India
Capital Growth Fund

# Annual report and audited financial statements

For the year ended
31 December 2014

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audited financial
statements

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# Contents

# Management and administration

## Directors

Fred Carr (Chairman)
John Whittle
Peter Niven
Vikram Kaushik

## Registered Office

1st Floor
Tudor House
Le Bordage
St Peter Port
Guernsey GY1 1DB

## Investment Manager

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

## Administrator and Secretary

Apex Fund Services (Guernsey) Limited
1st Floor
Tudor House
Le Bordage
St Peter Port
Guernsey GY1 1DB

## Custodian

SBI-SG Global Securities Services Private Limited
Jeevan Seva, Annexe
Ground Floor, S.V. Road
Santa Cruz (W)
Mumbai 400 054
India

## 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

# Management and administration (continued)

## Registrar

*To 20 March 2015:*
Capita IRG (CI) Limited
Longue Hougue House
St Sampson
Guernsey GY2 4JN

*From 21 March 2015:*
Neville Registrars Limited
18 Laurel Lane
Halesowen
Birmingham B63 3DA

## Independent Auditors

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

# Chairman's statement

I am delighted to report that India's equity markets had an outstanding 2014 and the Company more than fully participated in the market's rise. The net asset value (NAV) total return of the fund rose 59.8% on an undiluted basis, whilst the share price rose 70%, resulting in the discount to net asset value narrowing to 14% at the year end. This compares to a total return for the Company's notional index (BSE Mid Cap) of 63.2%, the Manager's Composite index of 53.6%, and the MSCI India index of 28.7%. All figures are quoted in Sterling terms, whose weak performance against the Rupee (falling 3.4%) also supported the growth in value.

Whilst the portfolio marginally underperformed the BSE Mid Cap index in 2014, this should not be judged as evidence of poor performance, far from it. The index does not represent a group of investible companies as per the Manager's investment process, principally because of the varied quality, underlying poor liquidity and constantly changing nature of its constituents. As a gauge of success one should rather focus on the substantial out performance of the Company's NAV to all the major equity indices in India, as well as our immediate competition, and the broader investment trust universe across global markets and sectors. The Manager, and most particularly the advisory team on the ground in Mumbai, is to be congratulated on this outstanding effort. I should also stress that this performance is no accident. Rather it is the consequence of the Manager adopting a diligent and consistent investment process that since 2010 has taken time and patience to build, throughout a lengthy period of heightened volatility and uncertainty in Indian equities for much of that time. The success of this process relies explicitly on the quality of the in-depth research of mid cap Indian equities provided from the Mumbai based analysts and thereby demonstrates the clear value of having "a foot on the ground". I should also add that as always, a significant portion of luck is involved when things go well. In our case this has come not only from the dramatic and rapid turnaround in India's political and macro-economic fortunes, but also the extent to which the small and midcap sector valuations recovered more swiftly than the main board stocks, enabling stronger performance. Progress also relies on the ongoing support of the Company's shareholders which, over this transformational period, has been hugely supportive and for which the Board remains grateful. A strong note of caution is advisable as we look ahead however. Not only is the market likely to be already pricing in much of the positive sentiment sweeping across India currently, but the share price and its discount to the net asset value of the portfolio both start this year from a considerably higher base than 12 months prior. One swallow doth not a summer make!

Whilst the Investment Manager's report will provide the details behind the performance of the portfolio over the year and the reasons behind it, it is likely that 2014 will be regarded as a major turning point in the fortunes of India's equity markets. Since late 2013 foreign investors increased their exposure to the country swiftly after the appointment of Dr Raghuram Rajan as Governor of the Reserve Bank of India. The positive sentiment was significantly compounded by the surprising landslide victory for the BJP in India's national elections in May 2014, handing the newly elected Prime Minister Narendra Modi full control of the legislative assembly, the Lok Sabha. This is the first time since 1984 that the ruling party has won a majority in parliament, thereby greatly increasing the potential for meaningful economic reform. The utter routing of the Congress Party, which won just 44 seats, highlighted the Indian electorate's desire for a meaningful change. Modi brings precisely that; instantly injecting energy, transparency, efficiency and confidence into a battered economy. Thus it would appear that India is moving into a period of macro-economic and political stability which in turn should translate into higher levels of economic growth and increased corporate profitability.

At the time of writing following 10 months in office, the Government (whose popularity levels remain intact) has shown ample evidence of its desire to improve the country's prospects. This has been focused on increasing the level of economic output, reducing corruption, strengthening the country's fiscal position, as well as working hard to encourage foreign investors to view India as a credible investment destination. Thus substantial progress has already been made in dismantling the subsidy structure in petroleum products, intermediation of banking products to the masses, greater transparency and improved processes for approval of infrastructure projects, land acquisition reform and the opening up of key sectors such as insurance and defence to foreign participation. In addition the Government has been handed the dream scenario of collapsing global oil prices on a scale far exceeding all expectations. Crucially this has paved the way for a commencement of an interest rate easing cycle, as well as enabling Modi to use the lower oil price situation to improve the country's fiscal position through the dismantling of the subsidy system. A period of oil "lower for longer" would be a tremendous opportunity to support his efforts to raise GDP growth to a sustainably higher level.

Amidst all the euphoria, 2015 will doubtless provide many challenges for investors on a domestic Indian and an international level. The US Federal Reserve is likely to commence a monetary tightening cycle, to which Emerging economies are vulnerable, particularly those such as India, who remains dependent on foreign funds to meet their investment shortfalls. This, and ongoing political and economic turbulence in Europe, are unlikely to pass by without increased volatility across all markets. On the domestic front, in spite of the confluence of positive political and macro-economic factors, the domestic earnings recovery is currently lacklustre at best, and is not expected to materialise until the second half of the year. There is a risk that investors' patience could be severely tested if the earnings recovery falls short, given that market valuations and expectations are already on the higher side. Thus, I expect the Manager to continue to take a cautious approach, focusing on investing in companies with proven track records of delivering strong returns to shareholders and with management teams of the highest quality, at valuation levels that provide an ample margin of safety.

As from July 2014 the Company was registered with the Financial Conduct Authority (FCA) as a non EU Alternative Investment Fund ("AIF") and at the same time formally appointed Ocean Dial Asset Management Ltd (the "Manager") to be its UK appointed Alternative Investment Fund Manager ("AIFM"). The Manager is authorised as a small AIFM and will remain so until its risk adjusted assets under management reach €500m and importantly, provided the funds it manages remain unleveraged. Although somewhat lighter in touch than full regulation, the new regulation does provide an increased administrative and cost burden but with no obvious additional benefits to underlying investors.

Also of note to shareholders is that August 2015 could be the first opportunity the Company has to increase its share capital by 50%, through the exercise of the subscription shares (at a cost price of 61 pence per share) which were issued pre-emptively to shareholders 12 months earlier. Although the official exercise period does not commence until August 2016, subject to certain conditions being met prematurely, (the details of which can be found in the admission document issued prior to the admission of the subscription shares to trading on AIM), the Board may decide to call for an earlier exercise of the subscription shares prior to their official expiry, in order to increase the size of the Company's assets at an opportune time to further invest into Indian equities. In accordance with the requirements of the issuance of subscriptions shares, the Board will keep shareholders fully informed of all eventualities as and when they occur.

Looking forward to the next 12 months, the outlook for the Company remains constructive as it endeavours to take further advantage of the opportunities that arise in India. These are likely to arise from lower interest rates, a renewed investment cycle, and a continued recovery in foreign sentiment. As always, the journey will not be straight or smooth but I look forward to reporting back to you at the half year on further progress achieved.

**Fred Carr** | Chairman
**18 March 2015**

# Investment Manager's report

2014 was a positive year for India on several fronts. Both the political and macroeconomic environment showed a marked improvement and this was reflected in the strong performance of the equity markets.

The game changing event of the year was the National Election in May. The Congress led administration, hampered by extensive coalition infighting, had presided over slowing growth, high inflation, corruption scandals, fiscal largesse and outward hostility towards foreign investors. In contrast, the opposition BJP with its charismatic leader Narendra Modi, ran a powerful campaign promising open and accountable governance to facilitate job creation and promote economic prosperity. The result was emphatic. For the first time in 30 years, and against best expectations, a single political party won a clear majority from Indian voters for a five year term. Thus the BJP won 283 seats out of 542, and with pre-election partners in support, the National Democratic Alliance (NDA) won a total of 336 seats. Equally telling was the drubbing received by the Congress party which managed a wretched 44 seats down from 206.

The size of the mandate delivered made it clear what the electorate expected from Modi. It was under his 12 year leadership as Chief Minister of Gujarat that the state achieved growth comfortably above the national average. This was done by fostering a cleaner, business friendly environment focused on infrastructure development and the promotion of inward investment from the rest of India as well as overseas. The issue was whether his achievements could be replicated at a national level and the new Government has started its term at a frenetic pace to do so. It is clear that the sheer size of India, coupled with the number of vested interests at all levels of society, makes top down big bang reform from the centre an unwise course of action. Instead the Government has focused its efforts on taking manageable steps to change the way the country operates. The first Budget, delivered 49 days after the election, stressed a commitment to bringing down the fiscal deficit and creating a more welcoming environment for foreign investors. The previous Government's optimistic fiscal deficit target of 4.1% of GDP was retained and a long term target of 3% by FY17 was put in place. Alongside various incentives to encourage infrastructure investment, the Cabinet also raised the FDI limits on insurance and defence from 26% to 49%. Furthermore, the collapse in the oil price was used to dismantle scale subsidies for diesel and petrol in order to help repair the nation's balance sheet.

