India Capital Growth Fund

Unaudited interim report and consolidated financial statements

For the period from 11 November 2005 to 30 June 2006

India
Capital Growth Fund

Unaudited interim report and consolidated financial statements

For the period from 11 November 2005 to 30 June 2006

Contents

Management and administration

Directors

Michael L. Ingall (Chairman)

Jamie M.B. Cayzer-Colvin

Ashok Dayal

Robert P. King

Robert C. Nicholson

Registered Office

Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Investment Manager

India Investment Partners Limited
Cayzer House
30 Buckingham Gate
London SW1E 6NN

Administrator and Secretary

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

Mauritian Administrator

International Financial Services Limited
IFS Court
TwentyEight
Cybercity
Ebene
Mauritius

Custodian

The Hong Kong and Shanghai Banking
Corporation Limited
HSBC Central Services Centre 8
Sk Ahire Marg
Worli
Mumbai 400 030
India

Custodian (continued)

HSBC Bank Plc
Institutional Fund Services
Mariner House
London EC3N 4DA

Registrar

Capita IRG (CI) Limited
2nd Floor
No. 1 Le Truchot
St. Peter Port
Guernsey GY1 4AE

Auditors

Ernst & Young LLP
14 New Street
St. Peter Port
Guernsey GY1 4AF

Legal Advisers to the Company

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

for Guernsey Law
Carey Olsen
7 New Street
St. Peter Port
Guernsey GY1 4BZ

for Indian Law
AZB & Partners
Express Towers
23rd Floor
Nariman Point
Mumbai 400 021
India

for Mauritian Law
Citilaw Chambers
Cathedral Square
Port Louis
Mauritius and,

International Financial Services Limited
IFS Court
Twenty Eight
Cybercity
Ebene
Mauritius

Chairman's report

This is my first communication to shareholders since the listing of India Capital Growth Fund in December of last year, and I would like to take this opportunity to welcome all shareholders to the Company.

Activity

These are early days for the Fund, and the volatility of both equity and currency markets have made the first six months of 2006 a difficult period, with the net asset value per share declining by 13.6% since launch. During the same period the BSE Sensex has risen on a sterling adjusted basis by 5.9% and the BSE Small Cap Index has fallen on a sterling adjusted basis by 14.6%.

Our perception that the market was trading at excessive valuations made us cautious investors in the first quarter, so we did not participate in the initial bull run in the large cap sector of the market. Subsequently the portfolio was marked down heavily by the market in the sell off in small caps after 10 May 2006. We had also taken an early position in the banking sector, which turned out to be a call against the market, and have seen significant falls in the value of these investments, both absolute as well as in sterling terms.

On the positive side we have built up significant shareholdings in a range of companies that we believe will deliver above average returns over the medium term. The portfolio is broadly spread and offers exposure both to the growing domestic market as well as to India's increasing share of international trade.

Outlook

While the market, especially for small and mid cap companies has gone through an extremely difficult phase, we have concentrated on investing in companies that in our opinion have strong management, good growth prospects and strong returns on invested capital, and where we can invest at reasonable prices. We are confident about the future prospects for the Indian economy and believe that our portfolio will deliver exciting returns to the Fund.

The recent correction has offered us the opportunity to further invest at attractive prices; we will continue to consolidate stakes in present small and mid caps and add further listed and unlisted companies to the portfolio, and cautiously to deploy liquidity in large cap stocks as opportunities present themselves.

As stated in the Admission Document we expect to be predominantly invested in listed or unlisted small and mid cap companies by the end of the year.

Extraordinary General Meeting

You will note that the Company has called an Extraordinary General Meeting in order to cancel the share premium account, which was established when the fund was initially launched, but is not required for the continued operation of the Company. There is a requirement under Guernsey law to obtain shareholder approval to cancel the account and I would therefore request on behalf of the Company that you complete the enclosed proxy form and vote in favour of the proposed resolution.

