India Capital Growth Fund

Annual report and audited consolidated financial statements

For year ended
31 December 2008

India
Capital Growth Fund

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Contents

Management and administration

Directors

Robert C. Nicholson (Acting Chairman)

Jamie M.B. Cayzer-Colvin

Ashok Dayal

Andrew R. Maiden

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Management and administration (continued)

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Chairman's statement

The Board was deeply saddened to receive news of the tragic death on 28 February 2009 of Micky Ingall, who had been Chairman of the Company since its launch in December 2005. The Board would like to pay tribute to his leadership of the Company and the Board through its early years, exercised with wisdom and energy. Throughout his time as Chairman he was a passionate advocate of the long term potential of India. He was a strong supporter both of the Company's investment philosophy and of its investee companies, many of whom he met on the annual Board visit to India. We will miss him greatly.

He had already drafted a statement for this Report, and the Board believes it right that his draft should remain the Chairman's Statement.

"2008 has been an exceptionally disappointing and difficult year. After a very good 2007 the year started with high hopes that India with its fast growing economy could escape the recession already looming in the Western economies. However the rapidly escalating price of oil stoked inflationary fears and the Reserve Bank of India was forced to raise interest rates. More importantly for the Stock Market these events broke the nerve of international investors who were already repatriating billions of dollars in a vain attempt to create liquidity at home. The massive inflows of funds to India in 2007 reversed dramatically, and with limited liquidity, the Indian Stock Market turned into one of the worst performers globally.

By the second half, when the oil price turned and inflation abated, the world was already gripped by a full blown financial crisis and India did not feature in a flight to safety. The appalling Mumbai attacks in November and the Satyam fraud at the end of the year were further unsolicited blows. As often happens in sharply falling markets, small companies, in which ICGF is predominantly invested, suffered worst. At every downward lurch we felt it prudent to hold our nerve and even now consider it best to retain our interest in our chosen companies which in most cases have strong balance sheets and earnings that remain positive, although at lower rates than previously predicted.

Looking to the future, India is a notable beneficiary of a lower oil price, and inflation has fallen sharply enabling interest rates to be reduced. GDP growth in India remains strong, albeit slower than in the recent past, but in marked contrast to the recessions elsewhere. Mumbai has recovered from the attacks with commendable speed, and the Satyam affair, although worrying, would seem to be a problem as much for the international accounting community as for India in particular.

To say we are optimistic for 2009 may seem reminiscent of a scratched gramophone record, but the medium term prospects for India seem greatly superior to those of most other countries. It seems unlikely that the Indian stock market will recover before there is more certainty in the world financial system; and the Indian elections in May are a further source of uncertainty. We are however a closed-end fund with no gearing and can afford to be patient even though this remains an extremely painful time for shareholders."

On behalf of the Board

Robin Nicholson | Acting Chairman

19 MARCH 2009

Investment manager's report

Summary and the market environment

The performance of the ICGF portfolio in 2008 has been extremely disappointing as, together with the Indian market as a whole, it succumbed to the contagion impact of the US financial crisis. The depth and severity of the consequent recession in most economies around the world has been like a tidal wave that has brought ICGF's NAV crashing down.

Foreign Institutional Investors ("FIIs") sold a net US$13.4 billion in 2008. Together with their domestic Indian counterparts, they sold off their small cap holdings first, and the lack of liquidity in these stocks resulted in small cap company share prices suffering the most. The BSE Small Cap index fell 72.4% in the year while the larger Cap BSE Sensex fell 52.4%. This is shown in Chart 1.

The first half of 2008

The slide in the Indian stock market began in early 2008, with high oil and commodity prices creating a spike in the Rupee inflation rate. FIIs, who found themselves with losses in other investment markets, began realising gains in India. This process accelerated and domestic investors could not absorb the stock sold without significant price falls. However, at that stage economic activity and sentiment remained strong, and quarterly profits reported by listed companies continued to show good growth.

The second half of 2008

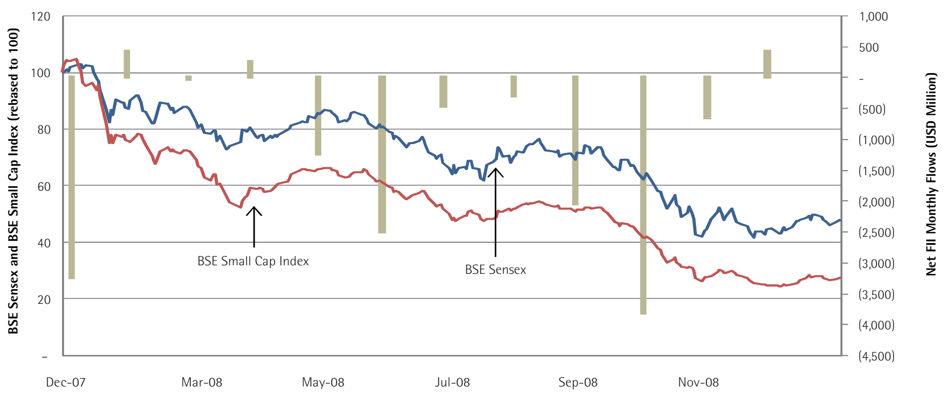
The second half of the year began with a further sharp deterioration in the US financial sector. Liquidity problems were exacerbated by credit concerns and property and equity markets worldwide fell sharply with the economies of first the UK, then Europe, Japan and much of Asia (excluding India and China) following the US into a recession that some analysts believe will be the worst since the Great Depression of 1929.

In India, the Reserve Bank of India ("RBI") reacted to higher inflation (the wholesale prices index ("WPI") rose to a peak of 12.91% on 12 February 2008) by dramatically increasing interest rates with the Repo rate peaking at 9% on 30 July 2008. However, this, together with global liquidity problems and a flight of capital, precipitated India's own, partly RBI driven, domestic liquidity problems that reached a critical point in October 2008. Inflation has since fallen sharply (the WPI was 3.03% on 21 February 2009) and while the RBI subsequently reduced rates (the Repo rate was reduced to 5.5% on 2 January 2009 and to 5.0% on 4 March 2009), the effect of these rates cuts has not yet flowed through in any significant way to corporate and retail borrowers. Wholesale price inflation and the RBI's Repo rate changes are shown in Chart 2.

The BSE Sensex fell to its lowest level in over 3 years, and in terms of trailing twelve month PE multiples the BSE Sensex at 31 December 2008 was at a 5 year low. Chart 3 shows the movements in the BSE Sensex and the market PE ratio from 2006 to 2008. Property prices have also fallen although the degree varies from city to city.

