Real Estate PACL LTD

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Pacific Alliance China Land

Quarterly Newsletter September 2018

Fund Performance	As at 30 September 2018
NAV per Share	US$2.6828
Total Net Assets	US$ 63m
Issued Shares	23,486,409[1]
Share Price	US$2.62
Market Capitalization	US$ 61.53m
Portfolio Breakdown	
Cash	US$ 64,976,889[2]
Investments [3]	
Foreign Exchange Hedging Options	US$ 282,328
Total Cash and Investments	**US$ 65,259,217**
Other Net Assets/(Liabilities)	US$ (2,249,184)[4]
Fund Details	
Bloomberg Code	PACL LN
Reuters Code	PACL.L
ISIN Code	KYG6846Y1035
Listing	AIM London Stock Exchange
Date of Inception	22 November 2007
Domicile	Cayman Islands
Structure	Closed-end fund

1. 23,486,409 ordinary shares issued and outstanding. In June 2018, 27,272,727 shares were repurchased and cancelled.

2. Approximately US$60.7m equivalent was held in PRC banks in form of RMB cash assets.

3. Following the share capital restructuring in March 2009, 48.69% of the original PACL ordinary shares in issue were repurchased and cancelled. In return, shareholders who tendered their shares received an equivalent number of new shares in PACL II Limited, a Cayman Islands private realization vehicle that would distribute free cash from exited projects (invested prior to the reconstruction) held by PACL. The investments values represent only that amount attributable to the PACL shareholders and exclude any portion that is attributable to PACL II. Those investments marked * were acquired after the restructuring and PACL II does not have a participation.

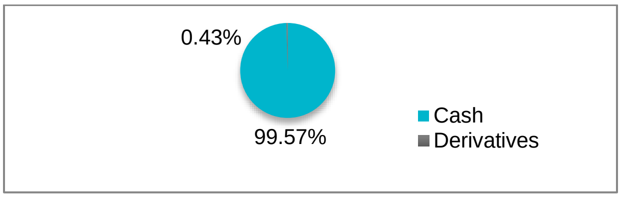
4. Other Assets/(Liabilities) – Includes Accrued Taxation on realized gains of US$2m and other provisions of US$0.2m

Investment Objective

Pacific Alliance China Land Limited (PACL) is a closed-end real estate fund focused on investing in existing properties, new developments, distressed projects and real estate companies in Greater China. The Fund invests opportunistically across all types of property, with a focus on first, second and third tier cities. The Fund is advised by a dedicated team of experienced professionals located across China.

On 25 July 2014, PACL's investment policy changed to restrict new investment solely to a) supporting existing investments, b) utilizing RMB cash assets subject to exchange control restrictions, for low risk short-term investments, and c) to focus future investment management efforts on the realization of the portfolio and the return of net realization proceeds to Shareholders. PACL has since July 2014 returned a total of US$262million to shareholders by way of share repurchases.

Portfolio Investment Breakdown



Portfolio News

The Fund's net asset value (NAV) as of 30 September 2018 was US$63 million or US$2.6828 per share, a decrease of 4.1% from the previous quarter ending 30 June 2018, which is largely due to the accelerated RMB depreciation during the period. Following the sale of its assets, PACL no longer has active investments. Cash holdings are in the process of being repatriated for distribution to shareholders, as detailed in the Distribution section of this newsletter.

China maintained steady economic growth in the third quarter thanks to supportive fiscal and monetary stimulus. In line with market expectations, Gross Domestic Product (GDP) grew 6.5% year-on-year in the third quarter, slightly lower than 6.7% in the second quarter of 2018. Robust growth in consumption and the services sector contributed to economic performance as tertiary industry grew by 7.7% in the first nine months of the year. Although real estate development investment still increased by 9.9% in the same period, the increase has been slowing down due to property tightening measures. The Chinese economy still faces challenges and downward pressure from excess industrial capacity, as well as rising trade tensions with its largest trading partner, the United States. As a result, the RMB has shown an accelerated depreciation trend. While the macroeconomic situation is decidedly mixed, China's overall outlook remains stable and there is ample scope for a positive resolution to the current China-U.S. difficulties. The government is likely to continue its monetary policy support and fiscal expansion in order to maintain a moderate and sustainable level of growth.

