India Capital Growth Fund

Annual report and audited consolidated financial statements

For the year ended 31 December 2010

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Management and administration

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Jamie Cayzer-Colvin
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Administrator and Secretary

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Mauritian Administrator

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India Capital Growth Fund

Management and administration (continued)

Nominated Adviser

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Chairman's statement

My statement this year, although reporting on the year ended 31 December 2010, is being written in March 2011. Recent events have cast a shadow over what was a very satisfactory performance by the portfolio in 2010, and have created a more uncertain outlook, to which I shall return. But these should not overshadow what was a solid year of progress for ICGF both in terms of the underlying portfolio and the share price.

As noted at the interim stage, the restructuring process initiated by the Manager has been completed and the concentration risk and the liquidity risk within the portfolio reduced substantially. Despite this upheaval, the Company's NAV grew by 24.1 per cent in Sterling terms and by 14.6 per cent in local currency terms, against a comparable rise in the BSE Midcap Index (our notional benchmark) of 25.8 per cent and 16.1 per cent respectively. Your Board regards this as a very satisfactory result; and we now have a broad portfolio of some 38 stocks balanced across all sectors of the economy.

Meanwhile, the share price recovery continued, with our shares showing the best performance of all the comparable Sterling closed-ended India focussed funds, finishing almost 50 per cent up on the year, with some healthy interest from new investors. In December we appointed a new team of advisers in London, Grant Thornton becoming our Nominated Advisor and Numis our broker. We look forward to working closely with these two institutions.

Indian markets are particularly sensitive to foreign investment flows, and for most of 2010 remained an attractive investment destination, with a substantial net inflow of foreign institutional investment in India (*see Chart 1 in the Investment Manager's Report on page 4*). Towards the end of the year, however, some home grown difficulties emerged. The eruption of the allegations of corruption in relation to the sale of telecommunications licences rocked the market in late 2010, coming at a time when investors were already concerned about inflation in India, and when the developed markets were beginning once again to look more attractive. Since the year end, international investors have become more cautious over investment in India, although as yet there has been little net outflow. Middle East uncertainty is feeding through into a rising oil price, to which the Indian economy is very exposed, as we saw in 2008, and this gives investors little comfort for the immediate future. In the first two months of 2011 the index of leading stocks, the BSE Sensex, has fallen by some 14 per cent. In the medium term, however, India's prospects remain bright, with the domestic consumption story as compelling as ever.

The Manager's report refers to the "extraordinary story" that India has become, and in January of this year I visited India to see this for myself, meeting a range of companies and commentators. I came away impressed by the dynamism and energy of local entrepreneurs, and in particular their ability to overcome India's still challenging infrastructural bottlenecks. Investment in infrastructure is at last under way, and one can only guess at the impact that this cycle of investment will have in the productivity of the economy over the next decade. Not to be forgotten also is the "demographic dividend" which should, in due course, provide India with the most highly educated and youngest workforce of all the "New World" economies.

To return to the present, the thirst for regime change is spreading across North Africa and parts of the Middle East, with unpredictable outcomes. India, however, has had democracy for over 60 years now, built on Gandhi's philosophy of non-violence. Whatever the flaws in the political and administrative management of the country, the core democratic base is there. This, coupled with the likelihood of significantly higher growth over the next five years than the world in general, and the developed world in particular, should encourage investors to stay focussed on India's long term growth prospects.

Fred Carr | Chairman

24 MARCH 2011

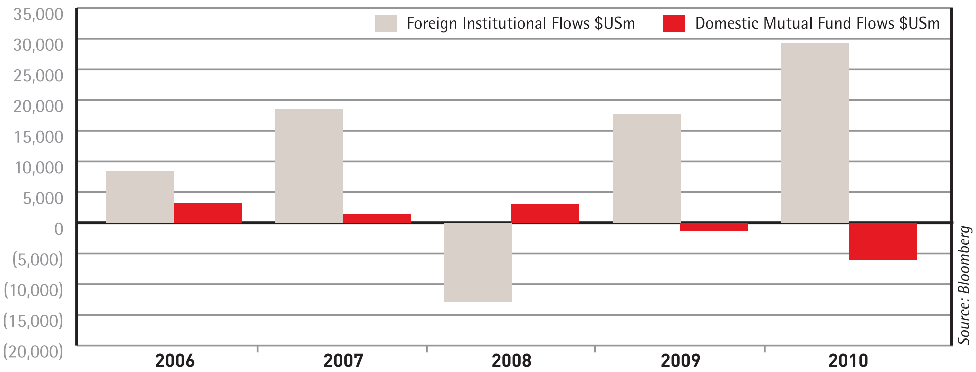
Investment manager's report

Introduction

In 2010 India's equity markets continued to build on the gains of the previous year. After a rise of over 100 per cent in 2009 the BSE Midcap index closed up 16.1 per cent in 2010. The Sterling return was enhanced by a gain in the value of the Indian Rupee, rising 7.7 per cent over the period, bringing the Sterling adjusted index gain to 25.8 per cent. Similar returns could be found in both the large and small cap indices which were up 17.4 per cent and 15.7 per cent respectively in local currency terms. Against this backdrop the net asset value of the Company rose 24.1 per cent, 14.6 per cent from the growth in net asset value and 7.7 per cent from the strength in the Rupee. This was a satisfactory performance given the complete overhaul of the portfolio in the period. This overhaul was necessary, but caused considerable downward pressure on some existing holdings and resulted in high levels of cash waiting to be deployed, which detracted from performance in the rising market. A detailed discussion on the restructuring process and the performance of the portfolio is included later in this report.

Once again it was foreign investors that dominated the flows into the Indian markets, with net inflow at an all-time high of USD 29.4 billion for the year (*see Chart 1*). In the main, emerging markets continued to be in the forefront of global investors' minds, attracted by better and longer term growth prospects as well as healthier public finances and low levels of personal debt. Despite some inevitable short term setbacks, we strongly believe this structural trend remains in place and India is the emerging economy best placed to capture this investment theme.

Chart 1: Net Equity Flows to India



Economy and Politics

The Indian economy has maintained a healthy momentum for the financial year to date and is expected to achieve a real growth rate of close to 8.5 per cent for the full year to 31 March 2011 (FY2011). From the supply side perspective all areas of the economy made a positive contribution to the numbers. There has been strong growth in services and industry combined with a healthy pick up in agriculture (*see Chart 2*). The quarter on quarter deceleration in industrial growth is principally due to the high base effect from last year, and a consequence of the Reserve Bank of India's gradual approach to the normalisation of monetary policy which commenced in mid-February. In addition, the heavy and prolonged monsoon season not only delayed the completion of on-going infrastructure projects, but was also one of the reasons why the government failed to reach its target for the disbursal of new projects over the period. Whilst this did not have a disastrous effect on the overall performance of the economy, it was nonetheless disappointing. The agricultural sector's strong showing did much to offset this. This was as a consequence of the low base effect from last year following the very poor monsoon, and a much improved rainy season in calendar 2010. The effect on rural incomes and thus consumption is positive and underpins our belief that FY2012 will be another year of healthy growth.

