (including overseeing the independence of the auditors particularly as it relates to the provision of non-audit services. The Board is satisfied that the Audit Committee contains members with sufficient recent and relevant financial experience. All members of the Board are welcome to attend meetings of the Audit Committee and to raise any matters with the Audit Committee.

Non-audit fees for the interim review of financial statements of £11,400 (2010: £15,540) were charged by Ernst & Young LLP for the year.

Risk Management and Internal control

The Board is responsible for establishing and maintaining the Company's system of internal control and for maintaining and reviewing its effectiveness. The system of internal controls is designed to manage rather than to eliminate the risk of failure to achieve business objectives and as such can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board considers on a regular basis the process for identifying, evaluating and managing any significant risks faced by the Company. At each quarterly meeting of the Board a report on the control environment and risk assessment is presented and considered. Changes in the risk environment are highlighted as are changes in the controls in force to manage or mitigate those risks. The Board is satisfied that appropriate controls are in place in relation to the key risks faced by the business.

Supply of information to the Board

The Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance and compliance. A representative of the Investment Manager attends each Board meeting thus enabling the Board to discuss fully and review the Company's operation and performance. Each Director has direct access to the Company Secretary, and may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Delegation of functions

The Board has contractually delegated to external parties various functions as listed below. The duties of investment management, accounting and custody are segregated. Each of the contracts entered into with the parties was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation as far as they relate to the affairs of the Company.

- Investment Management is provided by Ocean Dial Asset Management Limited, a company authorised and regulated in the United Kingdom by the Financial Services Authority.
- Administration and Company Secretarial duties for the Company are performed by Northern Trust International Fund Administration Services (Guernsey) Limited, a company licensed and regulated by the Guernsey Financial Services Commission. Those for the subsidiary are performed by International Financial Services Limited, a company registered in Mauritius and licensed by the Financial Services Commission in Mauritius.
- Custody of assets is undertaken by the HSBC Group.

The Board has instituted a formal annual review of the performance of all material external service providers and of the related contractual terms.

Investment management

The Investment Manager is entitled to receive a management fee payable jointly by the Company and the Mauritian subsidiary, ICG Q Limited, equivalent to 1.5 per cent per annum of the Company's Total Assets, calculated and payable monthly in arrears. Prior to the amalgamation of ICG Q and ICG U in December 2011, management fees were payable jointly by the Company and both Mauritian subsidiaries.

The Investment Manager is also entitled to receive a semi-annual performance related fee from the Company if the Net Asset Value per Share at the end of the half-year performance period (a) exceeds the Net Asset Value per Share at the start of the performance period by an annualised, annually compounded, rate of more than 10 per cent (the "Performance Hurdle") and (b) exceeds by an annualised, annually compounded, rate of more than 10 per cent the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the "High Water Mark"). The performance fee will be an amount equal to 20 per cent of the aggregate increase in the Net Asset Value above the High Water Mark. 50 per cent of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares. Details of performance fees paid, and of shares acquired by the Investment Manager and related parties is set out in Note 13. At 31 December 2011, the High Water Mark was 255.13 pence per share.

No separate Management Engagement Committee has been constituted as the monitoring of management is considered a primary function of the Board. The Board as a whole reviews the performance of the Investment Manager at each quarterly Board Meeting and considers whether the investment strategy utilised is likely to achieve the Company's investment objective. Having considered the portfolio performance and investment strategy, the Board has agreed (with Mr Cayzer-Colvin as a non-executive director of the Investment Manager abstaining) that the interests of the shareholders as a whole are best served by the continuing appointment of the Investment Manager on the terms agreed.

The Investment Management Agreement continues in force until determined by the Investment Manager or the Company giving to the other party hereto not less than 12 months notice.

The Board agrees with the Investment Manager from time to time the extent of powers delegated to the Investment Manager and matters upon which decision making is reserved to the Board. In particular, the approval of the Board (or a designated committee) is required in relation to:

- Borrowings (other than on a temporary basis)

- Investment in unlisted securities (other than those arising on a temporary basis from demergers from existing listed holdings).
- Exercise of share buy-back powers
- Policy on currency hedging

The Investment Manager reports to the Board on a semi-annual basis on brokers used for executing trades and the commission paid to brokers analysed between brokerage and research services. The Investment Manager does not use commissions paid by the Company to pay for services used by the Investment Manager other than directly related research services provided by the broker. There is a procedure in place whereby any prospective conflict of interest is reported by the Investment Manager to the Chairman and a procedure to manage the prospective conflict agreed. The Investment Manager's policy on conflicts is reviewed by the Board annually.

The provisions of the UK Stewardship Code do not apply to the Company as all investments are outside the United Kingdom. The Board has delegated to the Investment Manager the power to vote in relation to the Group's holdings in Indian listed companies.

