India
Capital Growth Fund

Annual report and audited consolidated financial statements

For the period from
11 November 2005
to 31 December 2006

India
Capital Growth Fund

Annual report and audited consolidated financial statements

For the period from 11 November 2005 to 31 December 2006

Contents

Management and administration 1

Chairman's report... 3

Investment manager's report...................................... 4

Directors' report.. 10

Directors 14

Independent auditors' report...................................... 15

Principal group investments....................................... 16

Portfolio statement 17

Consolidated income statement.................................. 20

Consolidated statement of changes in equity..................... 21

Consolidated statement of assets and liabilities 22

Consolidated cash flow statement................................. 23

Notes to the consolidated financial statements.................... 24

Management and administration

Directors

Michael L. Ingall (Chairman)

Jamie M.B. Cayzer-Colvin

Ashok Dayal

Robert C. Nicholson

Robert P. King
(resigned with effect from 31 March 2007)

Julian Carey
(appointed with effect from 31 March 2007)

Registered Office

Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Investment Manager

India Investment Partners Limited
Cayzer House
30 Buckingham Gate
London SW1E 6NN

Administrator and Secretary

Northern Trust International Fund
Administration Services (Guernsey) Limited
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Mauritian Administrator

International Financial Services Limited
IFS Court
TwentyEight
Cybercity
Ebene
Mauritius

Custodian

The Hong Kong and Shanghai Banking
Corporation Limited
HSBC Central Services Centre
8 S.K. Ahire Marg
Worli
Mumbai 400 030
India

Management and administration (continued)

Custodian (continued)

HSBC Bank Plc
Institutional Fund Services
Mariner House
London EC3N 4DA

Nominated Adviser and Broker

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Registrar

Capita IRG (CI) Limited
2nd Floor
No. 1 Le Truchot
St. Peter Port
Guernsey GY1 4AE

Auditors

Ernst & Young LLP
14 New Street
St. Peter Port
Guernsey GY1 4AF

Legal Advisers to the Company

for UK and US Law
Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS

for Guernsey Law
Carey Olsen
7 New Street
St. Peter Port
Guernsey GY1 4BZ

for Indian Law
AZB & Partners
Express Towers
23rd Floor
Nariman Point
Mumbai 400 021
India

for Mauritian Law
Citilaw Chambers
Cathedral Square
Port Louis
Mauritius

International Financial
Services Limited
IFS Court
TwentyEight
Cybercity
Ebene
Mauritius

Chairman's report

The Company has now completed its first full year and I would like to welcome all shareholders who joined the company both at its launch and subsequently.

The Company's objective is to invest for long term capital growth in Indian securities with the focus on small and mid-cap stocks together with up to 25% in unlisted securities.

The first year was always going to be a challenging one, given that by definition the fund started with 100% in cash. Difficulties were exacerbated by a very exuberant market in the first four months of the year followed by a sharp setback particularly in small caps. The second half saw a recovery principally in larger stocks. In addition a Sterling based fund has had to cope with an 11.6% depreciation of the Rupee against Sterling.

Whilst it is disappointing to report a decline in asset value (5% in Sterling), 2006 has been a year of solid achievement. Over 80% of the Company's funds have now been invested in small and mid-cap companies, both listed and unlisted. Holdings have been acquired, both through subscription and market purchase in a range of companies, selected to benefit from the continuing strength of the Indian domestic economy and India's increasing share of export markets.

The sharp market fall in May which had a significant effect on market values was reported at the interim stage. In the second half of the year the net asset value rose by over 10%. In December we took our first Board seat in a portfolio company, and expect to play a more active role going forward. The early months of 2007 have seen continued volatility in markets, and at 28 February 2007 the net asset value was 89.03 pence per share, a decline of 4.49% since the year end.

India continues to be a country of opportunity. I and my Board colleagues visited India during the year and met with a number of investee companies in a variety of sectors and locations. This gave us the opportunity to see at first hand the quality of the management in these companies and to discuss with them their plans for the development of their businesses. We were most impressed with what we saw and heard and came away extremely enthusiastic about the prospects for these companies and for your Company as an investor in them.

The Company has made a solid, if unspectacular start, and from here is well placed to fulfil the optimism inherent in the name India Capital Growth Fund.

Micky Ingall | Chairman

23 MARCH 2007

India Capital Growth Fund

Investment manager's report

The market environment

The Indian equity markets performed strongly during 2006, despite corrections in both May and December.

The key factors underpinning the stock market performance include strong earnings growth momentum and robust liquidity. The economy grew 9% (annualised) during the first two quarters of the 2006/2007 financial year (ending March 2007) prompting the Reserve Bank of India ("RBI") to revise its real GDP forecast for financial year 2007 to 8% from its earlier estimate of 7.5%. This will be a fourth consecutive year of circa 8% GDP growth, making India one of the fastest growing economies in the world. The growth continued to surprise, as reflected in several earnings upgrades during the course of the year.

The key growth drivers were:

- Strong consumer demand
- Growth in corporate capital expenditure
- Rising expenditure on infrastructure

We continue to remain optimistic on the long term prospects for the Indian economy. The growth enablers firmly in place include:

- Low current per capita consumption for most products and services combined with a favourable age and income demographic profile
- Government commitment to infrastructure creation
- High domestic savings rate of 29%
- Foreign exchange reserves of US$168bn

The key short term domestic risk continues to be a slow down in earnings momentum on the back of rising crude oil prices, inflation and interest rates. The key global risk will be any dramatic hard landing in the US economy, which could severely impact all emerging markets, India included.

Foreign Institutional Investors ("FIIs") continued to remain buyers with net investment of US$8.1 bn during 2006 and on the back of this high level of FII interest, the BSE Sensex rose 47% during the year. The BSE Midcap and the BSE Smallcap indices saw less dramatic gains, of 31% and 16% respectively. Both the midcap and smallcap indices closed the year well below their peaks in May 2006.

The Company registered an NAV of 93.22 pence per share as at 31st December 2006. The Company has underperformed due primarily to its focus on investing in small companies, which are in high growth phases. While share prices of investee companies have not substantially appreciated we expect these companies to attract institutional attention as they continue to grow rapidly. This investment strategy is akin to long-term private equity investing, but where we have taken minority stakes, backing existing promoters and management. The investment style has not been one of large cap stock picking which is where most of the attention from institutional investors has been in 2006 resulting in the high returns of BSE Sensex.