Micky Ingall | Chairman

12 SEPTEMBER 2006

Investment manager's report

Investment strategy

The India Capital Growth Fund was launched to offer investors the opportunity of long term capital appreciation through investing in Indian securities. While the focus is on small and midcap listed companies, the Fund can invest in unlisted and in larger cap equities that offer the prospect of long term growth.

The Company was listed on 22 December 2005 and made its first investment on 4 January 2006.

In the period to 30 June 2006 we have closely followed the investment strategy as stated in the Admission Document. In particular:

- Investing for long term capital appreciation with a focus on small and mid cap Indian companies:

  "The Company's investment objective is to provide long-term capital appreciation by investing predominantly in listed small to mid-cap Indian companies with a smaller proportion in unlisted Indian companies. Investment may also be made in large-cap listed Indian companies…where the Fund Manager believes long-term capital appreciation will be achieved."; and

- Building up the portfolio steadily and holding cash pending long term investments:

  "The Fund Manager will follow an absolute return focus to investing rather than 'relative-performance' stock picking. While selecting target companies across the Indian Market which the Fund Manager considers have potential to appreciate in value without undue risks, the Company may hold liquid assets (including cash) pending deployment in suitable investments."; and

- Investing through a bottom up evaluation of companies rather than using top down sectoral limits:

  "Investment evaluation and selection strategy will involve a disciplined approach to investing by carrying out detailed and careful studies of opportunities on a case by case basis in companies which the Fund Manager believes have the potential for growth."

Our aim is to build up a portfolio of companies that will outperform based on their management strengths and business profile. Over time we anticipate holding a portfolio of some 20-30 investments, each of a significant size, in companies across a broad range of industries, where we see the prospects of above average returns that translate into significant capital appreciation for shareholders.

The market environment

The Indian stock market overall continued its 2005 bull run well into 2006, with the broad market index, the BSE Sensex, rising some 34% from 1 January 2006 to its peak on 10 May 2006, when it corrected sharply, in line with global market sentiment. Large cap stocks recovered from this correction and the BSE Sensex ended the half year showing a 13% gain over the period.

The picture for small cap stocks was somewhat different. A late rise in April was followed by heavy falls in May and June, with the BSE Small Cap Index down by a net 10% since 1 January 2006.

In January 2006 the BSE Sensex was trading at an average PE of around 18 times, which we already considered demanding. Nevertheless, foreign and domestic investors invested around US$ 4.9bn net into the Indian stock market between 1 January 2006 and 10 May 2006, pushing the BSE Sensex average PE to 22 at its peak. The subsequent correction reduced this to 19.4 as at 30 June 2006. Despite the strong earnings growth reported by companies for the first quarter, the market overall remains in our view expensive and we continue to believe that small caps, trading at significantly lower multiples, offer better value for long term investors.

The Company follows a declared policy of not hedging Rupee based investments against Sterling and the depreciation of the Indian Rupee (INR) against Sterling (GBP) during the first six months of 2006 has had a further major impact on the Company's performance. For the first three months of the year the INR/GBP rate remained within the range -1.9% to +0.9% of its rate on 2 January 2006 (as measured by the Reserve Bank of India Reference Rates). However, between 31 March 2006 and 31 May 2006 the Rupee depreciated by over 12% against Sterling, and while it came back somewhat in June, it ended the period some 8.95% below its 2 January 2006 value. The fact that the Fund was not fully invested and has been holding cash in Sterling has mitigated the effect of the currency movement, but Sterling's continued strength into the second half of the year continues to affect adversely the value of the portfolio.

The investment portfolio

As at 30 June 2006, 47% of the portfolio was invested in the core small and mid cap listed segment, with 19% in large cap stocks and the balance in cash in Sterling.

Through the recent bull and bear market phases we have focused on our bottom up approach and have steadily bought into target companies where we believe there is a difference between our fundamentals based valuations and current market perceptions.

We have used a variety of structures to invest into our target companies, both in terms of instruments (GDRs, convertible debentures) and purchasing method (IPOs, secondary market purchases and preferential issues). In many cases we have negotiated and structured investment opportunities directly with promoters and vendors to achieve the desired size of holding in otherwise illiquid stocks. Secondary market purchases have inevitably been gradual in order to seek to minimise the buying pressure on stocks with limited liquidity.