Shareholder communications

A report on Shareholder communications is considered at each quarterly Board Meeting. A monthly Fact Sheet is published on the Company's website reporting the month-end Net Asset Value and with a commentary on performance. This information is also released to the Stock Exchange by way of an RNS announcement. The Investment Manager and the Corporate Broker maintain regular dialogue with institutional shareholders, feedback from which is reported to the Board. In addition, Board members are available to answer shareholders' questions at any time, and specifically at the Annual General Meeting. The Company Secretary is available to answer general shareholder queries at any time during the year. The Board monitors activity in the Company's shares and the discount or premium to net asset value at which the shares trade both in absolute terms and relative to the Company's peers. The Company has the power to buy-back shares in the market, the renewal of which power is sought from shareholders on an annual basis, and the Board considers on a regular basis the exercise of those powers. The Board did not consider it appropriate to exercise such powers in 2011.

Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements since the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Approved by the Board of Directors and signed on behalf of the Board on 14 March 2012.

Peter Niven

John Whittle

Directors

The Directors as at 31 December 2011, all of whom are non-executive, are as follows:

Fred Carr (Chairman)

Aged 67, was appointed to the Board as Chairman on 17 September 2009. He spent his career in stockbroking and investment management, ultimately (1993 – 2004) as Chief Executive of Carr Sheppards Crosthwaite. He is Chairman of M&G High Income Investment Trust plc and is a Fellow of the Chartered Institute for Securities and Investment. He is resident in the UK and is wholly independent of the Company's Investment Manager.

Jamie Cayzer-Colvin

Aged 46, began his career as an officer in the British Army. He then worked in marketing and banking roles in the City before joining Caledonia in 1995. He was appointed an associate director in 2002 and a director in April 2005. He is chairman of The Henderson Smaller Companies Investment Trust plc and a non-executive director of Close Brothers Group plc and Polar Capital Holdings plc and a number of private companies. He is also a non-executive director of the Investment Manager. He is resident in the UK.

Ashok Dayal

Aged 74, has been a Director of the Company since launch in December 2005. He has had 38 years experience in banking in India and supervising a major banking business in India from bases in Hong Kong, London and Singapore. During his last eight years in banking he was executive director, Deutsche Bank AG, regional head office in Singapore. Prior to joining Deutsche Bank AG, he was a managing director of Grindlays Bank plc based in London and, immediately before that, regional director of Grindlays based in Mumbai. Since his return to India, Mr Dayal has worked as a management consultant and is currently an independent director of Abbot India. He is wholly independent of the Company's Investment Manager. He is resident in India.

Peter Niven

Aged 57, was appointed to the Board on 11 August 2011. He has over 35 years' experience in the financial services industry both in the UK and offshore. He was a senior executive in the Lloyds TSB Group until his retirement in 2004 and, since then, has been the Chief Executive of Guernsey Finance LBG, promoting the island as a financial services destination. He is a director of Resolution Limited and serves on the boards of a number of London-listed investment funds. He is a Fellow of the Chartered Institute of Bankers and a Chartered Director. He is a resident of Guernsey and is wholly independent of the Company's Investment Manager.

John Whittle

Aged 56, was appointed to the Board on 17 November 2011. He is a Chartered Accountant and was until recently Finance Director of Close Fund Services where he successfully initiated a restructuring of client financial reporting services and was a key member of the business transition team. He was at Price Waterhouse in London before embarking on a career in business services, predominantly in telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail). He is a non-executive director of Advance Frontier Markets Fund Limited, International Public Partnerships Limited, Aurora Russia Limited and a number of other companies. He is a resident of Guernsey and is wholly independent of the Company's Investment Manager.

Independent auditors' report

To the members of India Capital Growth Fund Limited

We have audited the consolidated financial statements of India Capital Growth Fund Limited for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. 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 auditors' 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

As explained more fully in the directors' responsibilities set out in the directors' report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited consolidated financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP | Guernsey, Channel Islands

15 MARCH 2012

The maintenance and integrity of the India Capital Growth Fund Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal group investments

As at 31 December 2011

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
Federal Bank Ltd	Mid Cap	Financials	1,132	3.81
Prime Focus Ltd	Small Cap	Consumer discretionary	1,128	3.80
Cairn India Ltd	Large Cap	Energy	976	3.29
Jain Irrigation Systems Ltd	Mid Cap	Industrials	904	3.04
Manappuram Finance Ltd	Mid Cap	Financials	873	2.94
Redington India Ltd	Mid Cap	IT	764	2.57
Eicher Motors Ltd	Mid Cap	Industrials	756	2.55
Indian Bank Ltd	Mid Cap	Financials	746	2.51
Jammu & Kashmir Bank Ltd	Mid Cap	Financials	733	2.47
Indusind Bank Ltd	Large Cap	Financials	708	2.38
Total top 10 equity investments			**8,720**	**29.36**
Other Small Cap	(6 companies)		2,972	10.01
Other Mid Cap	(16 companies)		7,790	26.23
Other Large Cap	(5 companies)		2,446	8.24
Other Unlisted	(1 company)		–	–
Total equity investments			**21,928**	**73.84**
Cash less other net current liabilities			7,769	26.16
Total Portfolio			**29,697**	**100.00**

Note:

Large Cap comprises companies with a market capitalisation above INR 100 billion (£1.4 billion)

Mid Cap comprises companies with a market capitalisation between INR 15 billion and INR 100 billion (£215 million – £1.4 billion)

Small Cap comprises companies with a market capitalisation below INR 15 billion (£215 million)

Portfolio statement

As at 31 December 2011

HOLDING	NOMINAL	VALUE £000's	% OF PORTFOLIO
Listed Securities			
Consumer discretionary			
Dish TV India Ltd	605,000	433	1.46
Hathway Cable And Datacom Ltd	382,622	515	1.73
Motherson Sumi Systems Ltd	249,000	413	1.39
Prime Focus Ltd	1,999,710	1,128	3.80
		2,489	8.38
Consumer staples			
Emami Ltd	72,000	299	1.01
Jyothy Laboratories Ltd	307,000	604	2.03
Marico Ltd	190,000	336	1.13
		1,239	4.17
Energy			
Cairn India Ltd	255,000	976	3.29
Hindustan Petroleum Corp Ltd	156,000	481	1.62
		1,457	4.91
Financials			
Arihant Foundations & Housing Ltd	592,400	325	1.10
Federal Bank Ltd	276,000	1,132	3.81
Indian Bank Ltd	331,298	746	2.51
Indusind Bank Ltd	257,000	708	2.38
Infrastructure Development Finance Company Ltd	526,900	588	1.98
Jammu & Kashmir Bank Ltd	89,000	733	2.47
Manappuram Finance Ltd	1,555,258	873	2.94
Sobha Developers Ltd	256,612	598	2.02
Yes Bank Ltd	230,000	669	2.25
		6,372	21.46
Healthcare			
Bilcare Ltd	303,623	671	2.27
Glaxosmithkline Pharmaceuticals Ltd	24,502	580	1.95
Lupin Ltd	87,000	475	1.60
Torrent Pharmaceuticals Ltd	48,000	316	1.06
		2,042	6.88
Industrials			
Eicher Motors Ltd	41,750	756	2.55
IVRCL Ltd	1,208,474	416	1.40
Jain Irrigation Systems Ltd	857,193	904	3.04
Sintex Industries Ltd	830,154	637	2.14
Voltas Ltd	751,000	672	2.26
		3,385	11.39

Portfolio statement (continued)

As at 31 December 2011

HOLDING	NOMINAL	VALUE £000's	% OF PORTFOLIO
IT			
KPIT Cummins Infosystems Ltd	389,053	694	2.34
Redington India Ltd	767,740	764	2.57
		1,458	4.91
Materials			
Asian Paints Ltd	9,000	284	0.96
Berger Paints India Ltd	280,000	294	0.99
Bhushan Steel Ltd	133,700	506	1.70
Gujarat NRE Coke Ltd	1,338,362	262	0.88
Rallis India Ltd	399,290	586	1.97
United Phosphorus Ltd	277,805	430	1.45
		2,362	7.95
Telecommunications			
Bharti Airtel Ltd	124,000	519	1.75
		519	1.75
Utilities			
CESC Ltd	246,692	605	2.04
		605	2.04
Total listed securities		**21,928**	**73.84**
Unlisted Securities			
Financials			
CitiXsys Technologies Private Limited	817,650	–	–
Total unlisted securities		**–**	**–**
Total investments		**21,928**	**73.84**
Cash less other net current liabilities		**7,769**	**26.16**
Total Portfolio		**29,697**	**100.00**

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	NOTES	REVENUE £000	CAPITAL £000	YEAR TO 31.12.11 TOTAL £000	YEAR TO 31.12.10 TOTAL £000
Income					
Interest income		–	–	–	1
Investment income		454	–	454	232
		454	–	454	233
Net (losses)/gains on financial assets at fair value through profit or loss					
Market movements	2	–	(16,707)	(16,707)	7,180
Foreign exchange movements	2	–	(7,275)	(7,275)	4,838
		–	(23,982)	(23,982)	12,018
Total (expense)/income		454	(23,982)	(23,528)	12,251
Expenses					
Management fee	13	(613)	–	(613)	(787)
Cost of acquisition and disposal of investments		–	(195)	(195)	(277)
Foreign exchange (losses)/gains		(936)	5	(931)	39
Other expenses	3	(480)	–	(480)	(469)
Total expenses		**(2,029)**	**(190)**	**(2,219)**	**(1,494)**
(Loss)/Profit for the year before taxation		(1,575)	(24,172)	(25,747)	10,757
Taxation	6	–	–	–	–
(Loss)/Profit for the year after taxation		(1,575)	(24,172)	(25,747)	10,757
(Loss)/Earnings per Ordinary Share – (pence)	4	(2.10)	(32.23)	(34.33)	14.34

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with IFRS as adopted by the EU and interpretations adopted by the International Accounting Standards Board (IASB). The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

The profit after tax is the "total comprehensive income" as defined by IAS 1. There is no other comprehensive income as defined by IFRS.

All the items in the above statement derive from continuing operations.