Table 1: GDP growth rate and industrial production growth

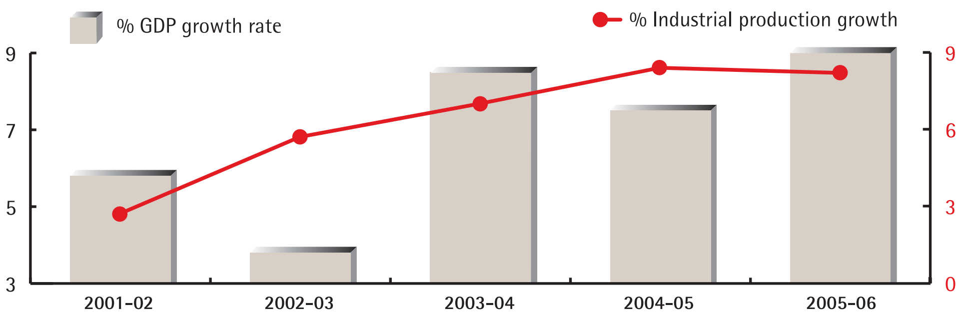


Table 2: The portfolio performance

DATE	NAV (PENCE PER SHARE)	INR/ GBP EXCHANGE RATE *
1st January 2006	98.00	77.89
31st December 2006	93.22	86.91
% Change	-4.88%	-11.58%

* RBI reference rate

The portfolio performance (continued)

It should also be noted that since January 2006 the Indian Rupee has depreciated by 11.6% against Sterling and, since the Company's policy is not to hedge against the exchange rate risk, it has affected the NAV.

The investment portfolio

As at 31st December 2006, 81.7% of the portfolio was invested in small and mid-cap companies (listed and unlisted), with 5.9% invested in large cap companies and 12.4% being held in cash substantially in Sterling. Against a background of volatile market conditions, we have focused on building up significant stakes in selected target companies, where we feel that the promoters and key management have the required skills to grow the business and show a high level of transparency in their operations, where capital appreciation can be substantial and there is a difference between our assessment of the underlying fundamental value and the current market value.

We have used a variety of structures to invest into our target companies, both in terms of instruments (convertible debentures, foreign currency convertible bonds and global depository receipts) and purchasing method (secondary market, initial public offerings, preferential issues and qualified institutional placements). In many cases, we have negotiated and structured investment opportunities directly with promoters and brokers to achieve the desired size of holding in otherwise illiquid stocks. Secondary market purchases have been slow and gradual so as to achieve sensible purchase prices.

The small and mid cap portfolio

As at 31st December 2006, the small and mid cap portfolio consisted of 35 listed companies and 4 unlisted companies. Our aim is, where practical, to hold between 5% and 15% of the equity of the small and mid cap companies so that, as a significant shareholder, we are able to develop a close association with the management, giving considerable comfort for investment and ongoing monitoring of investee companies. We are also available to assist management in meeting challenges such as raising capital, acquisitions or joint ventures.

Where we have been unable to build meaningful stakes or establish a reasonable dialogue with management and promoters we have exited certain companies.

As shown in Table 3 below, we have gradually increased the weighting in small and mid cap companies over the year. At the year end some 12.4% was in cash partly as a result of sales of some of the non-core holdings in December to book profits.

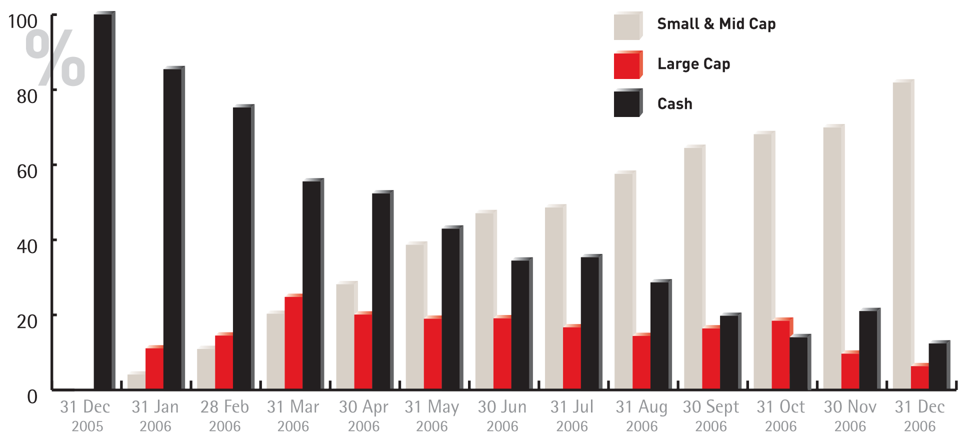
Sectoral risk controls

While our investment selection is primarily based on bottom up analysis, the exposure of the portfolio to any one sector is regularly monitored. Table 4 opposite shows the range of sectors represented in the portfolio.

Outlook

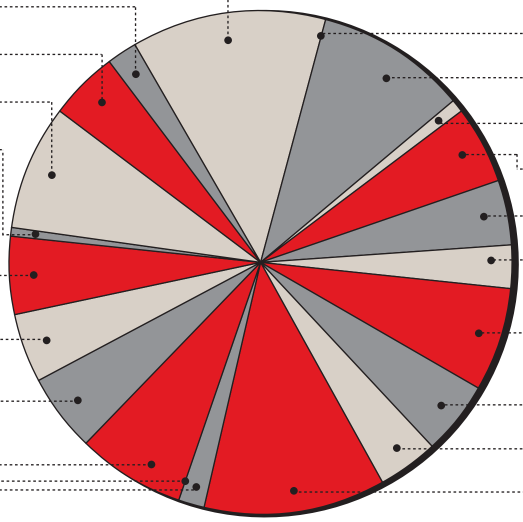
The strategy remains to continue to increase our stakes in our core portfolio and look to take profits when and where appropriate in our non-core stocks. Notwithstanding recent volatility in both the global and Indian markets, we believe that the long term prospects for individual companies within our portfolio remain very attractive.

Table 3: Portfolio breakdown (% of portfolio)



India Capital Growth Fund

Table 4: Sectoral analysis of portfolio as at 31 December 2006



Principal small and mid cap listed and unlisted investments (with data as at 31st December 2006):

S Kumars Nationwide Limited

Valuation: GBP4.8mn

6.8% of portfolio

3.4% of company

The company is a textile manufacturer focused on branded apparels for the medium to high end local market. The company has also built up a textile retail business which is growing rapidly. The company has a market cap of INR11.7bn (GBP133mn) and is currently trading at a P/E of 15.4 times (trailing twelve months ("TTM") to September 2006). The company registered turnover growth of 34% and net profit growth of 238% for TTM.

S Kumars Nationwide Limited is an exciting company well positioned to take advantage of domestic demand growth in India. The wholly-owned retailing subsidiary, Brandhouse Retail, offers an attractive exposure to this aspect of the Indian economy.

SpiceJet Limited

Valuation: GBP3.2mn

4.6% of portfolio

2.7% of company

SpiceJet Limited is the second largest low-cost carrier in the domestic airline industry in India, with a market share of 7.8%. The Company enjoys the best operating statistics performance in the Indian Aviation Industry; 87% load factor and 12.8 hours per day of block hours as compared to 75% and 11 hours respectively as the industry averages, achieved through careful attention to the lessons of successful companies worldwide. Currently, the airline operates a fleet of 9 aircraft (all Boeing 737-800). It plans to buy 17 aircraft with an option of buying 10 more, all of the same type. All the aircraft are fully funded through sale and lease-back agreements.