The small and mid cap portfolio

As at 30 June 2006 the Portfolio contained 29 small and mid cap investments making up 46.9% of the total by value.

Our aim is to hold between 5% and 15% of the equity of small cap investee companies. As a significant shareholder we are able to develop a close dialogue with management, which gives us considerable comfort in the investment process and ongoing monitoring of investee companies. Where practical we will assist management in meeting challenges such as raising capital or acquisitions.

Where it is not possible to build meaningful stakes of an appropriate size within our price parameters in target companies we have divested our shareholding.

Principal small and mid cap holdings (with data as at 30 June 2006):

Varun Shipping Company Limited

Valuation: GBP 2.1mn
3.4% of portfolio
2.3% of company

The Company is the largest Indian carrier (76% share) and second largest globally (18% share) in the mid-sized Liquified Petroleum Gas (LPG) semi-refrigerated shipping segment. The Company has a market cap of INR 7,870mn (GBP 93mn) and is currently trading at a P/E of 4.6 times (trailing twelve months). In the financial year 2006, the Company registered turnover growth of 65% and net profit growth of 122%. Stable freight rates and its attractive position in the Indian LPG market will drive its future growth.

Mahindra Ugine Steel Company Limited

Valuation: GBP 2.0mn
3.2% of portfolio
4.0% of company

The Company manufactures tool, alloy and special steels for auto and auto-component companies. The Company's current market cap is INR 4,366mn (GBP 52mn) and is currently trading at a P/E of 6.51 times (trailing twelve months). In the financial year 2006, the Company registered a turnover growth of 18% and net profit growth of 35%. The Mahindra & Mahindra Group, a major tractor and

Table 1: Top 5 small and mid cap investments as at 30 June 2006

HOLDING	SECTOR	% OF PORTFOLIO	% OF COMPANY
Varun Shipping Company Limited	Shipping	3.4	2.3
Mahindra Ugine Steel Company Limited	Auto Components	3.2	4.0
Mawana Sugars Limited	Sugar	3.0	4.7
JSW Steel Limited	Steel	2.9	0.4
Kirloskar Ferrous Industries Limited	Auto Components	2.6	4.5

The investment portfolio (continued)

auto-component company, is the major shareholder and Mahindra Ugine is expected to play an important role in the Group's rapid growth in auto-components.

Mawana Sugars Limited
Valuation: GBP 1.9mn
3.2% of portfolio
4.7% of company

The Company manufactures sugar. It has a current installed capacity of 21,000 Tonnes Crushed per Day (TCD) and is expanding its capacity to 29,500 TCD from the next sugar season (October 2006 to March 2007). The Company's current market cap is INR 3,456mn (GBP 41mn) and is trading at a P/E of 10.3 times (trailing twelve months). In the financial year September 2005 (the financial year for the Company ends 30 September each year) the Company registered a turnover growth of 46% and net profit growth of 864%. The Company has build capacity for manufacturing Ethanol and Power through cogeneration which are both expected to further improve the Company's revenues.

JSW Steel Limited
Valuation: GBP 1.9mn
2.9 % of portfolio
0.4% of company

JSW Steel is a fully integrated carbon steel manufacturer. The Company's current market cap is INR 40,456mn (GBP 479mn) and is currently trading at a P/E of 5.23 times (trailing twelve months). The Company has concentrated on manufacturing value added steel and is increasing its steel production capacity from 2.5 to 6.8 million tonnes per annum.

Kirloskar Ferrous Industries Limited
Valuation: GBP 1.7mn
2.6% of portfolio
4.5% of company

The Company manufactures castings for the automotive sector and has a pig iron plant. It has a market cap of INR 3,142mn (GBP 37mn) and is trading at a P/E of 11.54 times (trailing twelve months). In the financial year 2006, the Company registered a net profit growth of 19.5%. The Company recently purchased the castings division of Kirloskar Oil Engines (another Kirloskar Group company) at an attractive price thus augmenting capacity and its ability to move into machined components, an area that is expected to drive value-added growth in the future.

