India Capital Growth Fund

Annual report and audited consolidated financial statements

For the year ended 31 December 2012

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Management and administration

Directors

Fred Carr (Chairman)
Jamie Cayzer-Colvin
John Whittle
Peter Niven
Vikram Kaushik (appointed 14 June 2012)
Ashok Dayal (resigned 14 June 2012)

Registered Office

PO Box 255, Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Investment Manager

Ocean Dial Asset Management Limited
Cayzer House
30 Buckingham Gate
London SW1E 6NN

Administrator and Secretary

Northern Trust International Fund
Administration Services (Guernsey) Limited
PO Box 255, Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Mauritian Administrator

International Financial Services Limited
IFS Court
TwentyEight
Cybercity
Ebene
Mauritius

Custodian

The Hong Kong and Shanghai Banking
Corporation Limited
HSBC Central Services Centre
2nd Floor 'Shiv'
Plot No. 139 – 140B
Western Express Highway
Sahar Road Junction
Vile Parle – E
Mumbai 400 057
India

HSBC Bank Plc London
8 Canada Square
London E14 5HQ
United Kingdom

India Capital Growth Fund

Nominated Adviser

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Broker

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registrar

Capita IRG (CI) Limited
Longue Hougue House
St Sampson
Guernsey GY2 4JN

Independent Auditors

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St. Peter Port
Guernsey GY1 4AF

Legal Advisers to the Company

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

for Guernsey Law
Carey Olsen
Carey House
Les Banques
St. Peter Port
Guernsey GY1 4BZ

for Mauritian Law
C&A Law
Suite 1005
Level 1, Alexander House
35 Cybercity, Ebène
Mauritius

Chairman's statement

I am pleased to write that the Indian equity markets enjoyed a strong 2012. The robust performance of equities was primarily caused by two factors: An improvement in the outlook of the global economy, as the markets' fear over a collapse of the Euro eased and a late but necessary revival in the reform agenda of the Indian Government.

Thus the net asset value of the Company increased by 29.3 per cent in Sterling terms; this can be compared to the notional benchmark (the BSE Midcap Index) which rose by 28.5 per cent and the large caps stocks as measured by the Sensex Index which rose 16.6 per cent (both in sterling terms). The positive returns and the outperformance are encouraging and as such the underlying performance is starting to be reflected in the company share price which appreciated 23.0 per cent over the year.

I mentioned in my statement in the Interim Report 2012 that the management company has been working on a bespoke benchmark that more appropriately reflects the Company's portfolio capitalisation weightings than the BSE Midcap Index. This bespoke benchmark, if formally adopted, would be shown alongside, rather than replace, our current notional benchmark in order to enhance shareholder understanding of our relative performance. In January 2013 we started to disclose publicly this bespoke benchmark for information rather than formal benchmarking purposes and we will continue to do so for the time being before deciding whether to adopt it formally.

Economy and politics

In 2012 India was a significant beneficiary of the fact that global markets were overflowing with liquidity as a result of the pledge of the Central Banks of developed markets to maintain ultra-loose monetary policy, in conjunction with the European Central Bank's statement that it would do "whatever it takes" to support the Euro. Thus Foreign Institutional Investor (FII) flows into Indian equities totalled USD24.5 billion for the year, comfortably in excess of other BRIC and Emerging Market economies' foreign equity flows and despite corporate and investor sentiment in India remaining far from positive throughout the year. This sentiment was reflected in my statement in the Interim Report 2012, written soon after a disappointing April Budget which was more focused on discouraging active foreign investment by retrospectively clamping down on tax issues with its General Anti Avoidance Rule (GAAR) proposal.

By mid-year the threat by Sovereign debt rating agencies to downgrade India to junk status in the international credit markets finally stirred the Government into some affirmative action. The ballooning fiscal deficit driven primarily by fuel subsidies, the weakening currency stemming from a large current account deficit and the apparent inability of the politicians to resolve these issues caused the markets to question India's realistic investment potential Most telling perhaps was the Time Magazine cover story which had a picture of the Prime Minister and a caption which simply stated "THE UNDERACHIEVER: India needs a reboot. Is Prime Minister Manmohan Singh up to the job?"

After two and a half years of inaction the Prime Minister shuffled his Cabinet, bringing back to the Finance Ministry Mr P Chidambaram, an earlier incumbent with much needed experience of previous financial crises. This has resulted in a flurry of long overdue reforms. Most notably the Government increased the limit of foreign direct investment into the multi-format retail, insurance and aviation sectors. It has also cut subsidies for fuel, fertilizer and food, as well as initiating plans to restructure the balance sheets of the State Electricity Boards, thereby easing pressure on the banking sector's non-performing loans. These reforms have been instigated well in advance of the General Election of 2014, thereby offsetting the electoral impact of unpopular but necessary economic policy.

Outlook

The outlook for India is more positive than was the case at the time of writing my statements both six months and one year ago. In the face of being placed on negative watch by ratings agencies, the Government has campaigned hard to attract investors back to India. The retrospective tax legislation on the foreign acquisition of Indian assets through an overseas subsidiary has been effectively shelved, as has GAAR, at least until 2016. The commitment to reduce the fiscal deficit has been welcomed, although with some scepticism. It remains to be seen if, ahead of an election in 2014, the Government will be able to deliver on the promises it has made. From a macro perspective, inflation has started to come down and the economy is at the beginning of an interest rate easing cycle. The downward trend in GDP growth, from the highs of around 9 per cent, appears to be bottoming out at the 5 per cent level and consequently corporate earnings, which have been downgraded for 20 months by analysts, may also have troughed.

In India, as always, there is still much to be concerned about. The structural reforms, which are necessary to help the country fulfil its economic potential, have yet to materialise and despite setting up a committee in September to fast track large infrastructure projects, nothing has yet been achieved. Antiquated land acquisition laws and labour laws have yet to be replaced, and a much discussed uniform, countrywide goods and services tax (GST) has yet to be implemented. Nevertheless, despite these concerns, it is clear that the Government is working towards reviving growth.

Fred Carr | Chairman

19 March 2013

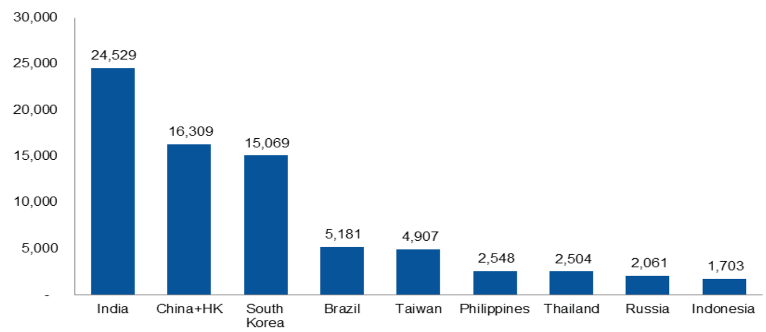
Investment manager's report

Introduction

After a weak 2011, 2012 proved to be an excellent year for the Indian equity markets. The BSE Midcap Index rallied 38.5 per cent whilst the broader BSE Sensex rose 25.7 per cent in local currency terms. Against this backdrop, the net asset value (NAV) of the fund was up 39.5 per cent in Indian Rupee terms, but only 29.3 per cent in Sterling due to a 7.8 per cent depreciation of the Rupee, which as a matter of policy is not hedged. A detailed discussion on the performance of the portfolio is included later in the report.

The economic fundamentals which had started to weaken in 2011, continued to deteriorate through 2012. This year, however, the surprising highlight was the improving political situation which, after a period of almost 18 months of policy paralysis, saw the Government announce a succession of policy initiatives aimed at attracting foreign investments and addressing the bottlenecks which have been hampering domestic investment. This has helped to boost investor confidence on the basis that these initiatives will arrest the decline in growth and stimulate momentum for higher growth as we look ahead. India's equity markets were also helped by a surge in global liquidity as a disproportionate share of funds allocated to emerging markets came India's way. This is explained by the fact that, despite weakening growth, India still appeared more attractive than other emerging markets, in particular China. Thus India received net foreign institutional investor (FII) inflows of USD24.5 billion over the course of the year, the second highest inflow on record for a calendar year. Almost half of this came in the last quarter of 2012.

