



**London**  **Asia**

**LONDON ASIA CHINESE PRIVATE EQUITY FUND LIMITED**

**UNAUDITED INTERIM REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2007**

## Investment Objective

London Asia Chinese Private Equity Fund Limited's (the "Company's") objective is to provide Shareholders with capital growth from investing in a portfolio of companies whose business operations are based in China.

## Investment Approach

The Company invests in businesses whose business operations are based in China, where the Executive Directors and the Investment Consultant believe the investment can be sold within 12 to 36 months to generate returns for shareholders.

## Directors

**Robert Leighton** (*Non-Executive Chairman*)

**Mark Huntley** (*Non-Executive Director*)

**Simon Littlewood** (*Executive Director*)

**Victor Ng** (*Executive Director*)

## Advisers

### Investment Consultant

London Asia Capital (S) PTE Limited  
141 Market Street  
#08-02  
International Factors Building  
Singapore 048944

### Registrar

Capita Registrars (Guernsey) Limited  
Operations Centre  
Landes du Marché Chambers  
Vale  
Guernsey  
GY1 3TY

### Custodian and Settlement Agent

Collins Stewart (CI) Limited  
Operations Centre  
Landes du Marché Chambers  
Vale  
Guernsey  
GY1 3TY

### English Legal Adviser to the Company

Stephenson Harwood  
One St Paul's Churchyard  
London  
EC4M 8SH

### Administrator, Secretary and Registered Office

Elysium Fund Management Limited  
PO Box 650  
No. 1 Le Truchot  
St Peter Port  
Guernsey  
GY1 3JX

### Nominated Adviser and Stockbroker

Collins Stewart Europe Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

### Auditors

Moore Stephens  
Town Mills South  
La Rue du Pre  
St Peter Port  
Guernsey  
GY1 3HZ

### Guernsey Legal Adviser to the Company

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

[www.lacpefund.com](http://www.lacpefund.com)

A closed-ended investment company, incorporated under  
The Companies (Guernsey) Law, 1994 as amended

REGISTERED IN GUERNSEY No. 44403

## Chairman's Statement

I am pleased to present the unaudited interim financial statements of the Company for the period ended 30 September 2007.

### Highlights:

- Net assets at 30 September 2007 of £68.4 million, equal to 136.7 pence per share;
- Profit for the period of £1.8 million, equal to 3.7 pence per share (£2.9 million before foreign exchange loans, equal to 5.7 pence per share);
- Company substantially invested: 14 investments held;
- Investments up 53% on cost;
- One investment sold during the period for £2.6 million, realising a gain of £1.6 million; and
- 53% of portfolio by value is quoted.

### Results

The Company continued to build on its profitable first period and made good progress during the six months ended 30 September 2007. The Company achieved a net profit for the period ended 30 September 2007 of £1.8 million (30 September 2006: £0.4 million), representing a profit per Ordinary Share of 3.7 pence. The net asset value at 30 September 2007 was £68.4 million (136.7 pence per Ordinary Share).

In line with the Admission Document, the Company did not hedge the exchange rate risk arising from the investment portfolio. However, the strengthening pound reduced the Company's profit for the period by £1.1 million and the fair value of the investments at 30 September 2007 by £1.0 million. The Board has decided to continue with the policy of not hedging the Company's exchange rate risk, as set out in the Admission Document.

During the period the Company made one further investment, at a cost of £2.2 million, and the investment in Devotion Energy Group was sold in May 2007 for £2.6 million, realising a gain of £1.6 million. We did not go ahead with the previously announced proposed investment in China Synergy as we were unable to finalise acceptable terms with the company. Post the period end, we received the proceeds from the sale of FENet of £0.5 million, equal to its cost.

At 30 September 2007, the Company's investments had a fair value of £68.4 million, an unrealised gain of 53% on cost. Full details of each of these investments are available at [www.lacpefund.com](http://www.lacpefund.com). Since the period end, we have assisted China CDM

Exchange Centre to raise a total of US\$10 million in third party follow-on funding. The implied valuation would give rise to an unrealised uplift of 443% on the original cost. Only £0.7 million of this £8.0 million uplift has been reflected in the 30 September 2007 results.