There is an expectation that government spending on infrastructure will also pick up in the next financial year. The political motivation to achieve this is the approaching state elections, of which there are some critical ones in 2011, with the majority following in 2012. The overriding "takeaway" of this year's elections in the state of Bihar is that the incumbent Chief Minister was

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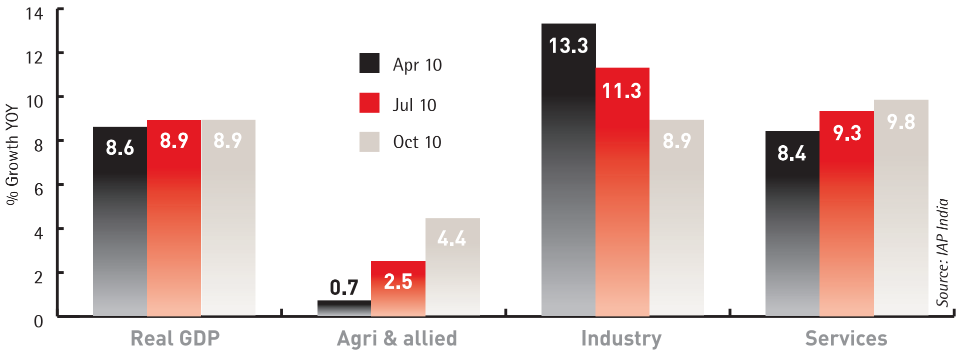
Economy and Politics (continued)

re-elected comfortably following the successful completion of much needed progress on infrastructure, particularly road development. This is some confirmation that voters who had historically voted along caste lines are now prepared to vote for a politician who "gets things done". As the Congress Party and their political allies were comprehensively thrashed in Bihar, it is hoped that infrastructure reform will feature high on the political agenda in the year ahead. Indeed in the recently announced Budget for FY2012, the Finance Minister has increased to USD 40 billion the amount in which foreigners can invest in corporate bonds by specifically raising the limits in the infrastructure sector, as well as increasing the tax incentives for both domestic and foreign entities to increase exposure to this sector. This is a sensible step, but the reality is that more investment in the sector will only come once the bureaucracy enables simpler and speedier execution, particularly around land clearance and environmental approval. In this budget there were no new announcements on either.

Chart 2: FY11 to date; Quarterly GDP growth components



The IMF's recently published report forecasts that India should maintain a similar level of growth in FY2012 to that expected in FY2011 of approximately 8.5 per cent. The composition of this growth may vary slightly, as it is unlikely that the contribution from agriculture will be maintained, but this is likely to be offset by solid growth in industry and services. Surging capital flows could further spur investment as the effects of excessively weak US monetary policy encourages capital flight overseas in search of better yields. Although this will complicate macroeconomic management, it is our belief that India is in a better shape than most Asian countries to absorb these potential flows.

The over-riding economic concern for investors in 2010 has been high and sticky inflation, principally in the areas of food and imported raw material prices, including oil (*see Chart 3*). The former is a highly emotive issue and a matter of concern for all as the poor and those on fixed incomes are the worst affected. The increased demand for better quality food products (mainly protein) is a natural consequence of rising prosperity and urbanisation, but it is the chronic failure of the supply side response that is also to blame for rising prices – and this is not about to change (*see Chart 4*). Enhancing farmers' output and productivity and transforming the supply chain are major challenges for the Indian government in FY2012 and beyond. Increasing crop yields via better use of fertilisation and irrigation, and improving cold storage facilities, transportation and handling to reduce leakage and wastage are vital to ensuring food inflation does not become a long term structural consequence of India's recent growth.

It is well understood that monetary policy has

Chart 3: Wholesale inflation component parts

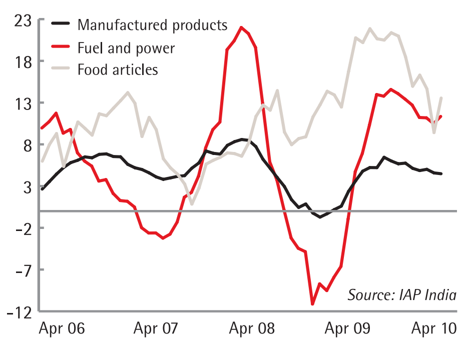


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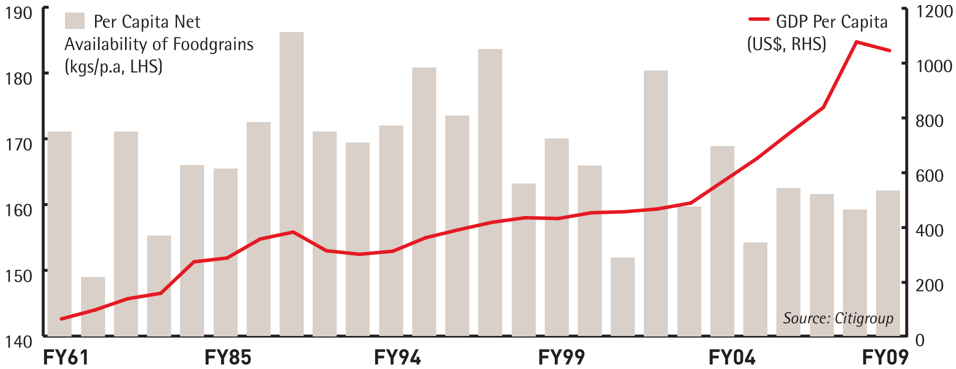
Chart 4: Food availability per capita as incomes rise



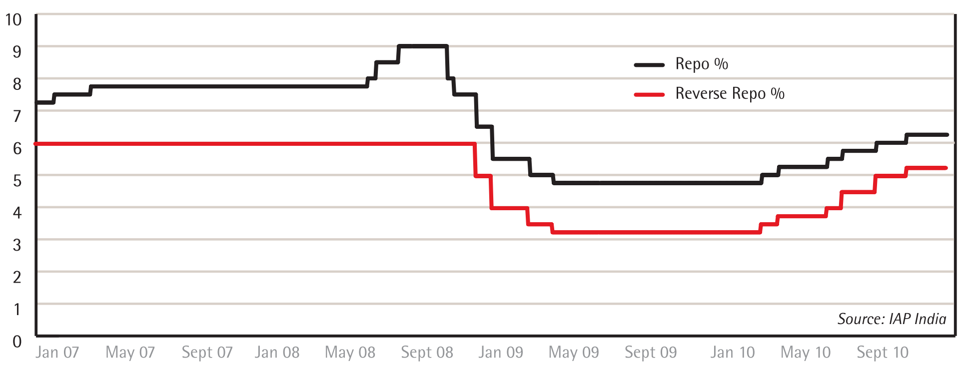
little effect in controlling food inflation. The principal concern of the Reserve Bank of India, however, is that the pickup in food prices feeds into core inflation via upward pressure on wages. This challenge will remain at the forefront of policy makers' minds throughout next year. The economy is also at risk from imported raw material prices driving up manufacturing costs. The real fear here is that on-going loose monetary policy from the United States Federal Reserve and further quantitative easing will force higher commodity prices globally, which for India, as a net importer, will negatively affect its terms of trade as well as further fuelling inflation.

With these issues in mind and with the normalisation of interest rate policy announced in early 2010, the Reserve Bank of India hiked interest rates six times in 2010. Towards the end of the year, and on account of an unexpected uptick in food inflation, the market began to fear that interest rates would need to move even higher to contain these pressures. This concern will be in vogue throughout the next financial year particularly as the government's official target for inflation has been raised from 5.5 per cent to 7 per cent.

Since the financial crisis of 2008 monetary policy choices have been reasonably straightforward. Low inflation and fears of anaemic economic growth made an accommodative stance the only sensible option. Now, as the economy has fully recovered and inflation has surged, the situation has become less clear. Policy makers face the classic central bank dilemma: how to find the right level of interest rates to contain inflation risk without upsetting the momentum in economic growth. In this regard 2011 will be a challenging year for all those involved (*see Chart 5*).

From a political standpoint it must be said that 2010 has been a disappointment. There were high hopes that this government, unencumbered by its previous communist coalition partner and with plenty of time before the next election, would be able to make meaningful progress. This was expected in the areas of tax reform, the partial sale of state owned companies, infrastructure development as well as the liberalisation of foreign domestic investment limits in key sectors.

Chart 5: Movements in Reverse Bank policy rates



Economy and Politics (continued)

As the year advanced the market became increasingly frustrated with the lack of progress. The final straw was a succession of damaging scandals in the areas of telecoms and banking, which highlighted corruption and collusion in the high echelons of both business and politics. In a sense it can be argued that forcing these issues into the open is a positive, as this degree of negative publicity forces change in the system, but in the near term it knocks foreign investor confidence and this takes time to rebuild. We are hopeful that calendar year 2011 will deliver some of what the Government has so far failed to achieve. We believe that the introduction of the general sales tax and the implementation of the direct tax code (with some amendments) should happen. Additionally, politicians have indicated that the partial sale of some public sector assets is planned to help reduce the fiscal deficit. With market frustration abundant here, any whiff of progress will be taken very positively.