The company recently approved the preferential issue of shares up to US$75mn at a price of INR51.4 per share to various investors including Tata Group, Texas Pacific Group, Goldman Sachs and Isthitmar. The company has a market cap of INR10bn (GBP114mn). SpiceJet Limited has posted turnover growth of more than 7 times in the trailing twelve month period ending August 2006, and expects to post profit in the current financial year.

Mahindra Ugine Steel Company Limited

Valuation: GBP3.2mn

4.5% of portfolio

6.7% of company

The company is a manufacturer of alloy steel and stamping. Clients include the railways and the auto sector. The company has a market cap of

The investment portfolio (continued)

Mahindra Ugine Steel Company Limited (continued)

INR4,028mn (GBP46mn) and is currently trading at a P/E of 5.7 times (trailing twelve months to September 2006). The company registered turnover growth of 14% and net profit growth of 15% for TTM. The stamping business has opportunities of rapidly growing both organically and inorganically.

The promoter group, Mahindra & Mahindra, has delivered significant returns to investors in other group companies, and we are confident that Mahindra Ugine will be no exception.

Marwadi Shares and Finance Limited (unlisted)

Valuation: GBP3.0mn

4.3% of portfolio

15.6% of company

Marwadi Shares is a Rajkot-based (Gujarat) retail brokerage company, offering brokerage services in equities, derivatives and commodities, depository services to clients and portfolio management and distribution of Mutual Funds and IPOs. It also offers online brokerage services. The Group has invested GBP3.0mn in the company in equity shares. The funds raised will be used for branch expansion, technology upgradation and financing working capital needs.

Prime Focus Limited

Valuation: GBP3.1mn

4.4% of portfolio

6.2% of company

The company provides post production facilities relating to different media sectors like television software, advertising films and feature films. The company is an integrated end-to-end post production and visual effects services house. It offers services ranging from visual effects, digital film lab (digital intermediate, high-resolution film scanning and film recording), telecine, editing, and motion control to high definition production. In 2006, the company acquired the erstwhile VTR Plc (renamed Prime Focus UK). VTR Plc has grown from a small post-production company into a substantial media services group with turnover in excess of GBP20mn. The company also acquired Clear Post Production Limited (a UK based full service post production house known for perfecting its high quality services to commercials, feature films, broadcast idents and music videos with progressive visual effects). Clear has now merged with Prime Focus UK.

The company has a market cap of INR3,940mn (GBP45mn). In the first half of the financial year 2007, the company registered turnover growth of 27% and net profit growth of 44%.

Asian Electronics Limited

Valuation: GBP3.1mn

4.4% of portfolio

5.5% of company

Asian Electronics Limited is one of India's leading Energy Service Companies (ESCO). An ESCO business develops, installs and finances projects designed to improve the energy efficiency of lighting facilities. The company has targeted for a turnover of INR11.3bn by 2010 compared to INR1.6 bn in 2006. It is focusing on the replacement market of 6 billion tube lights for retrofit as compared to 100 million units in the new market. The company has a market cap of INR4,730mn (GBP54mn) and is currently trading at a P/E of 10.8 times (trailing twelve months to September 2006). It has registered turnover growth of 74% and net profit growth of 134% for TTM. The large replacement market and high growth potential in retail market will drive its future growth.

Varun Shipping Company Limited

Valuation: GBP2.9mn

4.1% of portfolio

3.2% of company

The company is the largest Indian carrier (76% share) and second largest globally (18% share) in the mid-sized Liquified Petroleum Gas ("LPG") semi-refrigerated shipping segment. LPG demand is growing in India and mid sized (as opposed to large-sized) LPG ships are used to service the growing Indian and other developing world markets. The company operates its LPG vessels in the Bergesen / Exmar LPG shipping pool. Together the LPG Shipping pool and Varun have a 56% market share with other players' LPG ships used primarily for captive purposes. The Company has a market cap of INR7,203mn (GBP82mn) and is currently trading at a P/E of 4.1 times (trailing twelve months to September 2006). It has registered turnover growth of 46% and net profit growth of 46% for TTM. In November 2006 the company raised US$51mn for capital expenditure via a preferential allotment .

Logix Microsystems

Valuation: GBP2.7mn

3.8% of portfolio

9.9% of company

Logix Microsystems (Logix) provides internet marketing and sales solutions for auto dealers primarily in the US through a 3D imaging product branded as "izmocars". This enables auto-dealers to get an edge in a competitive market, where the preliminary study by prospective car buyers is done through the internet. Major customers of Logix include Yahoo Autos, Cobalt Inc. (largest provider of online solutions to auto-dealers in US), Galpin Automotive (one of the world's largest dealers for Ford US) and Anderson Direct (one of the largest e-dealers in cars in US). The company has launched a website www.carazoo.com catering to Indian customers. During the last quarter, the company has entered into significant contracts with GM and Ford, which will entail designing customised high-end multi-media content for them.

The company has a market cap of INR2,423mn (GBP28mn) and is currently trading at a P/E of 39.9 times (trailing twelve months to September 2006). It has registered a turnover growth of 22% and net profit growth of 10% for TTM.

Arihant Foundations and Housing Limited

Valuation: GBP2.7mn

3.9% of portfolio

7.4% of company

Arihant Foundations and Housing Limited (Arihant) is one of the leading developers of residential and commercial property in Chennai. The company has completed more than 5mn sq. ft. of built up area, including some of the most sought after residential buildings in the city. The company has a large "land bank" (land in possession under development of various properties) of 16 properties, including 14 for residential and 2 for commercial use. For its commercial developments, Arihant has a list of prestigious clients including HCL Tech, Verizon, and Hutchison Essar Limited. The company is well regarded for its "tech-friendly" building structures, which has enabled it to attract tenants and buyers in the IT space. The company follows different models for residential and commercial properties – outright sell for residential and leasing for commercial.

The company has a market cap of INR2,918mn (GBP33mn) and is currently trading at a P/E of 15.8 times (trailing twelve months to September 2006). It posted turnover growth of 41% and net profit growth of 585% for TTM. It is believed that at 31 December 2006 the market value of the company's "land bank" alone was equivalent to over 95% of its market capitalisation.

Gruh Finance Limited

Valuation: GBP2.6mn

3.7% of portfolio

6.2% of company

Gruh Finance is in the business of providing housing finance to rural and semi urban areas. It is a subsidiary of HDFC (Housing Development Finance Corporation) which holds 61.85% in the company. Gruh's major focus has been to provide smaller size home loans to individuals and families that are not catered to by HDFC, which concentrates on larger size loans, for purchase, construction, extension, repair and renovation of houses, an area that is growing rapidly. The company has a market cap of INR3,605mn (GBP41mn) and is currently trading at a Price to Book Value of 3.2 times (trailing twelve months). The company registered operating income growth of 29% and net profit growth of 31% for TTM to September 2006.