Unlisted investment

The only unlisted investment held at 30 June was a holding of warrants to subscribe for Ordinary Shares in Viceroy Hotels, a listed company, which were acquired as part of a preferential issue in which we also subscribed for listed Ordinary Shares. No investments had been made in unlisted companies at 30 June 2006, although the first such investment was completed shortly after the period end.

Large cap investments

During the first six months we invested in 7 large cap stocks.

These include three large cap banks (making up in total 9.6% of portfolio), which along with the banking sector as a whole have significantly under-performed the market despite trading at an average Price to Book ratio of 0.87 (as at 30 June 2006). We continue to believe that the banking sector offers an attractive exposure to the growing domestic economy and that the prospects for the banking sector (low NPAs and continued corporate and retail lending growth) remain sound.

Two other large cap investments made during the first quarter of this year are Infosys Technologies Limited (5.7% of the portfolio) and Hindalco Industries Limited (3.4% of the portfolio). Both these companies have strong fundamentals and the investment was at prices that it is believed offer attractive upside. Our intention is to reduce our holdings in these companies as funds are deployed into the core small and mid cap portfolio.

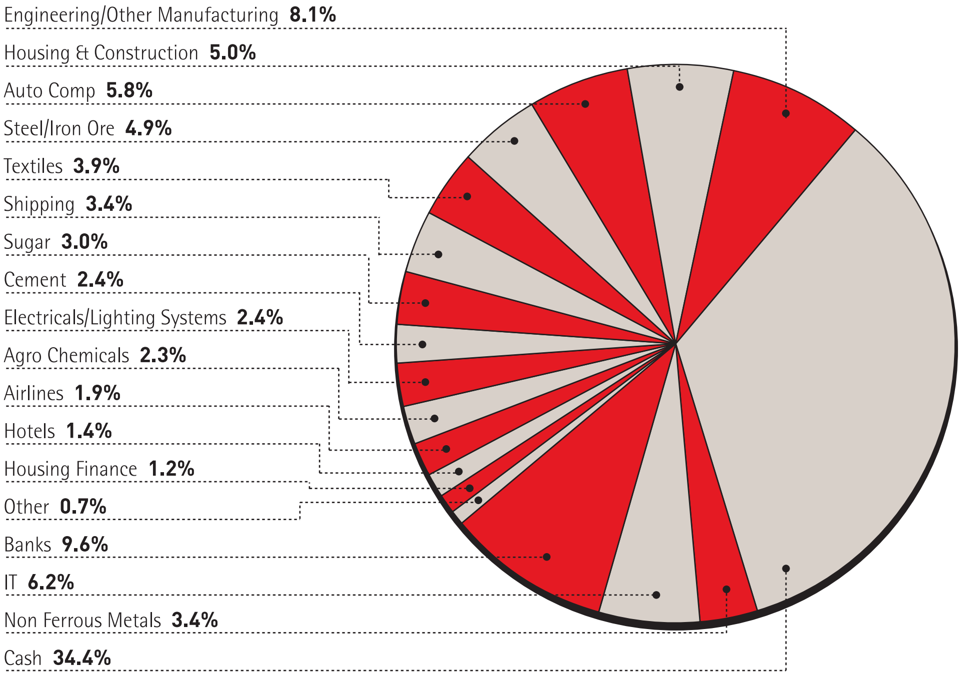
The balance of large cap stocks were sold prior to 30 June 2006.

Sectoral risk controls

While our investment selection is primarily based on bottom up analysis, the exposure of the portfolio to any one sector is regularly monitored. Table 2 overleaf shows the range of sectors represented in the portfolio.

The investment portfolio (continued)

Table 2: Sectoral analysis of portfolio as at 30 June 2006



Outlook

Since 30 June our primary focus has been a continued build up of stakes in our core small cap companies. We have also selectively added new investee companies, including, as noted above, an investment in one unlisted company. Companies have reported good quarterly results; the monsoon has been just sufficient; and with the economy remaining strong we believe the outlook for the near future is positive.