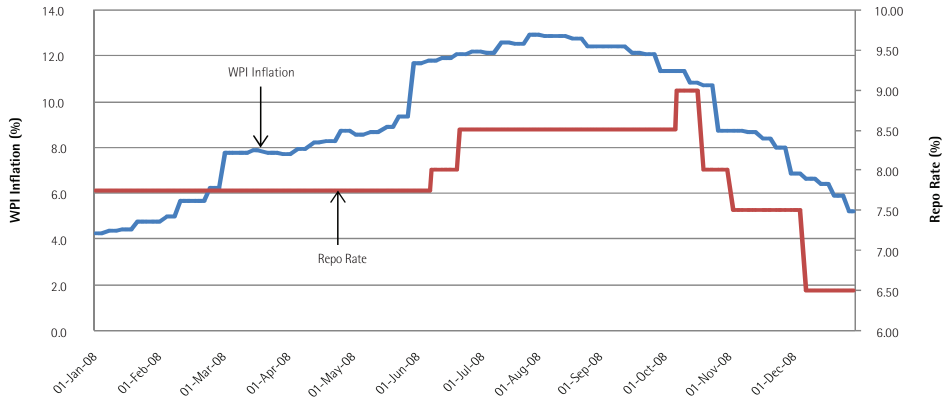
The positive effects of falling commodity prices, especially those such as oil that are denominated in USD have been partly offset by the Rupee's

Chart 1. BSE Sensex and BSE Small-cap indices with net monthly FII flows in 2008



India Capital Growth Fund

Chart 2. Inflation and interest rates in India 2008



depreciation against the US Dollar, although, as seen in Chart 4, the Rupee has appreciated against Sterling.

Key questions we have examined are:

- To what extent is the Indian economy affected by global recession?
- What are its prospects in the short term (the next one year)?
- How will ICGF investee companies' performance and share prices be affected?

India is driven by domestic consumption and investment and is also a services driven economy. Thus global contagion impacts India less than other countries. However while domestic savings rates are high (35% of GDP on a gross basis and 25% on a net basis) the two major direct impacts and one indirect impact of the global recession are:

- Investment: where overseas funding for both equity and debt has a significant impact. Net FII flows in the listed markets were very substantially negative and foreign direct investment flows outside the stock markets were substantially down on those for 2007.
- Manufacturing: where the fall in exports has resulted in both lower industrial activity but also in a higher current account deficit (India has a merchandise trade deficit of 10% of GDP and a current account deficit of 2%).
- The fall in asset prices (equity and real estate): which has affected the urban consuming class many of whom had become equity and property investors for the first time during the preceding three years.

Domestic consumption still drives the economy overall and this is expected to continue to grow, albeit at a slower pace than in 2008. The discretionary and high priced consumption

Chart 3. BSE Sensex index and PE multiples 2006-2008

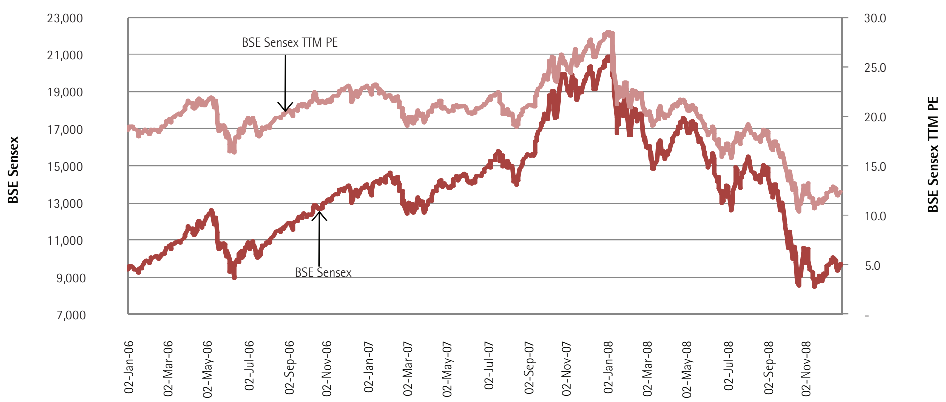
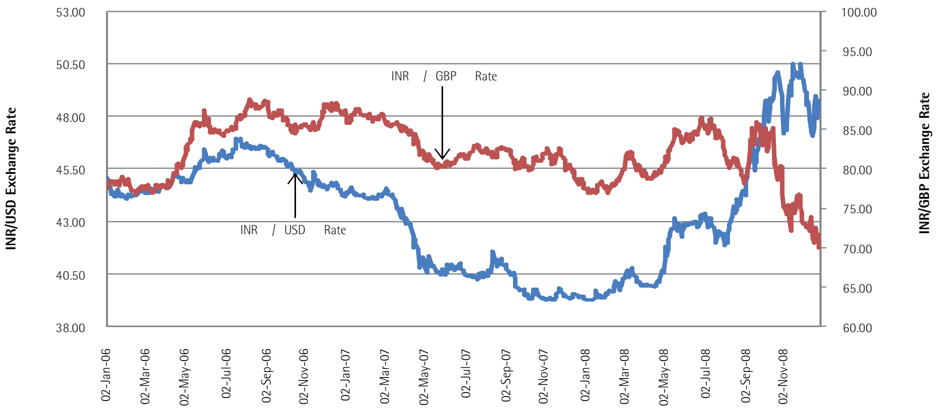


Chart 4. Exchange rates



sectors - real estate, auto and auto components - are the most affected by the downturn. Sectors dependent on daily consumption and relatively lower priced products continue to grow, as does the Indian financial sector where demand for credit remains high and there is currently a low incidence of non-performing loans.

In terms of the equity markets, participants no longer hope for an immediate return to late 2007 levels but most expect a levelling off (stagnation, or range-bound trading). A key event that will affect market sentiment in the next six months is the general election to be held by May 2009, and it is likely that markets will become particularly volatile around this time.

In our view the Indian economy is going through a very painful cyclical correction rather than a recession, with GDP growth continuing, albeit at a lower level than in the recent past, unlike most other global economies where GDP is falling. Even the most pessimistic economists have GDP growth estimates for India of 4% to 6% for the next one year. In the short term the negative impact of global recession and the RBI's increase in rates during the first half of this year are still being felt. In the medium term drastically lower commodity prices and falling inflation together with the RBI's now lower interest rates will impact positively.