Portfolio restructuring

In the 2009 annual report it was reported that a thorough review of the investment process and the portfolio would commence in January 2010. Over the year this has been the main focus of the investment team and considerable progress has been made. Whilst the original brief of a mid and small cap focus has been maintained, a disciplined and thorough investment process has been introduced in an attempt to improve the overall performance of the portfolio. The key aspects of these changes are listed briefly below:

- A liquidity screen was introduced to seek to ensure the portfolio positions can be exited in a timely manner;
- Portfolio concentration would be reduced in order to diversify risk. A target portfolio of around 35 stocks was set;
- An active bottom up stock picking approach has been adopted using economic profit analysis as the principal valuation tool;
- Individual stock positions are regularly reviewed and performance analysed;
- Although the absolute return mandate has been maintained, the BSE Midcap index was selected as a means by which performance relative to the market can be measured.

As at the end of December 2010 the number of stocks in the portfolio has been increased from 15 to 38, in line with the target set at the beginning of the year. Of the fifteen positions in the portfolio at 31 December 2009, six have been sold in full, while the exposure to the remaining "legacy" stocks (excluding the unlisted portion) has been reduced considerably. We will continue to use market opportunities to sell down further where concentration is still considered too high. Three unlisted companies were held in the portfolio at the end of 2010. Marwadi Shares and Finance Limited is the largest position in the portfolio at 8.4 per cent, and continues to be a core holding. Of the residual two, CitiXsys continues to be valued at nil. The small holding in Jubilant Industries arose from a spin off from Jubilant Life Sciences Limited, a current holding, and was pending listing at 31 December 2010. Listing was granted in early 2011 and the holding was subsequently sold.

As a result of these actions the liquidity position has improved substantially. The weighted average liquidity of the listed portfolio (measured by the number of days it would take to liquidate the portfolio) has fallen to six days as at the end of the year. Whilst the restructuring of the portfolio is not quite complete, the market's performance in 2010 gave us the ideal opportunity to carry out the much needed restructuring and it is pleasing that significant progress was made, based on then market volumes.

Performance

Within the portfolio, positive contribution to the growth in the net asset value over the year came from the consumer discretionary, materials and telecommunications sectors, whilst the industrials, healthcare and financials sectors contributed negatively. The cash position, together with the unlisted component of the portfolio for which the valuations were unchanged throughout the year, averaged 23.7 per cent of net assets and this was the largest contributor to negative attribution owing to the overall strength of the market.

Within the Consumer Discretionary sector, both S Kumars Nationwide (10.54 per cent average weighting over the year) and Prime Focus (6.5 per cent average weighting over the year) performed well rising 102.5 per cent and 169 per cent for the year respectively. The former has benefitted from good earnings growth, improved dialogue with the market and most importantly the announcement of the planned listing of its subsidiary Reid & Taylor. We still see upside in the company's share price in spite of its strong performance and are delighted that it is taking steps to unlock value for

Performance (continued)

shareholders. Prime Focus has benefitted from the huge pick up in the production of 3D films from Hollywood. The company's leading ViewD product provides 2D to 3D conversion technology faster and at lower cost than the competition. This competitive edge exists because it is able to outsource most of the work to India where the overall production costs are that much lower. The order backlog is growing as profits achieved on the 3D format for Hollywood are still superior to the traditional format. We also expect that the growth in supply of 3D televisions, principally from the Japanese manufacturers, may create additional demand for Prime Focus' technology as broadcasters struggle to find 3D content to satisfy consumer demand.

In other areas of the economy the portfolio benefitted from exposure to the recent acquisition of Bhushan Steel, a supplier of high grade steel to the auto and white goods manufacturers, which rose 54 per cent from the initial purchase. Elsewhere, Jain Irrigation, a producer of micro irrigation systems, rose 20 per cent, and MSK Projects, a construction company, rose 55 per cent. The latter position was sold following its acquisition by the Welspun Group in the early part of the year. In Healthcare, Bilcare, a legacy stock and significant position (7 per cent average over the year) rose 24 per cent. New portfolio entrant Shriram Transport, a financier of commercial vehicles rose 60 per cent.

As has already been mentioned the largest contribution to the negative attribution came from the high cash weighting in the portfolio, which averaged 14.9 per cent over the year. This was the consequence of the introduction of the new investment process as all portfolio positions were reviewed and new investment ideas sought. Elsewhere much of the downside contribution came from the sale of "legacy" stocks. Arihant Foundations and Housing, a Chennai based real estate company, which is the last of the "legacy" stocks in the portfolio, fell 31 per cent. Although the Group's exposure to this company has fallen over the period from 2.8 per cent to 1.4 per cent, our ability to exit completely is hampered by extremely low levels of liquidity.

The area of the portfolio initiated this year which has disappointed is the Industrial sector. Infrastructure development is one of the most interesting structural themes that exist in the Indian context and we had high hopes for portfolio companies exposed to the construction of roads, irrigation and sanitation projects, metros and low cost housing in particular. To date this has not worked for a number of reasons. The government has been very slow to award new projects and this has resulted in order book growth failing to meet expectations. It has also resulted in fewer and smaller "ticket" sizes increasing the competition and reducing profits. The completion of existing projects has also been delayed due to poor weather which has increased working capital costs and delayed the revenue streams. Throughout the year analysts have been forced to reduce their estimates for earnings and this has resulted

Chart 6: Infrastructure order inflows by sub-sector

SECTOR (INR BILLION)	2011E	2011 REV	% REVISION	2012 REV	YEAR/YEAR
Power	1580	1450	-8 %	1595	10 %
Roads	684	632	-8 %	700	11 %
Telecommunications	616	843	37 %	1124	33 %
Railways	604	409	-32 %	468	14 %
Irrigation	623	540	-13 %	594	10 %
Water supply	333	241	-28 %	266	10 %
Ports	200	95	-53 %	108	14 %
Airports	66	72	9 %	74	3 %
Storage	48	22	-54 %	29	32 %
Oil and gas pipelines	37	297	703 %	325	9 %
Total	**4791**	**4601**	**-4 %**	**5283**	**15 %**

Source: Religare Capital Markets

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Performance (continued)

in heavy selling pressure in the market. As noted earlier in this report we are confident that the situation will improve in calendar year 2011 as the weather permits, and the government starts to award an increasing number of new orders. Chart 6 shows the extent to which order flows were scaled down in FY2011, but in spite of this how much growth is expected in FY2012. We remain exposed to this area and will continue to monitor progress carefully.

Principal Investments at 31 December 2010

A full statement of the portfolio is set out on pages 21 to 22. Information on the principal holdings is set out below.

Marwadi Shares and Finance Limited

8.35% of the portfolio

Marwadi Shares and Finance Limited, an unlisted company, is one of the leading retail broking houses in India and is ranked in the top 10 of the BSE in terms of market share in the cash equity and derivative sectors with a market share of approximately 2.4 per cent. The company has 84 branches and over 742 channel partners operating over 7,000 trading terminals spread across 184 cities. Historically, the company has been predominantly retail focussed, but has now ventured into institutional broking and research in addition to launching wealth management services. The carrying value reflects a forward (FY2012) price/earnings ratio of 12.0, and 1.1 times projected FY2012 book value.

Prime Focus Limited

7.96% of the portfolio

Prime Focus provides post production and visual effects services for films and television content. The company continues to be a market leader in India and is increasing its reach in the UK and North America. In recent years the company has developed a new proprietary conversion process View-D™ which converts 2D content to 3D for film and television, recently completing the 2D to 3D stereoscopic conversion of Warner Bros' epic feature 'Clash of the Titans' and 'The Chronicles of Narnia'. Earlier in the year the company was also involved with James Cameron's 'Avatar', and Universal Pictures' epic action-adventure 'Robin Hood'. As per our projections for FY2012, as at 31 December 2010, Prime Focus traded at price/earnings ratio of 9, price to book value ratio of 1.5, enterprise value to capital employed ratio of 1.3 for a return on invested capital to weighted average cost of capital ratio of 1.2.