India Investment Partners Limited

12 SEPTEMBER 2006

Directors' report

The Directors present their report and the unaudited consolidated financial statements of the Group for the period from 11 November 2005 (date of incorporation) to 30 June 2006.

The Company

India Capital Growth Fund Limited (the "Company") was registered in Guernsey on 11 November 2005 and is a closed-ended investment company. The Company has two wholly owned subsidiaries, ICG Q Limited and ICG U Limited, both incorporated in Mauritius, comprising the "Group". The Company was listed on the Alternative Investment Market of the London Stock Exchange on 22 December 2005.

Investment policy

The objective of the Group is to provide long-term capital appreciation by investing in companies in India. The principal focus will be on investments in listed or unlisted equity securities or equity linked securities. A proportion of the Group's assets will be held in ICG Q Limited and invested in listed Indian securities and a smaller proportion of the Group's assets will be held in ICG U Limited and invested in unlisted Indian Securities.

Results and dividends

- The Group's performance during the period is discussed in the Investment Manager's Report on *page 4*.
- The results for the period are set out in the Consolidated Income Statement on *page 12*.
- The Directors do not recommend the payment of a dividend for the period ended 30 June 2006.

Directors

- The directors of the Company who served during the period all of whom were appointed on 11 November 2005 are set out on *page 1*.
- The Chairman is entitled to receive £25,000 per annum. Each of the other directors is entitled to receive a fee of £15,000 per annum.

Directors' interests

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

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

Robert P. King is a director of Northern Trust International Fund Administration Services (Guernsey) Limited, who provide administration services to the Company.

Jamie M.B. Cayzer-Colvin is a non-executive Director of India Investment Partners Limited, the Investment Manager.

Investment Manager

Polar Capital LLP was appointed interim Investment Manager on 16 December 2005, pending the receipt of the regulatory approval by India Investment Partners Limited. Following receipt of authorisations by the Financial Services Authority and the Guernsey Financial Services Commission, India Investment Partners Limited was appointed Investment Manager on 22 June 2006.

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

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

Substantial interests

Shareholders who have an interest of 3% or more of the Ordinary Share Capital of the Company are stated below:

	NO. SHARES	% HOLDING
Caledonia Investments Plc	16,500,000	22.0
HSBC Global Custody Nominee (UK) Limited	5,534,150	7.4
BNY (OCS) Nominees Limited	5,387,000	7.2
Diprivest Inc	5,000,000	6.7
Chase Nominees Plc	4,769,900	6.4
Roy Nominees Limited	4,605,950	6.1
The Bank of New York (Nominee) Limited	4,253,188	5.7
Pershing Keen Nominees Limited	4,132,543	5.5
OMX Securities Nominees Limited	2,462,163	3.3

Approved by the Board of Directors and signed on behalf of the Board on 12 September 2006.

M L Ingall
R P King
Directors

12 SEPTEMBER 2006

Independent review report

Introduction

We have been instructed by the Company to review the financial information for the period 11 November 2005 to 30 June 2006 which comprises the Consolidated Income Statement, Consolidated Statement of Assets and Liabilities, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and the related notes 1 to 11. We have read other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company having regard to guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period 11 November 2005 to 30 June 2006.

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

12 SEPTEMBER 2006

Notes:

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

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

Principal group investments

As at 30 June 2006

HOLDING	TYPE	SECTOR	VALUE £000'S	% OF PORTFOLIO
Infosys Technologies Limited	Large Cap	IT	3,614	5.7
Industrial Development Bank of India Limited	Large Cap	Banking	3,421	5.4
Hindalco Industries Limited	Large Cap	Non ferrous metals	2,155	3.4
Varun Shipping Company Limited	Small Cap	Shipping	2,139	3.4
Mahindra Ugine Steel Company Limited	Small Cap	Auto components	2,039	3.2
Mawana Sugars Limited	Small Cap	Sugar	1,911	3.0
JSW Steel Limited	Mid Cap	Steel	1,865	2.9
Kirloskar Ferrous Industries Limited	Small Cap	Auto components	1,659	2.6
Bank of India	Large Cap	Banking	1,647	2.6
Madras Cements Limited	Mid Cap	Cement	1,540	2.4
Total top 10 investments			**21,990**	**34.6**
Other Large Cap (1 company)			1,025	1.6
Other Small and Mid Cap (23 companies)			18,651	29.4
Total invested assets			**41,666**	**65.6**
Cash and other net current assets			21,857	34.4
Total Portfolio			**63,523**	**100.0**