Portfolio performance and investment strategy

1 January to 31 December 2008

Performance

Table 1 below summarises ICGF's NAV performance in the three years since its launch in December 2005.

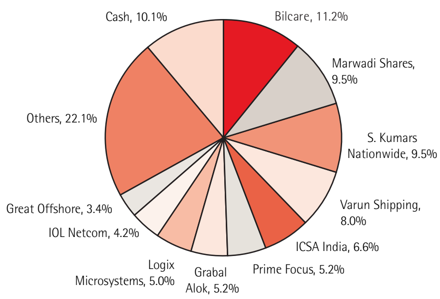
Table 1. ICGF Performance and index movements

Change Over:	Year 1 2006	Year 2 2007	Year 3 2008
Net assets GBP mn (at 31 December)	69.9	123.0	32.2
Undiluted NAV	−4.9%	+76.0%	−73.9%
Diluted NAV	−4.9%	+64.5%	−72.0%
BSE Sensex	+46.7%	+47.1%	−52.4%
BSE Mid Cap	+31.1%	+68.6%	−67.0%
BSE Small Cap	+16.0%	+93.7%	−72.4%
INR vs. GBP	−11.6%	+9.4%	+11.1%

NAV performance has been extremely disappointing in 2008. However, despite the falling stock market, the fundamental prospects of investee companies remained sound throughout 2008 and we considered it appropriate to pursue a strategy of being substantially fully invested. The strategy throughout the year was to:

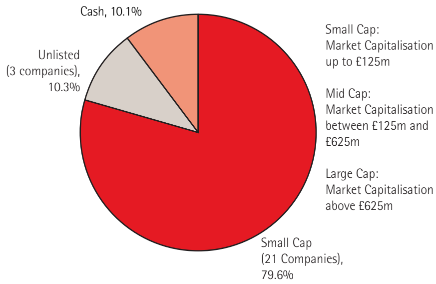
- **Continue to support existing investee companies which we believe have an attractive future and not to sell in panic**. Even so, fundamental company analysis has meant little in an extraordinarily volatile market dominated by pressures on forced sellers and the flight of FIIs where the fall in share prices has affected smaller companies and those with low liquidity (ICGF's focus areas) the most.
- **Maintain a concentrated portfolio** where the manager understands, monitors and can assist investee companies. As shown in Chart 5 below there were only 24 companies in the portfolio as at 31 December of which the top 5 made up 44.8% and the top 10 made up 67.8% of the portfolio. The risks of a concentrated portfolio arise when a few of the larger investments do not do as well as expected. In ICGF's case, while the portfolio has underperformed the BSE Small Cap index (if Sterling's depreciation against the Rupee is taken into account), we believe that in the longer term concentration should achieve superior returns, not least because we understand these companies and believe that their fundamental performance and potential will in the future be reflected in their share prices.

Chart 5. Portfolio concentration



- **Focus on small and midsized companies**. This is the area of the market that is least explored by institutional investors and where over the longer term we see attractive returns. As shown in Chart 6 below all the listed investments were categorized as small cap as on 31 December 2008.

Chart 6. Portfolio analysis by size



The above three key features of the investment style (long term investments in small and mid sized companies with a concentrated portfolio) were stated objectives when ICGF was set up, and remain the core focus of the Group.

Market position of investee companies

The current market turmoil has hit small companies the hardest especially in terms of their share prices. However in India many sectors of the market are still not dominated by large incumbents. The opportunities for small and midsized companies to grow and build profitable and dominant market shares are many. Looking forward many of the ICGF portfolio companies have strong market positions that can be built on successfully. A summary of the market positions of the top six companies representing 50% of the portfolio are shown below.

Company	Market postion
Bilcare Limited	Largest Indian company in pharmaceutical packaging and related clinical research. A clear No. 1 in India and a serious competitor worldwide.
Marwadi Shares and Finance Limited	Fifth largest retail brokerage company in India (with an estimated 3% share of the total brokerage market) but a dominant position in the state of Gujarat. The best regulatory and compliance record amongst large Indian brokers.
S Kumars Nationwide Limited	No. 1 in uniform fabrics (70% market share), No. 2 in suitings (15% market share). A branded apparels company selling branded clothes to the large consuming classes in India.
Varun Shipping Limited	No. 1 LPG shipping company in India, over 70% market share. The only Indian company operating completely with double hull vessels.
ICSA India Limited	No. 1 provider of embedded software solutions for power transmission and distribution in India.
Prime Focus Limited	No. 1 Indian company in integrated post production and visual effects studio with 60% market share in film and advertising industry in India. Now also providing services to international clients.

Analysis of fundamental performance of investee companies

Table 2 below shows a summary of the fundamental operating performance of the top 10 Portfolio companies for the first 9 months of their current (to 31 March 2009) fiscal year. Averages can be misleading and full results are shown for each of these companies later in this report. However broad trends from the summary are, we believe, worthy of comment.

Table 2. Summary of operating performance of top 10 portfolio companies

Top 10 Portfolio Company Averages / To 31 December 2008	9 Months to 31.12.08
Revenue growth over comparable previous period	50.0%
PAT growth over comparable previous period	1.5%
PAT margin	10.1%
Operating Margin (EBITDA %)	29.2%
TTM Interest Cover	2.9x
TTM PE	5.7
ROE	13.5%

Note: share prices used in the table above for PE multiple calculations are as at 31 December 2008.

In summary:

- The economics of the businesses of the majority of portfolio companies remain largely intact and the management teams have so far managed their businesses and reacted to the extremely difficult environment well.

  As shown above the average top line growth is healthy for the 9 months to 31 December 2008 as was that for the quarter to 31 December 2008. While four of the smaller companies in the portfolio made a loss in the quarter to 31 December, all the others were profitable and operating margins were also high. However interest costs have risen sharply and it is the effect of these higher interest rates that have affected most of the ICGF investee companies rather than a slowdown of demand for their products or services. As mentioned earlier, this is on the back of higher RBI rates during most of 2008, (and while rates have now come down, banks have not yet passed these on to companies). Interest cover remains manageable for these top 10 companies, although it is tighter for some of the smaller companies in the portfolio. All companies should benefit once actual borrowing rates reduce which is expected to be during the course of 2009.

- Current valuations are, we believe, extremely attractive based on both the economics of the businesses and DCF valuations as well as in terms of ratio analysis and market multiples. Once markets stabilize, investee companies' underlying performance should once again be reflected in their share prices.

Top 10 portfolio companies

The following section discusses the top 10 companies in the portfolio, with data as at 31 December 2008.