Despite this positive change of direction, challenges remain on the political front. The BJP is a minority in the Upper House of Parliament where the opposition has been able to frustrate the legislative process. Notably, the Government has had to issue executive ordinances as a short term measure to bypass Parliament in order to impose changes to land acquisition and mining laws as well as to the aforementioned FDI limit in the insurance sector. While this is a strong signal of intent from the Government, it will have to continue to work hard and compromise in order to pass legislation. What is encouraging is the change that is taking place regionally. State spending is 40% higher than at the centre and a tangible transformation is happening at this level. In Rajasthan for example amendments to national labour laws were passed making it easier for corporates to hire and fire staff to encourage job creation. In Madhya Pradesh there is a target to increase land under irrigation by 45% over the next four years and to improve intra state connectivity by building 1,000km of new state highways. Orissa is planning 5,000km of additional roads whilst Haryana is planning labour law amendments similar to Rajasthan. Local governments are becoming more responsive to their electorate by competing for growth and investment. Their contribution to effecting advancement should not be under estimated.

The arrival of the new Government has coincided with an improvement to key macroeconomic indicators. The outgoing Congress administration was forced into initiating last ditch reforms towards the end of its term in order to ward off a sovereign credit rating downgrade. Government expenditure was cut to address the fiscal deficit and gold imports were effectively banned to help control the current account deficit. Furthermore, the Governor of the Reserve Bank of India ("RBI"), Dr Raghuram Rajan set out measures to help boost FX reserves and fight inflation. Indeed, the RBI surprised the market in January by hiking interest rates by 25 bps when CPI inflation was at 9.9%. These measures helped stabilise the currency which had been a cause for concern during the tapering of the Federal Reserve's quantitative easing programme, and as a consequence the Rupee comfortably outperformed its immediate peer group over the year.

In a bid to control the long standing issue of high inflation, for the first time in the RBI's history Dr Rajan introduced the concept of inflation targeting by articulating a strategy of reducing CPI growth to 8% by January 2015 and 6% by January 2016. The longer term slowdown in growth, five years of monetary tightening, lacklustre demand and a slowdown in investments saw CPI inflation fall below its expected trajectory, standing at 4.4% at the end of the year, whilst WPI inflation collapsed to 0.1%. In January 2015, the RBI articulated in an intra-meeting decision that it was sufficiently assuaged by the Government's efforts to maintain fiscal discipline to change the direction of monetary policy and initiate an easing cycle. That meeting saw interest rates being cut by 25bp and we foresee a 50-75bps reduction over the course of 2015. A high cost of capital has been a significant hindrance to growth in the investment side of the economy; lower rates will help the deleveraging process as well as ease pressure on stressed assets in the banking sector. Furthermore, banks were in the process of cutting deposit rates at the end of the year and lending rates should follow, encouraging a recovery in hitherto muted credit growth. Lower rates alongside structural reform should help underpin the economic recovery.

From a global perspective, India has been a beneficiary of the fall in commodity prices that occurred during the year. This is especially true in the case of oil which was both a large component of India's current account deficit and its subsidy bill. The Government has used the collapse in Brent Crude to end its politically sensitive intervention which had cost it US$10bn in FY14. Moreover, the lower oil price has been used to increase fuel duties, further aiding the Government in tax revenues. We believe this has given the Finance Ministry leeway in the February 2015 budget to increase state spending on infrastructure projects in order to initiate a recovery in the investment cycle.

Whilst the story has turned positive for India, the market performance for 2014 was largely driven by overseas flows - FIIs invested US$40bn over the year (US$15bn into equities and US$25bn into debt). Key risks emanate from a reversal of global fund flows away from the emerging world if the US Dollar continues to strengthen in step with stronger economic data; or indeed if global risk aversion "spikes" causing a flight to quality. On the domestic front, risks are concentrated on the extent and timing of the recovery in corporate earnings and the market's patience in this regard, plus any perceived shortfall by the Government on its promise of meaningful reform. "Key man risk" stalks the market, as the Indian economic recovery currently built into the investors' expectations is unthinkable without Modi at the helm.

Last year's report highlighted that "the political environment will be the single biggest driver for the market going into 2014". Returns this year reflected that as it became clear that the new Government is reforming the way that India operates as a country and that this is being supplemented by a robust monetary agenda from the RBI under the helm of Dr Rajan. Whilst these changes will take time to translate into corporate earnings and that equity returns are unlikely to mirror the recent run, we are confident that the right foundations are being laid for an extended period of healthy returns for patient investors.

## Portfolio construction and performance

2014 saw the portfolio deliver GBP returns of 59.8% underperforming the S&P BSE Mid Cap index, the notional benchmark, which delivered a total return of 63.2%. In local currency terms the portfolio grew by 54.6% as the Rupee appreciated by 3.4% over the year against Sterling.

The positive performance was driven by a broad base (seven investments delivered returns in excess of 100%). The main contributors were Motherson Sumi Systems ("MSS") up 152.4% (4.2% weight) and Eicher Motors up 204.6% (3.4% weight). MSS is one of the world's largest manufacturers of rear-view mirrors and polymer components for passenger cars. Eicher Motors, a JV between Eicher and Volvo, is India's third largest commercial vehicle manufacturer. It also owns the Royal Enfield brand which sells the iconic "Bullet" motorcycle.

The top negative contributors were Aban Offshore down 30.7% and Idea Cellular down 21.8%. Aban is an oil rig supplier to offshore exploration and production companies and its share price was negatively impacted as a result of the sharp collapse in the value of oil coupled with concerns with capex being lowered amongst its customer base. The Manager continues to assess the potential impact of these concerns on return on invested capital going forwards. Idea Cellular is India's fourth largest mobile phone operator in number of subscribers and third largest in terms of revenue market share. The stock corrected on the back of concerns of cashflows being hit by aggressive bidding for upcoming telephone licences for spectrum. The Manager exited the position on valuation grounds with the stock having generated 61% returns over two years since investment.

The Manager continued to meet corporate executives throughout the year, with a focus on sectors linked to an improved policy environment and a revival in the investment cycle. This included infrastructure, capital goods, industrials and financial services. Whilst ensuring a rigid adherence to the investment philosophy, the election result coupled with proactive reform from the new Government, led the manager to tilt the portfolio towards companies which would benefit from an investment led recovery.

The majority of the direct beneficiaries of a cyclical upturn, especially in the infrastructure space, do not meet our quality criteria in terms of management integrity and balance sheet strength. With the exception of Gujarat Pipavav Port (an AP Moller–Maersk group commercial port project), the Manager sought exposure through indirect beneficiaries of the story. For instance, positions over the year have been built in Exide Industries (India's largest automotive and industrial battery manufacturer), Finolex Cables (India's largest electrical and telecom cable company), and The Ramco Cements (India's fifth largest cement company and most efficient in terms of cost of production with a focus on South India).

Despite the calibrated repositioning that took place over the year, portfolio turnover was 26.8%. The Manager continues to seek and retain exposure to companies with consistent and stable earnings that can compound over the long term. As such, the investment process of identifying well managed, free cashflow generating businesses with exceptional corporate governance will not be deviated from, regardless of the macroeconomic environment.

## Top 10 holdings of ICG Q Limited as at 31 December 2014

### Federal Bank

(5.5% 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 and retail segments (30% each of the loan book). We continue to believe that 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 2014, the stock trades at a price to projected FY16 earnings ratio of 11.1x and 1.5x projected FY16 book value.

### Motherson Sumi Systems

(4.7% of the portfolio)

Motherson Sumi Systems (MSS), a Joint Venture with Sumitomo Wiring Systems, Japan, is one of the largest manufacturers of rear-view mirrors and polymer components for passenger cars in the world. MSS expanded its global presence through its acquisition of Visiocorp (2009) and Peguform (2011), becoming a Tier-I supplier of automotive components to major global Original Equipent Manufacturers ("OEM"). The company has been able to turn around both the subsidiaries and with rising margins, earnings growth is outpacing revenue growth. Based on the closing price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 24.3x.

### Dewan Housing Finance

(4.1% of the portfolio)

Dewan Housing (DHFL) is the third largest private sector Housing Finance Company in India, concentrating on the low to middle income segment by providing finance to low cost houses. In 2010, DHFL complemented its existing business by acquiring First Blue Home Finance, a company strong in the Northern region and which concentrates on the mass affluent segment. DHFL accounts for 4.1% of the portfolio as we are extremely positive on the long term prospects of housing finance in India. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 6.8x and 1.1x projected FY16 book value.