Unaudited consolidated income statement

For the period from 11 November 2005 to 30 June 2006

	NOTES	REVENUE £000	CAPITAL £000	TOTAL £000
Income				
Fixed deposit interest		655	-	655
Bank interest income		395	-	395
Investment income		281	-	281
		1,331	**-**	**1,331**
Net losses on financial assets at fair value through profit or loss	2			
Market movements		-	(8,184)	(8,184)
Foreign exchange movements		-	(2,116)	(2,116)
Total income		**1,331**	**(10,300)**	**(8,969)**
Expenses				
Management fee		(560)	-	(560)
Cost of acquisitions and disposal of investments		-	(244)	(244)
Other expenses	3	(315)	-	(315)
Total expenses		**(875)**	**(244)**	**(1,119)**
Profit/(loss) for the period before taxation		456	(10,544)	(10,088)
Taxation		(10)	-	(10)
Profit/(loss) for the period after taxation		**446**	**(10,544)**	**(10,098)**
Earnings per Ordinary Share - Basic (pence)	4	0.59	(14.06)	(13.46)

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

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

The notes on pages 16 to 19 form part of these financial statements.

India Capital Growth Fund

Unaudited consolidated statement of changes in equity

For the period from 11 November 2005 to 30 June 2006

	SHARE CAPITAL £000	SHARE PREMIUM £000	CAPITAL RESERVE REALISED £000	CAPITAL RESERVE UNREALISED £000	REVENUE RESERVE £000	TOTAL £000
Gain on realisation of investments	-	-	281	-	-	281
Unrealised loss on investments	-	-	-	(8,465)	-	(8,465)
Total recognised income and expense for the period (excluding foreign exchange losses)	-	-	(48)	(196)	446	202
Realised losses on foreign currency	-	-	(112)	-	-	(112)
Unrealised losses on foreign currency	-	-	-	(2,004)	-	(2,004)
Issue of shares	750	74,250	-	-	-	75,000
Issue costs relating to the issue of shares	-	(1,379)	-	-	-	(1,379)
Balance as at 30 June 2006	**750**	**72,871**	**121**	**(10,665)**	**446**	**63,523**

The notes on pages 16 to 19 form part of these financial statements.

Unaudited consolidated statement of assets and liabilities

As at 30 June 2006

	NOTES	£000	£000
Non-current assets			
Financial assets at fair value through profit or loss	5		41,666
Current assets			
Cash and cash equivalents		22,128	
Receivables	6	237	
		22,365	
Current liabilities			
Payables	7	(508)	
Net current assets			21,857
Total assets less current liabilities			**63,523**
Equity			
Ordinary share capital	8		750
Share premium			72,871
Reserves			(10,098)
Total equity			**63,523**
Number of Ordinary Shares in issue			**75,000,000**
Net Asset Value per Ordinary Share (pence)			**84.70**

The unaudited financial statements on pages 12 to 19 were approved by the Board of Directors on 12 September 2006 and signed on its behalf by:-

M L Ingall
R P King
Directors

12 SEPTEMBER 2006

The notes on pages 16 to 19 form part of these financial statements.