Unlisted investments

The fund held four unlisted investments at 31st December 2006. The investment in Marwadi Shares and Finance has been dealt with earlier. The other three investments are:

Warrants to subscribe for Ordinary Shares in Viceroy Hotels

Viceroy Hotels Limited owns a 297 room 5 star hotel in Hyderabad. The hotel has tied up with Marriott, in a franchise agreement and Marriott manages the hotel for a fee. In 2006, the company merged its group companies with itself and has plans to build new hotels in Chennai and Bangalore to be operated under the Marriott brand.

The unlisted warrants in Viceroy Hotels were acquired as part of a preferential issue which included a subscription for listed shares.

CitiXsys Technologies Private Limited

CitiXsys Technologies Private Limited is a software product, consulting and support company based in Delhi that acts as an independent vendor to SAP AG installing and testing its ERP for small and medium enterprises, "BusinessOne". It is also acquiring and developing add-on modules for various functions. The Group has invested

The investment portfolio (continued)

CitiXsys Technologies Private Limited (continued)

GBP0.8mn in the company as convertible debentures as part of a US$2.5mn fund raising in August 2006. Funds raised will be utilised to acquire add-in modules or companies and to set up a back office centre for "BusinessOne" enquiries.

Infinity Film Completion Services

Infinity Film Completion Services is an Indian film completion guarantee and related services business and is currently a division of Infinity India Advisors Private Limited (IIAP). The Group has invested GBP0.6mn in Optionally Convertible Debentures in IIAP. The other activities of IIAP are being wound down and on completion of this process the name will be changed to Infinity Film Completion Services Limited.

Large cap investments

During the year, we invested in 14 large cap stocks with the intention to reduce our holdings in these as funds are deployed into core small and mid cap portfolio. Overall we have reduced our weighting in large cap stocks from 19% of the portfolio in June to 6% of the portfolio in December. The confidence we expressed at the half-year in the banking sector proved justified as after their lacklustre performance in the first half banking stocks appreciated strongly in the second half and consequently we reduced our exposure to the sector from 10% to 4.6%. However we continued to hold Industrial Development Bank of India Limited as we believed the market price did not reflect its underlying value.

Industrial Development Bank of India Limited

Valuation: GBP3.3mn
4.8% of portfolio
0.5% of company

Industrial Development Bank of India Limited (IDBI) is a listed public sector bank, in which the Government of India owns a 53% stake. The bank recently acquired United Western Bank, (public sector bank with a strong presence in the state of Maharashtra with 230 branches). With this acquisition, IDBI now has 425 branches spread across the country. IDBI has a market cap of INR54,088mn (GBP615mn) and is currently trading at a Price to Book Value of 0.85 times (trailing twelve months to September 2006). Operating income grew by 8.6% and net profit grew by 11.5% for TTM.

JSW Steel Limited

Valuation: GBP2.2mn
3.1% of portfolio
0.3% of company

JSW Steel Ltd is an integrated flat steel producer located in south India and has finishing facilities located strategically near Mumbai for easy access to the markets of Western India and to the port for exports. The Company currently has a capacity of 3.8mn tonnes per annum which it plans to expand further to 6.8mn tonnes per annum by FY 2009. The company has a market cap of INR58,738mn (GBP667mn) and is currently trading at a P/E of 7.3 times (trailing twelve months to September 2006). Net profit was up by 14% for TTM, albeit on a slightly lower turnover.

India Investment Partners Limited
23 MARCH 2007

Directors' report

The Directors present their report and the audited consolidated financial statements of the Group for the period from incorporation on 11 November 2005 to 31 December 2006.

The Company

India Capital Growth Fund Limited (the "Company") was registered in Guernsey on 11 November 2005 and is a closed-ended investment company. The Company has two wholly owned Mauritian subsidiaries, ICG Q Limited and ICG U Limited, comprising the "Group". The Company was listed on the Alternative Invest-ment Market of the London Stock Exchange on 22 December 2005.

Investment policy

The objective of the Group is to provide long-term capital appreciation by investing in companies in India. The principal focus will be on investments in listed or unlisted equity securities or equity linked securities. A proportion of the Group's assets will be held in ICG Q Limited and invested in listed Indian securities and a smaller proportion of the Group's assets will be held in ICG U Limited and invested in listed and unlisted Indian Securities.

Results and dividends

The Group's performance during the period is discussed in the Investment manager's report on page 4.

The results for the period are set out in the Consolidated Income Statement on page 20.

The Directors do not recommend the payment of a dividend for the period ended 31 December 2006.

Share premium account

By way of a special resolution passed on 20 October 2006, it was resolved that the amount standing to the credit of the share premium account of the Group following completion of the issue (less any formation and initial expenses set off against the share premium account) be cancelled and the amount so cancelled be credited as a distributable reserve. This resolution was approved by the Royal Court of Guernsey on 17 November 2006.

Substantial interests

Shareholders who at 22 March 2007 held an interest of 3% or more of the Ordinary Share Capital of the Company are set out in Table 5 below.

So far as the Board is aware there are no holdings of warrants which if converted would amount to an interest of 3% or more of the Ordinary Share Capital of the Company.

Directors' responsibilities

The Directors are required by The Companies (Guernsey) Law, 1994 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 disclose 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.

Table 5: Substantial interests

	NO. SHARES	% HOLDING
Caledonia Investments Plc	19,750,000	26.33
BNY (OCS) Nominees Limited	4,831,500	6.44
Diprivest Inc	5,000,000	6.67
Pershing Keen Nominees Limited	4,392,046	5.86
HSBC Global Custody Nominee (UK) Limited	3,705,473	4.94
Roy Nominees Limited	3,303,713	4.40
The Bank of New York (Nominee) Limited	3,198,688	4.26
OMX Securities Nominees Limited	2,487,231	3.32

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%).

Directors' responsibilities (continued)

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 to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. 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.

Directors

The directors of the Company who served during the period, who (except as otherwise noted), were appointed on 11 November 2005, are set out on page 1.

Directors' interests

Directors held the following interests in the share capital of the Company:

	Ordinary Shares	Warrants
Michael L. Ingall	50,000	50,000
Jamie M.B. Cayzer-Colvin	50,000	10,000

Robert King, who represented the Administrator, Northern Trust International Fund Administration Services (Guernsey) Limited, on the Board, resigned from Northern Trust on 2 February 2007. In consequence he has tendered his resignation from the Board with effect from 31 March 2007. The Board has invited Julian Carey, a representative of Northern Trust, to join the Board of the Company with effect from 31 March 2007.

Jamie M.B Cayzer-Colvin is a non-executive Director of India Investment Partners Limited, the Investment Manager and also an employee and Director of Caledonia Investments Plc.

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.

