India
Capital Growth Fund

Annual report and audited consolidated financial statements

For year ended
31 December 2007

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Contents

Management and administration

Directors

Michael L. Ingall (Chairman)

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Ashok Dayal

Robert C. Nicholson

Andrew R. Maiden

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Investment Manager

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Mauritian Administrator

International Financial Services Limited
IFS Court
TwentyEight
Cybercity
Ebene
Mauritius

Custodian

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International Financial
Services Limited
IFS Court
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Ebene
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Chairman's statement

The Company has now completed two years of its life. On its first anniversary I wrote that it was well placed to fulfil the optimism inherent in its name. In 2007 the Company translated that potential into reality. The first six months of the year produced a rise in Net Asset Value of 25%. In the second half of the year, NAV rose by a further 41%, giving a total rise of 75.9% for the year. This rise follows generally strong markets, but also reflects consistent and highly profitable growth from a number of the investee companies.

My Board colleagues and I again visited India in September 2007 and visited 10 companies in a range of sectors and in three cities, Mumbai, Chennai and Rajkot. This first hand experience of the energy and ambition of the investee companies reinforced our belief that, while stock markets may continue to be volatile, the opportunity for these companies is substantial, as is their willingness and ability to achieve. We continue to be extremely positive about the prospects for our investee companies.

The India Capital Growth Fund Limited has a different focus and investment style to that found in the vast majority of India funds. The Company's focus is on small and mid sized companies (up to 25% in unlisted securities), and is relatively highly concentrated in a few investments (25 as on 31 December). This contrasts with other funds which tend to invest in the larger and more liquid stocks and generally have a broader portfolio of over 50 stocks. This focus and concentration enables the Company and its manager to help investee companies to realise value, either through attracting a wider and better shareholder base, non executive board level support or guidance on organic and inorganic (M&A) growth. It is particularly pleasing that we have seen a number of our small-cap investments become mid-cap companies during the year.

Risks remain, as they do in all endeavours, but it is our belief that the small and mid sized companies in our portfolio epitomise the growth and wealth creation occurring in India. It is these types of companies that are providing the impetus for much of the growth that is resulting in India obtaining a greater share of global GDP.

The first two months of 2008 have demonstrated that volatility and contagion are a feature of the global economy and Indian equity markets have been affected as much as any others. However, as the Investment Manager's report states, India has a low ratio of exports to GDP (15.6%) and its local markets continue to grow very strongly. GDP growth for the quarter ended 31 December 2007 was at an annualised rate of 9.6% and company earnings and profits are expected to continue to rise at a healthy pace. The Indian stock market reached an all time high on 11th January, by which time most world markets were already in retreat. For a while it looked as though India, with its fast growing domestic economy, could remain immune to the contagion of American sub-prime problems. However this proved a false hope, but we believe India is capable of shaking off the malaise faster than most. We are convinced that this market is trading in the foothills of a mighty range and although such setbacks will continue to occur they will appear insignificant in years to come.

It is at times such as this that the Company reaps the benefits of its closed-end status, with no danger of the manager being forced to liquidate cherished holdings at distressed prices – rather opportunities arise to buy at attractive levels. It is disappointing that at times such as these our discount widens; but this seems a small price to pay for the stability we enjoy and presents shareholders with the opportunity to buy further shares at an attractive discount.

Micky Ingall | Chairman

13 MARCH 2008

Investment manager's report

The market environment

Indian equity markets had an excellent year in 2007. The BSE Sensex, the BSE Mid Cap Index and the BSE small cap Index rose 45.5%, 66.7%, and 90.6% respectively. This was on the back of continued corporate growth, low inflation and strong investment inflows by Foreign Institutional Investors ("FII's") who invested a net US$17.2bn during the year.

India appeared to be "de-coupled" from troubles in the US, and the BSE Sensex reached a peak on the 11th January 2008. FII's however then withdrew US$3.2bn from the market in January, in contrast to their net investment of US$1.4bn in December 2007, and liquidity was further constrained by the Reliance Power IPO (which received applications totalling US$190bn for the US$3bn of shares on offer). Positions in Indian futures and options became untenable and the BSE Sensex fell 23.5% between its peak and 7 March 2008. The fall in mid- and small-cap stocks was magnified with the BSE mid-cap index falling 32.7% and the BSE small-cap index falling 39.8% in that period.

Despite these highly volatile market movements we continue to remain positive about the Indian economy and believe market sentiment will recover as it did after falls in May 2006 and February 2007. There are four main reasons behind our positive outlook:

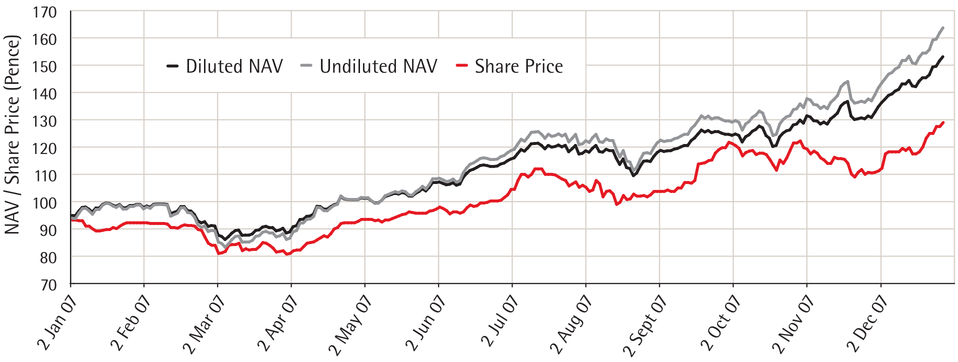
- Growth remains robust and inflation under control. From a growth rate of 3.5% between 1960 and 1980 and 6.0% in the 1980s, GDP is now growing at between 8% and 9% per annum.
- Corporate earnings and performance continue to be positive. Corporate profits have grown by over 20% year on year in recent years. The average debt-equity ratio for the Bombay Stock Exchange (BSE) 500 companies (excluding banks) declined from 120% in the first half of the 1990s to 54% over FY04-FY07. Annualised PAT (profit after taxes) growth for the trailing twelve months to 31 December 2007 was 29.5%, 43.6% and 40.0% for the BSE Sensex, BSE mid-cap and BSE small-cap companies.
- India has a low ratio of exports to GDP at 15.2%, compared to 36.6% for China and 100% for Hong Kong and Singapore. Domestic consumption is driving growth and there is no evidence of a slow down despite US sub prime problems.
- While FII's have recently reduced their exposure to Indian markets they remain long term buyers. Local savings are also high. Gross domestic investment, as a percentage of GDP, has increased from 28.0% in 2004 to 35% in 2007, while gross domestic savings have risen from 29.7% to 34% of GDP. This shows that there is sufficient capital for both Indian primary and secondary markets to sustain the pace of growth.