Bilcare Limited

Market Capitalisation: GBP 114m

11.2% of Portfolio

3.1% of company

Bilcare provides research into and manufacture of pharmaceutical packaging. The company also provides services for pharmaceutical clinical trials. Over the past three years the company has developed a presence in USA, Brazil, UK, Germany and Singapore as a part of its strategy to provide services to its big and small pharma clients anywhere across the globe. For the nine months ended 31 December 2008, the operating revenues on a consolidated basis were Rs 6,092 million, a growth of 46% over the comparable period in 2007, while PAT was flat (1% fall). PAT was affected by increased interest costs and costs associated with the newly started USA operations which are expected to start contributing to revenues in the coming quarters.

As at 31 December 2008 the company traded at a PE of 10.4x trailing twelve months EPS to 31 December 2008.

Marwadi Shares and Finance Limited

Unlisted

9.5% of Portfolio

12.2% of company

Marwadi Shares & Finance, an unlisted company, is one of India's largest retail brokers. For the nine months ended 31 December 2008, the company's operating income decreased 31% to Rs 620 million, and net profit has declined by 59% to Rs 109 million over the comparable period in 2007. However the company remained profitable and has a sound balance sheet.

As at 31 December the company had 843 branches of which 2 owned and 63 franchisees were added during the nine month ended December 2008. For the same period the company has added 15,966 clients and the total clients now stand at 131,498.

The implied PE at ICGF's carrying value is 10.9x trailing twelve months EPS to 31 December 2008.

S Kumars Nationwide Limited

Market Capitalisation: GBP 76m

9.5% of Portfolio

4.0% of company

S Kumars Nationwide operates in the textile segment with a product range covering suiting, garments, apparels and home textiles. It is one of the largest textile companies in India and holds brands such as S Kumar's, Reid & Taylor, Belmonte and Carmichael House.

For the nine months ended 31 December 2008, the consolidated revenues were Rs 16,987 million (up 39% year on year). PAT after minority interest at Rs 1,508 million grew by 5% over the corresponding period in 2007.

As at 31 December 2008 the stock traded at a PE of 2.5x trailing twelve months EPS to 31 December 2008.

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The retail business, Brandhouse Retails Limited, was demerged from the parent during the year (and the above figures exclude this activity). The Group's entitlement to Brandhouse shares is included in unlisted investments pending the listing of the shares.

Varun Shipping Limited

Market Capitalisation: GBP 97m

8.0% of Portfolio

2.6% of company

Varun Shipping is India's largest gas carrying shipping company and a leading midsized LPG shipping company worldwide. The company also has a presence in oil and gas anchor handling ships (owning and operating India's largest such vessels) and is the only Indian company to operate exclusively in the higher end double hull ships.

For the nine months ended 31 December 2008, the revenues were Rs 7,291 million (17% up from the same period in 2007). Net Profit (pre-exchange losses) was Rs 1,314 million (28% up from the same period in 2007).

As on 31 December 2008 the company traded at a PE of 4.2x trailing twelve months EPS to 31 December 2008. The company has a history of paying good dividends, and at 31 December 2008 was providing a dividend yield of 11%.

ICSA India Limited

Market Capitalisation: GBP 81m

6.6% of Portfolio

2.6% of company

ICSA India Limited provides products and services to the power distribution companies. These products and services monitor transmission and distribution losses, a major problem in India. The company also has a presence in similar products for oil & gas transmission, water metering and gas metering. It is also engaged in the commissioning of substations and transmission lines.

For the nine months ended 31 December 2008, sales and PAT increased by 80% and 51% respectively over the comparable period in 2007.

As on 31 December 2008 the company traded at a PE of 3.5x trailing twelve months EPS to 31 December 2008.

Prime Focus Limited

Market Capitalisation: GBP 22m

5.2% of Portfolio

7.8% of company

The company, which provides post-production services to the film, television and advertising industries, has 12 studios, six in India and six overseas. For the nine months ended 31 December 2008, operating income has increased by 55% over the comparable period in 2007 to Rs 2,662 million but PAT declined by 29% (adjusted for one off items and prior period adjustment). The decline in PAT was mainly due to an increase in depreciation, as equipment rental assets were capitalised, and higher interest cost. Also while the Indian operations continue to do well, the UK and US subsidiaries were hit due to the economic slowdown and also the Writer's Guild of America strike (which has now ended).

As on 31 December 2008 the company traded at a PE of 5.1x trailing twelve months EPS to 31 December 2008.

Grabal Alok Impex Limited

Market Capitalisation: GBP 18m

5.2% of Portfolio

9.1% of company

Grabal Alok is engaged in manufacture and sale of embroidered fabrics. It has manufacturing locations in the states of Gujarat and Maharashtra. The business is based on creative fabric design ideas. Recent growth is driven by demand from countries in Africa. Based on projected capacities, the company would become one of the largest embroidered fabric manufacturers in Asia next year. The company also has a significant stake in a low cost UK retailer.

For the nine months ended 31 December 2008, the operating revenue grew by 9% over the comparable period in 2007 (at Rs 981 million) and PAT increased by 20% over the same period due to better margins.

As on 31 December 2008 the company traded at a PE of 9.0x trailing twelve months EPS to 31 December 2008.

Logix Microsystems Limited

Market Capitalisation: GPB 14m

5.0% of Portfolio

11.6% of company

Logix provides internet marketing and sales solutions to the automobile industry through 3D imaging. Its product mix, which has proved itself in the competitive US market, is now being launched in the European market. The company now has more than 1,000 clients covering more than 1,200 dealerships. According to a national survey in US, commissioned by Autobytel (a leading automotive internet marketing company) in September 2008, 91% of dealers are either upping or standing firm on their internet marketing spend, while costs elsewhere are cut. The company is also extending its expertise in the real estate sector by using the same technology.

For the nine months ended 31 December 2008, the revenues were Rs 381 million (14% up from the same period in 2007) and net profit was Rs 118 million (5% down from the same period last year) after adjusting for one-time expenses (acquisition costs and provision for doubtful debts).

As on 31 December 2008 the company traded at a PE of 6.1x trailing twelve months EPS to 31 December 2008.