### Jyothy Laboratories

(4.1% of the portfolio)

Jyothy manufactures fabric care, mosquito repellents and dish washing soaps categories under the Ujala, Maxo and Exo brands respectively. It further enhanced its product basket with the acquisition of Henkel India in June 2011, acquiring brands in the detergents, toothpaste, soaps, dish washing and deodorants sectors. Since the acquisition, Jyothy has been able to successfully integrate the operations of Henkel and with a strong brand portfolio and management team in place, we see a period of sustained above market growth along with operating leverage driving earnings. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 26.1x.

### Tech Mahindra

(4.1% of the portfolio)

Tech Mahindra is a leading IT offshoring company with FY14 revenues of US$3.1bn and over 89,000 employees. It was set up as a Joint Venture between Mahindra & Mahindra and BT, with a focus on the telecom sector. Other than telecoms, the integrated entity has a sizeable IT services presence in banking, manufacturing verticals and enterprise applications. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 15.2x.

**Yes Bank**

(3.8% of the portfolio)

Yes Bank is a new-generation private-sector bank, run by a highly competent top management team that has established a high quality, customer centric, service driven bank; now the fourth largest private sector bank in India. It has consistently delivered high shareholder returns over the last five years with RoE greater than 20% and RoA in the range of 1.3% to 1.5%. We see this trend continuing as it builds its retail franchise, whilst maintaining best-in-class asset quality through better asset acquisitions. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 13.9x and 2.4x projected FY16 book value.

**PI Industries**

(3.6% of the portfolio)

PI Industries is a leading agri input and custom synthesis and manufacturing company, offering support in process research and contract manufacturing through its highly accredited R&D, laboratory and manufacturing setup. PI has exclusive rights with several global companies for distribution in India and is constantly on the lookout to expand its operations/tie-ups. On account of its R&D driven approach, PI has become a preferred partner for companies for custom synthesis coupled with a non-compete and IP driven business model. It has a strong order book of US$520m which ensures long term revenue visibility in the custom synthesis segment. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 24.4x.

**Emami**

(3.4% of the portfolio)

Emami is a leading Fast Moving Consumer Goods ("FMCG") player in India, operating in segments such as skincare and hair oil. The company has been operating in health, beauty and personal care products for the past 30 years and has sustained a prominent position in therapeutic and Ayurvedic based products, ensuring strong entry barriers for competitors. Emami has innovated and built popular and recognisable brands that have helped develop a strong customer loyalty leading to high gross margins, high barriers to entry, strong brand equity, mass acceptance and superior growth opportunities. Emami's management has demonstrated a good track record in building brands as well as sustaining above market growth and profitability, a trend we see continuing into the future. Based on the closing market price on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 33.8x.

**Eicher Motors**

(3.4% of the portfolio)

Eicher Motors is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. Its joint venture with the Volvo group, VE Commercial Vehicles Limited, designs, manufactures and markets reliable, fuel-efficient commercial vehicles of high quality and modern technology, engineering components and provides engineering design solutions. Eicher Motors manufactures and markets the iconic Royal Enfield motorcycles. Based on the closing market price on 31 December 2014, the stock trades at a price to projected CY15 earnings ratio of 39.6x.

**Exide Industries**

(3.3% of the portfolio)

Exide is the largest storage battery manufacturer in India. The company derives ~64% of its revenues from the automotive sector (OEM share at 20% of total revenue) and ~36% from the industrial sector. It has a 70% market share in automotive OEMs and 50%+ market share in the auto replacement market. Exide's revenue growth has weakened over the last two years on account of the slowing economy as well as competition in the auto replacement business. With an improving economy, we expect both OEMs and industrial demand to increase; as a market leader with a strong brand, Exide is likely to be the main beneficiary. Based on the closing market price (adjusted for life insurance value) on 31 December 2014, the stock trades at a price to projected FY16 earnings ratio of 17.8x.

**Ocean Dial Asset Management**

**March 2015**

# Directors

The Directors as at 31 December 2014, all of whom are non-executive, are as follows:

### Fred Carr (Chairman)

Aged 69, Fred 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. He is also a Fellow of the Chartered Institute of Securities and Investment, and is resident in the UK.

### Vikram Kaushik

Aged 64, Vikram was appointed to the Board on 14 June 2012. He is a resident of India where he has worked throughout his career. He initially spent more than 16 years working for Unilever before being appointed Managing Director of Enterprise Advertising Agency and then Vice President of Britannia Industries. In 1999 he was appointed a Director of Colgate Palmolive and then in 2004 he was appointed Managing Director & CEO of Tata Sky. Mr. Kaushik retired from Tata Sky and now consults with PricewaterhouseCoopers and is advisor to Voltas, a Tata Group company. He is also a Director of MTS and an independent Director on the Board of Vaibhav Global Limited. He has served on the Government Committee for Restructuring Public Service Broadcasting in India and on the Sectoral Committee for Innovation in Media set up by the Prime Minister's Office in India.

### Peter Niven

Aged 60, Peter 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 non-executive director of several Guernsey based and listed companies in the financial services field. He is a Fellow of the Chartered Institute of Bankers and a Chartered Director. He is a resident of Guernsey.

### John Whittle

Aged 59, John 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 several Guernsey based and listed companies in the financial services field. 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.

# 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 |
| **Vikram Kaushik** | | |
| | Vaibhav Global Limited | India |
| **Peter Niven** | | |
| | F&C Commercial Property Trust Limited | London |
| | Guernsey Portfolios PCC Limited | CISE |
| | SQM Asset Finance Income Fund Limited | London |
| **John Whittle** | | |
| | Advance Frontier Markets Fund Limited | AIM |
| | Globalworth Real Estate Investments Limited | AIM |
| | The Solar Park Fund (GBP) IC Limited | CISE |
| | Starwood European Real Estate Finance Limited | London |
| | International Public Partnerships Ltd | London |

# Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2014.

## 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 2014, the Company has one wholly owned Mauritian subsidiary, ICG Q Limited. The Company's Ordinary Shares and Subscription Shares were admitted to trading on the AIM market of the London Stock Exchange ("AIM") on 22 December 2005 and 12 August 2014 respectively.

## Investment policy

The Company's investment objective is to provide long-term capital appreciation by investing (indirectly) in companies based in India. The investment policy permits the Company 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 Company has the flexibility to invest in bonds (including non-investment grade bonds), convertibles and other types of securities. The Company may, for the purposes of hedging and investing, use derivative instruments such as financial futures, options and warrants. The Company 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% of the net assets of the Company at the time of the drawdown. It is the Company's declared policy not to hedge the exposure to the Indian Rupee.

## Presentation of financial assets

As further explained in the accounting policies in Note 1 on page 32, the Company was required to, and has adopted the Investment Entity amendments to IFRS 10 et al ('IE amendment') for the first time in these financial statements. The IE amendment was issued by the IASB (and subsequently endorsed by the EU) for implementation for accounting periods commencing on or after 1 January 2014. The IE amendment requires the Company to record its investment in ICG Q Limited, its wholly-owned subsidiary, at fair value through profit or loss, whereas in previous years the Company prepared consolidated accounts which included the Company and ICG Q Limited (together known as the 'Group').

In anticipation of this change in accounting policy, the Company's investment in ICG Q Limited was recorded as an investment at fair value through profit or loss in the unaudited condensed interim financial statements for the period ended 30 June 2014.

As the IE amendment forces a change to the Company's accounting policy in respect of ICG Q Limited, it is required to be, and has been, applied retrospectively, with consequent restatement of prior period comparatives within these financial statements. The key changes in presentation which result, as also described in Note 1 on page 28, are that the sundry debtors, creditors and cash position of ICG Q Limited, which were included in those respective captions on the Consolidated Statement of Financial Position in previous periods, are now effectively represented within the valuation of the Company's investment in ICG Q Limited which is shown as a single item in the Statement of Financial Position on page 30 as 'Financial assets designated at fair value through profit or loss'. The presentation of the performance of the Group has also changed, such that dividend income and expenses relating to ICG Q Limited which were previously shown in the Consolidated Statement of Comprehensive Income are now effectively reflected in the movement of the unrealised gain or loss on the investment in ICG Q Limited in the Statement of Comprehensive Income on page 28 as 'Net gain/(loss) on financial asset at fair value through profit or loss'.

Other impacts on presentation include an adjustment to how the Group's investment portfolio is reflected in the fair value hierarchy shown in Note 11. Under the previous consolidated basis, the listed investments of ICG Q Limited, which were included in the Consolidated Statement of Financial Position, were identified as level 1 investments. Under the current presentation basis, the Company's investment in ICG Q Limited on the Statement of Financial Position, is reflected as level 2 (as it is in itself an unlisted investment whose value is predominantly determined using the traded prices of the investment portfolio of ICG Q Limited).

There has been no net impact on reported performance or net asset value (as represented by 'Total equity' on the Statement of Financial Position) as a result of these changes, and the Group structure has not changed during the year ended 31 December 2014.

### Results and dividends

The Company's performance during the year is discussed in the Investment Manager's Report on page 5.

The results for the year are set out in the audited statement of comprehensive income on page 28.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2014 (31 December 2013: £Nil).