The notes on pages 27 to 38 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

	NOTES	SHARE CAPITAL £000	CAPITAL RESERVE REALISED £000	UNREALISED £000	REVENUE RESERVE £000	OTHER DISTRIBUTABLE RESERVE £000	TOTAL £000
Balance as at 1 January 2011		750	(19,312)	4,027	(2,899)	72,878	55,444
Loss on investments	2	–	(4,011)	(12,696)	–	–	(16,707)
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(1,575)	–	(1,575)
Cost of acquisition and disposal of investments		–	(98)	(97)	–	–	(195)
Loss on foreign currency		–	(610)	(6,660)	–	–	(7,270)
Balance as at 31 December 2011		**750**	**(24,031)**	**(15,426)**	**(4,474)**	**72,878**	**29,697**

For the year ended 31 December 2010

	NOTES	SHARE CAPITAL £000	CAPITAL RESERVE REALISED £000	UNREALISED £000	REVENUE RESERVE £000	OTHER DISTRIBUTABLE RESERVE £000	TOTAL £000
Balance as at 1 January 2010		750	(13,187)	(13,818)	(1,936)	72,877	44,686
Issue of ordinary shares		–	–	–	–	1	1
(Loss)/gain on investments	2	–	(12,826)	20,006	–	–	7,180
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(963)	–	(963)
Cost of acquisition and disposal of investments		–	(119)	(158)	–	–	(277)
Gain/(loss) on foreign currency		–	6,820	(2,003)	–	–	4,817
Balance as at 31 December 2010		**750**	**(19,312)**	**4,027**	**(2,899)**	**72,878**	**55,444**

The notes on pages 27 to 38 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2011

	NOTES	31.12.11 £000	31.12.10 £000
Non-current assets			
Financial assets designated at fair value through profit or loss	5	21,928	52,172
Current assets			
Cash and cash equivalents		7,865	3,429
Receivables	7	34	10
		7,899	3,439
Current liabilities			
Payables	8	(130)	(167)
Net current assets		7,769	3,272
Total assets less current liabilities		**29,697**	**55,444**
Equity			
Ordinary share capital	10	750	750
Reserves		28,947	54,694
Total equity		**29,697**	**55,444**
Number of Ordinary Shares in issue		**75,001,463**	**75,001,463**
Net Asset Value per Ordinary Share (pence)		**39.59**	**73.92**

The audited consolidated financial statements on pages 23 to 38 were approved by the Board of Directors on 14 March 2012 and signed on its behalf by:

Peter Niven

John Whittle

The notes on pages 27 to 38 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

	NOTES	Year to 31.12.11 £000	Year to 31.12.10 £000
Cash flows from operating activities			
Investment income		454	232
Bank interest		–	1
Management fee		(646)	(773)
Other cash payments		(503)	(488)
Net cash outflow from operating activities		**(695)**	**(1,028)**
Cash flows from investing activities			
Purchase of investments		(24,627)	(46,617)
Sale of investments		30,889	49,856
Transaction charges relating to the purchase and sale of investments		(195)	(277)
Net cash inflow from investing activities		**6,067**	**2,962**
Cash flows from financing activities			
Proceeds from issue of shares	10	–	1
Net cash inflow from financing activities		**–**	**1**
Net increase in cash and cash equivalents during the year		5,372	1,935
Cash and cash equivalents at the start of the year		3,429	1,434
Exchange (losses)/gains on cash and cash equivalents		(936)	60
Cash and cash equivalents at the end of the year		**7,865**	**3,429**

The notes on pages 27 to 38 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2011

1. Accounting Policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations adopted by the International Accounting Standards Board (IASB). IFRS require management to make judgments, 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 judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates relate to the valuation of unlisted investments. Actual results may differ from these estimates. Where presentational guidance set out in the Statement of Recommended Practice (SORP) for Investment Trusts issued by the Association of Investment Companies (AIC) in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. In particular, supplementary information which analyses the statement of comprehensive income between items of a revenue and capital nature has been presented alongside the consolidated statement of comprehensive income.

Basis of preparation

The consolidated financial statements for the year ended 31 December 2011 have been prepared under the historical cost convention adjusted to take account of the revaluation of the Group's investments to fair value.

Basis of consolidation

Subsidiary (ICG Q Limited) is consolidated in full from the date of acquisition, being the date on which the Group obtained control and will continue to do so until such control ceases. The financial statements of the subsidiary are prepared using accounting policies consistent with accounting policies of the Company. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Income

Income including bank interest and fixed deposit interest is accounted for on an accruals basis. Dividends receivable are classified as investment income and taken to the statement of comprehensive income when the relevant security is quoted ex-dividend.

Expenses

Expenses are accounted for on an accruals basis. Expenses incurred on the acquisition or disposal of investments at fair value through profit or loss are allocated to the capital column of the statement of comprehensive income. Performance fees are also allocated to Capital, as are exchange differences arising on acquisition or disposal of investments in foreign currencies. Other expenses, including management fees, are allocated to the revenue column of the statement of comprehensive income.