Corporate governance

The Committee on Corporate Governance published its latest report on the principles of good governance and code of best practice (the "Combined Code", or the "Code") in July 2003. The Company is listed on the Alternative Investment Market of the London Stock Exchange, and as such is not required to comply with the Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have therefore adopted the spirit of the Code, and in particular its interpretation in relation to Investment Companies issued by the Association of Investment Companies.

Corporate governance principles

The Board, having reviewed the Code, considers that it has maintained procedures during the period ended 31 December 2006 to ensure that it complies with the spirit of the Code subject to the exceptions explained below and its special circumstances as an offshore company. The Company also complies with the corporate governance guidelines issued by the Guernsey Financial Services Commission on 10 December 2004, whose underlying principles are the same as those of the Code.

Board responsibilities

The Board comprises five non-executive directors. One member of the Board is a non-executive director of the Manager. All other members of the Board are independent of the Manager. None of the Directors has a contract of service with the Company.

The Board 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.

Chairman, Senior Independent Director and Chief Executive

The Chairman of the Board is Michael L. Ingall. A biography for him and for all other Directors appears on page 14. In considering the independence of the Chairman, the Board has taken note of the provisions of the Code relating to independence, and has determined that Mr Ingall 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, Committee meetings and Directors' attendance

During the period there were five board meetings and one committee meeting.

	Board meeting attendances	Committee meeting attendances
Michael L. Ingall	4	1
Jamie M.B Cayzer-Colvin	4	1
Ashok Dayal	3	-
Robert P. King	5	1
Robert C. Nicholson	4	1

Performance evaluation

The Chairman intends to evaluate the performance of each of the Directors on an ongoing basis, taking into account the effectiveness of their contributions and their commitment to the role. As this is the first year of operation of the Company, no performance review has yet taken place.

Supply and agenda information

The quarterly 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 fully discuss 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.

Nomination committee

The Board as a whole fulfils the function of a Nomination Committee. 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. The appointment of Julian Carey to the Board with effect from 31 March 2007 was approved by the Board on 15 March 2007.

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 Code in respect of executive directors' remuneration. Directors' fees are disclosed fully in each Annual Report. The basic fee payable to the Chairman is £25,000 p.a. and £15,000 p.a. to each Director. 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.

Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts 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.

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 an ongoing basis the process for identifying, evaluating and managing any significant risks faced by the Company. The process includes reviewing reports from the Company Secretary on risk control and compliance, in conjunction with the Investment Manager's regular reports which cover investment performance.

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 India Investment Partners Limited, a company authorised by the Financial Services Authority.

Internal control
(continued)

- Administration, and Company Secretarial duties are performed by Northern Trust International Fund Administration Services (Guernsey) Limited, a company licensed and regulated by the Guernsey Financial Services Commission.
- Custody of assets is undertaken by the HSBC Group.

Audit committee

The Company's Audit Committee is comprised of Messrs Cayzer-Colvin and Nicholson. The audit committee has the following remit: to meet bi-annually and to consider, inter-alia: (a) annual and interim financial statements; (b) auditor 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.

Dialogue with shareholders

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.

Investment management

Polar Capital LLP was appointed interim Investment Manager on 16 December 2005, pending the receipt of the regulatory approval by India Investment Partners Limited. Following receipt of authorisations by the Financial Services Authority and the Guernsey Financial Services Commission, India Investment Partners Limited was appointed Investment Manager on 22 June 2006.

The Investment Manager is entitled to receive a management fee payable jointly by the Company and the Mauritian companies equivalent to 1.5 per cent. per annum of the Company's Total Assets, calculated and payable monthly in arrears.

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% of any performance fee payable is required to be reinvested in Ordinary Shares.

The Board reviews on an ongoing basis the performance of the Investment Manager and considers whether the investment strategy utilised is likely to achieve the Company's investment objective of achieving a positive total annual portfolio return of at least twice the return of the Bank of England base rate. Having considered the portfolio performance and investment strategy, the Board has unanimously agreed that the interests of the shareholders as a whole are best served by the continuing appointment of the Manager on the terms agreed.

The Investment Management Agreement shall continue in force until determined by the Investment Manager or the Company, giving to the other party hereto not less than 12 months notice, such notice to be served not earlier than the second anniversary of the Company.

Approved by the Board of Directors and signed on behalf of the Board on 23 March 2007.

M L Ingall
R P King
Directors

23 MARCH 2007

Directors

The Directors, all of whom are non-executive, are as follows:

Michael Lenox Ingall (Chairman)

Aged 65, has 40 years experience as broker and fund manager in London, having worked at Rathbone Brothers plc as head of investment from 1985 to 1988, as chief executive until 1997 and then as executive chairman until his retirement in 2003. He is also a non-executive director of Investors Capital Trust plc, Edinburgh Small Companies Trust plc, and Mid Wynd International Investment Trust plc. He is resident in the UK.

Jamie Michael Beale Cayzer-Colvin

Aged 41, joined the Caledonia group in 1995, initially working at its specialty chemical subsidiary, Amber Industrial, before becoming an investment executive at Caledonia in 1999. He was appointed an associate director in 2002 and a director in April 2005. He is chairman of Amber Industrial and a non-executive director of Rathbone Brothers, Polar Capital and a number of other private companies. He is resident in the UK.

Ashok Dayal

Aged 69, 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 with companies such as Glaxo Smithkline Consumer Healthcare, Abbot India and Akzo Nobel Coatings, in addition to being chairman of the board of trustees of ING Mutual Fund. He is resident in India.

Robert Charles Nicholson

Aged 51, was a senior advisor to the board of directors of PCCW Limited between 2001 and 2003. He is an independent non-executive director of Pacific Basin Shipping Limited and QPL International Holdings Limited. He is an executive director of First Pacific Company Limited, a Hong Kong based listed investment and management company. He also serves as a commissioner of First Pacific Company Limited's subsidiary in Indonesia, PT Indofood Sukses Makmur TbK. He qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982. He was a senior partner at Richards Butler from 1985 to 2001. He is resident in Hong Kong.

Robert Paul King (resigned with effect from 31 March 2007)

Aged 43, has 20 years fund administration experience and is a senior manager of Cannon Asset Management. He was a director of Northern Trust International Fund Administration Services (Guernsey) Limited, where he had worked since 1990, specialising in the administration of open and closed ended emerging market and global investment funds. He holds a number of board appointments in other investment companies, including ICG Q Limited and ICG U Limited, the Company's subsidiaries. He is resident in Guernsey.

Julian Carey (appointed with effect from 31 March 2007)

Aged 42, is a senior client relationship manager at Northern Trust International Fund Administration Servcies (Guernsey) Limited. He has specialised in the administration of open and closed ended emerging market and global investment funds, having been in the offshore fund administration industry since 1994. He holds a number of board appointments in other investment companies. He is resident in Guernsey.