Thus, while in the short term Indian markets will continue to be volatile, the prospects for a sustained, high rate of real economic growth is good and both company fundamentals and the Indian stock market should perform well over the medium to long term.

Portfolio performance and investment strategy 1 January 2007 to 31 December 2007

The Company's undiluted NAV increased by 75.9% and fully diluted NAV increased by 64.5% in 2007, benefiting from strong and profitable growth in portfolio company businesses, buoyant equity markets and a strengthening of the Rupee against Sterling (up 9.4%). The first two months of 2007 were relatively flat, but March saw a sharp fall in the market. This correction proved relatively

Figure 1: NAV performance during 2007



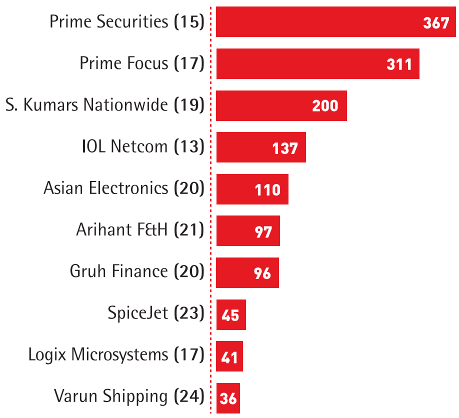
Portfolio performance and investment strategy (continued)

short lived, and for the balance of the year there was a strong upward momentum. In this period small and mid-cap companies outperformed their large-cap counterparts. **Figure 1** on the previous page shows the NAV performance in 2007.

Summary of activity in 2007

During the year we have retained or increased our stake in selected investee companies where we back the promoters and management teams and believe the business plans and developments are on track. We remain an active and supportive shareholder in core companies in the portfolio, assisting investee companies in a number of ways. These might include shareholder communications, introductions to potential new investors, providing an external perspective on management information systems and internal audit processes, and views on capital raising and M&A activity. In some cases we have representation on investee company boards in a non-executive capacity. In companies where we have a significant weighting we have selectively top-sliced our holdings, and sold out of some other holdings in order to release cash for new investments and to take advantage of new opportunities. We continue to see a regular flow of interesting companies and have added new investments to the portfolio where these meet our criteria and are available at attractive valuations.

Figure 2: Percentage increase over GBP acquisition cost to 31 December 2007



= % increase over Total GBP Acquisition Cost

(Figures in brackets represent the number of months since the first investment)

Long term capital appreciation

Our premise is that well managed companies with sound business models, that show growth, high return on capital and strong cash flows, will over time become recognised by the investment community and that by investing early in such companies substantial capital appreciation can be achieved. The objective is a 3x to 4x return in a time period of 3 to 5 years. **Figure 2** below shows the percentage increase over GBP acquisition cost to 31 December 2007.

- We are patient with the investments, although this does not mean inactivity as we proactively provide these companies with support in a variety of ways.
- Promoters and management teams of good companies are difficult to find, but over the next couple of years those companies particularly will continue to grow rapidly as will their share prices.
- While we have top sliced in a few companies (in order to generate cash for new investments and manage overall portfolio risk) we expect to maintain our interest in most investments for the immediate future.

Top 10 portfolio companies

S Kumars Nationwide Limited

Market capitalisation: GBP424m

11.3% of portfolio

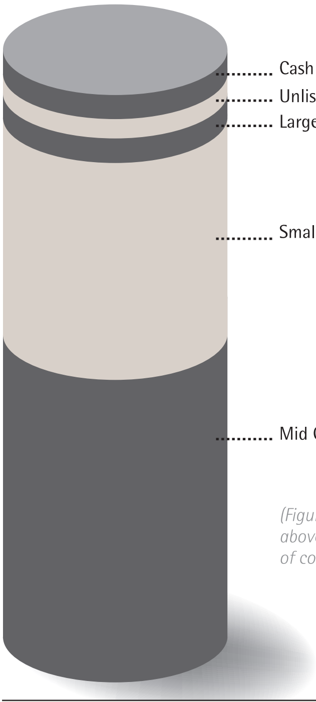
3.1% of company

The company's aim is to be the "clothier to the nation" and it focuses on the large aspiring middle and upper classes in India. The company provides this customer base with branded clothes and home textiles sold through a network of over 30,000 retail outlets. More than 95% of revenues come from domestic sales. The company has 5 manufacturing facilities and a production capacity of over 200,000 metres/day. Its product range and brands (Reid & Taylor, Belmonte, S Kumars, and Carmichael House) are well known throughout India. In addition to its existing retail network the Company is also establishing stores for international fashion labels Dunhill (a luxury menswear brand) and Escada (a luxury fashion wear brand for women).