Chart 1: 2012 Net FII inflows (USDm)



Source: Bloomberg and EPFR

Economy and politics

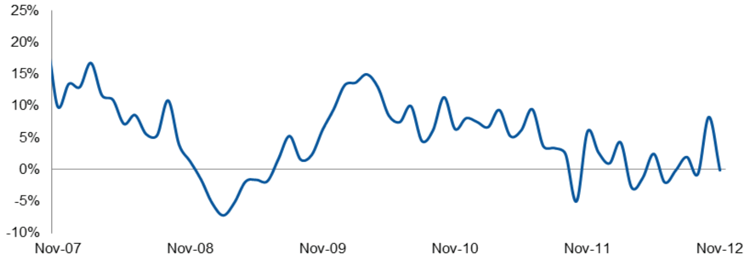
On the economic front the year began with economic weakness. The trend worsened as the year progressed with a below average monsoon and weak industrial output. In the second and third calendar quarters, GDP growth dipped below 5.5 per cent, much below the worst case scenario of 6 per cent predicted by the private sector and significantly below the Government's expectation of over 7 per cent. GDP growth for FY13 (ending March 2013) is now projected at 5.0 per cent, the lowest in the last decade. Yet despite weakening growth, inflation remained at elevated levels, largely due to supply side issues. This prevented the Central Bank (RBI) from lowering interest rates further after an initial 50bps cut in April 2012 to 8 per cent.

Chart 2: Macroeconomic indicators

Macro Indicators (%)	FY10	FY11	FY12	FY13E
GDP Growth	8.6	9.3	6.2	5.0
Fiscal Deficit/GDP	6.5	4.9	5.8	5.3
Inflation	3.9	9.6	9.0	6.8
Current account deficit/GDP	3.0	3.0	4.7	4.0

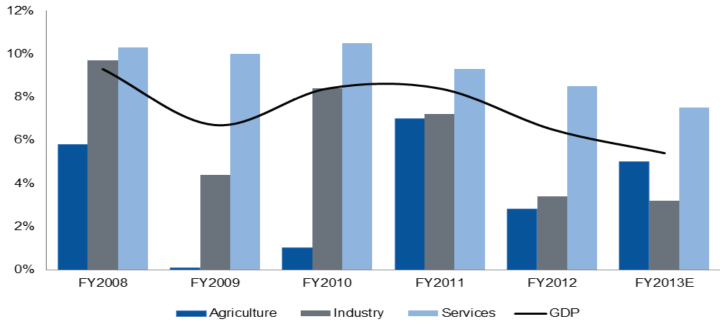
Source: Bloomberg

Chart 3: Index of Industrial Production (IIP) growth: remains weak



Source: Bloomberg

Chart 4: GDP growth –% change in component growth



Source: Bloomberg

Throughout this period liquidity in the banking system has remained tight. The reason for this is the expansion of the fiscal deficit, which has forced the government to borrow in excess of its target and thereby further squeezing available funding to the private sector. At the same time, the weak growth globally has hurt India's exports whilst imports fell to a lesser extent, largely because of India's dependence on imported oil and an increase in the demand for imported gold. This is used as an alternative home for savings and is increasingly popular amongst Indian savers owing to the negative real deposit rates that currently exist in the banking system. This has also impacted the current account, periodically forcing the RBI to intervene to support the currency and thereby further tightening liquidity in the system. All in all, 2012 was a year of downgrades with all key macro variables and corporate earnings witnessing declines.

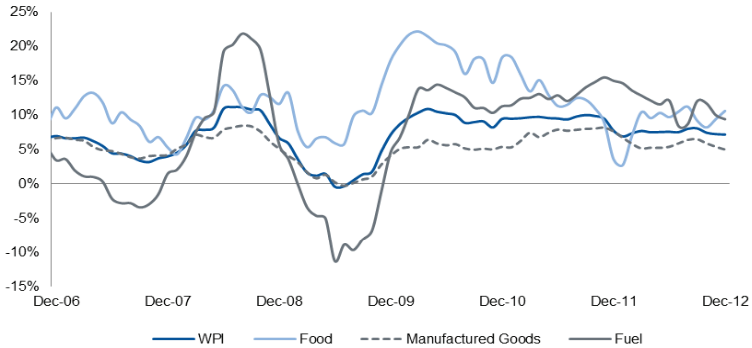
In terms of India's much needed policy reform agenda, the year started under the cloud of corruption-related scandals, which led to a virtual freeze in Government legislation. This hit investment spending particularly in the infrastructure sector, as resource allocation, environment approval and much needed land acquisition reform all ground to a halt. Whilst pressure on the government (and particularly on the Prime Minister) from the capital markets and the financial press began to mount, the Congress Party remained in denial, continuing to blame the country's economic problems on global factors. A vast amount of Parliamentary time was wasted in pandering to the whims of the Congress Party's coalition partners who exploited the situation for their own political benefit. The extent of the disconnect was reflected in the March 2012 Federal Budget which damaged investor confidence further, with attempts to generate additional revenues from new tax laws applicable with retrospective effect.

However, when the international rating agencies started making noises about a downgrade of India's sovereign debt ratings, the government did wake up. The reinstatement of Mr P Chidambaram as Finance Minister symbolised this change of heart and was a direct attempt to soothe the nerves of the investor community, following the ill-conceived budget proposed by his predecessor, Mr Mukherjee. Ironically, Mr Mukherjee was rewarded for his efforts with an elevated promotion to the Indian Presidency. This was followed by a series of reshuffles of cabinet level ministerial portfolios. Of significance were changes of the Environment Minister and the Oil Minister, both of whom were perceived to be too rigid in their policy stance and thus partially responsible for the stalled reform process. A key coalition partner, which had consistently opposed all attempts by the government to reform, was removed.

The period September-December 2012, saw the Government announcing several policy measures, with a new initiative virtually every week. The pace of these developments caught everyone by surprise and has been instrumental in bringing back confidence levels. Some of the key policy initiatives were:

- Foreign Direct Investment (FDI) limits in the retail, aviation and insurance sectors were raised significantly boosting investor confidence and paving the way for additional capital inflows.
- The revised tax reforms under the General Anti Avoidance regulation (GAAR) were pushed back by two years.
- A new investment committee (at Cabinet level), was set up to oversee speedy implementation of projects over a threshold of USD2 billion.
- In order to ease the fiscal deficit, the government announced a calibrated increase in diesel prices and reduction in LPG cylinder subsidies.
- The Government has also initiated the divestment process, announcing the forthcoming sale of stakes in select public sector companies.
- To address the worsening current account deficit, the government announced measures to stem the increase in gold imports by raising duties, as well as launching alternative gold investment instruments.
- The RBI has raised the limits on the extent to which foreign investors can invest in India's debt capital markets, as another means of attracting additional foreign capital.

Chart 5: India's wholesale price index (WPI) and components



Source: Bloomberg

Besides these broader policy measures, sector specific issues are also being addressed. There are impending new policy announcements in the power sector which aim to address bankrupt state electricity boards, specific directions on coal allocation to power plants, and attempts to change the land acquisition process. All these are aimed at attempting to ensure that bottlenecks are being resolved. Importantly we sense urgency in the Government's efforts to ensure that these issues are addressed and that the results feed through to operations on the ground.

To sum up from a macro perspective, whilst economic performance in 2012 has been poor, the year has ended on a confident note with the belief that the worst is behind us and things will improve going forward. Confidence is building and sentiments are clearly positive.

Outlook for 2013

Going into 2013, the year has started on an optimistic note. The government has instigated measures to address some of the structural issues which plagued the economy in 2012. The fiscal deficit is trending to a more manageable level and threats of a credit downgrade have receded. After being persistently high at 8-9 per cent for most of 2012, inflation is finally easing with the central bank expectations of 6.8 per cent by March 2013.