S. Kumars Nationwide Limited ("SKNL")

7.75% of the portfolio

SKNL is the market leader in India in uniform fabrics (c. 70 per cent market share) and the second largest brand in the luxury suiting market (c. 23 per cent market share). In June 2009, SKNL acquired Hartmarx Corporation based in the USA, which owns more than 30 up-market and mid-market garment brands, and appointed the ex-CEO of Polo Ralph Lauren as head of this business. SKNL plans to combine strong international market brands with India's low cost manufacturing base. In addition SKNL recently acquired the DKNY menswear global franchise (ex-Japan). The company has announced that it intends to IPO its luxury textile subsidiary, Reid & Taylor Ltd (which is 25 per cent owned by GIC of Singapore) during 2011 which we believe will be a catalyst to unlock significant value for SKNL's shareholders. Based on our projections for FY2012, as on 31 December 2010, SKNL traded at 4.6 times earnings and 0.8 times book value and enterprise value to capital employed ratio of 0.9 for a return on invested capital to weighted average cost of capital ratio of 1.1.

Bilcare Limited

5.80% of the portfolio

Bilcare is the largest Indian company in the field of pharmaceutical packaging (both plastic and aluminium based). It has manufacturing plants in India and Singapore and recently acquired the plastics packaging business of Ineos, a Germany based company which has a turnover of EUR 240 million. It is one of the leading suppliers to pharmaceutical companies in US and Europe with 25-35 per cent market share. With increasing per capita spend on healthcare and the rising spread of "blister" packaging, this segment is expected to show rapid growth. Bilcare is also active in the area of clinical trials services, where it offers patient enrolment services, medication packaging, trials structuring, and logistics management to the global pharmaceutical majors. Bilcare has also developed non-clonable anti-counterfeit solutions across a wide range of products including medical packaging, crowd management and currency notes. Based on our projections, as at 31 December 2010, Bilcare traded at 6.8 times FY2012 earnings and 1.1 times FY2012 book value and an enterprise value to capital employed ratio of 1.1 for a return on invested capital to weighted average cost of capital ratio of 1.1.

United Phosphorus Limited

4.01% of the portfolio

United Phosphorus is a global player in the agro-chemicals industry with a strong presence in off-patent markets in the USA and Europe. Historically, the company has achieved strong growth based on a strategy to acquire small agro-chemical companies and tail-end brands of the big players in the USA and Europe. It acquired two such companies in FY2011 – Manzet and RiceCo. Current year results are suffering from the combined effect of the economic slowdown in the USA and Europe, and adverse winter and unseasonal rains domestically. However, it expects to grow 15 per cent in FY2012 on the back of strong anticipated growth in Western markets. As at 31 December 2010, it traded at 10.3 times FY2012 earnings. On an enterprise value to capital employed ratio basis, it traded at 1.84 times FY2012 earnings for a return on invested capital to weighted average cost of capital ratio of 1.71.

Jyoti Structures Limited

3.10% of the portfolio

Jyoti Structures is one of the largest Indian companies in the Engineering, Procurement and Commissioning segment of power transmission and distribution. It has its own tower manufacturing and testing plants and stringing machineries. The demand for power transmission is expected to increase strongly as many private and government owned power generating projects are poised to start over next 3-4 years. In addition, the Indian government's focus on rural electrification and overhauling city distribution is causing demand for distribution projects. Jyoti Structures is also involved in projects in Africa, Europe and Middle East. At 31 December 2010, and based on our projections for FY2012, Jyoti Structures traded at a price/earnings ratio of 10.1, a price to book ratio of 1.4, and an enterprise value to capital employed ratio of 1.3 for a return on invested capital to weighted average cost of capital ratio of 1.2.

Bharti Airtel Limited

2.85% of the portfolio

Bharti Airtel is India's largest mobile operator with 127 million subscribers. It provides GSM-based mobile services, covering all India's telecom circles, as well as spanning mobile, fixed-line, long distance enterprise and DTH ("direct-to-home") services. The firm is also one of India's largest private-sector fixed-line service providers, with 3 million subscribers. The company's services are integrated under the brand name Airtel. The firm's mobile subscriber market share stands at 22 per cent. The company recently acquired the Kuwait based Zain Group's mobile telephony operation in 15 countries across Africa. With this acquisition Bharti has a presence in 18 countries across Asia and Africa. The company has been allocated 13 circles across India to launch 3G services in the latest auction by the Indian government. The company plans to launch its 3G services by October of 2011. Based on our projections for FY2012, as at 31 December 2010, Bharti Airtel traded at a price/earnings ratio of 16.2, a price to book value ratio of 2.3, and an enterprise value to capital employed ratio of 1.6 for a return on invested capital to weighted average cost of capital ratio of 1.1.

IVRCL Infrastructures and Projects Limited

2.59% of the portfolio

IVRCL is one of India's largest engineering and construction companies. It currently has an order book in excess of USD 5 billion (more than 4 times trailing annual sales) spread across segments such as water and irrigation, road projects, power transmission, oil & gas and building construction. It owns 55 per cent of Hindustan Dorr-Oliver which executes projects for sectors such as mining, paper, fertilizer etc. IVRCL also owns a 75 per cent stake in IVR Assets and Holdings which is involved in the development of road and water BOT projects and real estate development. Net of the value of its investments and based on our projections for FY2012, as at 31 December 2010 IVRCL traded at a price/earnings ratio of 8.5, a price to book value ratio of 0.95, and an enterprise value to capital employed ratio of 1.2 for a return on invested capital to weighted average cost of capital ratio of 0.8.

Yes Bank Limited

2.51% of the portfolio

Yes Bank is a new-generation, private-sector bank. It is modelled on the 'knowledge-banking platform' and caters to specific industrial sectors. Key personnel with broad expertise in specific sectors provide a full range of customised financial services to each sector, helping the bank to nurture key relationships in these sectors to cross-sell products, increasing fee-based income, leveraging existing relationships and exploring new ones. With its differentiated growth strategy and able management, the bank expects to grow at twice the industry average. The bank has now focused on strengthening its liability franchise through

Principal Investments (continued)

branch banking. Based on the closing market price on 31 December 2010, the stock traded at a forward (FY2012) price/earnings ratio of 11.8 and 2.3 times projected FY2012 book value.

Opto Circuits (India) Limited

2.44% of the portfolio

Opto Circuits primary business is the manufacture of invasive and non-invasive medical equipment. In the invasive segment it sells catheters and stents through its German subsidiary Eurocor. In non-invasive segment it sells various types of patient monitoring systems. In November 2010 it acquired Cardiac Science, which is a US based company involved in stress testing equipment and defibrillators. Opto Circuits plans to cross-sell products from its various subsidiaries through its global selling network and client base ranging from hospitals to standalone medical practitioners and corporates. Opto Circuits also benefits from its low cost manufacturing facilities in Malaysia and India. Based on our projections for FY2012, as at 31 December 2010, Opto Circuits traded at a price/earnings ratio of 11.9, a price to book value ratio of 3.2, and an enterprise value to capital employed ratio of 2.7 for a return on invested capital to weighted average cost of capital ratio of 1.8.

Conclusion

Concerns over inflation and corporate governance stalked the market towards the end of the year causing investors to book healthy profits after a good run. These fears have extended into calendar 2011 as the market worries that growth will moderate to contain rising inflation, and borrowing costs will continue to rise, crimping profits and delaying investment plans. Additionally there are concerns that the economy is facing the prospect of higher imported commodity and fuel costs as a consequence of loose US monetary policy, an improvement in global growth expectations and uncertainty in the Middle East. Added to this there is a current shift in sentiment away from emerging markets towards the developed space following a sustained period of emerging market outperformance. Concerns over rising inflation in the Asian economy as a result of economic policy in the West is the main catalyst, but it is being supported by improving economic data in the United States and developed market valuations that are looking attractive once again. In this context India is suffering particularly as it is not perceived as a main beneficiary of a recovery in US exports. All these issues are relevant and a natural concern for foreign investors who continue to dominate the volumes.