The company's plan to demerge its retail business into a separate company "Brandhouse Retail Limited" has recently been approved by both the Equity and Preference Shareholders of the company at their respective EGMs.

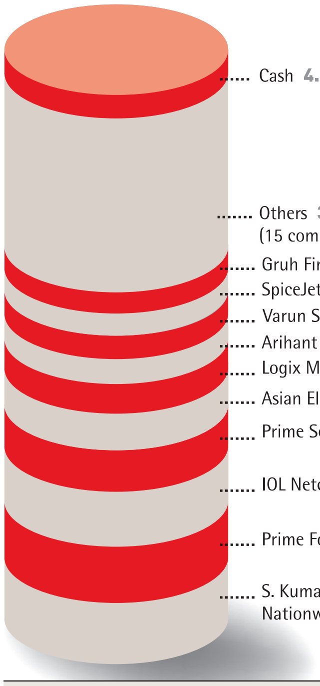
In the first nine months (to 31 December 2007) of

Figure 3: Focus on small and mid sized Companies (Data as at 31 December 2007)



Small Cap: MCap less than GBP120m (INR10bn)
Mid Cap: MCap GBP120m to GBP610m
Large Cap: MCap above GBP610m (INR50bn)

Figure 4: A concentrated portfolio (Data as at 31 December 2007)



Top 5 holdings: 44.1% of portfolio
Top 10 holdings: 65.2% of portfolio
Note: Cash in both charts above includes other current assets and is net of current liabilities.

the current financial year, net Income was up 43% and EPS up 39% over the corresponding period in 2006. *(Note that for most Indian companies the financial year is from 1 April to 31 March.)*

Prime Focus Limited

Market capitalisation: GBP206m
10.2% portfolio
5.9% of the company

The company provides postproduction services for television, advertising and feature films, providing integrated end-to-end (from adding sound and visual affects to preparing the final film for distribution) post production and visual effects services. Prime Focus recently opened facilities in Chennai and Hyderabad which together with its Mumbai offices now services both Bollywood and the South Indian film market. The company also has a presence in the UK (owning a controlling stake in Prime Focus UK PLC, an AIM listed post production company) and recently acquired Post Logic and Frantic Films, two companies based in the USA. The international businesses provide the front office marketing and high level production work for international clients, with the Indian operations providing the lower cost people-intensive support.

Warner Bros, Motion Picture Imaging and Prime Focus have entered into a strategic alliance that will allow the companies to expand Prime Focus' services and offer state of the art digital post production capabilities to filmmakers on a global scale.

Net Income was up 58% and EPS up 39% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

IOL Netcom Ltd

Market capitalisation: GBP156m
10.1% of portfolio
7.6% of company

The company is an Internet Protocol Television (IPTV) Company. The company's IPTV services have been commercially launched in Mumbai, Bangalore and Kolkatta and the company has

Top 10 portfolio companies (continued)

IOL Netcom Ltd (continued)

recently "soft" launched services in Chennai and Delhi. This will be followed by a launch of services in smaller towns and cities. The company has acquired 15,000 IPTV subscribers through its acquisition of Exatt, an Internet Service Provider. IOL also has over 65,000 broadband Internet users. The company has agreements with fixed line telecom operators, MTNL and BSNL to provide IPTV services to their customers (numbering over 37.4 million). The company is also in advanced stages of negotiations with local cable operators and going forward, this could significantly increase subscription numbers.

There are over 70 million cable connections in India. However the Indian market for distributing cable and satellite channels has recently been opened to new technologies and distribution methods and DTH and IPTV are emerging as serious competitors to a fragmented cable operator driven business. The company has not yet achieved break even, however net income is growing in line with the company's business plan.

Prime Securities Ltd

Market capitalisation: GBP93m

7.6% of portfolio

9.6% of company

Prime Securities Limited along with its subsidiaries (Prime Broking and Prime Commodity) is engaged in investment banking, corporate advisory, institutional stock broking and wealth management services. The company also has a proprietary investments business where the company regularly invests its surplus capital in listed Indian companies. The company's expertise is in the area of small and mid sized companies to whom it provides primarily capital raising services (advice on private equity and IPOs). The SME sector is showing rapid growth and is also one where ICGF has a particular interest.

The company is also expanding its wealth management products, and funds under management have risen from next to nothing to INR850m (GBP11m) in the six months to 31 December 2007. The company has applied for a license to start local mutual fund products and raised new equity capital of INR569m (GBP7.4m) in January 2008 to finance this expansion.

Net Income was up 141% and EPS up 138% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

Asian Electronics Ltd

Market capitalisation: GBP182m

6.7% of portfolio

4.3% of company

Asian Electronics operates two business divisions: Lighting Solutions and Waste Plastic Processing. The company has been awarded the ESCO (Energy Service Company) status by the Government of India, which means that sales of its lighting division provide users and the Company with certain tax benefits.

Lighting Solutions: The company provides integrated energy saving solutions with a guarantee of performance and savings with income that is often directly linked to the savings achieved.

Waste Plastic Processing: Recently the Company has acquired technology to process waste plastics and convert various polymers into fuel grade hydrocarbons. The Company has formed a joint venture with HPCL (Hindustan Petroleum Corporation Ltd.) a Government controlled oil refiner to process sludge derived from oil refining using this technology.

Net Income was up 3% and EPS up 31% for the nine months to 31 December 2007 over the corresponding nine months in 2006 despite deferring the recognition of income of approximately INR480m (GBP6.2m) and profits of INR200m (GBP2.6m) where additional modifications were required.