Taxation

Full provision is made in the statement of comprehensive income at the relevant rate for any taxation payable in respect of the results for the year.

Investments

All of the Group's investments are designated at fair value through profit or loss at the time of acquisition. They are initially recognised at fair value, being the cost incurred in their acquisition. Transaction costs are expensed in the consolidated statement of comprehensive income. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive income in the period in which they arise.

1. Accounting Policies (continued)

Investments (continued)

Investments are designated at fair value through profit or loss at inception because they are managed and their performance evaluated on a fair value basis in accordance with the Group's investment strategy as documented in the Admission Document and information thereon is evaluated by the management of the Group on a fair value basis.

Purchases and sales of listed investments are recognised on trade date and those for unlisted investments are recognised when the associated contract becomes unconditional.

Direct Indian equity investments are valued at closing market prices on either the Bombay Stock Exchange or the National Stock Exchange (whichever is the primary market for the security in question).

Unlisted investments are valued at the Directors' estimate of their fair value in accordance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' and guidelines issued by the International Private Equity and Venture Capital Association. The Directors' estimates are based on an assessment of the available financial information on the underlying company, including a discounted cash flow appraisal and comparisons with the valuations of comparable listed companies, but taking account of the unlisted status.

Foreign currency translation

The Board has determined that the functional currency for the Group is Sterling. Sterling is also the presentation currency of the financial statements.

Monetary foreign currency assets and liabilities, including investments at fair value through profit or loss, are translated into Sterling at the rate of exchange ruling at the statement of financial position date. Investment transactions and income and expenditure items are translated at the rate of exchange ruling at the date of the transactions. Gains and losses on foreign exchange are included in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash comprises cash in hand, overdrafts and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant changes in value.

Standards, interpretations and amendments to published statements not yet effective

Certain current standards, amendments and interpretations are not relevant to the Group's operations. Equally, certain interpretations to existing standards which are not yet effective are equally not relevant to the Group's operations. At the date of the authorisation of these financial statements, the standards and interpretations which were in issue but not yet effective have not been early adopted in these financial statements.

IFRS 9 – Financial instruments and IFRS 13 – Fair value measurement are effective for periods beginning on or after 1 January 2015 and 1 January 2013 respectively. The Board has not yet assessed the impact of those standards as these have been recently published. The Directors believe that other pronouncements which are in issue but not yet operative or adopted by the Group will not have a material impact on the financial statements of the Company, but these will continue to be reviewed.

2. Net (loss)/gain on financial assets at fair value through profit or loss

	Year to 31.12.11 £000	Year to 31.12.10 £000
Realised loss		
Proceeds from sales of investments during the year	30,889	49,856
Original cost of investments sold during the year	(35,515)	(55,841)
Loss on investments sold during the year	(4,626)	(5,985)
Market loss	(4,011)	(12,826)
Foreign exchange (loss)/gain	(615)	6,841
Unrealised market (loss)/gain		
Previously recognised unrealised (gain)/loss now realised	(2,017)	14,642
Current period market (loss)/gain	(10,679)	5,364
Market (loss)/gain	(12,696)	20,006
Unrealised market (loss)/gain on listed securities	(12,696)	20,006
Unrealised market (loss)/gain on unlisted securities	–	–
Unrealised foreign exchange loss		
Previously recognised unrealised foreign exchange gain now realised	(1,344)	(3,888)
Current period foreign exchange (loss)/gain	(5,316)	1,885
	(6,660)	(2,003)
Net (loss)/gain on financial assets at fair value through profit or loss	**(23,982)**	**12,018**

Foreign exchange gains and losses are measured between the currency of denomination of the investment and the functional currency (Pounds Sterling).

3. Other expenses

Revenue	Year to 31.12.11 £000	Year to 31.12.10 £000
Directors' fees (note 13)	85	85
D&O insurance	14	17
Administration and secretarial fees (note 13)	120	124
Audit fee	27	37
Custody fees	15	24
Other advisory services	78	53
Warrant exercise period expenses	4	5
General expenses	137	124
	480	**469**

4. (Loss)/Earnings per share

(Loss)/earnings per Ordinary Share is calculated on the loss for the year of £25,747,000 (2010 – profit of £10,757,000) divided by the weighted average number of shares of 75,001,463 (2010 – 75,000,879). There were no warrants in issue at the end of the year, however in 2010, diluted Earnings per Ordinary Share is calculated on the basis that the 14,998,537 warrants in issue were exercised at the start of the year with the proceeds of £14,998,537 being used to repurchase Ordinary Shares at the average market price during the year. For 2010, the Diluted Earnings per Ordinary Share was equal to the Basic Earnings per Ordinary Share because the average share price during the year was less than the consideration which would be receivable for the potential Ordinary Shares, therefore having no dilutive effect.