The RBI has already softened its hawkish tone and has shifted its rhetoric from an inflation to a growth bias. It is widely anticipated that interest rates will fall between 100-125bps over the course of 2013. This would ease the pressure on the stretched corporate balance sheets, particularly those in the infrastructure and industrial segments. We expect this to help change the mindset of these companies from one of cash preservation to one of investment for growth. This will help drive future earnings expectations and market confidence.

Our main concern, however, stems from the precarious current account balance, driven largely by India's high dependence on oil imports, and more recently aggravated by gold imports as well. This has made India dependent on capital flows to balance its books. We are, however, more confident that capital inflow momentum will be sustained in 2013 because of the recent policy announcements as well as the surplus liquidity in the global markets. Also, we believe, the oil price has a higher probability of declining than rising from its current levels. This is because of the tepid growth in the global environment and the longer term structural effect of large shale gas reserves being put into production in the US. We thus believe that while there remain structural imbalances, 2013 should see a moderation in the current account deficit.

The other factor to watch out for is politics. With central government elections in May 2014 and several large states going for assembly election in 2013, there always remains a risk of politics winning over economics. Therefore several measures, in particular related to subsidy reduction may not eventually be implemented, while other populist measures may be announced. This could send a negative signal to the investment community and undo a lot of the measures announced over the last few months.

To sum up, we believe India is entering 2013 on a more positive note. We do believe that it may take another three to six months for the improved outlook to play out in numbers, both at the macro growth level as well as corporate earnings, but it appears fairly evident that we are now close to the bottom.

Portfolio construction and performance

After a period of restructuring in 2010 and 2011, we started the year with a well balanced portfolio reflecting our core investment ideas. This was reflected in our performance with the NAV increasing by 39.5 per cent during 2012 in local currency terms. This was against a BSE Midcap index which rose 38.5 per cent, and the large cap BSE Sensex which rose 25.7 per cent during the same period. The biggest positive contribution came from stock selection in the industrial, consumer staples and material sectors. We held an average 9 per cent cash balance during the year, which was the main negative contributor to performance. The year-end cash balance stood at 5 per cent.

Within the portfolio, all but two of the investments showed positive absolute returns during the year. Among the top performers was Motherson Sumi (2.9 per cent weighting) and Jyothy Labs (4.4 per cent weighting) which were up 121 per cent and 104 per cent respectively.

Motherson is a leading auto ancillary company with a strong presence in wiring harnesses, rear view mirrors and polymer products. The company caters to virtually all the leading automobile manufactures in Europe and India. Its key strength is the management quality and the relationship it enjoys with its customers. It made two acquisitions in Europe at the behest of its European customers, both of which are now being leveraged and driving growth.

Jyothy is a home grown fast moving consumer goods company (FMCG). The company has recently acquired Henkel's India portfolio and successfully integrated it into the wider business. A new professional management team recruited from some of the leading consumer companies in India is behind this transformation and is driving its future growth. We believe the business is poised to compound ahead of the industry for several years to come.

There were only two companies which showed absolute negative returns in the portfolio. They were Manappuram Finance (2.5 per cent weighting) and Jain Irrigation (2.2 per cent weighting) which declined 24 per cent and 12 per cent respectively.

Manappuram is India's second largest gold loan company, and specialising in financing small ticket size loans with household jewelry as collateral. We believe the business model is strong, given the high return on assets and low levels of risk as the collateral lies with the company. To arrest the sharp growth in the industry, a series of regulatory changes have curbed the growth of the business. However, with all the regulatory uncertainty now behind us, we see the business having a compound annual growth rate (CAGR) of 15-20 per cent, which along with a re-rating will provide superior returns going forward.

Jain Irrigation is India's largest micro-irrigation company. While the opportunity for micro irrigation in India is massive, the growth so far has been driven by subsidies given by the Government to encourage farmers to adopt the new technology. This has traditionally led to the business having high working capital as there are delays in payment by the government. Over the last two years, Jain Irrigation has been forced to slow down growth in the business as rising interest rates and prolonged delays in settlement of receivables hurt profitability. We believe valuations already reflect this, and the company should be a beneficiary of the lowering rate cycle.

In conclusion, it is pleasing to be able to report a much improved performance of the investment portfolio relative to the BSE Midcap index, (the portfolio's notional benchmark) and the BSE Sensex index (the main board). The performance has come in tandem with a recovery in absolute terms, albeit with some way still to go before the NAV per share reaches the original subscription price. The improvement is principally a consequence of the completion of a restructuring process that began in January 2010 and this has manifested itself in two ways. Firstly, there is no longer pressure on the NAV through the relentless sale of illiquid stocks in the portfolio, a necessary purging process; but also, the portfolio now fully reflects the views of the investment team and reflects the disciplined bottom-up stock picking process that supports it. This, in combination with some genuine signs of renewed investor interest in India, gives us confidence that there will be additional gains to come in the months ahead.

Principal investments at 31 December, 2012

Federal Bank (Financials)

(5.9% of the portfolio)

Federal Bank is an old private sector bank with a network of over 1,000 branches and a dominant presence in the southern Indian state of Kerala. The bank's lending is dominated by the SME (small and medium enterprises) and retail segments (30 per cent each of the loan book). Over the past two years the bank has been transforming itself from a quasi-public sector bank to a more nimble and process driven private sector bank. A new management team, led by an ex Standard Chartered veteran, has been overseeing this transformation. Having reengineered its credit underwriting process and put in place solid risk management architecture over the last 18 months, Federal Bank is now poised for the next phase of "Growth with Quality". The bank has well defined medium term goals on its return ratios; credit costs and is on track to achieve the same with a defined strategy and systems in place. We believe the bank is a potential re-rating story, on the back of improving profitability and growth, aided by a healthy capital position. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 9.6x and 1.3x projected FY14 book value.

Jyothy Laboratories (Consumer Staples)

(4.4% of the portfolio)

Jyothy Laboratories (Jyothy) manufactures fabric care, mosquito repellents and dish washing soaps under the Ujala, Maxo and Exo brands respectively. Jyothy further enhanced its product range with the acquisition of Henkel India in June 2011, acquiring brands in the detergents, toothpaste, soaps, washing up liquids and deodorants space. With this acquisition, Jyothy now has a very strong and diversified brand and product basket. Since acquisition, Jyothy has been able to successfully integrate and turn around the operations of Henkel. Focus has been on brand positioning and streamlining manufacturing, supply chain and distribution operations. Spearheading the transformation has been the new CEO, Mr S Raghunandan, who joined Jyothy in May 2012 and is highly respected in the Indian FMCG industry. He came along with a new 11 member team with 15-25 years of experience from across the top consumer names in India. With all the hard work done and a strong brand portfolio and management team in place, we see a period of sustained above revenue growth along with operating leverage driving earnings. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 21.0x.

Yes Bank (Financials)

(4.3% of the portfolio)

Yes Bank is a new generation, private sector bank which, since its inception in 2004, has already become the fourth largest private sector bank in India. Its strength is its management team led by its founder Rana Kapoor, a veteran from ANZ Grindlays Bank and Rabo Bank. By starting from scratch, the bank adopted the best systems and practices prevalent in the industry and used this to its advantage. In the initial phase of growth, the focus was on corporate clients and its related fee based business. Now having expanded to over 350 retail branches, the bank is focusing on building a strong retail franchise with a target to have 30 per cent of its assets and deposits coming from retail customers. The bank has consistently delivered high shareholder returns during the last five years with ROE greater than 20 per cent and ROA in the range of 1.3 per cent to 1.5 per cent. We see this trend continuing as it builds its retail franchise. It has also maintained "best-in-class" asset quality. What we find most impressive about the bank is the way the management has set itself clearly defined five year targets and the way it has gone about achieving these targets. Given its relatively small size, we believe the bank will continue to grow above the industry average for several years to come. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings of 10.2x and 2.3x projected FY14 book value.