IOL Netcom Limited

Market Capitalisation: GBP 19m

4.2% of Portfolio

7.0% of company

IOL Netcom is India's first Broadband Integrated Communication Provider (ICP). It is one of the few companies to have its own metro Ethernet fibre network infrastructure in Mumbai, and has also gained access to fibre in other metros in India. IOL has a particular focus on Value Added Broadband Services such as IPTV / Video On Demand (VOD). IOL is also providing content related services to feed into the broadband networks of BSNL and MTNL the major telecommunications networks across India. Its services are currently available in Mumbai, Bangalore and Kolkata, and it has now successfully tested its services in three other metros (Delhi, Ahmedabad and Chennai), again in association with BSNL and MTNL.

The company plans to roll out its services to over 50 cities by FY 2012, but further capital will be required for this and the current economic environment is not conducive to capital raising.

For the trailing 9 months ended December 2008, the operating revenue was Rs 301 million (a growth of 241% over comparable trailing 9 months ended December 2007). The losses for company reduced from Rs 162 million during the 9 month period ended December 2007 to Rs 79 million for during the 9 month period ended December 2008.

For the quarter ended 31 December 2008, the operating revenues were Rs 129 million (a growth of 257% over the comparable quarter in 2007). The company showed a positive PAT of Rs 10.1 million.

Great Offshore Limited

Market Capitalisation: GBP 117m

3.4% of Portfolio

0.9% of company

Great Offshore is an offshore oilfield services (support vessels and drill ships) provider to upstream oil and gas producers.

For the nine months ended 31 December 2008, the operating revenue was Rs 6,379 million (30% up from the same period in 2007) and net profit was Rs 866 million (46% down from the same period last year). The increase in operating cost on the vessels has dampened the profitability during the period.

As on 31 December 2008 the company traded at a PE of 6.3x trailing twelve months EPS to 31 December 2008.

Conclusion

Despite the many challenges India faces it is one of the few large countries with a reasonable GDP growth rate. For ICGF investee companies 2008 has been a tough year. Some companies have not managed the changed environment well and for those few whose medium to long term future is in doubt we have sold out or are in the process of selling out. Other portfolio companies are profitable and we believe have sound market positions, good prospects and are at low valuations. Our analysis shows significant upside even at modest PE ratios. We are therefore continuing to add selectively to existing holdings, and we continue to research potential additions to the portfolio.

We are deeply saddened at the sudden and tragic death of Micky Ingall. As Chairman of the Company he had been a great support to us as Managers and to our colleagues at the Investment Advisor in India. He willingly gave of his time and his experience to help and guide us. His steady hand, constructive criticism and wise counsel will be sorely missed.

India Investment Partners Limited

19 MARCH 2009

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2008.

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 22.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008.

Substantial interests

Shareholders who at 16 March 2009 held an interest of 3% or more of the Ordinary Share Capital of the Company are stated in Table 3 below:

Table 3: Substantial interests

	NO. SHARES	% HOLDING
Caledonia Investments Plc	17,983,830	23.98
Pershing Keen Nominees Limited	5,327,147	7.10
Diprivest Inc	5,000,000	6.67
Goldman Sachs Securities (Nominees) Limited	4,214,785	5.62
The Bank of New York (Nominees) Limited	3,949,343	5.27
HSBC Global Custody Nominee (UK) Limited	3,211,340	4.28
Rathbone Nominees Limited	3,113,117	4.15
Nortrust Nominees Limited	2,842,794	3.79
Chase Nominees Limited	2,665,600	3.54
State Street Nominees Limited	2,509,571	3.35

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)

At 16 March 2009, the Manager, India Investment Partners Limited, and connected persons (not elsewhere disclosed) held in aggregate 2,257,111 (3.01%) shares 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 which if converted would amount to an interest of 3% or more in the Ordinary Share Capital of the Company are as listed in Table 4:

Table 4: 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%

Warrants

15,000,000 warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share were in issue at 31 December 2008. These are exercisable between the expiry of four weeks and the expiry of eight weeks following the publication of the Company's audited accounts in each of the years 2009, 2010 and 2011. The first exercise period will run from 23 April 2009 to 21 May 2009, and due notice was sent to warrantholders on 18 February 2009.

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 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 names of the directors of the Company, who served throughout the year, are set out on page 17. Michael L. Ingall, Chairman since the launch of the Company in 2005, died on 28 February 2009. The Board appointed Robert C. Nicholson as Acting Chairman with effect from 3 March 2009.

Directors interests

At 16 March 2009, directors and their immediate families held the following declarable interest in the Company:

	Ordinary Shares	Warrants
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.

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.

The arrangements with the Investment Manager are set out in Note 12.

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 2008 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 comprised 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 generally meets on at least four occasions each year, at which time the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers to the Company.

Chairman, Senior Independent Director and Chief Executive

The Chairman of the Board during the year was Michael L. Ingall. A biography for him and for all current Directors appears on page 17. 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 was an Independent Director. Robert C. Nicholson has been appointed Acting Chairman pending the appointment of a permanent successor. Mr. Nicholson is also 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.

During the year the Directors in attendance at meetings were as listed in Table 5 below:

Table 5: Board meetings, Committee meetings and Directors' attendance

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

** On one occasion represented by an alternate.*

India Capital Growth Fund

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 4 December 2008.

Supply of information to the board

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

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 and the Investment Manager 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. of the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the High Water Mark). The performance fee will be an amount equal to 20 per cent. of the aggregate increase in the Net Asset Value above the High Water Mark. 50 per cent. of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares. Details of performance fees paid, and of shares acquired by the Manager and related parties is set out in Note 12. At 31 December 2008, the High Water Mark was 191.73 pence per share.

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 Investment 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 19 March 2009.

R. C. Nicholson
A. R. Maiden
Directors

19 MARCH 2009

Directors

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

Robert Charles Nicholson (Acting Chairman)

Aged 53, 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 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 and is a director of Philex Mining Corporation in the Philippines. He is resident in Hong Kong.

Jamie Michael Beale Cayzer-Colvin

Aged 43, joined the Caledonia Investments Plc 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 71, 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. He is resident in India.

Andrew Robert Maiden

Aged 28, 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.

Michael Lenox Ingall

Micky Ingall was Chairman of the Board until his tragic death on 28 February 2009. He had 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 was also a non-executive director of Investors Capital Trust plc, Standard Life Smaller Companies Trust plc, and Mid Wynd International Investment Trust plc. He was resident in the UK.