5. Financial assets designated at fair value through profit or loss

	Listed £000	Unlisted £000	Year to 31.12.11 Total £000	Year to 31.12.10 Total £000
Cost as at 1 January	43,502	3,854	47,356	56,580
Purchases	24,627	–	24,627	46,617
Sales proceeds	(26,419)	(4,470)	(30,889)	(49,856)
Transfer from unlisted to listed *	13	(13)	–	–
Realised (loss)/gain on sale of investments	(6,070)	1,444	(4,626)	(5,985)
Cost at end of year	35,653	815	36,468	47,356
Unrealised (loss)/gain on revaluation	(10,407)	(815)	(11,222)	1,474
Unrealised foreign exchange (loss)/gain on revaluation	(3,318)	–	(3,318)	3,342
Fair value at end of year	**21,928**	**–**	**21,928**	**52,172**
Fair value of listed securities at end of the year			21,928	47,527
Fair value of unlisted securities at end of the year			–	4,645

** The transfer from unlisted to listed represents the cost attributed to the investment in Jubilant Industries Limited, where the listing of the shares in the company became effective during the period and the shares were subsequently sold on 15 February 2011.*

Equity investments are held as direct equity holdings or as participatory notes. Surplus cash in Indian Rupees is invested in readily realisable debt mutual funds.

	Listed £000	Unlisted £000	31.12.11 Total £000	31.12.10 Total £000
Equities	21,928	–	21,928	51,823
Participatory notes	–	–	–	349
	21,928	**–**	**21,928**	**52,172**

On 26 August 2011, the whole of the investment in Marwadi Shares and Finance Limited was sold to Amber 2010 Limited, a wholly owned subsidiary of Caledonia Investments PLC. As Caledonia Investments PLC is a material shareholder in the Company and the parent company of the Investment Manager this was a related party transaction. The price was thus based on an independent appraisal of value commissioned jointly by the parties. In the opinion of the Independent Directors, having consulted the Nominated Adviser, the price was fair and reasonable as regards shareholders in the Company.

6. Taxation

Guernsey

India Capital Growth Fund Limited is exempt from taxation in Guernsey. In connection with granting such an exemption, the Company pays an annual fee of £600 to the States of Guernsey Income Tax Department.

Mauritius

ICG Q Limited is centrally managed and controlled from Mauritius and is hence tax resident in Mauritius. The company invests in India and the Directors expect to obtain benefits under the double taxation treaty between Mauritius and India. To obtain benefits under the double taxation treaty, the company must meet certain tests and conditions, including the establishment of Mauritius tax residence and related requirements. The company has obtained a tax residence certification from the Mauritian authorities and believe such certification is determinative of its resident status for treaty purposes.

ICG Q Limited is subject to income tax in Mauritius on net income which excludes realised and unrealised capital gains and related expenditure at 15 per cent. (2010: 15 per cent.). However, the company is entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80 per cent. of the Mauritius tax on foreign source income.

The foregoing is based on current interpretation and practice and is subject to any future changes in tax laws and in the tax treaty between India and Mauritius.

India

A company which is tax resident in Mauritius under the treaty, but has no branch or permanent establishment in India, will not be subject to capital gains tax in India on the sale of securities.

7. Receivables

	31.12.11 Total £000	31.12.10 Total £000
Other receivables and prepayments	34	10
	34	**10**

8. Payables

	31.12.11 Total £000	31.12.10 Total £000
Management fee	38	71
Other creditors	92	96
	130	**167**

9. Segmental information

The Board has considered the provisions of IFRS 8 in relation to segmental reporting and concluded that the Group's activities form a single segment under the standard. From a geographical perspective, the Group's investments are focused in a single area – India. Assessment of performance by the Board and investment decisions by the Investment Manager are made on the basis of the portfolio as a whole. An analysis of the investments between listed and unlisted is however provided in note 5 as required by the Statement of Recommended Practice (SORP) for Investment Trusts issued by the AIC.

10. Share capital

Authorised Share Capital	**£000**
Unlimited number of Ordinary Shares of £0.01 each	–

Issued Share Capital	**Number of shares**	**Share capital £000**
Ordinary Shares of £0.01 each		
At 31 December 2011	75,001,463	750
At 31 December 2010	75,001,463	750

The Company's capital is represented by Ordinary Shares of par value £0.01, and each share carries one vote. They are entitled to dividends when declared. The Company has no restrictions or specific capital requirements on the issue or repurchase of Ordinary Shares.

The final exercise period for warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share ran from 27 April 2011 to 25 May 2011. No warrants were exercised during this period. As this was the final exercise period, all warrants and the subscription rights attached to such warrants lapsed and, with effect from 9 June 2011, the admission of the warrants to trading on AIM ceased. At 31 December 2010, 14,998,537 warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share were in issue.

11. Fair value of financial instruments

The following tables shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

				31 December 2011
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Equity investments	21,928	–	–	21,928
Financial assets designated at fair value through profit or loss	21,928	–	–	21,928

				31 December 2010
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Equity investments	47,527	–	4,645	52,172
Financial assets designated at fair value through profit or loss	47,527	–	4,645	52,172

The following tables shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and end of the year.