Dish TV India (Consumer Discretionary)

(3.8% of the portfolio)

Dish TV is the largest direct to home (DTH) TV service provider in India. The company has a net subscriber base of 10.5m. The Indian DTH industry is a six-player market and Dish TV is the market leader with approximately 28 per cent market share. Subscriber growth has been accelerating with phase 1 of the government-mandated digitalisation being rolled out in four metropolitan areas (Mumbai, Delhi, Chennai and Kolkata). All of India's TV households are expected to be digitalised in three further phases by the end of 2014. Digitalisation, if implemented well, will be a significant catalyst, since it will force households (there are 140m TV households in India) who are currently using analogue cable, to choose a set-top box from either DTH, or digital cable offered by the Multi System Operators (MSO). Whilst the DTH market share in phase 1 was, as expected, lower than cable, given the stronghold of MSOs, it is expected that DTH will take 45 per cent-50 per cent market share in phase 2 and dominate phases 3 and 4, given the weak presence of bigger MSOs in these markets, as well as the unviability of cable TV amongst the widely dispersed subscriber base. Dish TV, being the leader in the DTH market, is likely to see the maximum benefit. Furthermore, the absence of average revenue per user (ARPU) based competition in the industry is a long term positive, the benefits of which are likely to emerge after the implementation of phase 2. Dish TV is currently loss making due to the high subscriber acquisition cost as it subsidises the set-top box. The company has however already turned cash flow positive and is expected to be profitable in FY14.

KPIT Cummins Infosystems (IT)

(3.7% of the portfolio)

KPIT Cummins is a mid-sized Indian IT services company operating in the automotive, manufacturing, energy and utilities segments. It has strong IT practices and it has developed capabilities both through in-house research and acquisitions (ten over the last ten years). Its relationship with Cummins Inc. (strategic investor and significant client) has provided KPIT with the engineering know-how to pitch to other manufacturing clients. The company's focus on a few market segments has worked well, allowing it to achieve 27 per cent CAGR in revenues and 30 per cent CAGR in net profit over the last four years. KPIT is benefiting from the incremental role of IT in auto-manufacturing and counts six of the top ten global auto OEMs as its clients. Its leading presence in "Enterprise Resource Planning" software implementation makes it one of the beneficiaries of a rebound in discretionary spending. The company has won large deals in the nine months leading up to December, and on that basis we expect another strong growth year in FY14. Based on the closing price on 31 December 2012 the stock trades at a price to projected FY14 earnings ratio of 8.8x.

Max India (Industrials)

(3.5% of the portfolio)

Max India is primarily in the business of life insurance, healthcare and health insurance. It has a joint venture with Mitsui Sumitomo for its life insurance business and BUPA Finance plc for health insurance. Whilst we are positive on the insurance industry prospects in India given the low level of penetration, we find Max to be one of the best positioned companies within the private sector. What differentiates Max from other insurance players is that the company has invested a lot more in training its field force and focused more on the quality of products, rather than growing through unit linked insurance products. It has a pan-India presence with a strong distribution network across the country, including a tie up with Axis Bank, one of the leading private sector banks. These investments are bearing fruit with the company able to expand its market share amongst private players. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 18.3x and 1.7x projected FY14 book value.

Indian Bank (Financials)

(3.5% of the portfolio)

Indian Bank, established in 1907, is a south India based mid-sized public sector bank (80 per cent owned by the Government) with more than 2,000 pan-India branches. India Bank's advances are primarily dominated by the corporate and commercial segment, constituting 52 per cent of the loan book. Retail, along with the small and medium enterprise segment, constitutes around 27 per cent, with the balance being the agriculture segment. While there is little to differentiate between public sector banks, what we like about Indian Bank is its high ROA which, at 1.3 per cent, is well above most of its peers. The bank is also comfortable on capital adequacy with tier-1 capital being at 11.8 per cent. Though there are concerns on asset quality across the sphere of public sector banks, we believe at a price to book value of 0.7x, the risk reward ratio is favourable, given the banks above average return ratios. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 4.0x and 0.7x projected FY14 book value.

Kajaria Ceramics (Consumer Discretionary)
(3.4% of the portfolio)
Kajaria is the second largest tile manufacturer in India and the market leader in northern India. Market dynamics are favourable; the tile market has grown at a CAGR of 15-16 per cent in last five years and should continue doing so for the next five years. Tile penetration in India is still very low and consumption should benefit from the housing boom and commercial developments in Tier 2 and 3 cities, along with higher consumer aspirations. Furthermore, the share of the organised segment (approximately 50 per cent of revenues) is expected to increase gradually going forward, while there is also a gradual upward movement in value chain, which is leading to higher realisations and margins. With its strong market positioning, Kajaria is well placed to leverage on this trend. Kajaria has industry-leading margins due to a low proportion of imports, higher sales to the retail sector, and a superior product mix. It is also the most efficient company with its working capital and the only company in the industry which generates free cash. It has increasingly been using a joint venture model to enhance its geographical footprint, which should fuel growth and improve ROCE further. Based on the closing price on 31 December 2012 the stock trades at a price to projected FY14 earnings ratio of 14.0x.

Jammu and Kashmir Bank (Financials)
(3.3% of the portfolio)
Jammu and Kashmir Bank, majority owned by the Jammu and Kashmir (J&K) state government is a niche high quality bank, available at discount valuations. The bank has a virtual monopoly in its home state, with a 70 per cent share in both deposits and credit. Its competitive edge comes from its branch presence across all districts in the state, leaving little room for competing banks to establish any sizeable presence in the state. The bank has tailor made products for the handicrafts and horticulture dominated economy of the state, which gives the bank net interest margins of almost 6 per cent, partly aided by the low cost deposit base. While 50 per cent of its lending is within J&K, the lending outside the state is concentrated on high AAA rated corporate houses with lower asset quality risk but lower margins. Yet on a blended basis, the bank enjoys one of the highest margins at 3.9 per cent, without compromising on asset quality. With an improving J&K economy, the bank has entered a high growth phase and is well poised to sustain healthy credit growth in coming years. The bank has amongst the strongest fundamentals in the Indian Banking sector; ROA of 1.5 per cent, ROE of 20 per cent, provision coverage ratio of 93 per cent and tier-1 capital of 11.6 per cent. Based on the closing market price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 5.8x and 1.1x projected FY14 book value.

Larsen & Toubro (Industrials)
(3.3% of the portfolio)
Larsen & Toubro (L&T) is a key beneficiary of the revival in the investment cycle in India. Besides being India's leading engineering, procurement & construction (EPC) company, its biggest strength is its leadership, being one of the few companies in this industry which is professionally managed and management owned. L&T dominates the market in the key EPC segments in which it operates. For example in the power spending segment, its market share is over 40 per cent, with the next player at just 5 per cent. It also has a diversified presence across segments, including international markets, which has seen the company's order book rising across the economic cycle. Besides scale, L&T also has a strong balance sheet, with ROE's of 17-20 per cent and leverage of less than 0.5x. In contrast, most peers have leverage in excess of 2x and ROE of sub-10 per cent. These superior fundamentals, along with its wide marketing and distribution network have helped it gain market share as its peers focus on reducing the size of their balance sheets. Based on the closing price on 31 December 2012, the stock trades at a price to projected FY14 earnings ratio of 17.1x.

Ocean Dial Asset Management

March 2013

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

The Company

India Capital Growth Fund Limited (the "Company") was registered in Guernsey on 11 November 2005 and is an authorised closed-ended investment company. At 31 December 2012, the Company has one wholly owned Mauritian subsidiary, ICG Q Limited comprising the "Group". The Company was admitted to trading on the AIM market of the London Stock Exchange ("AIM") on 22 December 2005.

Investment policy

The Group's investment objective is to provide long-term capital appreciation by investing (directly and indirectly) in companies based in India. The investment policy permits the Group to make investments in a range of Indian equity and equity linked securities and predominantly in listed mid and small cap Indian companies with a smaller proportion in unlisted Indian companies. Investment may also be made in large-cap listed Indian companies and in companies incorporated outside India which have significant operations or markets in India. While the principal focus is on investment in listed 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 currently 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 25.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2012.