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 2008 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 management and administration, 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 2008, and of its loss for the year then ended, and have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

Ernst & Young LLP | Guernsey, Channel Islands

19 MARCH 2009

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 2008

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
Bilcare Limited	Small Cap	Pharmaceutical services & packaging	3,595	11.18
Marwadi Shares and Finance Limited	Unlisted	Financial services	3,067	9.54
S Kumars Nationwide Limited	Small Cap	Textiles	3,052	9.49
Varun Shipping Limited	Small Cap	Shipping	2,565	7.98
ICSA India Limited	Small Cap	Process controls	2,117	6.59
Prime Focus Limited	Small Cap	Media	1,685	5.24
Grabal Alok Impex Limited	Small Cap	Textiles	1,668	5.19
Logix Microsystems Limited	Small Cap	IT	1,599	4.97
IOL Netcom Limited	Small Cap	Media	1,335	4.15
Great Offshore Limited	Small Cap	Offshore oil & gas services	1,107	3.44
Total top 10 investments			**21,790**	**67.77**
Other Small and Mid Cap (12 companies)			6,875	21.38
Other Unlisted (2 companies)			250	0.78
Total invested assets			**28,915**	**89.93**
Cash and other net current liabilities			3,236	10.07
Total Portfolio			**32,151**	**100.00**

India Capital Growth Fund

Portfolio statement

As at 31 December 2008

HOLDING	NOMINAL	VALUE £000's	% OF PORTFOLIO
Listed securities			
Airlines			
SpiceJet Limited	4,312,820	984	3.06
		984	3.06
Electricals & lighting systems			
Asian Electronics Limited	1,267,093	455	1.42
		455	1.42
Engineering/other manufacturing			
El Forge Limited	1,265,959	307	0.95
Hindustan Dorr-Oliver Limited	1,056,336	535	1.66
		842	2.61
Financial services			
Bank of Rajasthan Limited	1,858,772	1,055	3.28
Prime Securities Limited	2,412,000	546	1.70
		1,601	4.98
Hotels			
Viceroy Hotels Limited	2,700,616	1,032	3.21
		1,032	3.21
Housing & construction			
Arihant Foundations and Housing Limited	694,500	372	1.16
Gammon India Limited	202,943	228	0.71
MSK Projects (India) Limited	819,726	515	1.60
Murudeshwar Ceramics Limited	986,922	269	0.84
		1,384	4.31
IT			
IT People India Limited	5,253,634	577	1.79
Logix Microsystems Limited	1,427,000	1,599	4.97
		2,176	6.76
Media			
IOL Netcom Limited	1,915,744	1,335	4.15
Prime Focus Limited	986,869	1,685	5.24
		3,020	9.39

continued on page 21

Portfolio statement (continued)

As at 31 December 2008

HOLDING	NOMINAL	VALUE £000's	% OF PORTFOLIO
Offshore oil & gas services			
Great Offshore Limited	351,914	1,107	3.44
		1,107	3.44
Pharmaceutical services & packaging			
Bilcare Limited	541,566	3,595	11.18
		3,595	11.18
Process controls			
ICSA India Limited	1,150,505	2,117	6.59
		2,117	6.59
Shipping			
Varun Shipping Limited	3,955,063	2,565	7.98
		2,565	7.98
Textiles			
Grabal Alok Impex Limited	1,989,930	1,668	5.19
S Kumars Nationwide Limited	8,921,629	3,052	9.49
		4,720	14.68
Total listed securities		**25,598**	**79.61**
Unlisted Securities			
Equity			
Financial services			
Marwadi Shares and Finance Limited	1,680,976	3,067	9.54
IT			
CitiXsys Technologies Private Limited	817,650	–	0.00
Textiles retailing			
Brandhouse Retails Limited (entitlement)	1,263,875	250	0.78
Total unlisted securities		**3,317**	**10.32**
Total investments		**28,915**	**89.93**
Net current assets		**3,236**	**10.07**
Total Portfolio		**32,151**	**100.00**

Consolidated income statement

For the year ended 31 December 2008

	NOTES	REVENUE £000	CAPITAL £000	01.01.08 to 31.12.08 TOTAL £000	01.01.07 to 31.12.07 TOTAL £000
Income					
Fixed deposit interest		150	–	150	187
Bank interest income		16	–	16	32
Investment income		553	–	553	625
		719	**–**	**719**	**844**
Net (losses)/gains on financial assets at fair value through profit or loss					
Market movements	2	–	(103,617)	(103,617)	62,142
Foreign exchange movements	2	–	13,289	13,289	667
Total income		**719**	**(90,328)**	**(89,609)**	**63,653**
Expenses					
Management fee	12	(849)	–	(849)	(1,274)
Performance fee	12	–	–	–	(8,280)
Cost of acquisitions and disposal of investments		–	(160)	(160)	(317)
Other (expenses)/income	3	(374)	120	(254)	(640)
Total expenses		**(1,223)**	**(40)**	**(1,263)**	**(10,511)**
(Loss)/profit for the year before taxation		(504)	(90,368)	(90,872)	53,142
Taxation	6	(17)	–	(17)	(18)
(Loss)/profit for the year after taxation		**(521)**	**(90,368)**	**(90,889)**	**53,124**
(Loss)/earnings per Ordinary Share – Basic (pence)	4			(121.19)	70.83
(Loss)/earnings per Ordinary Share – Diluted (pence)	4			(121.19)	70.63

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 26 to 35 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2008

	NOTES	SHARE CAPITAL £000	CAPITAL RESERVE REALISED £000	CAPITAL RESERVE UNREALISED £000	REVENUE RESERVE £000	OTHER DISTRIBUTABLE RESERVE £000	TOTAL £000
Balance as at 1 January 2008		750	(2,729)	52,713	(571)	72,877	123,040
Gain/(loss) on investments	2	–	6,813	(110,430)	–	–	(103,617)
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(521)	–	(521)
Cost of acquisition and disposal of investments		–	(70)	(90)	–	–	(160)
(Loss)/gain on foreign currency	2	–	(1,325)	14,734	–	–	13,409
Balance as at 31 December 2008		**750**	**2,689**	**(43,073)**	**(1,092)**	**72,877**	**32,151**

For the year ended 31 December 2007

	NOTES	SHARE CAPITAL £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	2	–	7,515	54,627	–	–	62,142
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(1,058)	–	(1,058)
Cost of acquisition and disposal of investments		–	(136)	(181)	–	–	(317)
(Loss)/gain on foreign currency	2	–	(1,543)	2,180	–	–	637
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**

The notes on pages 26 to 35 form part of these financial statements.