### Substantial interests

Shareholders who at 31 December 2014 held an interest of 3% or more of the Ordinary Share Capital of the Company are stated in the table below:

| | NO. SHARES | % HOLDING |
|---|---|---|
| BBHISL Nominees Limited 128140 Acct | 9,087,297 | 12.18 |
| BBHISL Nominees Limited 129845 Acct | 7,474,900 | 10.02 |
| Nortrust Nominees Limited GsyA Acct | 7,309,208 | 9.80 |
| Rathbone Nominees Limited | 4,479,477 | 6.00 |
| BNY (OCS) Nominees Limited 178055 Acct | 4,250,000 | 5.70 |
| State Street Nominees Limited 6810 Acct | 3,914,091 | 5.25 |
| Chase Nominees Limited | 3,632,280 | 4.87 |
| BNY Mellon Nominees Limited BSDIBRD | 3,041,532 | 4.08 |

At 31 December 2014, the Investment Manager, Ocean Dial Asset Management Limited and connected persons (not elsewhere disclosed) held in aggregate 622,581 Ordinary Shares (0.83%) in the Company.

### Directors

The names of the Directors of the Company, each of whom served throughout the year and to date, are set out on pages 1 and 9. Mr Jamie Cayzer-Colvin resigned as a director on 29 May 2014.

### Directors' interests

At 31 December 2014, Directors and their immediate families held the following declarable interests in the Company:

| | Ordinary Shares |
|---|---|
| Fred Carr | 130,000 |
| Peter Niven | 25,000 |
| John Whittle | 20,000 |

### 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

In accordance with the recommended methodology set out by the Association of Investment Companies ("AIC"), the ongoing charges ratio of the Company and its subsidiary for the year ended 31 December 2014 was 2.26%. (excluding exceptional costs) (31 December 2013: 2.75%).

## Corporate governance

The AIC Code of Corporate Governance (the "AIC Code") was updated in February 2013 following the revised corporate governance code issued by the UK Financial Reporting Council in September 2012. It is designed to provide Boards of its member investment companies with a framework of best practice in respect of the governance of investment companies. The Company's shares are quoted on AIM, and as such the Company is not formally 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 voluntarily comply with UK code reporting against the AIC code.

The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission ("GFSC"). Companies reporting against the UK Corporate Governance Code or the AIC Code are deemed to comply with the GFSC Code.

## Corporate governance principles

The Board considers that it has complied with the AIC Code during the year ended 31 December 2014 subject to the exceptions explained below:

## Re-election

There is no provision in the Company's Articles of Incorporation which requires Directors to seek re-election on a periodic basis, and only Directors appointed to fill a casual vacancy seek 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) | 6 | 6 | – | – |
| Jamie Cayzer-Colvin (resigned on 29 May 2014) | 2 | 1 | – | – |
| Vikram Kaushik | 6 | 6 | – | – |
| Peter Niven | 6 | 5 | 2 | 2 |
| John Whittle | 6 | 6 | 2 | 1 |

### Performance evaluation

On an annual basis the Board formally considers 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 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 2014 review was that the skill sets of the members of the Board were complementary, and that the Board functioned effectively.

### Nomination committee

The size and independence of the Board is such that it fulfils the role of the Nomination Committee. Any proposal for a new director is discussed and approved by the Board. The Board will determine whether in future an external search consultancy or open advertising is used in the appointment 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 annually and discussed by the Board as a whole with independent input.

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

### Audit committee

The members of the Company's Audit Committee are listed on page 19. The Audit Committee conducts formal meetings throughout the year for the purpose, amongst others, of considering the appointment, independence, effectiveness of the audit and remuneration of the auditors and to review and recommend the annual statutory accounts and interim report to the full Board. Full details of its functions and activities are set out in the Report of the Audit Committee on pages 19 to 21.

### 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 also considers 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

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 various functions as listed below, to external parties. Each of these contracts have been entered into after full and proper consideration by the Board, mindful 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. The duties of investment management, accounting and custody are segregated.

- Investment Management is provided by Ocean Dial Asset Management Limited, a company authorised and regulated in the United Kingdom by the Financial Conduct Authority ("FCA").
- Administration and Company Secretarial duties for the Company during the year were performed by Apex Fund Services (Guernsey) Limited, a company licensed and regulated by the Guernsey Financial Services Commission. Those for the subsidiary were performed by Apex Fund Services (Mauritius) Limited, a company registered in Mauritius and licensed by the Financial Services Commission in Mauritius.
- Custody of assets is undertaken by SBI-SG Global Securities Services Pvt Limited.

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 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 liabilities exclude any proportion of principal amounts borrowed for investment.

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 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 not less than 12 months' notice to the other party.

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 ICG Q Limited's, the Company's wholly-owned subsidiary, holdings in Indian listed companies.

### Alternative Investment Fund Managers Directive ("AIFMD")

Ocean Dial Asset Management Limited is authorised by the Financial Conduct Authority as a small authorised UK Alternative Investment Fund Manager for the Company.

### Foreign Account Tax Compliance Act ("FATCA") and Inter-Governmental Agreements ("IGA")

The US FATCA legislation is aimed at determining the US ownership of assets in foreign accounts and thereby improving US tax compliance with respect to those assets. The States of Guernsey has entered into an IGA with the US Treasury in order to facilitate the requirements under FATCA and released draft guidance notes on 31 January 2014 with regard to the implementation of the IGA. The Company registered for US FATCA on 26 September 2014 and thereafter obtained its GIIN of 3RJCIS.99999.SL.831.

In addition, the States of Guernsey signed an IGA with the UK on 22 October 2013, under which mandatory disclosure requirements will be required in respect of Shareholders who have a UK connection.

### 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 2014.

## 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's wholly-owned subsidiary 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 18 March 2015.

**Peter Niven**

**John Whittle**

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

The Directors are responsible for preparing the Directors' Report, Directors' Remuneration Report, Portfolio Statement and the Financial Statements in accordance with applicable laws.

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Financial Statements in conformity with International Financial Reporting Standards ("IFRS"), as adopted by the EU and applicable law.

The 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 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 Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors 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 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 Financial Statements have been prepared in conformity with IFRS as adopted by the EU and give a true and fair view of the financial position of the Company; and
- this Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Signed on behalf of the Board by:

**Peter Niven**

**John Whittle**

**18 March 2015**

# Directors' Remuneration Report

## Introduction

An ordinary resolution for the approval of the Directors' Remuneration Report will be put to the Shareholders at the next Annual General Meeting.

## 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

For the year ended 31 December 2014 and 31 December 2013, the Directors' fees were as follows:

| | 2014<br>£ | 2013<br>£ |
|---|---|---|
| Fred Carr (Chairman) | 25,000 | 25,000 |
| Jamie Cayzer-Colvin (resigned on 29 May 2014) | 8,000 | 16,000 |
| Vikram Kaushik | 18,000 | 18,000 |
| Peter Niven | 19,000 | 19,000 |
| John Whittle | 16,000 | 16,000 |

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:

**Peter Niven**

**John Whittle**

**18 March 2015**

# Report of the Audit Committee

## Introduction

On the following pages, we present the Audit Committee (the "Committee") Report for 2014. As in previous years, the Committee has reviewed the Company's financial reporting, the independence and effectiveness of the independent auditor and the internal control and risk management systems of service providers.

## Structure and Composition

The Committee is chaired by Peter Niven and the other member is John Whittle.

The Chairman of the Committee is appointed by the Board and the members are appointed by the Board, in consultation with the Chairman of the Committee. The Committee shall have a minimum of two members. All members of the Committee shall be independent non-executive directors with relevant financial experience.

The Audit Committee conducts formal meetings at least twice a year, normally immediately preceding the Board meetings at which the financial statements for the half-year and year end are reviewed. Only members of the Committee have the right to attend meetings although, with the consent of the Chairman of the Committee, other directors may be in attendance. The table on page 13 sets out the number of Audit Committee meetings held during the year ended 31 December 2014 and the number of such meetings attended by each committee member and other members of the Board. The independent auditor is invited to attend those meetings at which the annual and interim reports are considered. The independent auditor and the Committee may meet together without representatives of either the Administrator or Manager being present if either considers this to be necessary.

## Principal Duties of the Committee

The role of the Committee includes:

- monitoring the intergrity of the financial statements and any formal announcements regarding financial performance;
- reviewing and reporting to the Board on the significant issues and judgements made in the preparation of the Company's published financial statements, (having regard to matters communicated by the independent auditors) preliminary announcement and other financial information;
- reviewing the effectiveness of the external audit process and the auditors' independence;
- considering and making recommendations to the Board on the appointment, reappointment, replacement and remuneration of the Company's independent auditor; and
- reviewing arrangements by which persons associated with the key service providers are able to, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that appropriate proportionate independent investigation of such matters is undertaken;
- assessing whether the annual report and accounts taken as a whole, is fair, balanced and understandable.

The complete details of the Committee's formal duties and responsibilities are set out in the Committee's terms of reference, which can be obtained from the Company's website.

## Independent Auditor

Ernst & Young LLP has been the independent auditor from the date of the initial listing on the AIM Market of the London Stock Exchange. Christopher James Matthews is the team leader and opinion signatory. At the Company's Annual General Meeting on 19 June 2014, Ernst & Young LLP was re-appointed.