Substantial interests

Shareholders who at 31 December 2012 held an interest of 3 per cent or more of the Ordinary Share Capital of the Company are stated in the table below:

	No. Shares	% Holding
HSBC Global Custody Nominees (UK)	22,257,220	29.68
Nortrust Nominees Limited	8,651,900	11.54
Chase Nominees Limited	5,420,110	7.23
Securities Services Nominees	5,416,000	7.22
Rathbone Nominees Limited	5,305,677	7.07
BNY (OCS) Nominees Limited	3,755,000	5.01
Harewood Nominees Limited	2,900,000	3.87

Shares held by HSBC Global Custody Nominee (UK) amounting to 17,983,830 are shares held on behalf of Caledonia Investment Plc.

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

At 31 December 2012, the Investment Manager, Ocean Dial Asset Management Limited, and connected persons (not elsewhere disclosed) held in aggregate 1,902,304 (2.54 per cent) shares.

Directors

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

India Capital Growth Fund

Directors' interests

At 31 December 2012, Directors and their immediate families held the following declarable interests in the Company:

	Ordinary Shares
Fred Carr	100,000
Jamie Cayzer-Colvin	99,627

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

The arrangements with the Investment Manager are set out in Note 14.

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.

Ongoing Charges

During the year, the Association of Investment Companies (AIC) recommended that Ongoing Charges disclosure should replace the Total Expense Ratio which has traditionally been calculated by investment companies. Ongoing charges for the year ended 31 December 2012 and 31 December 2011 have been prepared in accordance with the AIC's recommended methodology and replaced the previously used Total Expense Ratios. The Ongoing charges for the year ended 31 December 2012 was 2.76 per cent (31.12.11: 2.68 per cent). No performance fees were charged during the year.

Corporate governance

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

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

The UK Financial Reporting Council issued a revised Corporate Governance Code in September 2012, for reporting periods beginning on or after 1 October 2012. In February 2013, the AIC updated the AIC Code of Corporate Governance (including the Jersey and Guernsey editions) and its Guide to Corporate Governance to reflect the relevant changes to the FRC document. The updates published by the AIC are consistent with the Corporate Governance Code issued by the UK Financial Reporting Council. Changes on the AIC Code will be effective for reporting periods beginning on or after 1 October 2012.

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 2012 subject to the exceptions explained below.

The Board

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

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:

	Board Meetings		Audit Committee	
	Held	Attended	Held	Attended
Fred Carr (Chairman)	4	4	–	–
Jamie Cayzer-Colvin	4	3	–	–
John Whittle	4	4	2	2
Peter Niven	4	4	2	2
Vikram Kaushik (appointed 14 June 2012)	3	3	–	–
Ashok Dayal (resigned 14 June 2012)	2	2	–	–

In addition to the four formal Board meetings held during the year, one formal committee meeting was held at which only two Directors were required to attend. The formal committee meeting was held to discuss the resignation of Mr. Dayal and the appointment of Mr. Kaushik.

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 September 2012. 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 2012 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.

Remuneration Committee

As all the Directors are non-executive, the Board has resolved that it is not appropriate to form a remuneration committee and remuneration is reviewed and discussed by the Board as a whole with independent advice. Directors' remuneration is considered on an annual basis.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Audit committee

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

Non-audit fees for the interim review of financial statements of £11,400 (2011: £11,400) were charged by Ernst & Young LLP for the year.

Risk Management and Internal control

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

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

The Board is satisfied that appropriate controls are in place in relation to the key risks faced by the business.

Supply of information to the Board

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

Delegation of functions

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

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

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

Investment management

The Investment Manager is entitled to receive a management fee payable jointly by the Company and the Mauritian subsidiary, ICG Q Limited, equivalent to 1.5 per cent per annum of the

Company's Total Assets, calculated and payable monthly in arrears. The Company's Total Assets consists of the aggregate value of the Company less current liabilities. For purposes of the calculation of these fees current liabiilties exclude any proportion of principal amounts borrowed for investment and any performance fees payable to the Investment Manager.

The Investment Manager is also entitled to receive a semi-annual performance related fee from the Company if the Net Asset Value per Share at the end of the half-year performance period (a) exceeds the Net Asset Value per Share at the start of the performance period by an annualised, annually compounded, rate of more than 10 per cent (the "Performance Hurdle") and (b) exceeds by an annualised, annually compounded, rate of more than 10 per cent the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the "High Water Mark"). The performance fee will be an amount equal to 20 per cent of the aggregate increase in the Net Asset Value above the High Water Mark. 50 per cent of any performance fee payable (net of all attributable taxes) is required to be reinvested in Ordinary Shares. Details of performance fees paid, and of shares acquired by the Investment Manager and related parties is set out in Note 13. At 31 December 2012, the High Water Mark was 280.65 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 nonexecutive director of the Investment Manager abstaining) that the interests of the shareholders as a whole are best served by the continuing appointment of the Investment Manager on the terms agreed.

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

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

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

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

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

Shareholder communications

A report on Shareholder communications is considered at each quarterly Board Meeting. A monthly Fact Sheet is published on the Company's website reporting the month-end Net Asset Value and with a commentary on performance. In addition, the Investment Manager reports a weekly estimated, unaudited Net Asset Value. 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 2012.

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 19 March 2013.

Fred Carr

Peter Niven

Statement of Directors' Responsibility in respect of the Annual Audited Consolidated Financial Statements

The Directors are responsible for preparing the Directors' Report and the Consolidated Financial Statements in accordance with applicable laws.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Consolidated Financial Statements in conformity with International Financial Reporting Standards ("IFRS"), as adopted by the EU and applicable law.

The Consolidated Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Consolidated Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Consolidated Financial Statements; and
- prepare the Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Consolidated Financial Statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

We confirm to the best of our knowledge that:

- 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 information and to establish that the Company's Auditor is aware of that information;
- these Consolidated Financial Statements have been prepared in conformity with IFRS and give a true and fair view of the financial position of the Company; and
- these Consolidated Financial Statements include information detailed in the Chairman's Statement, the Directors' Report, the Investment Manager's Report and the notes to the Financial Statements, which provides a fair view of the information required by:

(a) DTR 4.1.8 of the Disclosure and Transparency Rules, being a fair review of the Company business and a description of the principal risks and uncertainties facing the Company; and

(b) DTR 4.1.11 of the Disclosure and Transparency Rules, being an indication of important events that have occurred since the end of the financial year and the likely future development of the Company.

Signed on behalf of the Board by:

Fred Carr **Peter Niven**

19 March 2013

Directors

The Directors as at 31 December 2012, all of whom are non-executive, are as follows:

Fred Carr (Chairman)

Aged 68, 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 number of private companies. He is a Fellow of the Chartered Institute of Securities and Investment, and is resident in the UK.

Jamie Cayzer-Colvin

Aged 47, was appointed to the Board on the 22 November 2005. He joined the Caledonia group in 1995 and became an executive director in 2005. He is Chairman of the Henderson Smaller Companies Investment Trust and non-executive director of Polar Capital Holdings and a number of other private companies and funds. He is also a non-executive director of the Investment Manager. He is a resident in the UK.

Peter Niven

Aged 58, was appointed to the Board on 11 August 2011. He has over 35 years' experience in the financial services industry both in the UK and offshore. He was a senior executive in the Lloyds TSB Group until his retirement in 2004 and until July 2012 was the Chief Executive of Guernsey Finance LBG, promoting the island as a financial services destination. He is a director of Resolution Limited (a FTSE100 company) and serves on the board of a number of London-listed investment funds. He is a Fellow of the Chartered Institute of Bankers and a Chartered Director. He is a resident of Guernsey.