At the time of writing it is not clear to what extent these fears will last, but it is likely that investors will remain cautious for the time being, at least until the mist clears. Although a portion of the capital that was invested into Indian equities last year is being withdrawn, our sense is that the majority is medium to long term investment that will successfully ride out this short term uncertainty. All these are near term issues and part and parcel of equity investing. They should not detract from the extraordinary investment story that India has become. The "demographic dividend" (as the growth in the working population is commonly called) is expected to increase the savings ratio to close to 40 per cent over the next few years. This figure could be further enhanced with the release of savings currently held outside formal banking channels as the economy moves forward. In addition it is expected that the Government will gradually lift restrictions on the inflow of foreign capital to the country, at a time when other emerging economies are taking an opposite tack. These trends should enable India to grow its GDP in excess of 10 per cent for a sustained period, thus creating numerous opportunities to investors in the domestically focused areas of consumption, financial services, infrastructure development and more. It is this rapid growth that continues to make India an attractive investment opportunity for overseas investors especially in the environment of continued sub-par growth in the developed world.

India Investment Partners Limited

24 MARCH 2011

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

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 admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM") on 22 December 2005.

Investment policy

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

Results and dividends

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

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

The Directors do not recommend the payment of a dividend for the year ended 31 December 2010.

Substantial interests

Shareholders who at 18 March 2011 held an interest of 3 per cent or more of the Ordinary Share Capital of the Company are stated in Table 1 below:

Table 1: Substantial interests

	NO. SHARES	% HOLDING
Caledonia Investments Plc	17,983,830	23.98
Banque De Luxembourg	5,000,000	6.67
Rathbone Nominees Limited	4,619,027	6.16
Goldman Sachs Securities (Nominees) Limited	3,700,000	4.93
Nortrust Nominees Limited	3,227,690	4.30
HSBC Global Custody Nominee (UK)	2,982,810	3.98
Chase Nominees Limited	2,876,400	3.84
State Street Nominees Limited	2,509,571	3.35
Pershing Nominees Limited	2,305,878	3.07

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

Substantial interests (continued)

At 18 March 2011, the Manager, India Investment Partners Limited, and connected persons (not elsewhere disclosed) held in aggregate 2,201,334 (2.94 per cent) shares arising principally from the reinvestment of past 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 per cent or more in the Ordinary Share Capital of the Company are as listed in the table below:

Table 2: Substantial holdings of warrants

NAMES	HOLDING OF WARRANTS	% OF ENLARGED ORDINARY SHARE CAPITAL IF EXERCISED ASSUMING FULL CONVERSION
Caledonia Investments Plc	3,300,000	3.67
Chase Nominees Limited	3,160,000	3.51

Warrants

The second exercise period for warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share ran from 12 April 2010 to 11 May 2010. 1,400 warrants were exercised and the share capital of the Company increased by 1,400 ordinary shares. At 31 December 2010, 14,998,537 warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share were in issue. 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 2011. The 2011 exercise period will run from 27 April 2011 to 25 May 2011, and due notice was sent to warrant holders on 17 February 2011. This is the final exercise period and, accordingly, any warrants not exercised will lapse and the admission of the warrants to trading on AIM will cease.

Directors' responsibilities

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

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

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

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

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

Directors' Statement

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

Directors

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

Directors interests

At 18 March 2011, Directors and their immediate families held the following declarable interests in the Company:

	Ordinary Shares	Warrants
Fred Carr	80,000	-
Jamie Cayzer-Colvin	99,627	10,000

Andrew Maiden is an employee of Northern Trust International Fund Administration Services (Guernsey) Limited, the Administrator and Company Secretary.

Jamie 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 and a non-executive director of Cayzer Trust Company Limited.

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.

Total Expense Ratio

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

The Company's TER for the year ended 31 December 2010 was 2.40 per cent (2009: 2.77 per cent).

Corporate governance

The Association of Investment Companies published in October 2010 the AIC Code of Corporate Governance ("the AIC Code") and the AIC Corporate Governance Guide ("the AIC Guide") which are designed to provide Boards of its member investment companies with a framework of best practice in respect of the governance of investment companies. The AIC Code has been endorsed by the Financial Reporting Council which has confirmed that by following the AIC Corporate Governance Guide, investment company boards should fully meet their obligations in relation to the UK Corporate Governance Code (the "UK Code"). The Company's shares are quoted on AIM, and as such the Company is not required to comply with the UK Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained. Accordingly the Board considers that it should seek to comply with the AIC Code and to report against it at the earliest possible opportunity and should do so in respect of the year to 31 December 2010.

Corporate governance principles

The Board has considered the principles and recommendations of the AIC Code with reference to the AIC Guide. The Board considers that it has complied with the AIC Code during the year ended 31 December 2010 subject to the exceptions explained below.

The Board

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

Directors' remuneration

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

Chairman, Senior Independent Director and Chief Executive

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

Board Meetings

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

Board meetings, Committee meetings and Directors' attendance

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

Table 3: Directors in attendance

	BOARD MEETINGS		AUDIT COMMITTEE	
	HELD*	ATTENDED	HELD	ATTENDED
Fred Carr	5	4	-	-
Jamie Cayzer-Colvin	5	3	2	2
Ashok Dayal	5	5	-	-
Robin Nicholson	5	4	2	2
Andrew Maiden	5	5	-	-

** Including one formal meeting solely for the purpose of share allotment following a warrant exercise attended by two non-UK directors.*

Performance evaluation

The Board formally considers on an annual basis its effectiveness as a Board, the balance of skills represented and the composition and performance of its committees. The Board considers that it has an appropriate balance of skills and experience in relation to the activities of the Company. The Chairman evaluates the performance of each of the Directors on an annual basis, taking into account the effectiveness of their contributions and their commitment to the role. The most recent performance review took place in June 2010. The performance and contribution of the Chairman is reviewed by the other Directors under the leadership of the Chairman of the Audit Committee. The conclusion of the 2010 review was that the skill sets of the members of the Board were complementary, and that the Board functioned effectively.

Nomination committee

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

Audit committee

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

Risk Management and Internal control

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

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

Supply of information to the Board

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

Delegation of functions

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

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

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

Investment management

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

The Investment Manager is also entitled to receive a semi-annual performance related fee from the Company if the Net Asset Value per Share at the end of the half-year performance period (a) exceeds the Net Asset Value per Share at the start of the performance period by an annualised, annually compounded, rate of more than 10 per cent (the "Performance Hurdle") and (b) exceeds by an annualised, annually compounded, rate of more than 10 per cent the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the "High Water Mark"). The performance fee will be an amount equal to 20 per cent of the aggregate increase in the Net Asset Value above the High Water Mark. 50 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 2010, the High Water Mark was 231.94 pence per share.

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

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

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

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

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

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

Shareholder communications

A report on Shareholder communications is considered at each quarterly Board Meeting. A monthly Fact Sheet is published on the Company's website reporting the month-end Net Asset Value and with a commentary on performance. This information is also released to the Stock Exchange by way of an RNS announcement. The Investment Manager and the Corporate Broker maintain regular dialogue with institutional shareholders, feedback from which is reported to the Board. In addition, Board members are available to answer shareholders' questions at any time, and specifically at the Annual General Meeting. The Company Secretary is available to answer general shareholder queries at any time during the year. The Board monitors activity in the Company's shares and the discount or premium to net asset value at which the shares trade both in absolute terms and relative to the Company's peers. The Company has the power to buy-back shares in the market, the renewal of which power is sought from shareholders on an annual basis, and the Board considers on a regular basis the exercise of those powers. The Board did not consider it appropriate to exercise such powers in 2010.

Going concern

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

Approved by the Board of Directors and signed on behalf of the Board on 24 March 2011.

