

# Chairman's Statement

Dear Shareholders

I am pleased to be able to present the Report and Accounts for the year ended 31 December 2009. This achieves the culmination of a complex exercise: to procure within 18 months three sets of Annual Accounts for 2007, 2008 and 2009 for a group with assets virtually entirely in Asia has been no mean feat. Our task was hampered by the complete lack of internal accounts, complicated group structure and the absence of explanations for many transactions, some of which were substantial and others complex. Furthermore, the movements of substantial sums from China Growth Opportunities through the books of London Asia Investments HK further frustrated our efforts and delayed the preparation of accounts.

The above factors also contributed to the three sets of accounts being qualified by the company's auditors Moore Stephens LLP. This is understandable bearing in mind that normal basic accounting information did not exist and had to be re-created.

You will find in the Investment Report details of both our quoted and unquoted investments. Quoted shares have a clear value. However, despite our continuing efforts, we cannot be so certain of the value of the unquoted shares and especially our investment in Zhongying Changjiang Investment Guarantee Ltd. In the earlier accounts we valued our investment in Zhongying at cost of £12.5 million and have followed the same practise in the 2009 accounts. Since 2005, the RMB has moved significantly in LAC's favour, and continues to do so.

This valuation of Zhongying reflects the original RMB 170 million investment in 2005 together with the liability to pay a further RMB 30 million by 31 December 2008. At that date, we had only recently assumed the management of LAC and as there were no relevant files it was some months before we became aware of this commitment. In September 2009 we offered to inject the RMB 30 million and later we came to an agreement in principle with Wuhan Kaidi Holdings, the managers of Zhongying, to invest the smaller sum of RMB 6 million as part of a more comprehensive transaction with Wuhan Kaidi. However, Wuhan Kaidi have recently told us that they are unable to proceed on this basis and have demanded that we pay the full amount owed of RMB 30 million together with any fine. We have no

objection in investing providing that we are shown a copy of the 2009 audited accounts and appoint directors, as is our right, and are satisfied that there has been no change in the asset base of the company between the end of 2009 and now. So far, Wuhan Kaidi have declined to provide us with any of the information that we have requested.

Zhongying owns 55% of Wuhan Changkai Property Development Company which in turn owns a substantial block of land adjacent to the East Lake in Wuhan. We believe that this RMB 439 million investment in the 2008 accounts may now be worth several times more than the book value.

Amongst its many other investments, Zhongying also owns 5% of Fujien Sunner Development – one of the largest chicken broiler processors in China. This company was floated on the Shenzhen Stock Exchange in September 2009 and we believe Zhongying's pre-IPO investment has appreciated considerably. Zhongying also holds investments in coal mines and hydro-power projects – industries that have benefited from China's economic growth in recent years.

It is your Board's priority to unlock our investment in Zhongying and we are pursuing various avenues to achieve this goal.

Wuhan Kaidi indicated in October 2009 that they would make a tender offer to Shareholders at 5 pence per share but only this last week we have learned that they no longer plan to continue with this plan.

In November 2009, Richpoint Group Overseas Ltd, a company registered in the British Virgin Islands, acquired 29.9 percent of LAC through purchases in the market. The shares were mainly purchased from institutional shareholders in large blocks. In December 2009, your directors also acquired some 12 million shares at 5 pence each through the market and now collectively hold 5% of the issued share capital of LAC.

I am aware that shareholders, as well as the Directors, would like either for the listing to be restored or the company liquidated and a clear

strategy to be laid before shareholders as soon as possible.

With the likely failure of our protracted negotiations with Wuhan Kaidi our priorities are to resolve the Zhongying matter and also to pursue other possible recoveries, some of which we placed on hold at Wuhan Kaidi's request during the negotiations. We are also looking at other options to maximise shareholder value.

In the meantime, your board is progressing with recoveries and recently has re-opened the Croatian claim with some encouraging developments. Despite the success to date in recovering and identifying cash and assets there may be further not insignificant other sums to be identified amongst the portfolio of unquoted investments. Writs and claims have also been issued or are in preparation for a sum in aggregate of circa £20 million though caution suggests the eventual receipts may fall far short of this total. Full details are given in note 27 as a post balance sheet event note.

I very much appreciate your considerable patience as your Board has grappled with LAC's very difficult history and our diligent efforts to create a new future for the company. I assure you that we are making progress, although much of our efforts have been devoted to producing the audited accounts, and I am optimistic that we will be able to report favourable developments in the not too distant future.

Finally, I very much regret to tell you that Keith Negal is suffering from a brain tumour. When Keith joined LAC in London in September 2008 the company had no cash resources in London whatsoever. Keith made his first visit to Hong Kong at his own expense and successfully recovered the first £500,000 and in January 2009 a further £1.5 million. As of June 2010, the company has £4.5 million of cash. It was Keith's energy, determination and focused approach that played a central role in identifying and securing cash and assets for shareholders. Sadly, due to his illness, he will be unable to continue to work full time although his knowledge and experience will be appreciated as a non-executive director and we hope he will be present at the next General Meeting. We wish him and Shirley the very best for the future and we will all miss him greatly.

Yours sincerely,

**The Rt. Hon. The Earl of Cromer**

*Executive Chairman*

29 June 2010