The recent revisions to the UK Corporate Governance Code introduced a recommendation that the independent audit of FTSE 350 companies be put out to tender every ten years. Similarly, the EU and the Competition Markets Authority have also issued requirements to tender every 10 years and extend for a maximum of further 10 years before mandatory rotation, which is yet to be finalised. The Committee will follow the developments around the FRC, EU and Competition Commission guidance on tendering at the appropriate time.

The independence and objectivity of the independent auditor is reviewed by the Audit Committee which also reviews the terms under which the independent auditor is appointed to perform non-audit services. The outsourcing of any non-audit service to the independent auditors requires prior Committee approval where fees for the service are in excess of £10,000 cumulative over the financial year.

As a general rule, the Company does not utilise the independent auditors for internal audit purposes, secondments or valuation advice. Services which are in the nature of audit, such as tax compliance, private letter rulings, accounting advice, quarterly reviews and disclosure advice are normally permitted relative to the established non-audit services policy of the Company.

Given that the fees paid by the Company listed on page 20 are currently below the specified threshold, the Company can be deemed to not be in breach of independence and objectivity.

## Evaluations during the year

The following assessments have been made by the Committee during the year:

### Significant Financial Statement Issues

- Liquidity and Valuation - The ongoing liquidity of the Company's investment portfolio was evaluated, which included a review of both financial and relative non-financial information. Due to the liquid nature of ICG Q Limited's holdings and the Company's ability to effect a diposal of any investment in ICG Q Limited's portfolio at the prevalilng market price and the distribution of proceeds back to the Company should it so wish, it was determined that no illiquidity discount would be applied in determining the fair value of the Company's investment in ICG Q Limited.

The foregoing matters was discussed during the planning and final stage of the audit and there were no significant disagreements between the management and the independent auditor.

### Effectiveness of the External Audit Process

The Committee had formal meetings with Ernst & Young LLP during the course of the year: 1) at the review and approval of the year end accounts, which included planning discussion for the next half-year accounts; and 2) at the review and approval of the half-year accounts, which included planning discussion for the next annual accounts. The Committee performed the following in relation to its review of the effectiveness and independence of Ernst & Young LLP:

- Reviewed the audit plan presented to the Committee before the start of the audit.
- Reviewed the post audit report.
- Reviewed the auditors' own internal procedures to identify threats to independence, which included obtaining confirmation from Ernst & Young LLP of their independence.
- Discussed with both the Manager and the Administrator for any feedback on the external audit process.
- Reviewed and approved terms of the engagement of both the audit and non-audit services during the year, which included an evaluation of the relating fees.

In addition, the Committee performed specific evaluation of the performance of the independent auditor which is supported by the results of questionnaires completed by the Committee. This questionnaire covered areas such as quality of audit team, business understanding, audit approach and management.

There were no significant findings from the evaluation this year and the Committee is satisfied that the external audit process is effective.

### Audit fees and Non-audit Services

The table below summarises the remuneration paid by the Company to Ernst & Young LLP:

| | 2014<br>£ | 2013<br>£ |
|---|---|---|
| Annual Audit | 22,500 | 18,000 |
| Other Assurance Based Procedures | 3,000 | 2,500 |
| Agreed upon procedures in respect of interim financial statements | 3,000 | 2,500 |

### Internal Control

The Audit Committee has examined the need for an internal audit function. The Audit Committee considered that the systems and procedures employed by the Manager and the Administrator, provided sufficient assurance that a sound system of internal control, which safeguards the Company's assets, has been maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit Committee examined externally prepared assessments of the control environment in place at the Manager and the Administrator with the latter providing a SOC1 report.

## Conclusion and Recommendation

After consultations with Ernst & Young LLP as necessary and reviewing various reports from the Manager such as the quarterly performance reports and portfolio attribution and portfolio turnover reporting and assessing the significant financial statement issues listed on page 20, the Audit Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The Committee further concludes that the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the Company's performance, business model and strategy.

At the conclusion of the external audit process, Ernst & Young reported to the Committee that no material misstatements were found in the course of its work. Furthermore, both the Manager and the Administrator confirmed to the Committee that they were not aware of any material misstatements including matters relating to presentation. The Committee confirms that it is satisfied that the Independent Auditor has fulfilled its responsibilities with diligence and professional scepticism.

Following the detailed review and evaluation processes identified in this report, the Committee has concluded that the auditors have acted independently in the work undertaken on behalf of the Company and has recommended to the Board that Ernst & Young LLP be reappointed for the coming financial year.

For any questions on the activities of the Committee not addressed in the foregoing, a member of the Audit Committee remains available to attend each Annual General Meeting to respond to such questions.

**Peter Niven**
Audit Committee Chairman
**18 March 2015**

# Independent auditors' report

## Independent auditor's report to the members of India Capital Growth Fund Limited

### Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ('EU'); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law 2008

### What we have audited

We have audited the financial statements of India Capital Growth Fund Limited (the "Company") for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibility set out on page 17, 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 financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Our assessment of risks of material misstatement

We identified the following risks that we believed would have the greatest effect on the overall audit strategy; the allocation of resources and directing the efforts of the engagement team:

- Valuation of the Company's investment in its wholly-owned subsidiary, accounted for at fair value through profit or loss, because it involved judgement and estimation; and
- Measurement of fees payable to the Investment Manager, because of their related-party nature and the fact they are borne by both the Company and its Subsidiary based on respective net assets.

### Our application of materiality

We determined materiality for the Company to be £557,000 (2013: £350,000), which is approximately 1% of equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We used equity as a basis for determining planning materiality because the Company's primary performance measures for internal and external reporting are based on net asset value.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 75% of materiality, namely £418,000 (2013: 260,000). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £28,000 (2013: £17,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

## An overview of the scope of our audit

We adopted a risk-based approach in determining our audit strategy. This approach focuses audit effort towards higher risk areas, such as management judgments and estimates.

The audit was led from Guernsey and utilised audit work performed by Ernst & Young in Mauritius in respect of the investment portfolio held by the Company's subsidiary. This work was performed under the guidance of, and reviewed by, the Guernsey audit team. We instructed Ernst & Young Mauritius to perform a full scope audit of the Company's subsidiary because the Company's investment in it represents substantially all of the Company's net assets. The subsidiary audit was performed using a consistent materiality to that of the Company, and Ernst & Young Mauritius also perform an audit of the financial statements of the subsidiary, which are coterminous with those of the Company. We performed audit procedures and responded to the risks identified as described below;

i) We addressed the risk of incorrect valuation of the Company's investments as set out below:

- We confirmed our understanding of the Company's processes, methodologies and policies for valuing the investment held by the Company;
- We agreed the carrying value of the Company's investment in its subsidiary to the net asset value of the subsidiary as stated in its audited financial statements;
- We formed an independent view as to whether the fair value of the Company's investment in the subsidiary is equivalent to the net asset value of the subsidiary and challenged management's assumptions in reaching this conclusion;
- We agreed year end carrying amounts for all investments held by the subsidiary to exchange traded prices;
- We agreed all holdings of investments held by the subsidiary to an independent custodian confirmation;
- We confirmed the cash balance held at year end by the subsidiary directly with the bank; and
- We reviewed the composition of the net asset value of the subsidiary at year end to satisfy ourselves that, other than its listed investments and cash balance, there were no other significant balances comprising its net asset value.

ii) We addressed the risk of inaccurate measurement of fees payable to the Investment Manager by re-calculating management fees payable by reference to the terms of the Investment Management Agreement, and recalculated the allocation between the Company and its subsidiary based on their respective net asset values.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies (Guernsey) Law 2008 we are required 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 and returns; or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP
Guernsey, Channel Islands
**Date: 18 March 2015**

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 investments

## As at 31 December 2014

Please note that these investments are held by the Company's wholly-owned subsidiary, ICG Q Limited, and not directly by the Company.

| HOLDING | TYPE | SECTOR | VALUE £000's | % OF NAV OF ICGF |
|---|---|---|---|---|
| Federal Bank | Mid Cap | Financials | 3,093 | 5.55 |
| Motherson Sumi Systems | Large Cap | Consumer discretionary | 2,646 | 4.75 |
| Dewan Housing Finance Corporation | Small Cap | Financials | 2,286 | 4.10 |
| Jyothy Laboratories | Small Cap | Consumer staples | 2,268 | 4.07 |
| Tech Mahindra | Large Cap | IT | 2,263 | 4.06 |
| Yes Bank | Large Cap | Financials | 2,115 | 3.79 |
| PI Industries | Small Cap | Materials | 2,009 | 3.60 |
| Emami | Mid Cap | Consumer staples | 1,916 | 3.44 |
| Eicher Motors | Large Cap | Industrials | 1,915 | 3.43 |
| Exide | Mid Cap | Industrials | 1,865 | 3.34 |
| **Total top 10 equity investments** | | | **22,376** | **40.13** |
| Other Small Cap | (10 companies) | | 10,508 | 18.84 |
| Other Mid Cap | (10 companies) | | 15,143 | 27.15 |
| Other Large Cap | (4 companies) | | 5,351 | 9.59 |
| **Total equity investments** | | | **53,378** | **95.71** |
| Cash less other net current liabilities of ICG Q Limited | | | 2,398 | 4.44 |
| **Total net assets of ICG Q Limited** | | | **55,776** | **100.15** |
| Cash less other net current liabilities of the Company | | | (83) | (0.15) |
| **Total Net Assets** | | | **55,693** | **100.00** |