Fred Carr
Andrew Maiden
Directors

24 MARCH 2011

Directors

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

Fred Carr (Chairman)

Aged 66, was appointed to the Board as Chairman on 17 September 2009. He spent his career in stockbroking and investment management, ultimately (1993-2004) as Chief Executive of Carr Sheppards Crosthwaite. He is Chairman of M&G High Income Investment Trust plc and a director of SVM UK Active Fund plc. He is also a director of Investec Capital Accumulator Trust Limited and City of Oxford Geared Income Trust plc both of which are in members voluntary liquidation. He is a Fellow of the Chartered Institute of Securities & Investment. He is wholly independent of the Company's investment manager. He is resident in the UK.

Jamie Cayzer-Colvin

Aged 45, has been a Director of the Company since launch in December 2005. He 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 Group plc, Polar Capital Holdings plc and a number of other private companies. He is a non-executive director of India Investment Partners Limited, the Company's investment manager and is also a Director of IAP Gateway to India (Mauritius) Limited, another investment company for which India Investment Partners Limited is the investment manager. Caledonia Investments plc has investment holdings in two companies in common with the Group: Marwadi Shares and Finance Limited (19.7 per cent) and Arihant Foundations and Housing Limited (3.1 per cent). He is resident in the UK.

Ashok Dayal

Aged 73, has been a Director of the Company since launch in December 2005. He has had 38 years experience in banking in India and supervising a major banking business in India from bases in Hong Kong, London and Singapore. During his last eight years in banking he was executive director, Deutsche Bank AG, regional head office in Singapore. Prior to joining Deutsche Bank AG, he was a managing director of Grindlays Bank plc based in London and, immediately before that, regional director of Grindlays based in Mumbai. Since his return to India, Mr Dayal has worked as a management consultant and is currently an independent director with companies such as Glaxo Smithkline Consumer Healthcare, Abbot India and Akzo Nobel Coatings. He is wholly independent of the Company's investment manager. He is resident in India.

Andrew Maiden

Aged 30, has been a Director of the Company since 19 September 2007. He is a Vice President at Northern Trust International Fund Administration Services (Guernsey) Limited, the Company's Secretary and Administrator. 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, but no others of which India Investment Partners Limited is investment manager. He is resident in Guernsey.

Robin Nicholson

Aged 55, has been a Director of the Company since launch in December 2005. 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 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 wholly independent of the Company's investment manager. He is resident in Hong Kong.

Independent auditors' report

To the members of India Capital Growth Fund Limited

We have audited the consolidated financial statements of India Capital Growth Fund Limited for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS).

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP | Guernsey

24 MARCH 2011

Principal group investments

As at 31 December 2010

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
Marwadi Shares & Finance Limited	Unlisted	Financials	4,630	8.35
Prime Focus Limited	Small Cap	Consumer discretionary	4,412	7.96
S Kumars Nationwide Limited	Mid Cap	Consumer discretionary	4,298	7.75
Bilcare Limited	Small Cap	Healthcare	3,216	5.80
United Phosphorus Limited	Mid Cap	Materials	2,225	4.01
Jyoti Structures Limited	Small Cap	Industrials	1,719	3.10
Bharti Airtel Limited	Large Cap	Telecommunications	1,579	2.85
IVRCL Infrastructures & Projects Limited	Mid Cap	Industrials	1,436	2.59
Yes Bank Limited	Mid Cap	Financials	1,391	2.51
Opto Circuits (India) Limited	Mid Cap	Healthcare	1,356	2.44
Total top 10 equity investments			**26,262**	**47.36**
Other Small Cap	(8 companies)		7,589	13.69
Other Mid Cap	(11 companies)		10,150	18.31
Other Large Cap	(7 companies)		8,156	14.71
Other Unlisted	(2 companies)		15	0.03
Total equity investments			**52,172**	**94.10**
Cash less other net current liabilities			3,272	5.90
Total Portfolio			**55,444**	**100.00**

Note:

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

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

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

Portfolio statement

As at 31 December 2010

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
Listed securities			
Consumer discretionary			
Prime Focus Limited	4,739,710	4,412	7.96
S Kumars Nationwide Limited	3,436,847	4,298	7.75
		8,710	15.71
Consumer staples			
Jyothy Laboratories Limited	300,000	1,168	2.11
		1,168	2.11
Energy			
Cairn India Limited	256,000	1,229	2.22
		1,229	2.22
Financials			
Arihant Foundation & Housing Limited	592,400	787	1.42
Dhanlaxmi Bank Limited	415,000	762	1.37
Federal Bank	227,000	1,302	2.35
India Infoline Limited	464,000	549	0.99
Indian Bank	346,000	1,232	2.22
Infrastructure Development Finance Limited	438,900	1,157	2.09
Jammu & Kashmir Bank Limited	67,000	757	1.37
Shriram Transport Finance Limited	119,578	1,348	2.43
Sobha Developers Limited	238,000	1,117	2.01
Unitech Limited	916,000	877	1.58
Yes Bank Limited	308,000	1,391	2.51
		11,279	20.34
Healthcare			
Bilcare Limited	337,823	3,216	5.80
Jubilant Life Sciences Limited	297,276	1,198	2.16
Opto Circuits (India) Limited	349,950	1,356	2.44
		5,770	10.40
Industrials			
Ahluwalia Contracts Limited	332,744	719	1.30
Elecon Engineering Limited	980,000	1,083	1.95
Hindustan Dorr-Oliver Limited	589,048	981	1.77
IVRCL Infrastructures & Projects Limited	774,000	1,436	2.59
Jain Irrigation Systems Limited	370,000	1,123	2.02
Jyoti Structures Limited	894,100	1,719	3.10
Kingfisher Airlines Limited	550,000	525	0.95
Pratibha Industries Limited	1,055,108	1,047	1.89
Sintex Industries Limited	347,154	913	1.65
Spice Jet Limited	302,500	349	0.63
		9,895	17.85

Portfolio statement (continued)

As at 31 December 2010

HOLDING	NOMINAL	VALUE £000'S	% OF PORTFOLIO
IT			
KPIT Cummins Infosystems Limited	489,987	1,025	1.85
		1,025	1.85
Materials			
Bhushan Steel Limited	163,250	1,117	2.01
Rain Commodities Limited	446,149	1,185	2.14
Sterlite Industries India Limited	444,000	1,196	2.16
United Phosphorus Limited	891,520	2,225	4.01
		5,723	10.32
Telecommunications			
Bharti Airtel Limited	305,000	1,579	2.85
Onmobile Global Limited	277,000	1,149	2.07
		2,728	4.92
Total listed securities		**47,527**	**85.72**
Unlisted Securities			
Financials			
Marwadi Shares & Finance Limited	1,680,976	4,630	8.35
IT			
CitiXsys Technologies Private Limited	817,650	-	-
Materials			
Jubilant Industries Limited	14,863	15	0.03
Total unlisted securities		**4,645**	**8.38**
Total investments		**52,172**	**94.10**
Cash less other net current liabilities		**3,272**	**5.90**
Total Portfolio		**55,444**	**100.00**

India Capital Growth Fund

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	NOTES	REVENUE £000	CAPITAL £000	YEAR TO 31.12.10 TOTAL £000	YEAR TO to 31.12.09 TOTAL £000
Income					
Interest income		1	–	1	2
Investment income		232	–	232	292
		233	**–**	**233**	**294**
Net gains on financial assets at fair value through profit or loss					
Market movements	2	–	7,180	7,180	19,746
Foreign exchange movements	2	–	4,838	4,838	(6,328)
		–	**12,018**	**12,018**	**13,418**
Total income		**233**	**12,018**	**12,251**	**13,712**
Expenses					
Management fee	12	(787)	–	(787)	(535)
Cost of acquisition and disposal of investments		–	(277)	(277)	(31)
Foreign exchange gains/(losses)		60	(21)	39	(161)
Other expenses	3	(469)	–	(469)	(450)
Total expenses		**(1,196)**	**(298)**	**(1,494)**	**(1,177)**
Profit/(loss) for the year before taxation		(963)	11,720	10,757	12,535
Taxation	6	–	–	–	–
Profit/(loss) for the year after taxation		**(963)**	**11,720**	**10,757**	**12,535**
Earnings per Ordinary Share – Basic (pence)	4			14.34	16.71
Earnings per Ordinary Share – Diluted (pence)	4			14.34	16.71