Logix Microsystems Ltd

Market capitalisation: GBP56m

5.3% of portfolio

11.0% of company

The company provides internet marketing and sales solutions for auto dealers in US through a 3D imaging product branded as "izmocars" with a focus on the US market. Some 91% of all new automotive shopping in the US begins online. Logix clients include General Motors, Ford Motor Company and Mitsubishi Motors in the OEM segment, Yahoo!, AOL and AutoUSA in the portal segment, and hundreds of auto retailers including Hendrick Automotive, Auto Canada, and Anderson Honda in the automotive retail segment. Client retention is above 99%. The Company recently acquired Add-on Auto LLC (a US company with a customer lead management software product catering to auto dealers) for

INR52.4m (GBP0.7m). The company has also recently launched a web site for Indian car dealers and buyers www.carazoo.com.

The company's office in Bangalore provides all the content and software development with the company's office in San Francisco providing the front end client servicing and marketing. The company has plans to enter the European markets through a strategic partnership or joint venture.

Net Income was up 50% and EPS up 34% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

Arihant Foundations and Housing Ltd

Market capitalisation: GBP55m

4.6% of portfolio

9.9% of company

The company is one of the leading construction companies in Chennai and with a growing presence in the rest of Tamil Nadu.

The company has built more than 5 million sq. ft. of built up area, including some of the most sought after residential buildings in the city. 15 projects are presently being developed with a cumulative built up area of 14 million square feet. Projects are typically 70% to 80% pre-sold. The company has also entered into a joint venture with the JP Morgan Property Fund and Unitech (a large north Indian developer) to complete a large new mixed use development in Chennai, and further joint ventures are planned.

India has a large shortage of quality housing for the salaried middle classes, and there is no sign that supply / demand factors are about to change. It is estimated that there is a shortfall of 1.2 billion sq. ft of residential housing over the next 5 years. Residential developments are typically 80% to 90% pre-sold before construction is completed with buyers committing capital up-front, lowering project financing costs. These features result in high IRRs (over 30%) for each development project.

Net Income was up 27% and EPS up 25% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

Varun Shipping Company Ltd

Market capitalisation: GBP189m

4.2% of portfolio

2.6% of company

The company is one of the largest global mid-sized LPG (liquefied petroleum gas) Shipping companies with a dominant LPG shipping market share in India (81%). The company is building on its strengths in LPG shipping to provide shipping solutions to major Indian oil and gas companies (upstream and down stream). The company's fleet consists of 20 vessels; 12 LPG carriers, 3 Aframax Crude Oil Tankers, 4 Anchor Handling Towing and Supply Vessels and 1 small product tanker.

The utilisation rate of the company's ships over the last year has been more than 90%, and over 80% of the company's revenue is generated from repeat customers. Nearly all the company's ships are in the high-end quality / technology parts of their business segments (for example two of its Anchor Handler ships have the highest bollard pull of all Indian flag vessels and the only tow capable of operating in complicated assignments in very deep waters). All except one of the company's oil and gas vessels are double hull, the exception being a tanker on long-term charter.

Net Income was up 30% and EPS up 124% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

SpiceJet Ltd

Market capitalisation: GBP266m

4.1% of portfolio

1.8% of company

SpiceJet is the second largest low-cost airline in India with a market share of 8.8% in the domestic Indian market. The company has the best operating parameters in the Indian airline industry; a 76% load factor and 12.1 hours per day per aircraft flying time as compared to 75% and 11 hours as industry averages.

The company operates a fleet of 17 aircraft (all Boeing 737-800) and plans to expand the fleet to 22 by March 2009 and to 27 by March 2010. Spicejet has entered into a contract with Babcock & Brown International Pty and Nomura Babcock & Brown Co. for the sale and lease-back of all the Boeing 737-800s it has bought from Boeing.

The airline industry in India is consolidating fast and SpiceJet remains one of only two true low cost (as opposed to just low priced) airlines. Passenger growth continues at over 30% in volume terms and most new passengers are highly sensitive to prices, having moved over from rail travel. SpiceJet is well positioned to take advantage of this.

Net losses were reduced by 71% and loss per share was reduced by 73% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

Top 10 portfolio companies (continued)

Gruh Finance Ltd

Market capitalisation: GBP90m
3.8% of portfolio
5.0% of company

The company is in the business of providing housing finance to rural and semi urban areas. The company's average loan sizes are extremely small compared to those in the West, with an average loan size of INR300,000 (GBP3,750), but this is where most of the low income mass market growth is being seen in India. The company is 61.52% owned by HDFC, India's largest housing finance company, which concentrates on larger loan sizes.

The company has a network of 79 offices primarily in Western India and a retail customer base of 115,000. The company has built up a loan portfolio in excess of INR16,000m (GBP200m). It has consistently managed net interest margin to average asset ratio in excess of 3% over the past five years with gross NPAs (Non Performing Assets) less than 2%.

The Company has been expanding steadily out from its original base in Gujarat and now has offices in the adjoining states of Rajasthan, Madhaya Pradesh and Maharashtra. Recently the company has also begun expanding its business in the South Indian state of Tamil Nadu.

Net Income was up 48% and EPS up 68% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

Major unlisted company

Marwadi Shares and Finance

3.2% of portfolio
12.2% of company

Marwadi is a retail stock broking company based in Gujarat. The company has 64 owned branches and 619 franchisees with over 87,500 broking and over 115,000 depository clients. The company has rigorous risk controls and processes and this allows for an average daily execution (in the quarter ended 31 December 2007) of 170,000 trades. Marwadi is one of the few broking companies in India never to have faced temporary halting in its trading from exchanges due to lack of sufficient margins (an otherwise surprisingly common feature amongst brokerage firms in India).

The company also distributes financial products (mutual funds and insurance products) and has a nascent portfolio management service. The company's broking market share (based on total turnover for the nine months to 31 December 2007) is 1.4% and the market share estimate for retail broking services is 2.8%.