Consolidated statement of assets and liabilities

As at 31 December 2008

	NOTES	31.12.08 £000	31.12.07 £000
Non-current assets			
Financial assets designated at fair value through profit or loss	5	28,915	117,935
Current assets			
Cash and cash equivalents		3,431	9,944
Receivables	7	8	3,203
		3,439	13,147
Current liabilities			
Payables	8	(203)	(8,042)
Net current assets		3,236	5,105
Total assets less current liabilities		32,151	123,040
Equity			
Ordinary share capital	10	750	750
Reserves		31,401	122,290
Total equity		32,151	123,040
Number of Ordinary Shares in issue		75,000,000	75,000,000
Undiluted Net Asset Value per Ordinary Share (pence)		**42.87**	**164.05**
Fully diluted Net Asset Value per Ordinary Share (pence)		**42.87**	**153.38**

The audited financial statements on pages 22 to 35 were approved by the Board of Directors on 19 March 2009 and signed on its behalf by:-

R. C. Nicholson
A. R. Maiden
Directors

19 MARCH 2009

The notes on pages 26 to 35 form part of these financial statements.

India Capital Growth Fund

Consolidated cash flow statement

For the year ended 31 December 2008

	01.01.08 to 31.12.08 £000	01.01.07 to 31.12.07 £000
Cash flows from operating activities		
Investment income	554	648
Fixed deposit interest	150	187
Bank interest	19	29
Management fee	(975)	(1,196)
Performance fees	(7,654)	(626)
Other cash payments	(422)	(561)
Net cash outflow from operating activities	**(8,328)**	**(1,519)**
Cash flows from investing activities		
Purchase of investments	(40,249)	(37,908)
Sale of investments	42,157	40,629
Transaction charges relating to the purchase and sale of investments	(160)	(316)
Net cash inflow from investing activities	**1,748**	**2,405**
Net (decrease)/increase in cash		
and cash equivalents during the year	(6,580)	886
Cash and cash equivalents at the start of the year	9,944	9,082
Exchange gains/(losses) on cash and cash equivalents	67	(24)
Cash and cash equivalents at the end of the year	**3,431**	**9,944**

The notes on pages 26 to 35 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2008

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 (SORP) for Investment Trusts issued by the Association of Investment Companies (AIC) in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. In particular, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the consolidated income statement.

Basis of preparation

The financial statements for the year ended 31 December 2008 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 obtained 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 including bank interest and fixed deposit interest is accounted for on an accruals basis. Dividends receivable are classified as investment income and taken to the 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 or 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.

Taxation

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

1. Accounting policies (continued)

Investments

All of the Group's investments are designated at fair value through profit or loss at the time of acquisition. They are initially recognised at fair value, being the cost incurred in their acquisition. Transaction costs are expensed in the 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 or loss at inception because they are managed and their performance evaluated on a fair value basis in accordance with the Group's investment strategy as documented in the Admission Document, and information thereon is evaluated by the management of the Group on a fair value basis.

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

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

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.

Foreign currency assets and liabilities, including investments at fair value through profit or loss, are translated into Sterling at the rate of exchange ruling at the balance sheet date. Investment transactions and income and expenditure items are translated at the rate of exchange ruling at the date of the transactions. Gains and losses on foreign exchange are included in the Income Statement.

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.

Comparative figures

Where required by accounting standards, comparative figures have been reclassified to conform to changes in presentation for the current year.

Standards, interpretations and amendments to published statements not yet effective

Certain current standards, amendments and interpretations are not relevant to the Group's operations. Equally, certain interpretations to existing standards which are not yet effective are equally not relevant to the Group's operations. At the date of the authorisation of these financial statements, the standards and interpretations which 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 (loss)/gain on financial assets designated at fair value through profit or loss

	01.01.08 to 31.12.08 £000	01.01.07 to 31.12.07 £000
Realised		
Proceeds from sales of investments during the year	38,969	43,779
Original cost of investments sold during the year	(33,601)	(37,777)
Gain on investments sold during the year	5,368	6,002
Market gain	6,813	7,515
Foreign exchange loss	(1,445)	(1,513)
Unrealised market (loss)/gain		
Previously recognised unrealised (gain)/loss now realised	(25,319)	2,948
Current period market (loss)/gain	(85,111)	51,679
Market (loss)/gain	(110,430)	54,627
Unrealised Market (loss)/gain of Listed securities	(108,555)	54,031
Unrealised Market (loss)/gain of Unlisted securities	(1,875)	596
Unrealised foreign exchange		
Previously recognised unrealised foreign exchange (loss)/gain now realised	(1,475)	1,114
Current period foreign exchange gain	16,209	1,066
	14,734	2,180
Net (loss)/gain on financial assets designated at fair value through profit or loss	(90,328)	62,809

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 market loss in the year which is attributable to currency movements between the US Dollar and the Indian Rupee is approximately £1,907,000 (year to 31 December 2007 – gain £3,280,000). During the year certain participatory note holdings were converted to direct holdings of the underlying securities. These conversions were effected by way of a sale of the participatory note and a simultaneous purchase of the underlying security and accounted for accordingly.

For the year ended 31 December 2008

3. Other expenses

	01.01.08 to 31.12.08 £000	01.01.07 to 31.12.07 £000
Revenue		
Directors' fees (note 12)	85	85
D&O insurance	16	18
Administration and secretarial fees (note 12)	120	139
Audit fee	38	45
Custody fees	26	19
Other advisory services	49	135
General expenses	107	145
Foreign exchange (gains)/losses	(67)	24
	374	610
Capital		
Foreign exchange (gains)/losses	(120)	30
	254	640

4. (Loss)/earnings 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. Diluted earnings per Ordinary Share is equal to the basic Earnings per Ordinary Share because the average share price during the year is less than the consideration which would be receivable for the potential Ordinary Shares, therefore having no dilutive effect. In 2007, the average market price during the year was 101.4793 pence per share which represented a repurchase of 14,781,340 Ordinary Shares and a consequent average number of Ordinary Shares in issue of 75,218,660.

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

	01.01.08 to 31.12.08 Listed £000	01.01.08 to 31.12.08 Unlisted £000	01.01.08 to 31.12.08 Total £000	01.01.07 to 31.12.07 Total £000
Cost as at 1 January	60,840	3,841	64,681	64,808
Purchases	40,277	–	40,277	37,650
Sales	(38,969)	–	(38,969)	(43,779)
Transfer from listed to unlisted *	(393)	393	–	-
Realised gain on sales of investments	5,368	–	5,368	6,002
Cost as at 31 December 2008	67,123	4,234	71,357	64,681
Unrealised (loss)/gain on revaluation	(54,659)	(1,901)	(56,560)	53,870
Unrealised foreign exchange gain/(loss) on revaluation	13,134	984	14,118	(616)
Fair value as at 31 December 2008	**25,598**	**3,317**	**28,915**	**117,935**

Fair value of listed securities at end of the year	25,598	113,801
Fair value of unlisted securities at end of the year	3,317	4,134

*The transfer from listed to unlisted represents the cost attributed to the demerged part of a listed group, where the listing of the shares in the demerged company had not become effective as at the year end.