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

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

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

The notes on pages 27 to 36 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2010

	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 2010		750	(13,187)	(13,818)	(1,936)	72,877	44,686
Issue of ordinary shares		-	-	-	-	1	1
Gain/(loss) on investments	2	-	(12,826)	20,006	-	-	7,180
Revenue loss for the year after taxation (excluding foreign exchange losses)		-	-	-	(963)	-	(963)
Cost of acquisition and disposal of investments		-	(119)	(158)	-	-	(277)
Gain/(loss) on foreign currency		-	6,820	(2,003)	-	-	4,817
Balance as at 31 December 2010		**750**	**(19,312)**	**4,027**	**(2,899)**	**72,878**	**55,444**

For the year ended 31 December 2009

	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 2009		750	2,689	(43,073)	(1,092)	72,877	32,151
Gain/(loss) on investments	2	-	(18,283)	38,029	-	-	19,746
Revenue loss for the year after taxation (excluding foreign exchange losses)		-	-	-	(844)	-	(844)
Cost of acquisition and disposal of investments		-	(29)	(2)	-	-	(31)
(Loss)/gain on foreign currency		-	2,436	(8,772)	-	-	(6,336)
Balance as at 31 December 2009		**750**	**(13,187)**	**(13,818)**	**(1,936)**	**72,877**	**44,686**

The notes on pages 27 to 36 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2010

	NOTES	31.12.10 £000	31.12.09 £000
Non-current assets			
Financial assets designated at fair value through profit or loss	5	52,172	43,394
Current assets			
Cash and cash equivalents		3,429	1,434
Receivables		10	10
		3,439	1,444
Current liabilities			
Payables	7	(167)	(152)
Net current assets		3,272	1,292
Total assets less current liabilities		55,444	44,686
Equity			
Ordinary share capital	9	750	750
Reserves		54,694	43,936
Total equity		55,444	44,686
Number of Ordinary Shares in issue		**75,001,463**	**75,000,063**
Undiluted Net Asset Value per Ordinary Share (pence)		**73.92**	**59.58**
Fully diluted Net Asset Value per Ordinary Share (pence)		**73.92**	**59.58**

The audited financial statements on pages 23 to 36 were approved by the Board of Directors on 24 March 2011 and signed on its behalf by:-

Fred Carr
Andrew Maiden
Directors

24 MARCH 2011

The notes on pages 27 to 36 form part of these financial statements.

India Capital Growth Fund

Consolidated statement of cash flows

For the year ended 31 December 2010

	NOTES	YEAR TO 31.12.10 £000	YEAR TO 31.12.09 £000
Cash flows from operating activities			
Investment income		232	292
Fixed deposit interest		–	1
Bank interest		1	1
Management fee		(773)	(519)
Other cash payments		(488)	(498)
Net cash outflow from operating activities		**(1,028)**	**(723)**
Cash flows from investing activities			
Purchase of investments		(46,617)	(10,962)
Sale of investments		49,856	9,872
Transaction charges relating to the purchase and sale of investments		(277)	(31)
Net cash inflow/(outflow) from investing activities		**2,962**	**(1,121)**
Cash flows from financing activities			
Proceeds from issue of shares	9	1	–
Net cash inflow from financing activities		**1**	**–**
Net increase/(decrease) in cash and cash equivalents during the year		1,935	(1,844)
Cash and cash equivalents at the start of the year		1,434	3,431
Exchange gains/(losses) on cash and cash equivalents		60	(153)
Cash and cash equivalents at the end of the year		**3,429**	**1,434**

The notes on pages 27 to 36 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2010

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). IFRS require management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates relate to the valuation of unlisted investments. Actual results may differ from these estimates. Where presentational guidance set out in the Statement of Recommended Practice (SORP) for Investment Trusts issued by the Association of Investment Companies (AIC) in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. In particular, supplementary information which analyses the statement of comprehensive income between items of a revenue and capital nature has been presented alongside the consolidated statement of comprehensive income.

Basis of preparation

The consolidated financial statements for the year ended 31 December 2010 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.

Income

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

Expenses

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

Taxation

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

Investments

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

1. Accounting policies (continued)

losses arising from changes in fair value are presented in the consolidated statement of comprehensive income 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.

Investments in debt mutual funds which have active markets and where daily pricing and daily dealing is available are treated as listed investments and are valued at the Dealing Price (Net Asset Value) published by the issuer.

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

Foreign currency translation

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

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

Cash and cash equivalents

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

Standards, interpretations and amendments to published statements not yet effective

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

IFRS 9 - Financial instruments is effective for periods beginning on or after 1 January 2013. The Board has not yet assessed the impact of IFRS 9 which addresses the classification and measurement of financial assets. 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 on financial assets at fair value through profit or loss

	Year to 31.12.10 £000	Year to 31.12.09 £000
Realised loss		
Proceeds from sales of investments during the year	49,856	9,872
Original cost of investments sold during the year	(55,841)	(25,711)
Loss on investments sold during the year	(5,985)	(15,839)
Market loss	(12,826)	(18,283)
Foreign exchange gain	6,841	2,444
Unrealised market gain		
Previously recognised unrealised loss now realised	14,642	22,015
Current period market gain	5,364	16,014
Market gain	20,006	38,029
Unrealised market gain on listed securities	20,006	36,217
Unrealised market gain on unlisted securities	-	1,812
Unrealised foreign exchange loss		
Previously recognised unrealised foreign exchange gain now realised	(3,888)	(4,578)
Current period foreign exchange gain/(loss)	1,885	(4,194)
	(2,003)	(8,772)
Net gain on financial assets at fair value through profit or loss	12,018	13,418

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 gain in the year which is attributable to currency movements between the US Dollar and the Indian Rupee is approximately £115,000 (2009 – gain of £217,000).

3. Other expenses

Revenue	Year to 31.12.10 £000	Year to 31.12.09 £000
Directors' fees (note 12)	85	67
D&O insurance	17	16
Administration and secretarial fees (note 12)	124	122
Audit fee	48	47
Custody fees	24	24
Other advisory services	53	48
Warrant exercise period expenses	5	10
General expenses	113	116
	469	450

4. Earnings per share

Basic Earnings per Ordinary Share is calculated on the profit for the year of £10,757,000 (2009 - profit of £12,535,000) divided by the weighted average number of shares of 75,000,879 (2009 - 75,000,037). Diluted Earnings per Ordinary Share is calculated on the basis that the 14,998,537 (2009 - 14,999,937) warrants in issue were exercised at the start of the year with the proceeds of £14,998,537 (2009 - £14,999,937) being used to repurchase Ordinary Shares at the average market price during the year. For both 2010 and 2009, the 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.

5. Financial assets at fair value through profit or loss

	Listed £000	Unlisted £000	Year to 31.12.10 Total £000	Year to 31.12.09 Total £000
Cost as at 1 January	52,739	3,841	56,580	71,357
Purchases	46,617	-	46,617	10,934
Sales proceeds	(49,856)	-	(49,856)	(9,872)
Transfer from listed to unlisted *	(13)	13	-	-
Realised loss on sale of investments	(5,985)	-	(5,985)	(15,839)
Cost at end of year	43,502	3,854	47,356	56,580
Unrealised gain/(loss) on revaluation	1,563	(89)	1,474	(18,532)
Unrealised foreign exchange gain on revaluation	2,462	880	3,342	5,346
Fair value at end of year	**47,527**	**4,645**	**52,172**	**43,394**
Fair value of listed securities at end of the year			47,527	39,119
Fair value of unlisted securities at end of the year			4,645	4,275

** 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.*

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

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

	Listed £000	Unlisted £000	31.12.10 Total £000	31.12.09 Total £000
Equities	47,178	4,645	51,823	26,602
Participatory notes	349	-	349	6,156
Debt mutual funds	-	-	-	10,636
	47,527	**4,645**	**52,172**	**43,394**

The fair value of material holdings in unlisted investments is based on a combination of a discounted cash flow appraisal and the 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 (12.63 per cent; 2009 - 13.7 per cent), terminal growth rate (4 per cent; 2009 - 4 per cent) and a discount rate to take account of illiquidity (30 per cent; 2009 - 30 per cent). 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 probabilities of strong, steady and weak markets of 10 per cent, 45 per cent and 45 per cent respectively (2009 - 10 per cent, 45 per cent and 45 per cent) and strong, steady and weak performance relative to market of 25 per cent, 50 per cent and 25 per cent respectively (2009 - 25 per cent, 50 per cent and 25 per cent).