The company is expanding geographically out from its strong presence in Gujarat and parts of Madhya Pradesh and Rajasthan to Maharashtra and South India. The company is also steadily expanding its institutional brokerage services based out of Mumbai.

Net Income was up 127% and EPS up 153% for the nine months to 31 December 2007 over the corresponding nine months in 2006.

The fair value of the investment was reappraised in December 2007 in accordance with the Group accounting policies, and as a result the valuation was increased by 13.2% in INR terms.

Looking forward

Since the end of the year turmoil in global markets, driven by large sub prime losses in the US, has affected Indian equity markets and the Company's NAV has declined sharply. In this environment we have been balancing our positive views on the longer term fundamentals for a number of ICGF portfolio companies with weakening of share prices and the need for ICGF to generate some cash for new opportunities.

ICGF is substantially fully invested and we will continue our close relationship with existing investee companies in our efforts to help them continue their profitable growth. At the same time we continue to meet and invest in new companies where we see substantial long-term value.

ICGF has a portfolio of attractive companies that have the potential for continued and sustained growth, high return on capital and strong cash flows. We remain positive about the prospects for the Company's investments and in the general economic environment in India.

India Investment Partners Limited
13 MARCH 2008

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2007.

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 Investment Market of the London Stock Exchange 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 small to mid-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 security, including derivative instruments.

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 Income Statement on page 20.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007.

Substantial interests

Shareholders who at 7 March 2008 held an interest of 3% or more of the Ordinary Share Capital of the Company are stated in **Table 1** below.

At 7 March 2008, the Manager, India Investment Partners Limited and connected persons (not elsewhere disclosed) held in aggregate 2,207,111 shares (2.94%) arising principally from the reinvestment of performance fees in accordance with the management agreement.

So far as the Board is aware the only holdings of warrants as at 7 March 2008 which, if converted, would amount to an interest of 3% or more in the Ordinary Share Capital of the Company are listed in **Table 2** overleaf.

Table 1: Substantial interests

	NO. SHARES	% HOLDING
Caledonia Investments Plc	17,983,830	23.98
HSBC Global Custody Nominee (UK) Limited	5,213,963	6.95
Diprivest Inc	5,000,000	6.67
Pershing Keen Nominees Limited	3,812,317	5.08
Nortrust Nominees Limited	3,045,804	4.06
Goldman Sachs Securities (Nominees) Limited	2,942,500	3.92
Rathbone Nominees Limited	2,644,950	3.53
State Street Nominees Limited	2,608,300	3.48
The Bank of New York (Nominees) Limited	2,572,688	3.43

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%).

Substantial interests
(continued)

Table 2: Substantial holdings of warrants

NAMES	HOLDING OF WARRANTS	% OF ENLARGED ORDINARY SHARE CAPITAL IF EXERCISED ASSUMING FULL CONVERSION
Chase Nominees Limited	3,661,200	4.07%
Caledonia Investments Plc	3,300,000	3.67%

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 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 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 current directors of the Company are set out on page 1. Robert P. King resigned with effect from 31 March 2007. Julian Carey was appointed with effect from 31 March 2007 and resigned with effect from 22 September 2007. Andrew R. Maiden was appointed with effect from 19 September 2007.

Directors' interests

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

	Ordinary Shares	Warrants
Michael L. Ingall	250,000	50,000
Jamie M.B. Cayzer-Colvin	50,000	10,000

Andrew R. Maiden represents the Administrator, Northern Trust International Fund Administration Services (Guernsey) Limited, on the Board. Andrew replaces Julian Carey and Robert King who were formerly employees of Northern Trust.

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 2005. 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 year ended 31 December 2007 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.

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 although one is an employee of the Administrator. 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 current Directors appears on page 15. 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 year the Directors in attendance at meetings were as listed in **Table 3** below.

Performance evaluation

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 on 7 December 2007.

Supply of information to the board

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 fully to discuss

Table 3: Directors in attendance

	BOARD MEETINGS		AUDIT COMMITTEE	
	HELD	ATTEND	HELD	ATTEND
Michael L. Ingall	5	5	-	-
Jamie M.B Cayzer-Colvin	5	3	2	2
Ashok Dayal	5	3	-	-
Robert P. King	1	1	-	-
Robert C. Nicholson	5	4	2	2 *
Julian Carey	3	3	-	-
Andrew R. Maiden	2	2	-	-

** On one occasion represented by an alternate.*

Supply of information to the board (continued)

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.

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 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.

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 and regulated in the United Kingdom by the Financial Services Authority.
- 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

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 is 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 (net of all attributable taxes) is required to be reinvested in Ordinary Shares. Details of performance fees paid, and of shares acquired by the Manager and related parties are set out in Note 12.

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. 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.

Approved by the Board of Directors and signed on behalf of the Board on 13 March 2008.

M L Ingall
A R Maiden
Directors

13 MARCH 2008

Directors

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

Michael Lenox Ingall (Chairman)

Aged 66, 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, Standard Life Smaller Companies Trust plc, and Mid Wynd International Investment Trust plc. He is resident in the UK.

Jamie Michael Beale Cayzer-Colvin

Aged 42, 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 Close Brothers, Polar Capital and a number of other private companies. He is resident in the UK.

Ashok Dayal

Aged 70, 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 52, 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.

Andrew Robert Maiden

Aged 27, is a client relationship manager at Northern Trust International Fund Administration Services (Guernsey) Limited. He has specialised in administration of open and closed ended investment funds, property funds and private equity funds, having been in the offshore fund administration industry since 1997. He holds a number of board appointments in other investment companies including the Company's subsidiaries. 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 year ended 31 December 2007 which comprise the consolidated income statement, consolidated statement of changes in equity, consolidated statement of assets and liabilities, 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the chairman's statement, investment manager's report, directors' report, directors, principal group investments and portfolio statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 group'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 31 December 2007, and of its profit for the year then ended, and have been properly prepared in accordance with the Companies (Guernsey) Law 1994.