Independent auditors' report

To the members of India Capital Growth Fund Limited:

We have audited the group's consolidated financial statements for the period ended 31st December 2006 which comprise the consolidated income statement, consolidated statement of assets and liabilities, consolidated statement of changes in equity, consolidated cash flow statement and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law 1994. 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 the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law as set out in the statement of directors' responsibilities, in the directors' report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law 1994. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the chairman's report, investment manager's report, directors' report, principal group investments and portfolio statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31st December 2006, and of its loss for the period then ended, and have been properly prepared in accordance with the Companies (Guernsey) Law 1994.

Ernst & Young LLP | St Peter Port, Guernsey, Channel Islands

23 MARCH 2007

Notes:

The maintenance and integrity of the India Capital Growth Fund 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 2006

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
S Kumars Nationwide Limited	Small Cap	Textiles	4,778	6.83
Industrial Development Bank of India Limited	Large Cap	Banks	3,333	4.77
SpiceJet Limited	Small Cap	Airlines	3,185	4.55
Mahindra Ugine Steel Company Limited	Small Cap	Auto component	3,157	4.51
Prime Focus Limited	Small Cap	Media	3,097	4.43
Asian Electronic Limited	Small Cap	Electricals & lighting systems	3,076	4.40
Marwadi Shares and Finance Limited	Unlisted	Financial services	3,026	4.33
Varun Shipping Company Limited	Small Cap	Shipping	2,865	4.10
Arihant Foundations and Housing Limited	Small Cap	Housing & Construction	2,692	3.85
Logix Microsystems	Small Cap	Software	2,642	3.78
Total top 10 investments			**31,851**	**45.55**
Other Large Cap (3 companies)			830	1.19
Other Small and Mid Cap (25 companies)			28,574	40.87
Total invested assets			**61,255**	**87.61**
Cash and other net current assets			8,661	12.39
Total Portfolio			**69,916**	**100.00**

Portfolio statement

As at 31 December 2006

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Listed securities			
Agro chemicals			
Tata Chemicals Limited	551,603	1,373	1.96
		1,373	1.96
Airlines			
SpiceJet Limited	4,985,237	3,185	4.55
		3,185	4.55
Auto component			
Mahindra Ugine Steel Company Limited	2,177,129	3,158	4.51
Kirloskar Ferrous Industries Limited	3,725,925	1,412	2.02
EI Forge Limited	1,265,959	1,118	1.60
		5,688	8.13
Automobiles			
Tata Motors Limited	27,492	286	0.41
		286	0.41
Banks			
Industrial Development Bank of India Limited	3,781,218	3,333	4.77
Syndicate Bank	238,224	206	0.29
		3,539	5.06
Diversified			
Sintex Industries Limited	9,144	23	0.03
		23	0.03
Electricals & lighting systems			
Asian Electronic Limited	612,000	3,076	4.40
		3,076	4.40
Engineering/other manufacturing			
Manugraph India Limited	725,998	2,123	3.04
Ador Welding Limited	448,440	1,413	2.02
		3,536	5.06
Financial services			
Prime Securities Limited	2,342,000	1,324	1.89
		1,324	1.89
FMCG			
Amar Remedies Limited	1,188	1	0.00
		1	0.00
Hotels			
Viceroy Hotels Limited	875,000	910	1.30
		910	1.30

Portfolio statement (continued)

As at 31 December 2006

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Housing & construction			
Arihant Foundations and Housing Limited	446.593	2,692	3.85
Madhucon Projects Limited	601,787	2,134	3.05
Standard Industries	2,498,393	1,769	2.53
MSK Projects (India) Limited	1,584,843	1,567	2.24
Sobha Developers Limited	5,130	59	0.09
		8,221	11.76
Housing finance			
Gruh Finance Limited	1,644,905	2,569	3.68
		2,569	3.68
Media			
Prime Focus Limited	783,926	3,097	4.43
IOL Broadband Limited	393,700	1,142	1.63
Zee Entertainment Enterprises Limited	100,000	338	0.49
Wire and Wireless India Limited	50,000	62	0.09
Zee News Limited	45,210	16	0.02
		4,655	6.66
Pharamaceuticals			
Dabur Pharma Limited	2,173,792	1,828	2.61
		1,828	2.61
Shipping			
Varun Shipping Company Limited	3,794,177	2,865	4.10
		2,865	4.10
Software			
Logix Microsystems	841,000	2,642	3.78
		2,642	3.78
Steel/iron ore			
JSW Steel Limited	489,335	2,187	3.13
Tata Metaliks Limited	1,120,312	1,424	2.04
		3,611	5.17
Sugar			
Mawana Sugars Limited	823,295	465	0.67
		465	0.67
Textiles			
S Kumars Nationwide Limited	5,249,379	4,778	6.83
Grabal Alok Impex Limited	1,017,775	1,738	2.49
Arvind Mills Limited	525,264	314	0.45
		6,830	9.77
Total listed securities		**56,627**	**80.99**

Portfolio statement (continued)

As at 31 December 2006

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Unlisted Securities			
Equity			
Financial services			
Marwadi Shares and Finance Limited	1,671,279	3,026	4.33
Convertible debentures			
Financial services			
Infinity India Advisors Private Limited	500,000	593	0.85
Software			
CitiXsys Technologies Private Limited	690	815	1.16
Total convertible debentures		**1,408**	**2.01**
Warrants			
Hotels			
Viceroy Hotels Limited	1,625,000	194	0.28
Total unlisted securities		4,628	6.62
Total investments		61,255	87.61
Net current assets		8,661	12.39
Total net assets		**69,916**	**100.00**

India Capital Growth Fund

Consoliated income statement

For the period from 11 November 2005 to 31 December 2006

	NOTES	REVENUE £000	CAPITAL £000	TOTAL £000
Income				
Fixed deposit interest		866	-	866
Bank interest income		496	-	496
Investment income		696	-	696
		2,058	**-**	**2,058**
Net losses on financial assets at fair value through profit or loss				
Market movements	2	-	(741)	(741)
Foreign exchange movements	2	-	(2,796)	(2,796)
Total income		**2,058**	**(3,537)**	**(1,479)**
Expenses				
Management fee	12	(1,075)	-	(1,075)
Cost of acquisitions and disposal of investments		-	(464)	(464)
Other expenses	3	(477)	(197)	(674)
Total expenses		**(1,552)**	**(661)**	**(2,213)**
Profit/(loss) for the period before taxation		506	(4,198)	(3,692)
Taxation	6	(19)	-	(19)
Profit/(loss) for the period after taxation		**487**	**(4,198)**	**(3,711)**
Earnings per Ordinary Share - Basic (pence)	4	0.65	(5.60)	(4.95)

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue and capital columns are both prepared under guidance published by The Association of Investment Companies.

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

The notes on pages 24 to 31 form part of these financial statements.