The fair value of £9.8 million (14%) of the investments continue to be shown at original cost, which is deemed to be fair value. The remaining investments, with an original cost of £34.9 million, have been shown at a fair value of £58.6 million, an uplift of 68%. Fair value has been determined based on market price where the stock was listed, latest financing valuation where follow on financing was achieved and reflected a true fair value at the balance sheet date, or a multiple of post tax profits of eight (consistent with the 31 March 2007 valuation) for those investments not quoted or re-financed.

Of the fourteen investments held at the period end, two were already listed in Singapore at the time we invested, and four floated on the UK's PLUS market post our investment. 53% of our investment portfolio (by fair value) is quoted, providing Shareholders with visibility as to the value of the assets in the Company.

### Share price

During the period under review the price of the Ordinary Shares fell from 120.5 pence at 31 March 2007 to 108.0 pence on 27 September 2007. In accordance with the AIM Rules, on 27 September 2007 all trading of the Ordinary Shares and Warrants was temporarily suspended, pending the publication of the Company's 31 March 2007 audited financial statements (the "2007 Accounts"). The delay in the publication of the 2007 Accounts arose from unforeseen requirements resulting from the audit process, which were subsequently resolved and the Ordinary Shares and Warrants recommenced trading on AIM on 1 November 2007, following the publication of the 2007 Accounts.

Although the rise in net asset value and fall in the price of the Ordinary Shares resulted in an increase in the discount to the published net assets during the period from 9% at 31 March 2007 to 21% at the end of the period, following the lifting of the suspension on 1 November 2007, the Company's share price has risen steadily (and the discount to net asset value fallen) and as at 30 November 2007 stood at 115.0 pence.

## Chairman's Statement

At the date of this report 10 million Warrants, with an exercise price of 120 pence each, were in issue. To date no Warrants have been exercised.

### Outlook

A combination of good stock picking by the Investment Consultant and a strong Chinese economy has resulted in the net asset value of the Company's Ordinary Shares growing steadily from 96.3 pence at launch to 130.9 pence at 31 March 2007 and then to 136.7 pence at 30 September 2007. We held a recent Board meeting in Hong Kong at which the independent Directors discussed a number of improvements in the operational management of the business. These were agreed with the Executive Directors and will be implemented in the second half of the financial year. My subsequent visit to some of the investee businesses in China has reinforced my view that the Company has invested in a number of strong businesses. I am cautiously optimistic that the investments, buoyed by a strong Chinese economy, will generate positive returns for the Company and, as a result, we look forward to realising value for Shareholders.

**R Leighton**

5 December 2007

## Investment Portfolio as at 30 September 2007 (unaudited)

<i>Company</i>	<i>Activity/Sector</i>	<i>Listing</i>	<i>Fair value £'000</i>	<i>Percentage of net assets %</i>
Asia Clean Energy	Clean energy	Not quoted	4,067	5.9
Asia Water Technology	Clean technology	SESDAQ	9,351	13.7
Asia Wind Group	Clean energy	Not quoted	3,000	4.4
Canmake Business	Manufacturing	Not quoted	6,838	10.0
China Biofoods	Manufacturing	PLUS	3,740	5.5
China CDM Exchange Centre	Carbon credit brokerage	PLUS	2,500	3.7
China New Energy	Clean technology	PLUS	12,211	17.9
China Real Estate Services	Property	Not quoted	4,133	6.0
China Solar Energy	Clean technology	Not quoted	4,300	6.3
Dalian Business Institute	Education	PLUS	3,339	4.9
FEnet Company	Information technology	Not quoted	516	0.8
Hainan Zhengye Zhongnong High-tech	Pesticide production	Not quoted	2,233	3.3
United Envirotech	Environmental consultancy	Mainboard SGX	4,981	7.2
Wan Wei Oil & Gas Technology	Mining technology	Not quoted	7,156	10.5
			<hr/>	
Other receivables and prepayments			68,365	100.0
Cash and cash equivalents			259	0.4
Payables and accruals			4,315	6.3
			<hr/>	
			(4,584)	(6.7)
			<hr/>	
Net assets			68,355	100.0
			<hr/>	

Full details of each of the above investments are available at [www.lacpefund.com](http://www.lacpefund.com).