	Year to 31.12.11 £000	**Year to 31.12.10 £000**
Opening balance	4,645	4,275
Disposal of level 3 investments	(4,630)	–
Unrealised foreign exchange gain/(loss)	–	355
Transfer (out of)/into level 3*	(15)	15
Closing balance	–	4,645

* On 30 November 2010, the Company reclassified its investment of £15,000 in Jubilant Industries from level 1 to level 3. This represents the fair value attributable to the demerged part of a listed group, where the listing of the shares in the demerged company had not become effective as at the year end.

On 14 February 2011, the Company reclassified its investment of £15,000 in Jubilant Industries from level 3 to level 1 as the shares became available on a listed exchange. The holding was subsequently sold on 15 February 2011.

12. Financial instruments and risk profile

The primary objective of India Capital Growth Fund Limited is to provide long-term capital appreciation by investing predominantly in companies based in India. The investment policy permits the Group to make investments in a range of equity and equity linked securities of such companies. The Group's portfolio of investments is predominantly in listed mid and small cap Indian companies and a smaller proportion in unlisted Indian companies. While the principal focus is on investments in listed or unlisted equity securities or equity-linked securities, the Group has the flexibility to invest in bonds, convertibles and other type of securities.

The specific risks arising from the Group's exposure to these instruments and the Investment Manager's policies for managing these risks, which have been applied throughout the year, are summarised below:

Capital management

The Company is a closed-ended investment company and thus has a fixed capital for investment. It has no legal capital regulatory requirement. The Board has the power to purchase shares for cancellation thus reducing capital and the Board considers on a regular basis whether it is appropriate to exercise such powers. In the year ended 31 December 2011, the Board determined that it was inappropriate to exercise such powers, although continuation of these powers will be sought at the Annual General Meeting. The Board also considers from time to time whether it may be appropriate to raise new capital by a further issue of shares. The raising of new capital would however be dependent on there being genuine market demand.

Market price risk

Market price risk arises mainly from the uncertainty about future prices of the financial instruments held by the Group. It represents the potential loss the Group may suffer through holding market positions in the face of price movements.

The Group's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager in pursuance of the investment objectives and policies and in adherence to the investment guidelines and the investment and borrowing powers set out in the Admission Document. The Group's equity investment portfolio is concentrated and, as at 31 December 2011, comprised investment in 38 companies. The Group thus has higher exposure to market risk in relation to individual stocks than more broadly spread portfolios.

The Group invests in companies based in India where the regulatory framework is still developing. The value of investments made by the Group may be affected by foreign exchange rates and controls, interest rates, changes in Government policy, social and civil unrest, and other political, economic and other developments affecting India.

The Group's portfolio consists mainly of mid and small cap listed and unlisted Indian securities, and thus the effect of market movements is not closely correlated with the principal market index, the BSE Sensex. The BSE Mid-Cap Index provides a better (but not ideal) indicator of the effect of market price risk on the portfolio. The sensitivity of the Group to market price risk can be approximated by applying the percentage of funds invested (2011: 73.84 per cent; 2010: 94.10 per cent) to any movement in the BSE Mid-Cap Index. At 31 December 2011 this approximation would produce a movement in the net assets of the Group of £2,193,000 (2010: £5,217,000) for a 10 per cent (2010: 10 per cent) movement in the index.

12. Financial instruments and risk profile (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the financial instruments held by the Group will fluctuate because of changes in foreign exchange rates. The Group's portfolio comprises predominantly Rupee denominated investments but reporting, and in particular the reported Net Asset Value, is denominated in Sterling. Any appreciation or depreciation in the Rupee would have an impact on the performance of the Group. The underlying currency risk in relation to the Group's investments is the Rupee. The Group's policy is not to hedge the Rupee exposure.

The Group may enter into currency hedging transactions but appropriate mechanisms on acceptable terms are not expected to be readily available.

At 31 December 2011, if the Indian Rupee had strengthened or weakened by 5 per cent (2010: 5 per cent) against Sterling with all other variables held constant, pre-tax profit for the year would have been £1,466,000 (2010: £2,719,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of Indian Rupee denominated financial assets designated at fair value through profit or loss, trade receivables and payables and Indian Rupee denominated bank accounts.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Group. Credit risk in relation to securities transactions awaiting settlement is managed through the rules and procedures of the relevant stock exchanges. In particular settlements for transactions in listed securities are effected by the custodian on a delivery against payment or receipt against payment basis. Transactions in unlisted securities are effected against binding subscription agreements.

The principal credit risks for the Group are in relation to deposits with banks. The HSBC group acts as the principal banker to the Group, and as custodian of its assets. The securities held by HSBC as custodian are held in trust and are registered in the name of the Group subsidiary company (ICG Q Limited). The aggregate exposure to the HSBC group (excluding assets in custody) at 31 December 2011 was £7,865,000 (2010: £3,778,000), of which £279,000 (2010: £1,311,000) was to HSBC Bank plc (including Participatory Notes of value £Nil (2010: £349,000)). HSBC Bank plc has a credit rating of AA-.