John Whittle

Aged 57, was appointed to the Board on 17 November 2011. He is a Chartered Accountant and holds the IoD Diploma in Company Direction. He is a non-executive director of International Public Partnerships Ltd (FTSE 250), Starwood European Real Estate Finance Ltd (LSE) and Aurora Russia Ltd and Advance Frontier Markets Fund Ltd (AIM). He also acts as non executive director to several other Guernsey investment funds. He was previously Finance Director of Close Fund Services, a large independent fund administrator. Prior to moving to Guernsey he was at Pricewaterhouse in London before embarking on a career in business services, predominantly telecoms. He is a resident of Guernsey.

Vikram Kaushik

Aged 62, was appointed to the Board on 14 June 2012. He is a resident of India where he has worked throughout his career. In 1999 he was appointed a Director of Colgate Palmolive and then in 2004 he was appointed Managing Director & CEO of Tata Sky, a satellite television provider. Mr Kaushik retired from Tata Sky recently and now consults with PricewaterhouseCoopers and is advisor to Voltas, a Tata Group company. He is also a director of Prasar Bharati, the body that oversees public service broadcasting services in India and MTS, a subsidiary of Sistema, a telecoms major in India. He now serves on the Government Committee for Restructuring Public Service Broadcasting in India and is the Chairman of the Working Group on Global initiatives.

Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

The following summarises the Directors' directorships in other public companies:

	Company Name	Stock Exchange
Fred Carr		
	M&G High Income Investment Trust Plc	London
Jamie Cayzer-Colvin		
	Caledonia Investments Plc	London
	Ocean Dial Investment Funds Plc	Ireland
	Polar Capital Funds Plc	London
	Polar Capital Holdings	London
	The Henderson Small Companies Investment Trust Plc	London
John Whittle		
	Advance Frontier Markets Fund Limited	AIM
	Aurora Russia Limited	AIM
	The Solar Park Fund (GBP) IC Limited	Channel Islands
	Starwood European Real Estate Finance Limited	London
	International Public Partnerships Ltd	London
Peter Niven		
	Dexion Trading Limited	London
	F&C Commercial Property Finance Limited	London
	F&C Commercial Property Trust Limited	London
	PSource Structured Debt Limited	London
	Resolution Limited	London
	Guernsey Portfolios PCC Limited	Channel Islands
Vikram Kaushik		
	None	

Directors' Remuneration Report

Introduction

An ordinary resolution for the approval of the annual remuneration report will be put to the Shareholders at the annual general meeting to be held in 2013.

Remuneration Policy

Since all Directors are non-executive, the Company has not established a Remuneration Committee.

The Company's Articles of Incorporation provide that unless otherwise determined by ordinary resolution, the number of the Directors shall not be less than two and the aggregate remuneration of all Directors in any twelve month period, or pro rata for any lesser period shall not exceed £100,000 or such higher amount as may be approved by ordinary resolution. The level of Directors' fees is determined by the whole Board on an annual basis. When considering the level of Directors' remuneration the Board considers the industry standard and the level of work that is undertaken.

The Directors shall also be entitled to be repaid all reasonable out of pocket expenses properly incurred by them in or with a view to the performance of their duties or in attending meetings of the Board or of committees or general meetings.

The Board shall have the power at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors, provided that no person shall be appointed as a Director under any provision of the Articles if his appointment would cause or permit the aggregate of the number of Directors resident in the United Kingdom or the United States for the purposes of United Kingdom or United States taxation, as the case may be, to constitute a majority of Directors. Any Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Remuneration

With effect from 1 January 2012, Chairman of the Audit Committee's fee increased to £19,000 per annum and £16,000 per annum for each other Director except for Vikram Kaushik who is entitled to a fee of £18,000 per annum. The Chairman's fee remained at £25,000 per annum.

For the year ended 31 December 2012 and 31 December 2011, the Directors' fees were as follows:

	2012 £	2011 £
Fred Carr	25,000	25,000
Jamie Cayzer-Colvin	16,000	15,000
John Whittle (appointed 17 November 2011)	16,000	3,000
Peter Niven (appoined 11 August 2011)	19,000	6,000
Vikram Kaushik (appointed 14 June 2012)	10,000	Nil
Ashok Dayal (resigned 14 June 2012)	8,000	15,000
Robin Nicholson (resigned 11 August 2011)	Nil	9,000
Andrew Maiden (resigned 17 November 2011)	Nil	12,000

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.

Signed on behalf of the Board by:

Fred Carr **Peter Niven**

19 March 2013

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 2012 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 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP | Guernsey, Channel Islands

19 March 2013

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

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

Principal group investments

As at 31 December 2012

Holding	Type	Sector	Value £000's	% Of Portfolio
The Federal Bank Limited	Mid Cap	Financials	2,276	5.93
Jyothy Laboratories Limited	Small Cap	Consumer staples	1,704	4.44
Yes Bank Limited	Large Cap	Financials	1,636	4.27
Dish TV India Limited	Mid Cap	Consumer discretionary	1,455	3.79
KPIT Cummins Infosystems Limited	Mid Cap	IT	1,416	3.69
Max India Limited	Mid Cap	Industrials	1,344	3.50
Indian Bank	Mid Cap	Financials	1,327	3.46
Kajaria Ceramics Limited	Mid Cap	Consumer discretionary	1,310	3.41
The Jammu & Kashmir Bank Limited	Mid Cap	Financials	1,280	3.33
Larsen & Toubro Limited	Large Cap	Industrials	1,257	3.26
Total top 10 equity investments			**15,005**	**39.08**
Other Small Cap	(1 company)		354	0.92
Other Mid Cap	(13 companies)		12,039	31.37
Other Large Cap	(9 companies)		9,089	23.67
Other Unlisted	(1 company)		–	–
Total equity investments			**36,487**	**95.04**
Cash less other net current liabilities			1,905	4.96
Total Portfolio			**38,392**	**100.00**

Note:

Large Cap comprises companies with a market capitalisation above INR 100 billion (£1.2 billion)

Mid Cap comprises companies with a market capitalisation between INR 15 billion and INR 100 billion (£180 million - £1.2 billion)

Small Cap comprises companies with a market capitalisation below INR 15 billion (£180 million)

Portfolio statement

As at 31 December 2012

Holding	Nominal	Value £000's	% Of Portfolio
Listed Securities			
Consumer discretionary			
Berger Paints (I) Limited	492,740	891	2.32
Dish TV India Limited	1,695,000	1,455	3.79
Kajaria Ceramics Limited	500,000	1,310	3.41
Motherson Sumi Systems Limited	493,500	1,105	2.88
		4,761	12.40
Consumer staples			
Dabur India Limited	387,640	565	1.47
Emami Limited	149,715	1,014	2.64
Jyothy Laboratories Limited	927,000	1,704	4.44
		3,283	8.55
Energy			
Cairn India Limited	262,000	945	2.46
Hindustan Petroleum Corporation Limited	295,304	971	2.53
Petronet LNG Limited	500,000	888	2.31
		2,804	7.30
Financials			
Arihant Foundations & Housing Limited	592,400	354	0.92
Dewan Housing Finance Corporation Limited	520,890	1,065	2.77
The Federal Bank Limited	374,250	2,276	5.93
Indian Bank	589,298	1,327	3.46
IndusInd Bank Limited	257,000	1,211	3.15
IDFC LTD	579,700	1,122	2.92
The Jammu & Kashmir Bank Limited	87,500	1,280	3.33
MCX INDIA LTD	44,621	743	1.94
Manappuram General Finance & Leasing Limited	2,554,529	976	2.54
Sobha Developers Limited	263,612	1,131	2.95
Yes Bank Limited	312,000	1,636	4.27
		13,121	34.18
Healthcare			
Divi's Laboratories Limited	88,000	1,098	2.87
IPCA Laboratories Limited	152,175	891	2.32
Lupin Limited	174,200	1,208	3.15
		3,197	8.34

Portfolio statement (continued)