Unaudited consolidated cash flow statement for the period

For the period from 11 November 2005 to 30 June 2006

	NOTES	£000
Cashflows from operating activities		
Investment income received		54
Fixed deposit interest		655
Bank interest received		388
Investment management fee paid		(481)
Other cash payments		(382)
Net cash inflow from operating activities		**234**
Cashflows from investing activities		
Purchase of investments		(57,753)
Sale of investments	5	6,068
Net cash outflow from investing activities		**(51,685)**
Cashflows from financing activities		
Proceeds from issue of shares	8	75,000
Issue costs		(1,371)
Net cash inflow from financing activities		**73,629**
Net increase in cash and cash equivalents during the period		22,178
Cash and cash equivalents at the beginning of the period		-
Exchange losses on cash and cash equivalents		(50)
Cash and cash equivalents at the end of the period		**22,128**

Notes to the unaudited consolidated financial statements

For the period from 11 November 2005 to 30 June 2006

1. Accounting policies

Basis of accounting

The unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and applicable Guernsey Law.

Basis of preparation

The unaudited interim consolidated financial statements have been prepared under the historical cost convention adjusted to take account of the revaluation of the Group's assets and liabilities to fair value through profit or loss. The financial statements are presented in Sterling.

Subsidiaries are consolidated in full from the date of acquisition, being the date on which the Group obtains control and will continue to do so until such control ceases. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

In order to better reflect the activities of an investment company and in accordance with the guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the unaudited consolidated income statement.

Income

Investment income and interest income have been accounted for on an accruals basis. Dividends receivable are taken to the income statement when the relevant security is quoted ex-dividend.

Expenses

Expenses are accounted for on an accruals basis. Expenses incurred on the acquisition and disposal of investments at fair value through profit or loss are allocated to the capital column of the income statement. Other expenses are allocated to the revenue column of the income statement.

Share issue expenses

Share issue expenses incurred in the initial launch of the Company amounted to £1,379,301. They have been treated as a deduction from equity in the Consolidated Statement of Changes in Equity.

Investments

The following method of valuation has been used with regard to the investments of the Group:

- Direct Indian equity investments are valued at closing market prices on either the Bombay Stock Exchange or the National Stock Exchange (whichever is the primary market for the security in question). Participatory notes are valued at the closing market bid prices published by the issuer. Investments listed on other exchanges are valued at closing market bid prices on the relevant exchange.
- Unlisted investments are valued at the Directors' estimate of their fair value in accordance with the requirements of IFRS 39 'Financial Instruments: Recognition and Measurement' and guidelines issued by the International Private Equity and Venture Capital Association.

Foreign currency translation

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

Taxation

The Company is exempt from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and is charged an annual exemption fee of £600.

ICG Q Limited is centrally managed and controlled from Mauritius and is hence tax resident in Mauritius. The company invests in India and the directors expect to obtain benefits under the double taxation treaty between Mauritius and India. The Indian Supreme Court has re-affirmed in a ruling dated 7 October 2003 the validity of the circular 789 issued by the Indian Central Board of Direct Taxes which provided that wherever a "Certificate of Residence" was issued by the Mauritian Tax Authorities, such certificate constituted sufficient evidence for accepting the status of residence and beneficial ownership and for applying the benefits of the tax treaty between India and Mauritius. The company holds a valid Certificate of Residence from the Mauritian Commissioner of Income Tax.

Notes to the unaudited consolidated financial statements (continued)

For the period from 11 November 2005 to 30 June 2006

1. Accounting policies (continued)

Taxation continued

India

A company which is tax resident in Mauritius under the treaty, but has no branch or permanent establishment in India, will not be subject to capital gains tax in India on the sale of securities but is subject to a Dividend Distribution Tax of equivalent to 12.5% (plus 2.5% surcharge) of the dividends distributed.

Mauritius

The company is subject to Income Tax in Mauritius on its net income at 15%. However, the company is entitled to a tax credit equivalent to the higher of the actual foreign tax suffered and 80% of the Mauritius tax on its foreign source income. At 30 June 2006, the company had a liability amounting to £10,946.