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

13 MARCH 2008

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 information since it was initially presented on the web site.

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

Principal group investments

As at 31 December 2007

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
S Kumars Nationwide Limited	Mid Cap	Textiles	13,340	10.85
Prime Focus Limited	Mid Cap	Media	12,107	9.84
IOL Netcom Limited	Mid Cap	Media	11,927	9.69
Prime Securities Limited	Small Cap	Financial services	8,933	7.26
Asian Electronics Limited	Mid Cap	Electricals & lighting systems	7,892	6.41
Logix Microsystems Limited	Small Cap	IT	6,220	5.06
Arihant Foundations and Housing Limited	Small Cap	Housing & construction	5,456	4.43
Varun Shipping Limited	Mid Cap	Shipping	5,005	4.07
SpiceJet Limited	Mid Cap	Airlines	4,780	3.89
Gruh Finance Limited	Small Cap	Financial services	4,533	3.68
Total top 10 investments			**80,193**	**65.18**
Other Large Cap (2 companies)			5,173	4.20
Other Small and Mid Cap (11 companies)			28,435	23.11
Other Unlisted (2 companies)			4,134	3.36
Total invested assets			**117,935**	**95.85**
Cash and other net current assets			5,105	4.15
Total Portfolio			**123,040**	**100.00**

India Capital Growth Fund

Portfolio statement

As at 31 December 2007

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Listed securities			
Airlines			
SpiceJet Limited	4,312,820	4,780	3.89
		4,780	3.89
Consumer electronics			
Videocon Industries Limited	144,115	1,519	1.23
		1,519	1.23
Electricals & lighting systems			
Asian Electronics Limited	1,292,093	7,892	6.41
		7,892	6.41
Engineering/other manufacturing			
Hindustan Dorr-Oliver Limited	806,665	1,772	1.44
EI Forge Limited	1,265,959	1,662	1.35
Manugraph India Limited	689,188	1,501	1.22
		4,935	4.01
Financial services			
Prime Securities Limited	2,342,000	8,933	7.26
Gruh Finance Limited	1,734,400	4,533	3.68
Bank of Rajasthan	1,109,004	2,518	2.05
		15,984	12.99
Hotels			
Viceroy Hotels Limited	2,700,616	4,316	3.51
		4,316	3.51
Housing & construction			
Arihant Foundations and Housing Limited	694,500	5,456	4.43
Akruti City Limited	240,000	3,654	2.97
Madhucon Projects Limited	427,237	3,314	2.69
Murudeshwar Ceramics Limited	1,631,613	2,851	2.32
MSK Projects (India) Limited	819,726	1,782	1.45
		17,057	13.86
IT			
Logix Microsystems Limited	1,281,000	6,220	5.06
IT People India Limited	5,238,634	2,818	2.29
		9,038	7.35

continued on page 19

Portfolio statement (continued)

As at 31 December 2007

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Media			
Prime Focus Limited	746,233	12,107	9.84
IOL Netcom Limited	1,840,744	11,927	9.69
		24,034	19.53
Pharmaceuticals			
Dabur Pharma Limited	2,322,093	2,414	1.96
		2,414	1.96
Shipping			
Varun Shipping Limited	3,955,063	5,005	4.07
		5,005	4.07
Textiles			
S Kumars Nationwide Limited	6,319,379	13,340	10.85
Grabal Alok Impex Limited	2,085,167	3,487	2.83
		16,827	13.68
Total listed securities		**113,801**	**92.49**
Unlisted Securities			
Equity			
Financial services			
Marwadi Shares and Finance Limited	1,680,976	3,738	3.04
Convertible debentures			
IT			
CitiXsys Technologies Private Limited	690	396	0.32
Total unlisted securities		**4,134**	**3.36**
Total investments		**117,935**	**95.85**
Cash and other net current assets		**5,105**	**4.15**
Total Portfolio		**123,040**	**100.00**

Consolidated income statement

For the year ended 31 December 2007

	NOTES	REVENUE £000	CAPITAL £000	01.01.07 to 31.12.07 TOTAL £000	11.11.05 to 31.12.06 TOTAL £000
Income					
Fixed deposit interest		187	-	187	866
Bank interest income		32	-	32	496
Investment income		625	-	625	696
		844	**-**	**844**	**2,058**
Net gains/(losses) on financial assets at fair value through profit and loss					
Market movements	2	-	60,629	60,629	(741)
Foreign exchange movements	2	-	2,180	2,180	(2,796)
Total income		**844**	**62,809**	**63,653**	**(1,479)**
Expenses					
Management fee	12	(1,274)	-	(1,274)	(1,075)
Performance fee	12	-	(8,280)	(8,280)	-
Cost of acquisitions and disposal of investments		-	(317)	(317)	(464)
Other expenses	3	(610)	(30)	(640)	(674)
Total expenses		**(1,884)**	**(8,627)**	**(10,511)**	**(2,213)**
Profit/(loss) for the year/period before taxation		(1,040)	54,182	53,142	(1,634)
Taxation	6	(18)	-	(18)	(19)
Profit/(loss) for the year/period after taxation		**(1,058)**	**54,182**	**53,124**	**(1,653)**
Earnings/(Loss) per Ordinary Share – Basic (pence)	4			70.83	(4.95)
Earnings/(Loss) per Ordinary Share – Diluted (pence)	4			70.63	(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 32 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2007