Most tier-one and tier-two cities saw limited growth in terms of both price and transaction volumes as a result of the Chinese government's stricter property tightening measures. According to data from China's National Bureau of Statistics (NBS), prices of new homes increased month-on-month in 64 of the 70 cities tracked by the NBS in September, compared with 63 in June. Average new home prices in first-tier and second-tier cities increased 1.1% and 9.6% year-on-year, respectively, during September, while average new home price in third-tier cities increased 9.1% year-on-year.

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US$ NAV Return%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.08%	-0.08%
2008	-0.27%	-0.33%	+0.04%	+2.61%	+0.78%	+0.55%	+0.40%	-0.16%	+0.76%	+1.21%	-0.15%	+0.59%	+6.20%
2009	+0.29%	+0.06%	+2.61%	+0.05%	+0.12%	+1.15%	+0.50%	+1.14%	+0.82%	-0.20%	-0.21%	+20.79%	+28.60%
2010	+0.53%	-0.21%	+1.49%	+0.02%	-0.09%	+1.96%	+1.53%	-0.33%	+11.63%	+0.66%	+0.03%	+8.90%	+28.10%
2011	-0.51%	-0.04%	+0.35%	+2.61%	-0.09%	+1.00%	+7.73%	1.34%	-0.19%	+0.86%	-0.28%	+6.12%	+20.55%
2012	-0.26%	-0.12%	+0.75%	-0.16%	-0.45%	+2.61%	-0.17%	-0.28%	+1.00%	+0.12%	+0.77%	+3.10%	+6.97%
2013	+0.24%	-0.08%	+0.12%	+1.46%	+0.05%	+0.86%	+2.90%	-0.06%	-0.10%	+0.11%	-0.06%	+3.52%	+9.25%
2014	-0.75%	-0.94%	-5.35%	-0.27%	-0.63%	-0.24%	-0.19%	+1.38%	+2.94%	+0.52%	+2.94%	+6.55%	+5.64%
2015	-1.18%	-0.62%	-0.88%	+4.10%	-0.12%	-0.65%	-2.05%	-6.11%	-1.06%	+3.91%	-3.41%	-5.40%	-13.13%
2016	-5.29%	-3.34%	+8.38%	+1.40%	-1.70%	-2.89%	+3.62%	+2.90%	+3.18%	-0.57%	+11.51%	+8.38%	+26.96%
2017	-0.03%	-0.70%	-0.37%	-0.32%	+0.21%	-0.06%	+0.25%	+1.90%	-1.21%	-0.11%	-0.5%	+1.42%	+0.43%
2018	+3.06%	-0.99%	-0.48%	-0.93%	-1.31%	-2.19%	-2.92%	-0.40%	-0.85%				-6.90%

Portfolio News (continued)

China's home sales volume, in terms of transacted building floor area, also increased 2.9% year-on-year during the first nine months of 2018. Investment in real estate development grew 9.9% year-on-year during the same period. The Manager expects that the central government will continue to adopt differentiated housing policies for different cities, tightening controls in tier-one and tier-two cities where housing inventories are low, and loosening controls in lower-tier cities in order to boost demand and help facilitate a reduction of inventories in those oversupplied markets.

Fund Highlights

Distribution

The timeline below is the Manager's best estimate of amounts and timing regarding future distributions to shareholders. The repatriation process involves many steps and requires numerous approvals. As always, the Manager will work to speed up the process where possible.

Project	Source	Estimated distribution amount	Estimated Timing
Auspice**	The original invested capital for Auspice and other onshore projects	US$62.5 million ***	Dec 2018
Estimated Total		US$62.5 million	

* Project Auspice proceeds (net profit portion) were successfully repatriated in early June and a further distribution was completed on 22 June 2018.

** Currently the RMB cash assets are held by a Tianjin Wholly Foreign Owned Enterprise (WFOE). A statutory tax and liquidation audit is required as part of the liquidation process. The manager is currently working on speeding up the liquidation process of the WOFE.

*** The distribution is calculated based on the current NAV and estimated future operating expenses to be incurred, in addition, a CNY/USD rate of 6.8688 as of 30 September 2018 was adopted for the calculation. NAV of US$63m- operating expenses of US$0.5m

Foreign Exchange Hedging

The current hedging positions are as follows:
Buy December 2018 7.00/7.74 call spread in US$54 million per leg

Conclusion

The central government continues its differentiated policy measures to encourage property purchases in lower-tier cities with destocking pressures, while keeping purchase and home loan restrictions on first- and second-tier markets, with low levels of supply. The Manager expects the market to remain flat in the future.

Any questions regarding the above information can be addressed with the Manager via email or telephone.

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