**Income Statement for the period ended 30 September 2007 (unaudited)**

	1 April 2007 to 30 September 2007	23 February 2006 to 30 September 2006	23 February 2006 to 31 March 2007
Note	(unaudited) £'000	(unaudited) £'000	(audited) £'000
<b>Income</b>			
Net unrealised change in fair value of investments	1,267	411	22,428
Realised gain on sale of investments	1,606	–	–
Other income	457	1,098	1,516
	<u>3,330</u>	<u>1,509</u>	<u>23,944</u>
<b>Total income</b>	3,330	1,509	23,944
Movement in provision for performance fee	4 (458)	–	(3,345)
Introductory fees	4 (78)	(415)	(832)
	<u>2,794</u>	<u>1,094</u>	<u>19,767</u>
<b>Gross profit</b>			
	2,794	1,094	19,767
<b>Operating expenses</b>			
Investment Consultant's fees	4 (666)	(536)	(1,009)
Administration fees	(88)	(69)	(131)
Directors' fees	(33)	(46)	(93)
Audit fees	(60)	(14)	(29)
Custodian fees	(11)	(14)	(18)
Other expenses	(104)	(63)	(113)
	<u>(962)</u>	<u>(742)</u>	<u>(1,393)</u>
<b>Operating expenses</b>	(962)	(742)	(1,393)
<b>Profit for the period</b>	<u>1,832</u>	<u>352</u>	<u>18,374</u>
<b>Earnings per share – basic and fully diluted</b>	<u>3.66p</u>	<u>0.70p</u>	<u>36.75p</u>

All the items in the above statement are derived from continuing operations.

The accompanying notes on pages 8 to 10 form an integral part of these unaudited interim financial statements.

These financial statements are unaudited and are not the Company's statutory financial statements.

**Balance Sheet as at 30 September 2007 (unaudited)**

	Note	30 September 2007 (unaudited) £'000	30 September 2006 (unaudited) £'000	31 March 2007 (audited) £'000
<b>Non-current assets</b>				
Investments at fair value through profit and loss		68,365	23,877	65,905
<b>Current assets</b>				
Financial asset at fair value through profit and loss		–	–	335
Other receivables and prepayments		259	135	54
Cash and cash equivalents		4,315	28,460	12,321
		<u>4,574</u>	<u>28,595</u>	<u>12,710</u>
<b>Total assets</b>		<u>72,939</u>	<u>52,472</u>	<u>78,615</u>
<b>Current liabilities</b>				
Payables and accruals		(4,584)	(3,971)	(12,092)
<b>Net assets</b>		<u>68,355</u>	<u>48,501</u>	<u>66,523</u>
<b>Capital and reserves</b>				
Called-up share capital	5	500	500	500
Warrant reserve	6	2,293	2,293	2,293
Distributable reserves		65,562	45,708	63,730
		<u>68,355</u>	<u>48,501</u>	<u>66,523</u>
<b>Total equity shareholders' funds</b>		<u>68,355</u>	<u>48,501</u>	<u>66,523</u>
<b>Net Asset Value per Ordinary Share – basic</b>		136.71p	97.00p	133.05p
<b>Net Asset Value per Ordinary Share – fully diluted</b>		136.71p	97.00p	130.87p

The accompanying notes on pages 8 to 10 form an integral part of these unaudited interim financial statements.

These financial statements are unaudited and are not the Company's statutory financial statements.

## Statement of Changes in Equity for the period ended 30 September 2007 (unaudited)

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Distributable reserves £'000	Total £'000
Balance at 31 March 2007	500	–	2,293	63,730	66,523
Profit for the period	–	–	–	1,832	1,832
<b>Balance at 30 September 2007</b>	<b>500</b>	<b>–</b>	<b>2,293</b>	<b>68,355</b>	<b>68,355</b>

## Statement of Changes in Equity for the period from 23 February 2006 to 30 September 2006 (unaudited)

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Distributable reserves £'000	Total £'000
Gross proceeds of placing	500	47,207	2,293	–	50,000
Issue costs	–	(1,851)	–	–	(1,851)
Cancellation of share premium	–	(45,356)	–	45,356	–
Profit for the period	–	–	–	352	352
<b>Balance at 30 September 2006</b>	<b>500</b>	<b>–</b>	<b>2,293</b>	<b>45,708</b>	<b>48,501</b>

## Statement of Changes in Equity for the period from 23 February 2006 to 31 March 2007 (audited)

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Distributable reserves £'000	Total £'000
Gross proceeds of placing	500	47,207	2,293	–	50,000
Issue costs	–	(1,851)	–	–	(1,851)
Cancellation of share premium	–	(45,356)	–	45,356	–
Profit for the period	–	–	–	18,374	18,374
<b>Balance at 31 March 2007</b>	<b>500</b>	<b>–</b>	<b>2,293</b>	<b>63,730</b>	<b>66,523</b>

The accompanying notes on pages 8 to 10 form an integral part of these unaudited interim financial statements.