The use of a combination of approaches to the valuation reduces the effect of individual assumptions on the overall valuation, and particularly those within the discounted cash flow analysis. It is thus considered that the use of alternative reasonably possible inputs into the discounted cash flow is unlikely to produce a materially different ultimate value. The input which is applied to both approaches to the valuation is the discount applied for illiquidity of 30 per cent. This is considered to be the appropriate rate of discount and is in line with generally accepted practice. If this discount rate was increased to 40 per cent or decreased to 20 per cent the effect would be a decrease or increase in the valuation of £661,000, equivalent to 0.88 pence per share on the overall Net Asset Value of the Company at 31 December 2010.

6. Taxation

Guernsey

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

Mauritius

ICG Q Limited 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. To obtain benefits under the double taxation treaty, they must meet certain tests and conditions, including the establishment of Mauritius tax residence and related requirements. The companies have obtained a tax residence certification from the Mauritian authorities and believe such certification is determinative of its resident status for treaty purposes.

ICG Q Limited and ICG U Limited are subject to income tax in Mauritius on net income which excludes realised and unrealised capital gains and related expenditure at 15 per cent (2009: 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.

6. Taxation (continued)

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. Payables

	31.12.10 Total £000	31.12.09 Total £000
Management fee	71	57
Other creditors	96	95
	167	**152**

8. Segmental information

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

9. Share capital

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

Issued Share Capital	**Number of shares**	**Share capital £000**
Ordinary Shares of £0.01 each At 31 December 2010	75,001,463	750
At 31 December 2009	75,000,063	750

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

The second exercise period for warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share ran from 12 April 2010 to 11 May 2010. 1,400 warrants were exercised and the share capital of the Company increased by 1,400 Ordinary Shares. At 31 December 2010, 14,998,537 warrants to subscribe for Ordinary Shares in the Company at a subscription price of £1.00 per share were in issue. 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 2011. The 2011 exercise period will run from 27 April 2011 to 25 May 2011, and due notice was sent to warrant holders on 17 February 2011. This is the final exercise period and, accordingly, any warrants not exercised will lapse and the admission of the warrants to trading on AIM will cease.

10. Fair value of financial instruments

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

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

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

				31 December 2009
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equity investments	28,483	-	4,275	32,758
Debt mutual funds	10,636	-	-	10,636
Financial assets designated at fair value through profit or loss	**39,119**	**-**	**4,275**	**43,394**

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

	Year to 31.12.10 £000	Year to 31.12.09 £000
Opening balance	4,275	3,317
Unrealised gain on revaluation	-	1,626
Unrealised foreign exchange gain/(loss)	355	(327)
Transfer into/(out of) level 3*	15	(341)
Closing balance	**4,645**	**4,275**

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

11. Financial instruments and risk profile

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

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

Capital management

The Company is a closed-ended investment company and thus has a fixed capital for investment. It has no legal capital regulatory requirement. The Board has the power to purchase shares for cancellation thus reducing capital and the Board considers on a regular basis whether it is appropriate to exercise such powers. In the year ended 31 December 2010, 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 and in adherence to the investment guidelines and the investment and borrowing powers set out in the Admission Document. The Group’s equity investment portfolio is concentrated and, as at 31 December 2010, comprised investment in 38 companies. The Group thus has higher exposure to market risk in relation to individual stocks than more broadly spread portfolios.

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

The Group's portfolio consists mainly of mid and small cap listed and unlisted Indian securities, and thus the effect of market movements is not closely correlated with the principal market index, the BSE Sensex. The BSE Mid-Cap Index provides a better (but not ideal) indicator of the effect of market price risk on the portfolio. The sensitivity of the Group to market price risk can be approximated by applying the percentage of funds invested (2010: 94.10 per cent; 2009: 73.31 per cent) to any movement in the BSE Mid-Cap Index. At 31 December 2010 this approximation would produce a movement in the net assets of the Group of £5,217,000 (2009: £3,276,000) for a 10 per cent (2009: 10 per cent) 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

11. Financial instruments and risk profile (continued)

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 2010, if the Indian Rupee had strengthened or weakened by 5 per cent (2009: 5 per cent) against Sterling with all other variables held constant, pre-tax profit for the year would have been £2,719,000 (2009: £2,100,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of Indian Rupee denominated financial assets designated at fair value through profit or loss, trade receivables and payables and Indian Rupee denominated bank accounts.

Credit risk

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

The principal credit risks for the Group are in relation to deposits with banks 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 2010 was £3,778,000 (2009: £7,590,000), of which £1,311,000 (2009: £6,613,000) was to HSBC Bank plc (including Participatory Notes of value £349,000 (2009: £6,156,000)). HSBC Bank plc has a credit rating of AA-.

Interest rate risk

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

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. As the trading volume on the Indian Stock Market is lower than that of more developed stock exchanges the Group is likely to be invested in relatively illiquid securities. The Group's unlisted securities are even less liquid and may not be realisable until a third party investor is found. Unlisted securities represent 8.38 per cent (2009: 9.57 per cent) of the portfolio. The Group's focus is to invest predominantly in mid and small cap stocks. As noted in the Investment Manager's Report, minimum liquidity criteria have been introduced for new purchases. However there remain holdings where there is relatively little market liquidity. As with unlisted securities these investments may take time to realise.

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 0.04 and 309 days trading (2009: 1.1 and 491 days), with the average, weighted by the percentage of the total portfolio, being 5.6 days (2009: 36.6 days). One holding, that in Arihant Foundation & Housing (1.4 per cent of the portfolio) which represents 309 days trading is particularly illiquid. If that is excluded from the calculation, the weighted average liquidity period for the remaining listed portfolio is 1.2 days trading.

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 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 per annum and £15,000 per annum to each other Director. These fee rates have remained unchanged from the prior year. The reduced cost in 2009 arose from the temporary reduction in the size of the Board in that year between the sad death of the previous Chairman and the appointment of his successor (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 £787,000 (2009: £535,000) in management fees during the year ended 31 December 2010 of which £71,000 (2009: £57,000) was outstanding at 31 December 2010.

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"). At 31 December 2010, the High Water Mark was 231.94 pence per share.

The performance fee is an amount equal to 20 per cent of the aggregate increase in the Net Asset Value above the High Water Mark. 50 per cent of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares purchased in the market (if Ordinary Shares are trading at a discount to NAV) or by subscription for new shares at NAV (if the Ordinary Shares are trading at a premium). No performance fee was paid in respect of the year ended 31 December 2010 (2009: £Nil).

Under the terms of the Administration and Secretarial Agreement, Northern Trust International Fund Administration Services (Guernsey) Limited is entitled to a fee calculated on the Net Asset Value of the Company of 0.125 per cent per annum on the first £50 million of Net Asset Value, 0.10 per cent per annum on the next £50 million of Net Asset Value and 0.05 per cent on any Net Asset Value in excess of £100 million, payable quarterly (subject to a minimum annual fee of £75,000). The administrator is also entitled to reimbursement of out of pocket expenses incurred in the performance of its duties. The Administrator earned £75,000 (2009: £75,000) for administration and secretarial services during the year ended 31 December 2010 of which £19,000 (2009: £19,000) was outstanding at 31 December 2010.

13. Contingent liabilities

The directors are not aware of any contingent liabilities as at 31 December 2010 (2009: 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.

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