Note:

| | |
|---|---|
| Large Cap - companies with a market capitalisation above INR250bn (£2.6bn) | 24.22% |
| Mid Cap - companies with a market capitalisation between INR60bn and INR250bn (£630m - £2.6bn) | 52.65% |
| Small Cap - companies with a market capitalisation below INR60bn (£630m) | 18.84% |
| | **95.71%** |

# Portfolio statement

## As at 31 December 2014

Please note that these investments are held by the Company's wholly-owned subsidiary, ICG Q Limited, and not directly by the Company.

| HOLDING | NOMINAL | VALUE £000's | % OF NAV OF ICGF |
|---|---|---|---|
| **Listed Securities** | | | |
| **Consumer discretionary** | | | |
| Dish TV India | 2,121,212 | 1,453 | 2.60 |
| Motherson Sumi Systems | 570,250 | 2,647 | 4.75 |
| | | 4,100 | 7.35 |
| **Consumer staples** | | | |
| Dabur India | 387,640 | 919 | 1.64 |
| Emami | 240,000 | 1,916 | 3.43 |
| Jyothy Laboratories | 859,831 | 2,268 | 4.06 |
| Radico Khaitan | 560,000 | 494 | 0.88 |
| | | 5,597 | 10.01 |
| **Energy** | | | |
| Aban Offshore | 180,000 | 916 | 1.64 |
| | | 916 | 1.64 |
| **Financials** | | | |
| Arihant Foundations & Housing | 592,400 | 361 | 0.65 |
| Dewan Housing Finance Corporation | 570,890 | 2,286 | 4.10 |
| Federal Bank | 2,010,000 | 3,093 | 5.55 |
| Indian Bank | 688,913 | 1,523 | 2.73 |
| Indusind Bank | 222,000 | 1,807 | 3.24 |
| Sobha Developers | 277,398 | 1,357 | 2.43 |
| Yes Bank | 270,000 | 2,115 | 3.79 |
| | | 12,542 | 22.49 |
| **Healthcare** | | | |
| Ajanta Pharma | 55,000 | 1,298 | 2.33 |
| Divi's Laboratories | 97,550 | 1,705 | 3.06 |
| Lupin | 110,000 | 1,593 | 2.86 |
| Neuland Laboratories | 128,996 | 645 | 1.16 |
| | | 5,241 | 9.41 |

# Portfolio statement (continued)

## As at 31 December 2014

Please note that these investments are held by the Company's wholly-owned subsidiary, ICG Q Limited, and not directly by the Company.

| HOLDING | NOMINAL | VALUE £000's | % OF NAV OF ICGF |
|---|---|---|---|
| **Industrials** | | | |
| Balkrishna Industries | 257,000 | 1,598 | 2.87 |
| Eicher Motors | 12,520 | 1,915 | 3.43 |
| Exide | 1,034,000 | 1,865 | 3.34 |
| Finolex Cables | 556,597 | 1,482 | 2.66 |
| Gujarat Pipavav Port | 871,442 | 1,828 | 3.28 |
| Jain Irrigation Systems | 1,363,293 | 968 | 1.74 |
| Kajaria Ceramics | 302,835 | 1,821 | 3.27 |
| Larsen & Toubro | 68,000 | 1,031 | 1.85 |
| Max India | 440,000 | 1,767 | 3.17 |
| Voltas | 400,000 | 984 | 1.76 |
| | | 15,259 | 27.37 |
| **IT** | | | |
| KPIT Technologies | 621,781 | 1,281 | 2.30 |
| NIT Technologies | 314,723 | 1,183 | 2.12 |
| Tech Mahindra | 86,000 | 2,263 | 4.06 |
| | | 4,727 | 8.48 |
| **Materials** | | | |
| Berger Paints | 400,000 | 1,634 | 2.93 |
| P.I. Industries | 383,505 | 2,009 | 3.60 |
| The Ramco Cements | 386,702 | 1,353 | 2.43 |
| | | 4,996 | 8.96 |
| **Total equity investments** | | **53,378** | **95.71** |
| Cash and other net current assets of ICG F and its subsidiary | | 2,398 | 4.44 |
| **Total net assets of ICG Q Limited** | | **55,776** | **100.15** |
| Cash and other net current assets of the Company | | (83) | (0.15) |
| **Total Net Assets** | | **55,693** | **100.00** |



India Capital Growth Fund

# Statement of comprehensive income

## For the year ended 31 December 2014

| | NOTES | REVENUE £000 | CAPITAL £000 | YEAR TO 31.12.14 TOTAL £000 | YEAR TO 31.12.13 RESTATED TOTAL £000 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| **Net gain/(loss) on financial asset at fair value through profit or loss** | | – | 21,278 | 21,278 | (3,113) |
| **Total income/(expense)** | | **–** | **21,278** | **21,278** | **(3,113)** |
| **Expenses** | | | | | |
| Management fee | | (26) | – | (26) | 4 |
| Other expenses | 3 | (294) | – | (294) | (358) |
| Foreign exchange losses | | (1) | – | (1) | – |
| Other professional fees | 3 | (117) | – | (117) | (72) |
| **Total expenses** | | **(438)** | **–** | **(438)** | **(426)** |
| (Loss)/profit for the year before taxation | | (438) | 21,278 | 20,840 | (3,539) |
| Taxation | 6 | – | – | – | – |
| **(Loss)/profit for the year after taxation** | | **(438)** | **21,278** | **20,840** | **(3,539)** |
| **(Loss)/earnings per Ordinary Share (pence)** | 4 | (0.58) | 28.37 | 27.79 | (4.72) |
| **Diluted (loss)/earnings per Ordinary Share (pence)** | | (0.44) | 21.40 | 20.96 | (3.56) |

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with IFRS as adopted by the EU. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies, as disclosed in the Basis of Preparation in Note 1.

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

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

The notes on pages 32 to 41 form part of these financial statements.

# Statement of changes in equity

## For the year ended 31 December 2014 (audited)

| | NOTES | SHARE CAPITAL £000 | CAPITAL RESERVE £000 | REVENUE RESERVE £000 | OTHER DISTRIBUTABLE RESERVE £000 | TOTAL £000 |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2014 (restated) | | 750 | (30,591) | (8,156) | 72,850 | 34,853 |
| Gain on investments | | – | 21,278 | – | – | 21,278 |
| Revenue loss for the year after taxation | | – | – | (438) | – | (438) |
| **Balance as at 31 December 2014** | | **750** | **(9,313)** | **(8,594)** | **72,850** | **55,693** |

## For the year ended 31 December 2013 (audited and restated)

| | NOTES | SHARE CAPITAL £000 | CAPITAL RESERVE £000 | REVENUE RESERVE £000 | OTHER DISTRIBUTABLE RESERVE £000 | TOTAL £000 |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2013 (as previously stated) | | 750 | (30,281) | (4,955) | 72,878 | 38,392 |
| Restatement due to change in accounting policy | | – | 2,803 | (2,775) | (28) | – |
| Balance as at 1 January 2013 (as restated) | | 750 | (27,478) | (7,730) | 72,850 | 38,392 |
| Loss on investments | | – | (3,113) | – | – | (3,113) |
| Revenue loss for the year after taxation | | – | – | (426) | – | (426) |
| **Balance as at 31 December 2013** | | **750** | **(30,591)** | **(8,156)** | **72,850** | **34,853** |

The notes on pages 32 to 41 form part of these financial statements.

# Statement of financial position

## As at 31 December 2014

| | NOTES | YEAR TO 31.12.14 £000 | YEAR TO 31.12.13 RESTATED £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Financial assets designated at fair value through profit or loss | 5 | 55,776 | 34,973 |
| **Current assets** | | | |
| Cash and cash equivalents | | 48 | 61 |
| Receivables | 7 | 8 | 15 |
| | | 56 | 76 |
| **Current liabilities** | | | |
| Payables | 8 | (139) | (196) |
| Net current liabilities | | (83) | (120) |
| **Total assets less current liabilities** | | 55,693 | 34,853 |
| **Equity** | | | |
| Ordinary share capital | 10 | 750 | 750 |
| Reserves | | 54,943 | 34,103 |
| Total equity | | 55,693 | 34,853 |
| **Number of Ordinary Shares in issue** | | **75,001,463** | **75,001,463** |
| **Net Asset Value per Ordinary Share (pence) – Undiluted** | | **74.26** | **46.47** |
| **Net Asset Value per Ordinary Share (pence) – Diluted** | | **69.83** | **46.47** |

The audited financial statements on pages 28 to 41 were approved by the Board of Directors on 18 March 2015 and signed on its behalf by:

**Peter Niven**

**John Whittle**

The notes on pages 32 to 41 form part of these financial statements.

