

Pacific Alliance China Land

Quarterly Newsletter March 2019

Fund Performance	As at 31 March 2019
NAV per Share	US\$2.7482
Total Net Assets	US\$ 7.3m
Issued Shares	2,653,078 ¹
Share Price	US\$2.63
Market Capitalization	US\$ 6.8m
Portfolio Breakdown	
Cash	US\$ 7,766,689 ²
Investments ³	
Foreign Exchange Hedging Options	US\$ 11,583
Total Cash and Investments	US\$ 7,778,272
Other Net Assets/(Liabilities)	US\$ (487,113) 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

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 News

The Fund's net asset value (NAV) as of 31 March 2019 was US\$7.3 million or US\$2.7482 per share, a slight increase of 1.1% from the previous quarter ending 31 December 2018. Following the sale of its assets, PACL no longer has active investments. The remaining cash holdings are in the process of being repatriated for distribution to shareholders, as detailed in the Distribution section of this newsletter.

In line with market expectations, China's Gross Domestic Product (GDP) grew 6.4% year-on-year in the first quarter, remaining flat compared to the last quarter, indicating a steady pace of GDP growth. Robust growth in consumption and the services sector contributed positively to economic performance as tertiary industries grew by 7.0% in Q1 2019. Real estate development investment increased by 11.8% year on year in Q1 2019, slightly higher than Q4 2018. 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. While the macroeconomic situation is decidedly mixed, China's overall outlook remains stable and it is possible for a positive resolution to the current China-U.S. trade disagreement. The government is likely to continue its monetary policy support and fiscal expansion in order to maintain a moderate and sustainable level of growth.

According to data from China's National Bureau of Statistics (NBS), prices of new homes increased in 66 of the 70 cities tracked by the NBS in March 2019, compared with 59 in December 2018. 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. Average new home prices in first-tier, second-tier, and third-tier cities increased 0.2%, 0.6%, and 0.7% month-on-month, respectively.

1. 2,653,078 ordinary shares issued and outstanding. In December 2018, 20,833,331 shares were repurchased and cancelled.
2. Approximately US\$6.7m 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\$0.4m

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%	-0.50%	+1.42%	+0.43%
2018	+3.06%	-0.99%	-0.48%	-0.93%	-1.31%	-2.19%	-2.92%	-0.40%	-0.85%	-1.32%	-0.19%	+2.90%	-5.64%
2019	+2.46%	-0.05%	-1.31%										+1.07%

Portfolio News (continued)

China's home sales volume, in terms of transacted building floor area, fell by 0.9% year-on-year in Q1 2019. 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.

Conclusion

The central government continues to maintain purchase and home loan restrictions on first- and second-tier markets with the expectation of stable housing prices and reasonable transaction volume. The Manager expects the market to remain flat in the next few months.

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

Fund Highlights

Distributions

The remaining cash represents the original invested capital held in the Fund's Tianjin WFOE*. A capital reduction is currently underway, so the remaining cash can be repatriated and distributed to shareholders.

The timeline below is the Manager's best estimate of the amount and timing of the final distribution to shareholders. The repatriation process involves many steps and requires government approvals. As always, the Manager will work to speed up the process where possible.

Source of Funds	Estimated Distribution Amount	Estimated Timing
Tianjin WFOE original invested capital	US\$6.7 million *	June 2019

* The estimated final distribution amount is based on the unaudited 31 March 2019 NAV of US\$7.3 million, as reduced by operating and winding up expenses of US\$0.6 million.

Foreign Exchange Hedging

On Jan 10, 2019. The Fund bought a new FX option in order to effectively hedge the potential FX risk, the hedging costs were also included in the estimation of the operating expenses in 2019.

Portfolio Manager

Patrick Boot

Investment Manager

PAG Real Estate

Tel: (86) 21 6010 6188

pboot@pagasia.com

Nominated Adviser

Grant Thornton UK LLP

Philip Secrett

Tel: (44) 207 385 5100

philip.j.secrett@uk.gt.com

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