Chief Executive's Statement

Dear Shareholder

Since I became Chief Executive in September 2008 so much has occurred in London Asia Capital ("LAC") and in this report I intend to highlight the most significant features as I have a personal reason for doing so. This will be my final report as Chief Executive because regrettably for health reasons I must step down to the role of a Non-Executive Director. The remaining Executives will be Evelyn Cromer, Executive Chairman, Toby Parker, Financial Director, and Dennis Bailey together with four Non-Executives. Two of these, Mr. Shi and Mr. Sha, represent Richpoint Group Overseas Ltd, the holder of 29.9% of the LAC shares.

When I was appointed in September 2008, the Company had no cash resources in London and my first task was to visit Hong Kong, identify the bank accounts and recover cash. By January 2009 some £2 million had been recovered and by December 2009 the cash totals £4.1 million. The next stage was to secure the gift back and cancellation of 98 million shares, issued in 2007 at the then prevailing market price of 12p per share, equating to a total value of £12 million, to four newly formed companies called Huang He Securities Limited, London Asia Limited, London Asia Capital Land Limited and China Exchange Limited. Shareholders will recall that these LAC shares were used to subscribe for 40% interests in each of the above companies. Third parties held the remaining 60% interest in aggregate paying little more than twenty thousand pounds (£20,000) for their investment in May 2007. The effect of the cancellation of these shares in May 2009 was to reduce the number of shares in issue from 327 million to 229 million, thereby increasing the net asset value attributable to the remaining shareholders.

The individuals that subscribed for the 60% shareholding in each of the share swap companies paid in aggregate £20,000 but were required to pay the premium associated with the shares amounting to in aggregate £20 million. The Directors are now claiming these sums together with interest due from those parties. As a word of caution, the Directors do not expect that the total recoveries will be £20 million.

The Directors then began the task of producing the 2007, 2008 and recently the 2009 Annual Report & Accounts. It has been a real achievement to produce three sets of audited accounts in some 18 months especially bearing in mind the complete lack of working papers, bank statements and normal accounting documents when the process began. Of course, it has meant that the auditors, Moore Stephens LLP, qualified the accounts but the new Directors were not in a position to provide explanations for all the transactions over three years and provide evidence of good title to all the investments. The issues were further complicated by the movement through the company's book of some £50 million of cash raised on the AIM market by China Growth Opportunities of Guernsey and washed through the books of London Asia Investments Ltd in Hong Kong.

Of course, it took a lot of detective work to track down many of these investments and the involvement of very capable lawyers. Though it is unusual to do so, I would particularly like to thank Richard Wilmot and Calvin Ho of Holman Fenwick and Willan in Hong Kong. I first met Richard in September 2008 and his support, clear and uncomplicated professional approach has made our tasks so much easier. The good news is that the substantial expenditure on lawyers will be significantly less in the future.

As the recovery of assets progressed, your Directors turned their attention to identifying the quoted and unquoted investments. LAC had subscribed for 20% of the issued capital of Zhongying in 2005 at a cost of 170 million RMB (£12.5 million) and unbeknownst to shareholders and the present Directors, LAC had a liability to pay a further 30 million RMB by December 2008. The other key shareholders of Zhongying are companies and associates of Yilong Chen. I have already told you in an earlier report that I met Mr. Chen in September 2009. He is a successful businessman and his main quoted company is Kaidi Electric whose shares are dealt on the Shenzhen Stock Exchange currently with a market value of £922 million. He is also a Deputy of the key PRC political body and for these reasons your Directors felt that he would be accepted by the London business community and began to prepare a suitable subsidiary of LAC, re-named Sunrise New Energy Group plc (the name selected by Mr Chen) for the market. Through a court approved Scheme of Arrangement this company would ultimately hold all the current cash and investments of LAC. The alternatives to returning to the London market are to join the market in Hong Kong, possibly as part of a merger, liquidate the business or be taken over by a quoted company. A further variation of the above is either to acquire a larger interest in Zhongying and go to the market, exchange shares in Zhongying for investments in the power industry in China or to seek to monetarise the Zhongying shares. I mention all of these possibilities because they have all been considered by your Directors. It will be obvious that the support of Mr. Chen is important and finally I must say the current state of markets is not helpful. In the light of these discussions your Directors have continued to value the Zhongying investment at the cost of £12.5 million.

In October 2009, Mr. Chen indicated he would make a 5 pence per share Tender offer for shares of LAC, but it is now clear that such an offer will not now be made. In November 2009, Richpoint Group Overseas Limited, A BVI Company with connections in Singapore, acquired 70 million LAC shares at 5 pence each equal to 29.9% of the issued capital. Your Directors have also collectively acquired some 5% of the shares in the market at 5 pence per share.

In March 2006, London Asia Capital plc (LAC) through its Singapore subsidiary, entered into an agreement to provide investment support services to China Growth Opportunities Ltd (CGO) which at that time was raising £50 million on the AIM market to invest in Asia. The downside of the agreement was that LAC gave a Guarantee and Indemnity to CGO against all the obligations of the Singapore subsidiary.

In January 2009, LAC had not been paid fees by CGO for some 12 months, £1.7 million was due and a potential further £3 million in respect of performance fees payable only when investments were sold. In the six months to end September 2008 portfolio values had fallen by 29% and it was indicated that LAC could suffer claims in respect of its consultancy services triggering the guarantee the parent company had provided and obviously putting LAC at risk. Your Directors agreed to terminate the 2006 Agreement against a one-off receipt of £350,000 and a new Asset Investment Support Agreement for a fixed fee of £20,000 a month which lasted until October 2009.

As I said at the start of this letter, this will be my last report as Chief Executive. At this point, and in my present condition, it would be reasonable for me to fade into the background. However, like my colleagues on the Board, I am not one to leave a job part done and there is still much to do on behalf of shareholders. Some US$5 million remains unaccounted for in Croatia. Larger sums could be recoverable from the share swap companies. There may well be more. People must be brought to book for their conduct. Whilst I can, I shall continue to enjoy what has been a challenging and rewarding job on your behalf, working with a great team of Directors and advisors. Of course, with the accounts complete, the cost of both your Board and professional advisors will reduce. Finally, it has been suggested that I write a book on my experiences since I joined LAC. Whilst this may be a useful insight to those that venture into China, I am certain that it will be an useful document for the Regulators in many jurisdictions.

Yours sincerely,

Keith Negal
Chief Executive

29 June 2010