	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 1 January 2007	750	-	(285)	(3,913)	487	72,877	69,916
Gain on investments	-	-	6,002	54,627	-	-	60,629
Revenue loss for the year after taxation (exc. foreign exchange losses)	-	-	-	-	(1,058)	-	(1,058)
Cost of acquisition and disposal of investments	-	-	(136)	(181)	-	-	(317)
(Loss)/gain on foreign currency	-	-	(30)	2,180	-	-	2,150
Other expenses charged to Capital	-	-	(8,280)	-	-	-	(8,280)
Balance as at 31 December 2007	**750**	**-**	**(2,729)**	**52,713**	**(571)**	**72,877**	**123,040**

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	-	-	-	-	-	-	-
Loss on investments *	-	-	(15)	(757)	-	-	(772)
Revenue profit for the period after taxation (exc. foreign exchange losses)	-	-	-	-	487	-	487
Cost of acquisition and disposal of investments	-	-	(104)	(360)	-	-	(464)
Loss on foreign currency *	-	-	(166)	(2,796)	-	-	(2,962)
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 realised exchange gain in 2006 of £31,000 has been reclassified from Loss on investments to Loss on foreign currency.

The notes on pages 24 to 32 form part of these financial statements.

Consolidated statement of assets and liabilities

As at 31 December 2007

	NOTES	31.12.07 £000	31.12.06 £000
Non-current assets			
Financial assets designated at fair value through profit and loss	5	117,935	61,255
Current assets			
Cash and cash equivalents		9,944	9,082
Receivables	7	3,203	73
		13,147	9,155
Current liabilities			
Payables	8	(8,042)	(494)
Net current assets		5,105	8,661
Total assets less current liabilities		123,040	69,916
Equity			
Ordinary share capital	10	750	750
Reserves		122,290	69,166
Total equity		123,040	69,916
Number of Ordinary Shares in issue		75,000,000	75,000,000
Undiluted Net Asset Value per Ordinary Share (pence)		**164.05**	**93.22**
Fully diluted Net Asset Value per Ordinary Share (pence)		**153.38**	**93.22**

The audited financial statements on pages 20 to 32 were approved by the Board of Directors on 13 March 2008 and signed on its behalf by:-

M L Ingall
A R Maiden
Directors

13 MARCH 2008

The notes on pages 24 to 32 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2007

	01.01.07 to 31.12.07 £000	11.11.05 to 31.12.06 £000
Cashflows from operating activities		
Investment income	648	672
Fixed deposit interest	187	866
Bank interest	29	496
Management fee	(1,196)	(986)
Performance fees	(626)	-
Other cash payments	(561)	(432)
Net cash (outflow)/inflow from operating activities	**(1,519)**	**616**
Cashflows from investing activities		
Purchase of investments	(37,908)	(94,081)
Sale of investments	40,629	29,312
Transaction charges relating to the purchase and sale of investments	(316)	(402)
Net cash inflow/(outflow) from investing activities	**2,405**	**(65,171)**
Cashflows from financing activities		
Proceeds from issue of shares	-	75,000
Issue costs	-	(1,373)
Net cash inflow from financing activities	**-**	**73,627**
Net increase in cash and cash equivalents during the year/period	886	9,072
Cash and cash equivalents at the start of the year/period	9,082	-
Exchange (losses)/gains on cash and cash equivalents	(24)	10
Cash and cash equivalents at the end of the year/period	**9,944**	**9,082**

The notes on pages 24 to 32 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2007

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. 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 (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.

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 and are classified as investment income.

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. 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 income statement.

Share issue expenses

Share issue expenses are treated as a deduction from equity in the Consolidated Statement of Changes in Equity. They have been written off against the Share Premium Account.

1. Accounting policies
(continued)

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

All of the Group's investments are designated 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.

Investments are designated at fair value through profit and 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 investment are recognise 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).

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. 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.

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 authorisation of these financial statements, the standards and interpretations which have not been applied in these financial statements were in issue but not yet effective.

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 gain/(losses) on financial assets at fair value through profit and loss

	01.01.07 to 31.12.07 £000	11.11.05 to 31.12.06 £000
Realised		
Proceeds from sales of investments during the year/period	43,779	29,350
Original cost of investments sold during the year/period	(37,777)	(29,334)
Gain on investments sold during the year/period	6,002	16
Market gains/(losses)	7,515	(15)
Foreign exchange (losses)/gains	(1,513)	31
Unrealised market gains/(losses)		
Previously recognised unrealised loss now realised	2,948	-
Current year/period market gains/(losses)	51,679	(757)
Market gains/(losses)	54,627	(757)
Unrealised Market gains/(losses) of Listed securities	54,031	(757)
Unrealised Market gains of Unlisted securities	596	-
Unrealised foreign exchange		
Previously recognised unrealised foreign exchange loss now realised	1,114	-
Current year/period foreign exchange gains/(losses)	1,066	(2,796)
	2,180	(2,796)
Net gain/(losses) on financial assets designated at fair value through profit and loss.	**62,809**	**(3,537)**

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

Investments in participatory notes are denominated in US Dollars, even though the underlying exposure is in Indian Rupees, and consequently in relation to these investments the foreign exchange gains/losses reported above reflect movements between the US Dollar and the Pound Sterling. Any currency effect arising as a result of movements in rates between the US Dollar and the Indian Rupee is reported as part of market gains/losses since it is reflected in the price of the participatory note. The amount of unrealised market gain in the year which is attributable to currency movements between the US Dollar and the Indian Rupee is approximately £3,280,000 (2006 – £560,000).