Consolidated statement of changes in equity

For the period from 11 November 2005 to 31 December 2006

	SHARE CAPITAL £000	SHARE PREMIUM £000	CAPITAL RESERVE REALISED £000	CAPITAL RESERVE UNREALISED £000	REVENUE RESERVE £000	OTHER DISTRIBUTABLE RESERVE £000	TOTAL £000
Balance as at 11 November 2005	-	-	-	-	-	-	-
Gain/(Loss) on investments	-	-	16	(757)	-	-	(741)
Revenue profit for the period after taxation (excluding foreign exchange losses)	-	-	-	-	487	-	487
Cost of acquisitions and disposal of investments	-	-	(104)	(360)	-	-	(464)
Loss on foreign currency	-	-	(197)	(2,796)	-	-	(2,993)
Issue of shares	750	74,250	-	-	-	-	75,000
Issue costs relating to the issue of shares	-	(1,373)	-	-	-	-	(1,373)
Transfer to distributable reserves	-	(72,877)	-	-	-	72,877	-
Balance as at 31 December 2006	**750**	**-**	**(285)**	**(3,913)**	**487**	**72,877**	**69,916**

The notes on pages 24 to 31 form part of these financial statements.

India Capital Growth Fund

Consolidated statement of assets and liabilities

As at 31 December 2006

	NOTES	£000	£000
Non-current assets			
Financial assets at fair value through profit and loss	5		61,255
Current assets			
Cash and cash equivalents		9,082	
Receivables	7	73	
		9,155	
Current liabilities			
Payables	8	(494)	
Net current assets			8,661
Total assets less current liabilities			**69,916**
Equity			
Ordinary share capital	10		750
Reserves			69,166
Total equity			**69,916**
Number of Ordinary Shares in issue			**75,000,000**
Net Asset Value per Ordinary Share (pence)			**93.22**

The audited financial statements on pages 20 to 31 were approved by the Board of Directors on 23 March 2007 and signed on its behalf by:-

M L Ingall
R P King
Directors

23 MARCH 2007

The notes on pages 24 to 31 form part of these financial statements.

Consolidated cash flow statement

For the period from 11 November 2005 to 31 December 2006

	NOTES	£000
Cashflows from operating activities		
Investment income		672
Fixed deposit interest		866
Bank interest		496
Management fee		(986)
Other cash payments		(432)
Net cash inflow from operating activities		**616**
Cashflows from investing activities		
Purchase of investments		(94,081)
Sale of investments		29,312
Transaction charges relating to the purchase and sale of investments		(402)
Net cash outflow from investing activities		**(65,171)**
Cashflows from financing activities		
Proceeds from issue of shares	10	75,000
Issue costs		(1,373)
Net cash inflow from financing activities		**73,627**
Net increase in cash and cash equivalents during the period		9,072
Cash and cash equivalents at the start of the period		–
Exchange gains on cash and cash equivalents		10
Cash and cash equivalents at the end of the period		**9,082**

The notes on pages 24 to 31 form part of these financial statements.

Notes to the consolidated financial statements

For the period from 11 November 2005 to 31 December 2006

1. Accounting policies

Basis of accounting

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB) and applicable Guernsey Law. 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 expense. 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. Actual results may differ from these estimates. Where presentational guidance set out in the Statement of Recommended Practice (the "SORP") for Investment Trusts issued by the Association of Investment Companies (the "AIC") in January 2003 (revised December 2005) 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 income statement between items of a revenue and capital nature has been presented alongside the Consolidated Income Statement.

The Group has decided to early adopt the provisions of IFRS 7 – Financial Instruments, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments, but does not have any impact on their classification or valuation.

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.

Basis of preparation

The Financial Statements 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

Subsidiaries (ICG Q Limited and ICG U Limited) are consolidated in full from the date of acquisition, being the date on which the Group obtains control and will continue to do so until such control ceases. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Individual Company only information has not been presented as the information is not materially different from that for the group as a whole.

Income

Income is accounted for on an accruals basis. Dividends receivable are taken to the income statement 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 and loss are allocated to the capital column of the income statement. Other expenses are allocated to the revenue column of the income statement.

Share issue expenses

Share issue expenses incurred in the initial launch of the Company amounted to £1,372,585. They have

For the period from 11 November 2005 to 31 December 2006

1. Accounting policies
(continued)

been treated as a deduction from equity in the Consolidated Statement of Changes in Equity, and written off against the Share Premium Account.

Taxation

Full provision is made in the Income Statement at the relevant rate for any taxation payable in respect of the results for the period.

Investments

The Group designates all investments, listed and unlisted, as at fair value through profit and 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 Income Statement. Gains and losses arising from changes in fair value are presented in the Income Statement in the period in which they arise.

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). Participatory notes are valued at the closing market bid prices published by the issuer. Investments listed on other exchanges are valued at closing market bid prices on the relevant exchange.

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

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.

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.

2. Net losses on financial assets at fair value through profit or loss

	£000	£000
Realised:		
Proceeds from sales of investments during the period	29,350	
Original cost of investments sold during the period	(29,334)	
Gains on investments sold during the period		16
Unrealised:		
Market losses	(757)	
Foreign exchange losses	(2,796)	(3,553)
Net loss on financial assets at fair value through profit or loss		**(3,537)**

3. Other expenses

	£000
Directors' fees	97
D&O Insurance	22
Administration and secretarial fees	121
Audit fee	38
Custody fees	23
Other advisory services	65
General expenses	63
Establishment expenses	58
Foreign exchange	(10)
	477

4. Earnings per share

Earning per Ordinary Share is based on the weighted average number of Ordinary Shares. There being no change in the number of shares in issue during the period, the weighted average number of Ordinary Shares for the period is 75,000,000. Diluted Earnings per Ordinary Share is equal to the basic Earnings per Ordinary share because the fair value of one Ordinary Share as at 31 December 2006 is less than the consideration which would be receivable for the potential Ordinary Shares therefore having no dilutive effect.

5. Financial assets at fair value through profit or loss

	Listed £000	Unlisted £000	Total £000
Cost at inception	-	-	-
Purchases	89,305	4,837	94,142
Sales	(29,350)	-	(29,350)
Realised gains on sales of investments	16	-	16
Cost as at 31 December 2006	59,971	4,837	64,808
Unrealised loss on revaluation	(577)	(180)	(757)
Unrealised foreign exchange (loss)/gain on revaluation	(2,767)	(29)	(2,796)
Fair Value as at 31 December 2006	**56,627**	**4,628**	**61,255**

5. Financial assets at fair value through profit or loss (continued)

Securities may be held directly or through other mechanisms such as participatory notes, convertible debentures, warrants and unlisted investments.