These financial statements are unaudited and are not the Company's statutory financial statements.



**Cash Flow Statement for the period ended 30 September 2007 (unaudited)**

	<i>1 April 2007 to 30 September 2007 (unaudited) £'000</i>	<i>23 February 2006 to 30 September 2006 (unaudited) £'000</i>	<i>23 February 2006 to 31 March 2007 (audited) £'000</i>
<b>Operating activities</b>			
Other income received	363	1,060	1,486
Investment Consultant's fees paid	(765)	(607)	(1,009)
Introductory fees paid	(171)	(413)	(636)
Administration fees paid	(31)	(37)	(100)
Directors' fee paid	(49)	(30)	(63)
Other expenses paid	(61)	(78)	(150)
<b>Net cash outflow from operating activities</b>	<u>(714)</u>	<u>(105)</u>	<u>(472)</u>
<b>Investing activities</b>			
Purchase of fair value through profit or loss investments	(10,324)	(19,584)	(35,021)
Sale of fair value through profit or loss investments	3,032	–	–
Payment of loan to investee company	–	–	(335)
<b>Net cash outflow from investing activities</b>	<u>(7,292)</u>	<u>(19,584)</u>	<u>(35,356)</u>
<b>Financing activities</b>			
Issue of Ordinary Shares and Warrants	–	50,000	50,000
Issue costs	–	(1,851)	(1,851)
<b>Net cash inflow from financing activities</b>	<u>–</u>	<u>48,149</u>	<u>48,149</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	<u>(8,006)</u>	<u>28,460</u>	<u>12,321</u>
Cash and cash equivalents brought forward	12,321	–	–
(Decrease)/increase in cash and cash equivalents	(8,006)	28,460	12,321
Cash and cash equivalents carried forward	<u>4,315</u>	<u>28,460</u>	<u>12,321</u>

The accompanying notes on pages 8 to 10 form an integral part of these unaudited interim financial statements.

These financial statements are unaudited and are not the Company's statutory financial statements.

# Notes to the Interim Financial Statements

## for the period ended 30 September 2007 (unaudited)

### 1. Significant Accounting Policies

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"). These interim financial statements have adopted the same accounting policies as the last audited financial statements which were prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable legal and regulatory requirements of Guernsey Law and reflect the accounting policies as disclosed in the Company's last audited financial statements, which have been adopted and applied consistently.

### 2. Critical Accounting Estimates and Judgements

Financial assets designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for the Investment Consultant and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. These financial assets are expected to be realised within 12 to 36 months of the balance sheet date.

The Board of Directors and the Investment Consultant makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

#### *Fair value of listed securities*

The fair value of financial instruments traded in active markets (such as publicly traded securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the period end bid price.

#### *Fair value of unquoted and PLUS quoted securities*

The fair value of unquoted securities that are not quoted in active markets (for example, PLUS quoted securities and unquoted private companies) is determined by using valuation techniques in accordance with the International Private Equity and Venture Capital Guidelines. The valuations used to determine fair values are validated and periodically reviewed by experienced personnel. The valuations are based on a mixture of:

- third party financing (if available);
- PE ratios;
- cost, where the investment has been made within the preceding twelve months and no further information has been available to indicate that cost is not an appropriate valuation; and
- bid prices of PLUS quoted investments to support any of the three techniques mentioned above.

### 3. Segmental Information

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business in China.

# Notes to the Interim Financial Statements

## for the period ended 30 September 2007 (unaudited)

#### 4. Management and Administration Fees

During the financial period London Asia Capital (S) PTE Limited (the "Investment Consultant") acted as Investment Consultant to the Company.

##### *Investment Consultant fee*

In consideration for the services rendered by the Investment Consultant the Company pays the Consultant a fee of 2.0% per annum of the Net Asset Value, payable quarterly in advance.