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

	Listed £000	Unlisted £000	31.12.08 Total £000	31.12.07 Total £000
Equities	21,835	3,067	24,902	72,836
Participatory notes	3,763	250	4,013	44,703
Convertible debentures	–	–	–	396
	25,598	**3,317**	**28,915**	**117,935**

The fair value of material holdings in unlisted investments is based on discounted cash flow appraisal benchmarked to price and earnings data of comparable quoted companies. The discounted cash flow method requires the use of non-observable inputs such as weighted average cost of capital (12.5%; 2007 – 12.5%), terminal growth rate (4%; 2007 – 4%) and a discount rate to take account of illiquidity (30%; 2007 – 30%). The underlying cash flows are based on a range of possible outcomes to which a probability distribution analysis is applied. The latter is based on a matrix of market strength and performance relative to market using, inter alia, an 81% (2007 – 36%) probability of a combination of weak markets and underperformance relative to market.

6. Taxation

Guernsey

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

For the year ended 31 December 2008

6. Taxation (continued)

Mauritius

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. Each company holds a valid Certificate of Residence from the Mauritian Commissioner of Income Tax.

ICG Q Limited and ICG U Limited are subject to income tax in Mauritius on net income at 15 per cent. (2007: 15 per cent.). However, the companies are entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80 per cent. of the Mauritius tax on foreign source income.

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

India

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

7. Receivables

	31.12.08 Total £000	31.12.07 Total £000
Disposal of investments awaiting settlement	–	3,188
Investment income	–	1
Interest receivable	–	3
Other receivables and prepayments	8	11
	8	3,203

8. Payables

	31.12.08 Total £000	31.12.07 Total £000
Purchases of investments awaiting settlement	28	–
Taxation	18	19
Management fee	41	167
Performance fee	–	7,654
Other creditors	116	202
	203	**8,042**

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 2008 and 31 December 2008	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.

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

Capital management

The Company is a closed-ended investment company, and thus has a fixed capital for investment. It has no legal capital regulatory requirement. The Board has the power to purchase shares for cancellation, 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 2008, 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.

11. Financial instruments and risk profile (continued)

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, and in adherence to the investment guidelines and the investment and borrowing powers set out in the Admission Document. The Group's investment portfolio is concentrated and, as at 31 December 2008, comprised investment in 24 companies. The Group thus has higher exposure to market risk in relation to individual stocks than more broadly spread portfolios.

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

The Group's portfolio consists mainly of 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 (2008: 89.93% 2007: 95.85%) to any movement in the BSE Small-Cap index. At 31 December 2008 this approximation would produce a movement in the net assets of the Group of £2,890,000 (2007: £11,793,000) for a 10% (2007: 10%) movement in the index.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the financial instruments held by the Group will fluctuate because of changes in foreign exchange rates. The Group's portfolio comprises predominantly Rupee denominated investments but reporting, and in particular, the reported Net Asset Value is denominated in Sterling. Any appreciation or depreciation in the Rupee would have an impact on the performance of the Group. 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 2008, if the Indian Rupee had strengthened or weakened by 5% (2007: 5%) against Sterling with all other variables held constant, pre tax profit for the year would have been £1,494,000 (2007: £5,843,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of Indian Rupee denominated financial assets designated at fair value through profit or loss, trade receivables and payables and Indian Rupee denominated bank accounts.

Credit risk

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

11. Financial instruments and risk profile (continued)

Credit risk (continued)

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 2008 was £7,445,000 (2007: £54,647,000), of which £4,934,000 (2007: £51,444,000) was to HSBC Bank plc (including Participatory Notes of value £4,013,000 (2007: £44,703,000)). The Manager has substantially reduced 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

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. As the trading volume on the Indian Stock Market is lower than that of more developed stock exchanges the Group is likely to be invested in relatively illiquid securities. The Group's unlisted securities are even less liquid and may not be realisable until a third party investor is found. Unlisted securities represent 10.32% (2007: 3.36%) 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.

As an approximate indicator of the underlying liquidity in the listed securities in the portfolio, based on the average daily volumes of trades in each security reported by the two principal stock exchanges (the Bombay Stock Exchange and the National Stock Exchange) in the last quarter of the year, the portfolio holdings represented between 0.4 and 792 days trading (2007: 0.1 to 89 days), with the average, weighted by the percentage of the total portfolio, being 48.3 days (2007: 21.1 days). It is the Group's policy generally to hold material stakes in investee companies. In the event of a decision to liquidate a holding, actual liquidity may be achieved faster by negotiation of block deals.

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

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.

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 other Director (note 3).

The Investment Manager is entitled to receive a management fee payable jointly by the Company and its subsidiaries equivalent to 1.5 per cent. per annum of the Group's Total Assets, calculated and payable monthly in arrears. The Investment Manager earned £849,000 (2007: £1,274,000) for management fees of which £41,000 (2007: £167,000) was outstanding at 31 December 2008.

12. Related party transactions (continued)

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 per cent. of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares purchased in the market (if Ordinary Shares are trading at a discount to NAV) or by subscription for new shares at NAV (if the Ordinary Shares are trading at a premium). No performance fee was paid in respect of the year ended 31 December 2008. Performance fees of £8,280,000 were paid in respect of the year ended 31 December 2007 and the appropriate proportion was reinvested by the purchase of 2,105,743 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 is also entitled to reimbursement of out of pocket expenses incurred in the performance of its duties. The administrator earned £75,000 (2007: £101,000) for administration and secretarial fees of which £17,000 (2007: £93,000) was outstanding at 31 December 2008.

13. Contingent liabilities

The directors are not aware of any contingent liabilities as at 31 December 2008 (2007:Nil).

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 aggregate reserves and the Company's aggregate reserves. The Company's reserves are as shown below:

	31.12.08 Total £000	**31.12.07 Total £000**
Share capital	750	750
Realised capital reserve	(4,826)	(8,316)
Unrealised capital reserve	(32,696)	59,232
Revenue reserve	(3,954)	(1,503)
Other distributable reserves	72,877	72,877
	32,151	**123,040**

India Capital Growth Fund

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