Method	Listed £000	Unlisted £000	Total £000
Participatory Notes	37,774	-	37,774
Equities	18,853	3,026	21,879
Convertible Debentures	-	1,408	1,408
Warrants	-	194	194
	56,627	**4,628**	**61,255**

6. Taxation

ICG Q Limited and ICG U Limited are centrally managed and controlled from Mauritius and are hence tax resident in Mauritius. The companies invest in India and the directors expect to obtain benefits under the double taxation treaty between Mauritius and India. The Indian Supreme Court has re-affirmed in a ruling dated 7 October 2003 the validity of the circular 789 issued by the Indian Central Board of Direct Taxes which provided that wherever a "Certificate of Residence" was issued by the Mauritian Tax Authorities, such certificate constituted sufficient evidence for accepting the status of residence and beneficial ownership and for applying the benefits of the tax treaty between India and Mauritius. Both companies hold a valid Certificate of Residence from the Mauritian Commissioner of Income Tax.

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 but is subject to a Dividend Distribution Tax of equivalent to 12.5% (plus 2.5% surcharge) of the dividends distributed.

Mauritius

ICG Q Limited and ICG U Limited are subject to Income Tax in Mauritius on its net income at 15%. However, the companies are entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80% of the Mauritius tax on its foreign source income. At 31 December 2006, ICG Q Limited had a liability amounting to £19,518.

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.

7. Receivables

	£000
Investment income	24
Disposal of investments awaiting settlement	38
Other receivables and prepayments	11
	73

8. Payables

	£000
Purchases of investments awaiting settlement	258
Management fee	89
Other creditors	147
	494

9. Segmental information

The Board has considered the provisions of IAS 14 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. Equally, in relation to business segmentation, the Group's investments are predominantly in the small and mid-cap arena and it is considered that given the relative illiquidity of the listed market for such investments, particularly since many remain controlled by the promoter groups, the risks and rewards are not materially different whether the investments are listed or unlisted. An analysis of the investments between listed and unlisted is however provided in Note 5.

10. Share capital

Authorised Share Capital	**£000**
125,000,000 Ordinary shares of £0.01 each	1,250
	1,250

Issued Share Capital	**Number of shares**	**Share capital £000**	**Share premium £000**
Ordinary Shares of £0.01 each			
At inception	-	-	-
Issued during the period	75,000,000	750	74,250
Issue costs	-	-	(1,373)
Transfer to distributable reserve	-	-	(72,877)
As at 31 December 2006	**75,000,000**	**750**	**-**

The Company's capital is represented by Ordinary Shares of £0.01 par value, 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.

15,000,000 Warrants were issued during the period. Each warrant confers the right to subscribe for one Ordinary Share at a subscription price of £1. Warrant holders are entitled to exercise their subscription right between four and eight weeks following publication of the Company's annual accounts, commencing with the publication of the Company's annual accounts in 2009 and ending with the publication of the Company's annual accounts in 2011

11. 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 Directors intend that, once fully invested, the Group's portfolio of investments will predominantly be in a well diversified selection of listed small to mid-cap Indian companies and a smaller proportion in unlisted Indian companies. While the principal focus will be on investments in listed or unlisted equity securities or equity-linked securities, the Group will have 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 period, are summarised below:

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 Manager in pursuance of the investment objectives and policies. Adherence to investment guidelines and to investment and borrowing powers set out in the Placing and Offer for Subscription Document mitigates the risk of excessive exposure to any particular type of security or issuer.

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 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 Small-Cap index provides a better (but not ideal) indicator of the effect of market price risk on the portfolio, however the Group's investments are concentrated and do not reflect the over 450 companies in that index. Even so, the sensitivity of the Group to market price risk can be approximated by applying the percentage of funds invested (at 31 December 2006, 87.63%) to any movement in the BSE Small-Cap index. At 31 December 2006 this approximation would produce a movement in the net assets of the Group of £612,550 for a 1% movement in the index

Foreign currency risk

The Group's portfolio comprises predominantly Rupee denominated investments but reporting, and in particular, the reported Net Asset Value is denominated in Sterling. Any depreciation in the Rupee could have an adverse impact on the performance of the Group. Certain of the Group's investments may be denominated in US Dollars but the underlying currency risk in relation to these investments is the Rupee. The Group's policy is not to hedge the Rupee exposure. Any exposure to the US Dollar arising from transactions denominated in that currency is closed out as soon as is reasonable practicable. The Group may enter into currency hedging transactions but appropriate mechanisms on acceptable terms are not expected to be readily available.

At 31 December 2006, if the Indian Rupee had weakened by 1% against Sterling with all other variables held constant, pre tax profit for the year would have been £231,793 lower, mainly as a result of foreign exchange losses on translation of Indian Rupee denominated financial assets at fair value through profit or loss, trade receivables and payables and Indian Rupee denominated bank accounts.

Interest rate risk

Interest rate risk represents the uncertainty of investment return due to changes in the market rates of interest. As the portfolio is now substantially fully invested, the direct effect of movements in interest rates is not material.

Liquidity risk

As the trading volume on the Indian Stock Market is lower than that of more developed stock exchanges the Group may therefore invest 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 6.62% of the portfolio. The Group's focus is to invest predominantly in small and mid cap stocks. For many of these there is relatively little market liquidity. As with unlisted securities these investments may take time to realise.

The Board mitigate the risk of illiquidity by maintaining a thorough due diligence process before investing in a security.

12. 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.

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

Robert King a Director of the Company and its subsidiaries, was also a Director of the Administrator and Secretary, which are entitled to receive fees and detailed in the Admission Document. Robert King resigned as director of the Administrator on 2 February 2007.

Jamie M.B.Cayzer-Colvin is a non-executive Director of the investment manager, India Investment Partners Limited.

Directors' fees are disclosed fully in each Annual Report. The basic fee payable to the Chairman is £25,000 p.a. and £15,000 p.a. to each Director.

Polar Capital LLP was appointed interim Investment Manager on 16 December 2005, pending the receipt of the regulatory approval by India Investment Partners Limited. Following receipt of authorisations by the Financial Serv-ices Authority and the Guernsey Financial Services Commission, India Investment Partners Limited was appointed Investment Manager on 22 June 2006.

The Investment Manager is entitled to receive a management fee payable jointly by the Company and the Mauritian companies equivalent to 1.5 per cent. per annum of the Company's Total Assets, calculated and payable monthly in arrears.

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% of any performance fee payable is required to be reinvested in Ordinary Shares.

Under the terms of the Administration and Secretarial Agreement, Northern Trust 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 will also be entitled to reimbursement of out of pocket expenses incurred in the performance of their duties.

13. Potential liabilities

The Group has purchased 1,625,000 warrants in Viceroy Hotels which are unlisted instruments which convey the right to acquire Ordinary Shares subject to the payment of designated amounts on designated dates. At the exchange rate ruling at 31 December 2006, the amount due to be paid in order to exercise the right is £1,495,800.

14. 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.

15. Company reserves

There is no difference between the Group's reserves and the Company's reserves at 31 December 2006 other than the Company's revenue reserve was £250,000 and the Company's unrealised capital loss was £3,946,000. The Company had no balance on realised capital reserves.

India
Capital Growth Fund

Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

www.indiacapitalgrowth.com