##### *Performance fee*

In addition, the Investment Consultant is entitled to a performance fee on realised profits in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per Ordinary Share over the course of a 'performance period'. The first performance period began on Admission and ended on 31 March 2007; each subsequent period is a period of one financial year. The Investment Consultant becomes entitled to a performance fee in respect of a performance period only if two conditions are met.

First, a performance hurdle condition must be met. The performance hurdle is that Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeds an amount equal to the Placing Price increased at a rate of 6.0% per annum on a compounding basis up to the end of the relevant performance period. The second condition to be met (a 'high watermark' test) is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period is higher than the highest previously recorded Adjusted NAV per Ordinary Share at the end of a performance period in relation to which a performance fee was last earned (or if no performance fee has been earned since Admission, is higher than the Placing Price).

If the performance hurdle is met, and the high watermark exceeded, the performance fee is equal to 20.0% of the realised increase in the Adjusted NAV per Ordinary Share multiplied by the time weighted average of the total number of Ordinary Shares in issue since the performance period in respect of which a performance fee was last earned (or since Admission, if no performance fee has yet been earned), together with an amount equal to the VAT thereon.

For the period ended 30 September 2007, no performance fees were paid. The performance fee that is disclosed in the Income Statement is not due until investment gains are realised. At 30 September 2007, £1,606,000 of the £4,628,000 performance fee accrued was due to the Investment Consultant as a result of the realised gain made on the sale of the Devotion Energy Group investment.

##### *Introductory fees*

It is common practice in China to pay introductory fees to intermediaries who introduce investee companies to investors. Such fees, which typically equate to 3% to 5% of the value of the investment, are paid by the Company. Where the intermediary introducing the investment to the Company is a representative of the London Asia Group, such fees are payable to a member of the London Asia Group. Payment of any fees in respect of such services to a member of the London Asia Group (or any third party) are subject to the approval of the Non-Executive Directors. If an investment is sourced directly by either of the Executive Directors, no introductory fees are payable to the relevant Executive Director nor to the London Asia Group.

## Notes to the Interim Financial Statements for the period ended 30 September 2007 (unaudited)

### 4. Management and Administration Fees (continued)

	<i>1 April 2007 to 30 September 2007 (unaudited) £'000</i>	<i>23 February 2006 to 30 September 2006 (unaudited) £'000</i>	<i>23 February 2006 to 31 March 2007 (audited) £'000</i>
<b>Income Statement:</b>			
Investment Consultant's fees	666	536	1,009
Movement in provision for performance fee	458	-	3,345
Introductory fees	78	415	832
	<i>30 September 2007 (unaudited) £'000</i>	<i>30 September 2006 (unaudited) £'000</i>	<i>31 March 2007 (audited) £'000</i>
<b>Prepayment/(creditor):</b>			
Management fee	(9)	71	-
Provision for performance fee	(3,803)	-	(3,345)
Introductory fees	(204)	(87)	(95)

### 5. Share Capital

	<i>30 September 2007 (unaudited) £'000</i>	<i>30 September 2006 (unaudited) £'000</i>	<i>31 March 2007 (audited) £'000</i>
<i>Authorised:</i>			
200,000,000 Ordinary Shares of 1p	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
<i>Allotted, called up and fully paid:</i>			
50,000,000 Ordinary Shares of 1p	<u>500</u>	<u>500</u>	<u>500</u>

Pursuant to the authority granted at an extraordinary general meeting and renewed at the first annual general meeting, the Company has authority to utilise the distributable reserve to buy back up to 14.99% of the Ordinary Shares issued at the Placing for cancellation. No shares were purchased for cancellation during the period.

A resolution enabling the Company to purchase up to 10% of the Ordinary Shares in issue and hold them as treasury shares was passed at the first annual general meeting.

### 6. Warrants

At the placing on 15 March 2006, for every five Ordinary Shares received the subscriber also received one Warrant.

	<i>Exercise Price</i>	<i>End of Subscription period</i>	<i>Allotted</i>
Warrants	120 pence	31 March 2011	10,000,000

Registered holders of Warrants shall have rights to subscribe for Ordinary Shares of 1 pence each in the Company in cash in the period from the date of Admission up to 31 March 2011 for all or any of the number of Shares for which they are the registered holders at the price of 120 pence per Share.

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