As at 31 December 2012

Holding	Nominal	Value £000's	% Of Portfolio
Industrials			
Eicher Motors Limited	28,646	940	2.45
Jain Irrigation Systems Limited	1,013,293	859	2.23
Larsen & Toubro Limited	69,200	1,256	3.26
Max India Limited	492,405	1,344	3.50
Sintex Industries Limited	1,447,654	1,066	2.78
Voltas Limited	608,627	728	1.90
		6,193	16.12
IT			
KPIT Cummins Infosystems Limited	1,130,134	1,416	3.69
		1,416	3.69
Materials			
Rallis India Limited	452,487	764	1.99
		764	1.99
Telecommunications			
Idea Cellular Limited	808,000	948	2.47
		948	2.47
Total listed securities		**36,487**	**95.04**
Unlisted Securities			
IT			
CitiXsys Technologies Private Limited	817,650	–	–
Total unlisted securities		**–**	**–**
Total investments		**36,487**	**95.04**
Cash less other net current assets		**1,905**	**4.96**
Total Portfolio		**38,392**	**100.00**

India Capital Growth Fund

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	Revenue £000	Capital £000	Year to 31.12.12 Total £000	Year to 31.12.11 Total £000
Income					
Investment income		537	–	537	454
		537	–	537	454
Net gains/(losses) on financial assets at fair value through profit or loss					
Market movements	3	–	11,984	11,984	(16,707)
Foreign exchange movements	3	–	(2,684)	(2,684)	(7,275)
		–	9,300	9,300	(23,982)
Total income/(expense)		537	9,300	9,837	(23,528)
Expenses					
Management fee	14	(531)	–	(531)	(613)
Cost of acquisition and disposal of investments		–	(124)	(124)	(195)
Foreign exchange losses		(41)	–	(41)	(931)
Other expenses	4	(446)	–	(446)	(480)
Total expenses		(1,018)	(124)	(1,142)	(2,219)
Profit/(Loss) for the year before taxation		(481)	9,176	8,695	(25,747)
Taxation	7	–	–	–	–
Profit/(Loss) for the year after taxation		(481)	9,176	8,695	(25,747)
Earnings/(Loss) per Ordinary Share – (pence)	5	(0.64)	12.23	11.59	(34.33)

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

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

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

The notes on pages 29 to 38 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

	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 2012		750	(24,031)	(15,426)	(4,474)	72,878	29,697
(Loss)/gain on investments	3	–	(2,810)	14,794	–	–	11,984
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(481)	–	(481)
Cost of acquisition and disposal of investments		–	(53)	(71)	–	–	(124)
Loss on foreign currency		–	(2,002)	(682)	–	–	(2,684)
Balance as at 31 December 2012		**750**	**(28,896)**	**(1,385)**	**(4,955)**	**72,878**	**38,392**

For the year ended 31 December 2011

	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 2011		750	(19,312)	4,027	(2,899)	72,878	55,444
Loss on investments	3	–	(4,011)	(12,696)	–	–	(16,707)
Revenue loss for the year after taxation (excluding foreign exchange losses)		–	–	–	(1,575)	–	(1,575)
Cost of acquisition and disposal of investments		–	(98)	(97)	–	–	(195)
Loss on foreign currency		–	(610)	(6,660)	–	–	(7,270)
Balance as at 31 December 2011		**750**	**(24,031)**	**(15,426)**	**(4,474)**	**72,878**	**29,697**

The notes on pages 29 to 38 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2012

	Notes	31.12.12 £000	31.12.11 £000
Non-current assets			
Financial assets designated at fair value through profit or loss	6	36,487	21,928
Current assets			
Cash and cash equivalents		2,020	7,865
Receivables	8	25	34
		2,045	7,899
Current liabilities			
Payables	9	(140)	(130)
Net current assets		1,905	7,769
Total assets less current liabilities		**38,392**	**29,697**
Equity			
Ordinary share capital	11	750	750
Reserves		37,642	28,947
Total equity		**38,392**	**29,697**
Number of Ordinary Shares in issue		**75,001,463**	**75,001,463**
Net Asset Value per Ordinary Share (pence)		**51.19**	**39.59**

The audited consolidated financial statements on pages 25 to 38 were approved by the Board of Directors on 19 March 2013 and signed on its behalf by:

Fred Carr

Peter Niven

The notes on pages 29 to 38 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

	Year to 31.12.12 £000	Year to 31.12.11 £000
Cash flows from operating activities		
Investment income	537	454
Management fee	(520)	(646)
Other cash payments	(308)	(503)
Net cash outflow from operating activities	**(291)**	**(695)**
Cash flows from investing activities		
Purchase of investments	(21,220)	(24,627)
Sale of investments	15,961	30,889
Transaction charges relating to the purchase and sale of investments	(124)	(195)
Net cash (outflow)/inflow from investing activities	**(5,383)**	**6,067**
Net (decrease)/increase in cash and cash equivalents during the year	(5,674)	5,372
Cash and cash equivalents at the start of the year	7,865	3,429
Exchange losses on cash and cash equivalents	(171)	(936)
Cash and cash equivalents at the end of the year	**2,020**	**7,865**

The notes on pages 29 to 38 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2012

1. Accounting Policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations adopted by the International Accounting Standards Board (IASB). 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 2012 have been prepared under the historical cost convention adjusted to take account of the revaluation of the Group's investments to fair value.

Basis of consolidation

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

Income

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

Expenses

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

Taxation

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

Investments

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

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.

1. Accounting Policies (continued)

Investments (continued)

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

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

Foreign currency translation

The Company's Shares are denominated in Sterling and the majority of its expenses are incurred in Sterling. Accordingly, 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 and these translation differences are reported as part of net gains/(losses) on financial assets at fair value through profit or loss in the Statement of Comprehensive Income under capital. All other gains and losses on foreign exchange are included in the consolidated statement of comprehensive income under revenue.

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 2015. The Board has not yet assessed the impact of this standard as this has been recently published. The Board believes 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.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities - are effective for periods beginning on or after 1 January 2013 but has not been adopted by the EU. IFRS 10 will be endorsed in the EU for periods after 1 January 2014, except for the section on investment entities. The Board is currently assesing the impact of these changes on the financial statements of the Company.

IFRS 13 – Fair Value Measurement is effective for periods beginning on or after 1 January 2013 and endorsed by the EU for the same period. IFRS 13 establishes a singles source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected.

2. Significant accounting judgements, estimates and assumptions

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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate to the related actual results. The main use of accounting estimates and assumptions occurs in the calculation of the sensitivity analysis in Note 13.

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

	Year to 31.12.12 £000	Year to 31.12.11 £000
Realised loss		
Proceeds from sales of investments during the year	15,961	30,889
Original cost of investments sold during the year	(20,773)	(35,515)
Loss on investments sold during the year	(4,812)	(4,626)
Market loss	(2,810)	(4,011)
Foreign exchange loss	(2,002)	(615)
Unrealised market gain/(loss)		
Previously recognised unrealised loss/(gain) now realised	5,688	(2,017)
Current period market gain/(loss)	9,106	(10,679)
Market gain/(loss)	14,794	(12,696)
Unrealised market gain/(loss) on listed securities	14,794	(12,696)
Unrealised market gain/(loss) on unlisted securities	–	–
Unrealised foreign exchange loss		
Previously recognised unrealised foreign exchange gain now realised	1,817	(1,344)
Current period foreign exchange loss	(2,499)	(5,316)
	(682)	(6,660)
Net gain/(loss) on financial assets at fair value through profit or loss	**9,300**	**(23,982)**

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

4. Other expenses

Revenue	Year to 31.12.12 £000	Year to 31.12.11 £000
Directors' fees (note 14)	94	85
D&O insurance	14	14
Administration and secretarial fees (note 14)	102	120
Audit fee	24	27
Custody fees	11	15
Other advisory services	66	78
Warrant exercise period expenses	–	4
General expenses	135	137
	446	**480**

5. Earnings/(Loss) per share

Earnings/(loss) per Ordinary Share is calculated on the profit for the year of £8,565,000 (2011 – loss of £25,747,000) divided by the weighted average number of shares of 75,001,463 (2011 – 75,001,463).