# Statement of cash flows

## For the year ended 31 December 2014

| | NOTES | YEAR TO 31.12.14 £000 | YEAR TO 31.12.13 RESTATED £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit/(loss) | | 20,840 | (3,539) |
| *Adjustment for:* | | | |
| Net (gain)/loss on financial asset at fair value through profit or loss | | (21,278) | 3,113 |
| Foreign exchange losses | | 1 | – |
| **Operating loss before working capital changes** | | **(437)** | **(426)** |
| **Working capital changes** | | | |
| Decrease in receivables | | 7 | 5 |
| Decrease in payables | | (57) | 69 |
| **Cash flow used in operating activities** | | **(487)** | **(352)** |
| **Cash flows from investing activities** | | | |
| Sale of investments | | 475 | 380 |
| **Net cash inflow from investing activities** | | **475** | **380** |
| Net (decrease)/increase in cash and cash equivalents during the year | | (12) | 28 |
| Cash and cash equivalents at the start of the year | | 61 | 33 |
| Foreign exchange losses | | (1) | – |
| **Cash and cash equivalents at the end of the year** | | **48** | **61** |

The notes on pages 32 to 41 form part of these financial statements.



India Capital Growth Fund

# Notes to the financial statements

## For the year ended 31 December 2014

### 1. Accounting Policies

**Basis of accounting**

The 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).

**Basis of preparation**

The financial statements for the year ended 31 December 2014 have been prepared under the historical cost convention adjusted to take account of the revaluation of the Company's investments to fair value.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for Investment Trust Companies and Venture Capital 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 statement of comprehensive income.

**Impact of IFRS 10 'Consolidated Financial Statements'**

As set out under IFRS 10, a parent entity that qualifies as an investment entity should not consolidate its subsidiaries. The Company meets all the following criteria to qualify as an investment entity:-

(i) Obtaining funds from one or more investors for the purpose of providing those investors with investment management services - the Board of Directors of the Company has delegated this function to its investment manager, Ocean Dial Asset Management Limited;

(ii) Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both - funds are invested in ICG Q Limited for the sole purpose of achieving capital appreciation via further placements in Indian listed securities; and

(iii) Measures and evaluates the performance of substantially all of its investments on a fair value basis - on a monthly basis, the Company's investment in ICG Q Limited is revalued at the prevailing Net Asset Value at the corresponding valuation date.

On the basis of the above, these financial statements represent the stand-alone figures of the Company. All comparative figures for the year ended 31 December 2013 have been restated to represent Company figures instead of consolidated figures. However, despite this restatement, the net asset value and aggregate reserves of the Company remain unchanged. The restatement has resulted in a reclassification between capital and revenue reserves and income and expenses in the statement of comprehensive income.

No third column is presented in the Statement of Financial Position as, other than reclassifications between sundry debtors, creditors and cash and investments, no material adjustments arose and total shareholders' funds remained unchanged further to the restatement.

In 2013, the consolidated financial statements reported income from dividends of £548,000 and other expenses relating to costs borne by the Company's subsidiary, ICG Q Limited, of £444,000. These have subsequently been restated and are included in the fair value gain/(loss) on financial assets and are reflected through a movement in the opening reserves allocation.

**Expenses**

Expenses are accounted for on an accruals basis. 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.

# For the year ended 31 December 2014

## 1. Accounting Policies (continued)

### Investments

The Company's investment is designated at fair value through profit or loss at the time of acquisition. It is initially recognised at fair value, being the cost incurred at acquisition. Transaction costs are expensed in the statement of comprehensive income. Gains and losses arising from changes in fair value are presented in the statement of comprehensive income in the period in which they arise.

The investment is designated at fair value through profit or loss at inception because it is managed and its performance evaluated on a fair value basis in accordance with the Company's investment strategy as documented in the Admission Document and information thereon is evaluated by the management of the Company on a fair value basis.

Purchases and sales are recognised on the trade date - the date on which the Company commits to purchase or sell the investment.

The financial asset is derecognised when the rights to receive cash flows from the investment have expired or the Company has transferred substantially all risks and rewards of ownership.

Receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Due to their short-term maturities, their fair values approximate their costs.

Payables are recognised initially at fair value and subsequently measured at amortised cost. Due to their short-term maturities, their fair values approximate their costs.

### 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 is Sterling. Sterling is also the presentation currency of the financial statements.

Monetary foreign currency assets and liabilities are translated into Sterling at the rate of exchange ruling at the statement of financial position date. Investment transactions and income and expenditure items are translated at the rate of exchange ruling at the date of the transactions. Gains and losses on foreign exchange are included in the statement of comprehensive income.

### Cash and cash equivalents

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

### Share capital

The share capital of the Company comprises of both Ordinary Shares and Subscription Shares issued. The Company's Ordinary Shares and Subscription Shares have had all the features and have met all the conditions for classification as equity instruments under IAS 32 (amended) and have been classified as such in the financial statements.

### Standards, interpretations and amendments to published statements not yet effective

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

- Amendments to IFRS 7 and IFRS 9 - Mandatory effective date and Transition disclosures is effective for periods beginning on or after 1 January 2018.
- Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 is effective for periods beginning on or after 1 January 2018.

## 1. Accounting Policies (continued)

**Standards, interpretations and amendments to published statements not yet effective (continued)**

- IFRS 14 - Regulatory Deferral Accounts is effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants is effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 - Clarification of Accountable Methods of Depreciation and Amortisation is effective for periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations is effective for periods beginning on or after 1 January 2016.
- Amendments to IAS 27 - Equity Method in Separate Financial Statements is effective for periods beginning on or after 1 January 2016.
- IFRS 9 - Financial Instruments (issued in 2014) is effective for periods beginning on or after 1 January 2018.
- IFRS 15 - Revenue from Contracts with Customers beginning on or after 1 January 2017.

The Board has not yet assessed the impact of these standards as they have been recently published. The Directors believe that other pronouncements which are in issue but not yet operative or adopted by the Company will not have a material impact on the financial statements of the Company, but these will continue to be reviewed. These are:-

- Amendment to IAS 36 - Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets.
- Amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities.
- Amendment to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting.
- IFRIC 21 - Levies.
- Amendments to IAS 19 - Defined Benefits Plans: Employee Contributions.
- Annual improvements to IFRSs 2010-2012 cycle.
- Annual improvements to IFRSs 2011-2013 cycle.

## 2. Significant accounting judgements, estimates and assumptions

IFRS require management to make judgments, estimates and assumptions that effect 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 Company 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 12. And in relation to the valuation of unlisted investment, actual results may differ from the estimates. It is management's judgement that NAV of ICG Q Limited is an appropriate proxy for fair value as the Company can control the sale of the subsidiary's investments and therefore no liquidity discount required.

## For the year ended 31 December 2014

### 3. Other expenses

| | Year to 31.12.14 £000 | Year to 31.12.13 Restated £000 |
|---|---|---|
| Directors' fees (note 13) | 86 | 94 |
| D&O insurance | 6 | 14 |
| Administration and secretarial fees (note 13) | 39 | 75 |
| Audit fee | 14 | 16 |
| Other advisory services | – | 20 |
| General expenses | 149 | 139 |
| | 294 | 358 |

**Other professional fees**

During the year, the Company incurred costs amounting to £117,000 in relation to the Share Subscription Issue. During the year, the Board announced it was considering an issue of subscription shares ("Share Subscription Issue") with a view of increasing the size of the Company, which in turn would improve its marketability, facilitate a broader shareholder base and reduce the total expense ratio, whilst ensuring value remained with existing shareholders. 37,500,710 subscription shares of no par value (the "Subscription Shares") were authorised for issue free of payment on the basis of one Subscription Share for every two Ordinary Shares held at 5.00 pm on 4 August 2014. Each Subscription Share confers the right (but not the obligation) to subscribe for one Ordinary Share upon exercise of the Subscription Share rights and on payment of the subscription price being equal to the published unaudited NAV per Ordinary Share as calculated by the Administrator as at 5.00 pm on 31 July 2014, rounded up to the nearest penny (the "Subscription Price").

### 4. Earnings/(loss) per share

Earnings/(loss) per Ordinary Share is calculated on the profit for the year of £20,840,000 (2013 - loss of £3,539,000) divided by the weighted average number of shares of 75,001,463 (2013 - 75,001,463).

The fully diluted NAV assumes that the 37,500,710 Subscription Shares' rights will be exercised at their subscription price of 61 pence. The Subscription Shares have a subscription date of 6 August 2016. However, if at any time after 6 August 2015 the average middle market quotation for an Ordinary Share for at least 10 consecutive trading days is 5% or more above the subscription price, the Company has the right, but not the obligation, by an announcement on a RIS, to change the subscription date for exercise of the Subscription Shares to an earlier date (being a date not less than 30 days after the Company's announcement) that it is bringing forward the subscription date. In that event, an announcement will be made on a RIS and a notice of the revised subscription date will be given to all holders of the Subscription Shares on the register at 5.00pm on the date falling three business days following the announcement of the revised subscription date.

The diluted weighted average number of shares as at 31 December 2014 amounted to 99,418,134.