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

2. Net losses on financial assets at fair value through profit or loss

	£000	£000
Proceeds from sales of investments during the period		6,068
Original cost of investments sold during the period		(5,899)
Transaction costs		(48)
Gains on investments sold during the period		121
Market gains		281
Foreign exchange loss		(112)
Transaction costs		(48)
Movement in unrealised loss		
Market loss	(8,465)	
Foreign exchange loss	(2,004)	
Transaction costs	(196)	(10,665)
Net loss on financial assets at fair value through profit or loss		**(10,544)**

3. Other expenses

	£000
Directors' fees	53
D&O Insurance	12
Administration and secretarial fees	59
Audit fee	13
Other advisory services	37
General expenses	33
Formation expenses	58
Foreign exchange	50
	315

India Capital Growth Fund

Notes to the unaudited consolidated financial statements (continued)

For the period from 11 November 2005 to 30 June 2006

4. Earnings per share

Earnings per Ordinary Share is based on the weighted average number of Ordinary Shares. There being no change in the number of shares in issue during the period, the weighted average number of Ordinary Shares for the period is 75,000,000. Diluted Earnings per Ordinary Share is equal to the basic Earnings per Ordinary share because the fair value of one Ordinary Share as at 30 June 2006 is less than the consideration which would be receivable for the potential Ordinary Shares therefore having no dilutive effect.

5. Financial assets at fair value through profit or loss

	£000
Cost at inception	-
Purchases	58,034
Sales	(6,068)
Realised gains on sales of investments	281
Realised foreign exchange loss on sales of investments	(112)
Cost at 30 June 2006	52,135
Unrealised loss on revaluation	(8,465)
Unrealised foreign exchange loss on revaluation	(2,004)
Fair Value as at 30 June 2006	**41,666**

Securities may be held directly or through other mechanisms such as participatory notes, GDRs and Warrants.

Method	**£000**
Participatory Notes	34,355
Equities	6,296
GDRs	981
Warrants	34
	41,666

6. Receivables

	£000
Interest receivable	7
Dividends receivable	227
Other receivables and prepayments	3
	237

7. Payables

	£000
Purchases of investments awaiting settlement	281
Other creditors	227
	508

Notes to the unaudited consolidated financial statements (continued)

For the period from 11 November 2005 to 30 June 2006

8. Share capital

Authorised Share Capital	£000
125,000,000 Ordinary shares of £0.01 pence each	1,250
	1,250

Issued Share Capital	Number of shares	Share capital £000	Share Premium £000
Ordinary Shares of £0.01 each			
At inception	-	-	-
Issued during the period	75,000,000	750	74,250
Issue costs			(1,379)
As at 30 June 2006	**75,000,000**	**750**	**72,871**

Warrants

15,000,000 Warrants were issued during the period. Each Warrant confers the right to subscribe for one Ordinary Share at a subscription price of £1. Warrant holders are entitled to exercise their subscription right between four and eight weeks following publication of the Company's annual accounts, commencing with the publication of the Company's annual accounts in 2009 and ending with the publication of the Company's annual accounts in 2011.

9. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Directors are responsible for the determination of the investment policy of the Group and have overall responsibility for the Group's activities.

The Directors have appointed India Investment Partners Limited as Investment Manager. The Group and the Investment Manager have entered into an Investment Management Agreement under which the Investment Manager has been appointed to manage the Group's portfolio and to provide various management services to the Company, subject to the overriding supervision of the Directors. The Investment Manager receives an annual fee as detailed in the Directors' Report.

Robert P. King a Director of the Company and its subsidiaries, is also a Director of the Administrator and Secretary, which are entitled to receive fees and detailed in Admission Document.

Jamie M.B. Cayzer-Colvin is a non-executive Director of the investment manager, India Investment Partners Limited.

10. Contingent liabilities

The Group has purchased 1,625,000 warrants in Viceroy Hotels which are unlisted instruments which convey the right to acquire Ordinary Shares subject to the payment of designated amounts on designated dates. At the exchange rate ruling at 30 June 2006, the amount due to be paid in order to exercise this right is £1,539,000.

11. Subsequent events

No significant subsequent events have occurred in respect of the Company or Group that may be deemed material to the accuracy of these financial statements.

India Capital Growth Fund

Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL

www.indiacapitalgrowth.com