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

	Listed £000	Unlisted £000	Year to 31.12.12 Total £000	Year to 31.12.11 Total £000
Cost as at 1 January	35,653	815	36,468	47,356
Purchases	21,220	–	21,220	24,627
Sales proceeds	(15,961)	–	(15,961)	(30,889)
Realised loss on sale of investments	(4,812)	–	(4,812)	(4,626)
Cost at end of year	36,100	815	36,915	36,468
Unrealised gain/(loss) on revaluation	4,387	(815)	3,572	(11,222)
Unrealised foreign exchange loss on revaluation	(4,000)	–	(4,000)	(3,318)
Fair value at end of year	**36,487**	**–**	**36,487**	**21,928**
Fair value of listed securities at end of the year			36,487	21,928
Fair value of unlisted securities at end of the year			-	–

Equity instruments are held as direct equity holdings and surplus cash is held with the Custodian.

India Capital Growth Fund

7. Taxation

Guernsey

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

Mauritius

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

ICG Q Limited is subject to income tax in Mauritius on net income which excludes realised and unrealised capital gains and related expenditure at 15 per cent (2011: 15 per cent). However, the company is entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80 per cent. of the Mauritius tax on foreign source income.

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

The Company made an operating loss during the year. As a result the Company will not be liable to a Mauritian income tax charge.

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.

8. Receivables

	31.12.12 Total £000	31.12.11 Total £000
Other receivables and prepayments	25	34
	25	**34**

9. Payables

	31.12.12 Total £000	31.12.11 Total £000
Management fee	49	38
Other creditors	91	92
	140	**130**

10. Segmental information

The Board has considered the provisions of IFRS 8 in relation to segmental reporting and concluded that the Group's activities form a single segment under the standard. From a geographical perspective, the Group's investments are focused in a single area – India. Assessment of performance by the Board and investment decisions by the Investment Manager are made on the basis of the portfolio as a whole. An analysis of the investments between listed and unlisted is however provided in note 6 as required by the Statement of Recommended Practice (SORP) for Investment Trusts issued by the AIC.

11. 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 2012	75,001,463	750
At 31 December 2011	75,001,463	750

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

12. 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 2012
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Equity investments	36,487	–	–	36,487
Financial assets designated at fair value through profit or loss	36,487	–	–	36,487

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

India Capital Growth Fund

12. Fair value of financial instruments (continued)

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 31.12.12 £000	Year to 31.12.11 £000
Opening balance	–	4,645
Disposal of level 3 investments	–	(4,630)
Transfer (out of)/into level 3*	–	(15)
Closing balance	–	–

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

The Group's investment in CitiXsys Technologies Private Limited valued at £Nil (2011: £Nil) is classified under Level 3.

13. 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 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 2012, the Board determined that it was inappropriate to exercise such powers, although continuation of these powers will be sought at the Annual General Meeting. The Board also considers from time to time whether it may be appropriate to raise new capital by a further issue of shares. The raising of new capital would however be dependent on there being genuine market demand.

Market price risk

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

The Group's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager in pursuance of the investment objectives and policies and in adherence to the investment guidelines and the investment and borrowing powers set out in the Admission Document. The Group's equity investment portfolio is concentrated and, as at 31 December 2012, comprised

13. Financial instruments and risk profile (continued)

Market price risk (continued)

investment in 34 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 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 (2012: 95.04 per cent; 2011: 73.84 per cent) to any movement in the BSE Mid-Cap Index. At 31 December 2012, with all other variables held constant, this approximation would produce a movement in the net assets of the Group of £3,649,000 (2011: £2,193,000) for a 10 per cent (2011: 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. The underlying currency risk in relation to the Group's investments is the Rupee. The Group's policy is not to hedge the Rupee exposure.

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

At 31 December 2012, if the Indian Rupee had strengthened or weakened by 10 per cent (2011: 5 per cent) against Sterling with all other variables held constant, pre-tax profit for the year would have been £3,651,000 (2011: £1,466,000) higher or lower, respectively, 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.

Credit risk

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

The principal credit risks for the Group are in relation to deposits with banks. The HSBC group acts as the principal banker to the Group, and as custodian of its assets. The securities held by HSBC as custodian are held in trust and are registered in the name of the Group subsidiary company (ICG Q Limited). The aggregate exposure to the HSBC group (excluding assets in custody) at 31 December 2012 was £2,020,000 (2011: £7,865,000), of which £33,000 (2011: £279,000) was to HSBC Bank plc. HSBC Bank plc and The Hong Kong and Shanghai Banking Corporation Limited has a credit rating of AA-.

13. Financial instruments and risk profile (continued)

Interest rate risk

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

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. As the trading volume on the Indian Stock Market is lower than that of more developed stock exchanges the Group is likely to be invested in relatively illiquid securities. The Group's unlisted securities are even less liquid and may not be realisable until a third party investor is found. Unlisted securities represent nil per cent (2011: nil per cent) of the portfolio. The Group's focus is to invest predominantly in mid and small cap stocks. As noted in the Investment Manager's Report, minimum liquidity criteria are utilised for new purchases. However there remain holdings where there is relatively little market liquidity. As with unlisted securities these investments may take time to realise. The Directors do not believe that the market is inactive enough to warrant a discount for liquidity risk on the Groups' investments.

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 0.14 and 975 days trading (2011: 0.01 and 6,313 days), with the average, weighted by the percentage of the total portfolio, being 12 days (2011: 72 days). One holding, that in Arihant Foundation & Housing (0.92 per cent of the portfolio) which represents 975 trading days is particularly illiquid. If that is excluded from the calculation, the weighted average liquidity period for the remaining listed portfolio is 3 days trading (2011: 2.8 days).

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

14. 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, Ocean Dial Asset Management Limited, and also an employee and Director of Caledonia Investments Plc and a non-executive director of Cayzer Trust Company Limited.

The Directors' fees during the year are disclosed in the Directors' Remuneration Report on page 20.

On 14 September 2012, Mr David Cornell, Principal Adviser to the Group, purchased 130,000 ordinary shares in the Company at an average price of 34.11 pence per share representing representing 0.17 per cent of the Company's issued ordinary share capital.

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 £531,000 in management fees during the year ended 31 December 2012 (2011: £613,000) of which £49,000 was outstanding at 31 December 2012 (31.12.11: £38,000).

The Investment Manager is also entitled to receive a semi-annual performance related fee from the Company if the Net Asset Value per Share at the end of the half-year performance period (a) exceeds

14. Related party transactions (continued)

the Net Asset Value per Share at the start of the performance period by an annualised, annually compounded, rate of more than 10 per cent. (the "Performance Hurdle") and (b) exceeds by an annualised, annually compounded, rate of more than 10 per cent. of the highest previously recorded Net Asset Value per Share at the end of the performance period in respect of which a performance fee was last paid (the "High Water Mark"). At 31 December 2012, the High Water Mark was 280.65 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 2012 (2011: £Nil).

Under the terms of the Administration and Secretarial Agreement, Northern Trust International Fund Administration Services (Guernsey) Limited is entitled to a fee calculated on the Net Asset Value of the Company of 0.125 per cent. per annum on the first £50 million of Net Asset Value, 0.10 per cent. per annum on the next £50 million of Net Asset Value and 0.05 per cent. on any Net Asset Value in excess of £100 million, payable quarterly (subject to a minimum annual fee of £75,000). The Administrator is also entitled to reimbursement of out of pocket expenses incurred in the performance of its duties. The Administrator earned £75,000 for administration and secretarial services during the year ended 31 December 2012 (2011: £75,000) of which £19,000 was outstanding at 31 December 2012 (31.12.11: £19,000). The total administration and secretarial fees recognised in the statement of comperehensive income amounted to £102,000, £27,000 of which pertains to the administration and secretarial fees of ICG Q Limited paid to International Financial Services Limited.

15. Contingent liabilities

The Directors are not aware of any contingent liabilities as at 31 December 2012 (2011: Nil).

16. 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.

India Capital Growth Fund

Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

www.indiacapitalgrowth.com