3. Other expenses

	01.01.07 to 31.12.07 £000	11.11.05 to 31.12.06 £000
Revenue		
Directors' fees (note 12)	85	97
D&O Insurance	18	22
Administration and secretarial fees	139	121
Audit fee	45	38
Custody fees	19	23
Other advisory services	135	65
General expenses	145	63
Establishment expenses	-	58
Foreign exchange losses/(gains)	24	(10)
	610	477
Capital		
Foreign exchange losses	30	197
	640	674

4. Earnings/(loss) per share

Diluted earnings per Ordinary Share is calculated on the basis that the 15,000,000 warrants in issue were exercised at the start of the year with the proceeds of £15,000,000 being used to repurchase Ordinary Shares at the average market price during the year of 101.4793 pence per share, representing a repurchase of 14,781,340 Ordinary Shares, and a consequent average number of Ordinary Shares in issue of 75,218,660. No dilution arose in 2006 as the average share price during the period 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 and loss

	01.01.07 to 31.12.07 Listed / £000	01.01.07 to 31.12.07 Unlisted / £000	01.01.07 to 31.12.07 Total / £000	11.11.05 to 31.12.06 Total / £000
Cost as at 1 January 2007/at inception	59,971	4,837	64,808	-
Purchases	35,441	2,209	37,650	94,142
Sales	(40,523)	(3,256)	(43,779)	(29,350)
Realised gain on sales of investments	5,951	51	6,002	16
Cost as at 31 December 2007	60,840	3,841	64,681	64,808
Unrealised gain/(loss) on revaluation	53,895	(25)	53,870	(757)
Unrealised foreign exchange (loss)/gain on revaluation	(934)	318	(616)	(2,796)
Fair value as at 31 December 2007	**113,801**	**4,134**	**117,935**	**61,225**

Fair value of listed securities at end of the year/period	113,801	56,627
Fair value of unlisted securities at end of the year/period	4,134	4,628

India Capital Growth Fund

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

Investments may be held as direct equities or as participatory notes, convertible debentures and warrants.

	Listed £000	Unlisted £000	31.12.07 Total £000	31.12.06 Total £000
Equities	69,098	3,738	72,836	21,879
Participatory notes	44,703	-	44,703	37,774
Convertible debentures	-	396	396	1,408
Warrants	-	-	-	194
	113,801	**4,134**	**117,935**	**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 Indian and Mauritius. The 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.

Mauritius

ICG Q Limited and ICG U Limited are subject to income tax in Mauritius on 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 foreign source income. At 31 December 2007, ICG Q Limited had a liability amounting to £18,800 (2006:£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

	31.12.07 Total £000	31.12.06 Total £000
Investment income	1	24
Other receivables and prepayments	11	11
Interest receivable	3	-
Disposal of investments awaiting settlement	3,188	38
	3,203	**73**

8. Payables

	31.12.07 Total £000	31.12.06 Total £000
Performance fee	7,654	-
Other creditors	221	147
Management fee	167	89
Purchases of investments awaiting settlement	-	258
	8,042	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

Issued Share Capital	Number of shares	Share capital £000	Share premium £000
Ordinary Shares of £0.01 each			
At 1 January 2007 & 31 December 2007	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 are in issue. 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 the 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 small to mid-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.

11. Financial instruments and risk profile
(continued)

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:

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, and thus reduce capital, and the Board considers on a regular basis whether it is appropriate to exercise such powers. In the year ended 31 December 2007, 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 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 and mid-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 (2007: 95.85% 2006: 87.63%) to any movement in the BSE small-cap index. At 31 December 2007 this approximation would produce a movement in the net assets of the Group of £1,179,350 (2006: £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 (in particular the participatory notes) are 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 reasonably 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 2007, 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 £737,189 (2006: £231,793) lower,

11. Financial instruments and risk profile (continued)

Foreign currency risk (continued)

mainly as a result of foreign exchange losses on translation of Indian Rupee denominated financial assets designated at fair value through profit and loss, trade receivables and payables and Indian Rupee denominated bank accounts.

Credit risk

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 and to the holdings of Participatory Notes, the latter being principal obligations of HSBC Bank plc. The HSBC group also 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 relevant Group subsidiary company (normally ICG Q Limited). The aggregate exposure to the HSBC group (excluding assets in custody) at 31 December 2007 was £54,647,000 (31 December 2006: £46,856,000), of which £51,088,000 (31 December 2006: £43,269,000) was to HSBC Bank plc (including Participatory Notes of value £44,703,000 (31 December 2006: £37,773,000)). The Manager is reducing this exposure by increasing the extent of direct holdings. 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. As the portfolio is now substantially fully invested, the direct effect of movements in interest rates is not material.

Liquidity risk

The company is a closed-ended investment company and thus it is not exposed to the liquidity risk arising from forced repurchase of shares.

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 3.36% (2006: 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 former Director of the Company and its subsidiaries, was also a Director of the Administrator and Secretary, which are entitled to receive fees as 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.

12. Related party transactions
(continued)

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.

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 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 is 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 (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 trading at a premium). A performance fee of £626,118 was paid on 6 July 2007 in respect of the six months ended 30 June 2007 and the appropriate proportion was reinvested by purchase of 189,573 Ordinary Shares in the market. A performance fee of £7,653,702 in respect of the six months ended 31 December 2007 was paid on 9 January 2008 and in consequence on 10 January 2008 a further 1,916,170 shares were purchased. 150,000 of these from the market, the balance from Caledonia Investments Plc.

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 is also entitled to reimbursement of out of pocket expenses incurred in the performance of its duties.

13. Potential liabilities

As at 31 December 2006 the Group had purchased 1,625,000 warrants in Viceroy Hotels which were unlisted instruments which conveyed the right to acquire Ordinary Shares subject to the payment of designated amounts on designated dates. The amount due to be paid at 31 December 2006 was £1,495,800. These warrants were exercised during the year. The directors are not aware of any potential liabilities as at 31 December 2007.

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 material difference between the Group's reserves and the Company's reserves other than the Company's revenue reserve of £2,003,000 (2006: £250,000) and the Company's unrealised capital reserve/(loss) of £59,232,000 (2006: £3,946,000). The Company had no balance on realised capital reserves.

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Capital Growth Fund

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