Interest rate risk

Interest rate risk represents the uncertainty of investment return due to changes in the market rates of interest. The direct effect of movements in interest rates is not material as any surplus cash is predominantly in Indian Rupees, and foreign investors are not permitted to earn interest on Rupee balances.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. As the trading volume on the Indian Stock Market is lower than that of more developed stock exchanges the Group is likely to be invested in relatively illiquid securities. The Group's unlisted securities are even less liquid and may not be realisable until a third party investor is found. Unlisted securities represent nil per cent (2010: 8.38 per cent) of the portfolio. The Group's focus is to invest predominantly in mid and small cap stocks. As noted in the Investment Manager's Report, minimum liquidity criteria are utilised for new purchases. However there remain holdings where there is relatively little market liquidity. As with unlisted securities these investments may take time to realise. The Directors do not believe that the market is inactive enough to warrant a discount for liquidity risk on the Group's investments.

12. Financial instruments and risk profile (continued)

As an approximate indicator of the underlying liquidity in the listed securities in the portfolio, based on the average daily volumes of trades in each security reported by the two principal stock exchanges (the Bombay Stock Exchange and the National Stock Exchange) in the last quarter of the year, the portfolio holdings represented between 0.1 and 6,313 days trading (2010: 0.04 and 309 days), with the average, weighted by the percentage of the total portfolio, being 72 days (2010: 5.6 days). One holding, that in Arihant Foundation & Housing (1.4 per cent of the portfolio) which represents 6,313 days trading is particularly illiquid. If that is excluded from the calculation, the weighted average liquidity period for the remaining listed portfolio is 2.8 days trading (2010: 1.2 days).

The Group seeks to maintain sufficient cash to meet the Group's working capital requirements.

13. Related party transactions

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

On 26 August 2011, the whole of the investment in Marwadi Shares and Finance Limited was sold to Amber 2010 Limited, a wholly owned subsidiary of Caledonia Investments PLC. As Caledonia Investments PLC is a material shareholder in the Company and the parent company of the Investment Manager this was a related party transaction. The price was thus based on an independent appraisal of value commissioned jointly by the parties. In the opinion of the Independent Directors, having consulted the Nominated Adviser, the price was fair and reasonable as regards shareholders in the Company.

The Directors are responsible for the determination of the investment policy of the Group and have overall responsibility for the Group's activities.

Jamie Cayzer-Colvin is a non-executive director of the Investment Manager, Ocean Dial Asset Management Limited, and also an employee and Director of Caledonia Investments Plc and a non-executive director of Cayzer Trust Company Limited.

Directors' fees are disclosed fully in each Annual Report. The fee payable to the Chairman is £25,000 per annum and £15,000 per annum to each other Director. With effect from 1 January 2012, the Chairman will be entitled to £25,000 per annum, the Chairman of the Audit Committee will be paid £19,000 per annum and fees to each other Director will increase to £16,000 per annum.

The Investment Manager is entitled to receive a management fee payable jointly by the Company and its subsidiaries equivalent to 1.5 per cent. per annum of the Group's Total Assets, calculated and payable monthly in arrears. The Investment Manager earned £613,000 in management fees during the year ended 31 December 2011 (2010: £787,000) of which £38,000 was outstanding at 31 December 2011 (31.12.10: £71,000).

The Investment Manager is also entitled to receive a semi-annual performance related fee from the Company if the Net Asset Value per Share at the end of the half-year performance period (a) exceeds the Net Asset Value per Share at the start of the performance period by an annualised, annually compounded, rate of more than 10 per cent. (the "Performance Hurdle") and (b) exceeds by an annualised, annually compounded, rate of more than 10 per cent. of the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the "High Water Mark"). At 31 December 2011, the High Water Mark was 255.13 pence per Share.

The performance fee is an amount equal to 20 per cent. of the aggregate increase in the Net Asset Value above the High Water Mark. 50 per cent. of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares purchased in the market (if Ordinary Shares are trading at a discount to NAV) or by subscription for new shares at NAV (if the Ordinary Shares are

13. Related party transactions (continued)

trading at a premium). No performance fee was paid in respect of the year ended 31 December 2011 (2010: £Nil).

Under the terms of the Administration and Secretarial Agreement, Northern Trust International Fund Administration Services (Guernsey) Limited is entitled to a fee calculated on the Net Asset Value of the Company of 0.125 per cent. per annum on the first £50 million of Net Asset Value, 0.10 per cent. per annum on the next £50 million of Net Asset Value and 0.05 per cent. on any Net Asset Value in excess of £100 million, payable quarterly (subject to a minimum annual fee of £75,000). The Administrator is also entitled to reimbursement of out of pocket expenses incurred in the performance of its duties. The Administrator earned £75,000 for administration and secretarial services during the year ended 31 December 2011 (2010: £75,000) of which £19,000 was outstanding at 31 December 2011 (31.12.10: £19,000).

14. Contingent liabilities

The Directors are not aware of any contingent liabilities as at 31 December 2011 (2010: Nil).

15. Subsequent events

No significant subsequent events have occurred in respect of the Company or Group that are considered material to an understanding of these financial statements.

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