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

| | Listed £000 | Unlisted £000 | Year to 31.12.14 Total £000 | Year to 31.12.13 Total Restated £000 |
|---|---|---|---|---|
| Market value as at 1 January | – | 34,973 | 34,973 | 38,466 |
| Sales proceeds | – | (475) | (475) | (380) |
| Realised gain/(loss) on sale of investments | – | 85 | 85 | (355) |
| At end of the year | – | 34,583 | 34,583 | 37,731 |
| Unrealised gain/(loss) on revaluation | – | 21,193 | 21,193 | (2,758) |
| **Fair value at end of year** | **–** | **55,776** | **55,776** | **34,973** |

| | | |
|---|---|---|
| Fair value of listed securities at end of the year | – | – |
| Fair value of unlisted securities at end of the year | 55,776 | 34,973 |

The equity investment represents ICG Q Limited, the Company's wholly owned subsidiary. ICG Q Limited is incorporated and has its principal place of business in the Republic of Mauritius. The Company holds Participating Shares in ICG Q Limited, which confer voting rights to the Company, hence controlling interests.

## 6. Taxation

### Guernsey

India Capital Growth Fund Limited is exempt from taxation in Guernsey. The Company is exempt under The Income Tax (External Bodies) (Guensey) Ordinance 1989 (as amended) and paid the annual exemption fee.

For the year ended 31 December 2014, the Company had a tax liability of £ Nil (year ended 31 December 2013: £ Nil).

### 7. Receivables

| | 31.12.14 Total £000 | 31.12.13 Total Restated £000 |
|---|---|---|
| Other receivables and prepayments | 8 | 15 |
| | 8 | 15 |

### 8. Payables

| | 31.12.14 Total £000 | 31.12.13 Total Restated £000 |
|---|---|---|
| Management fee | 71 | 44 |
| Other creditors | 68 | 152 |
| | 139 | 196 |

### 9. Segmental information

The Board has considered the provisions of IFRS 8 in relation to segmental reporting and concluded that the Company's activities form a single segment under the standard. From a geographical perspective, the Company's activities are focused in a single area - Mauritius. The subsidiary, ICG Q Limited, focuses its investment activities in listed securities in India. Additional disclosures have been provided in this Annual Report to disclose the underlying information. 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 5 as required by the Statement of Recommended Practice (SORP) for Investment Trusts issued by the AIC, as per the basis of preparation in Note 1.

### 10. Share capital

**Authorised Share Capital**

Unlimited number of Ordinary Shares of £0.01 each

| | Number | £000 |
|---|---|---|
| Ordinary Shares of £0.01 each | | |
| At 31 December 2014 | 75,001,463 | 750 |
| At 31 December 2013 | 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.

There were no movements in the number of Ordinary Shares during 2014 or 2013.

The other distributable reserves relate to share premium arising on issuance of Ordinary Shares only.

The Subscription Shares do not entitle the holders to dividends or voting rights in the Company.

## 11. 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).

The analysis as at 31 December 2014 is as follows:

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Unlisted securities | – | 55,776 | – | 55,776 |

The analysis as at 31 December 2013 (restated) is as follows:

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Unlisted securities | – | 34,973 | – | 34,973 |

The Company's investment in ICG Q Limited, the Company's wholly owned subsidiary is priced based on the subsidiary's net asset value as calculated as at the reporting date. The company has the ability to redeem its investment in ICG Q Limited at the net asset value at the measurement date therefore this is categorised as level 2. The classification within the hierarchy does not necessarily correspond to the Investment Manager's perceived risk of the investment, nor the level of the investments held within the subsidiary. All the underlying investments of ICGQ Limited are categorised as level 1 at 31 December 2014 (2013: one unlisted security held classified as level 3 and valued at £Nil). The year-end fair value of those investments, together with cash held in ICG Q Limited, comprise all but an insignificant proportion of the net asset value of the subsidiary.

## 12. 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 through its subsidiary. The investment policy permits making investments in a range of equity and equity linked securities of such companies. ICG Q Limited's portfolio of investments is predominantly in listed mid and small cap Indian companies. The Company held one unlisted security which was sold during the year ended 31 December 2014. While the principal focus is on investments in listed equity securities or equity-linked securities, ICG Q Limited has the flexibility to invest in bonds, convertibles and other type of securities.

The specific risks arising from the Company'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:

### 12. Financial instruments and risk profile (continued)

**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 2014, 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 as occurred in August 2014 when the Board issued subscription shares on the basis of 1 subscription share for every 2 Ordinary Shares. The intention of the issue is to increase the Company's share capital by up to 50% in order to improve liquidity and reduce operating charges as a percentage of assets under management.

The Company holds a single investment in ICG Q Limited, which holds an underlying portfolio of 34 equity instruments based in India. Below is an assessment of the various risks the Company may be indirectly exposed to via ICG Q Limited.

**Market price risk**

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

ICG Q Limited'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. ICG Q Limited's investment portfolio is concentrated and, as at 31 December 2014, comprised investment in 34 companies. ICG Q Limited thus has higher exposure to market risk in relation to individual stocks than more broadly spread portfolios.

ICG Q Limited'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. Assuming perfect correlation the sensitivity of ICG Q Limited to market price risk can be approximated by applying the percentage of funds invested (31 December 2014: 95.71%) to any movement in the BSE Mid-Cap Index. At 31 December 2014, with all other variables held constant, this approximation would produce a movement in the net assets of ICG Q Limited of £5,338,000 (31 December 2013: £3,372,000) for a 10% (31 December 2013: 10%) movement in the index which would impact the Company via a fair value movement of the same magnitude in its holding in ICG Q Limited.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of the financial instruments held by ICG Q Limited will fluctuate because of changes in foreign exchange rates. ICG Q Limited'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 ICG Q Limited. The underlying currency risk in relation to ICG Q Limited's investments is the Rupee. ICG Q Limited's policy is not to hedge the Rupee exposure.

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

## 12. Financial instruments and risk profile (continued)

### Foreign currency risk (continued)

At 31 December 2014, if the Indian Rupee had strengthened or weakened by 10% (31 December 2013: 10%) against Sterling with all other variables held constant, pre-tax profit for the year would have been £5,585,000 (31 December 2013: £3,569,000) 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 in ICG Q Limited and the consequent impact on the fair value of the Company's investment in ICG Q Limited.

### 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 ICG Q Limited. 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 Company are in relation to deposits with banks. SBI-SG Global Securities Services Private Limited ("SBI-SG") acts as the principal banker to the Company. The aggregate exposure of ICG Q Limited to the SBI-SG group at 31 December 2014 was £2,484,000 (31 December 2013: £1,267,000).

SBI-SG acted as custodian of the Company and ICG Q Limited's assets during the period. The securities held by SBI-SG as custodian are held in trust and are registered in the name of ICG Q Limited. SBI-SG has a credit rating of CRISIL AAA for SBI and A for Societe Generale.

### 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 ICG Q Limited 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 ICG Q Limited is likely to be invested in relatively illiquid securities. ICG Q Limited'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 ICG Q Limited's investments.

ICG Q Limited seeks to maintain sufficient cash to meet its working capital requirements.

The Directors do not believe it to be appropriate to adjust the fair value of the Company's investment in ICG Q Limited for liquidity risk, as it has the ability to effect a disposal of any investment in ICG Q Limited's portfolio at the prevailing market price and the distribution of proceeds back to the Company should it so wish.

## 13. 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 and have overall responsibility for the Company's activities.

Directors' fees are disclosed fully in each Annual Report. The fees payable were £25,000 per annum for the Chairman, £19,000 per annum for the Chairman of the Audit Committee, £16,000 per annum to Mr John Whittle and £18,000 to Mr Vikram Kaushik.

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 total assets, calculated and payable monthly in arrears. The Investment Manager earned £703,000 in management fees during the year ended 31 December 2014 (31 December 2013: £522,000) of which £71,000 was outstanding at 31 December 2014 (31 December 2013: £44,000). The Company incurred fees of £26,000 during the year ended 31 December 2014, whist ICG Q Limited had borne £677,000 during the same year.

In June 2014, a Supplement to the Investment Management Agreement dated 16 December 2005 was executed between the Investment Manager, the Company and ICG Q Limited such that the Investment Manager is not entitled to any performance-related fees with effect from 1 January 2014.

Under the terms of the Administration Agreement, Apex Fund Services (Guernsey) Limited is entitled to a minimum annual fee of US$41,000 or a flat fee of 5 basis points of the NAV of the Company, whichever is greater. The Administrator is also entitled to reimbursement of all out of pocket expenses recoverable by way of a fixed disbursement charge of US$50 per month excluding all international calls and courier. The Administrator earned £39,000 for administration and secretarial services during the year ended 31 December 2014 (Earned by Northern Trust for the year ended 31 December 2013: £75,000) of which £3,300 was outstanding at 31 December 2014 (Due to Northern Trust as at 31 December 2013: £19,000). The Company's sub-administrator, Apex Fund Services (Mauritius) Ltd, earned £27,000 for administration and secretarial services during the year ended 31 December 2014 (31 December 2013: Nil).

## 14. Contingent liabilities

The Directors are not aware of any contingent liabilities as at 31 December 2014 (2013: Nil).

## 15. Subsequent events

These financial statements were approved for issuance by the Board on 18 March 2015. Subsequent events have been evaluated until this date. There were no subsequent events after year end that required adjustments to the financial statements and disclosures to the notes.

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