

PACIFIC ALLIANCE CHINA LAND LIMITED
(Incorporated in the Cayman Islands with limited liability)

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

30 JUNE 2019

PACIFIC ALLIANCE CHINA LAND LIMITED
(Incorporated in the Cayman Islands with limited liability)

Chairperson's Statement


As of 30 June 2019, the net asset value (NAV) of Pacific Alliance China Land Limited (the "Fund" or "PACL") was US\$6.9 million, or US\$2.6056 per share, representing a 4.18% decrease from 31 December 2018.

In line with market expectations, China's Gross Domestic Product (GDP) grew 6.3% year-on-year in the first half of 2019. Robust growth in the consumption and services sector continued to contribute positively to economic performance as tertiary industries grew by 7% year-on-year in the first six months of the year. Meanwhile, real estate development investment increased by 10.9% year-on-year over the same period. The Chinese economy still faces challenges and downward pressure from excess industrial capacity, as well as continuing trade tensions with its largest trading partner, the United States. While the macroeconomic situation is decidedly mixed, China's overall outlook remains stable despite the ongoing China-U.S. trade disagreement. The government is committed to continuing 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. New-home prices increased in 63 of the 70 cities tracked by the Government during June, compared with 67 in May. Average new-home prices in first-tier, second-tier, and third-tier cities increased 0.2%, 0.8%, and 0.7% month-on-month, respectively. In June, new-home prices increased 0.3% in Shanghai, but declined 0.1% in Beijing month-on-month. The Manager expects that the central government will continue to adopt differentiated housing policies for different cities. The government will continue to tighten controls in tier-one and tier-two cities where housing inventories are low and continue to loosen controls in lower-tier cities in order to boost demand and help facilitate a reduction of inventories in those oversupplied markets.

As all the Fund's investments have been exited, we will focus all our efforts on the orderly wind up of the Fund and cancellation of the Fund's shares from trading on AIM. Once the Fund is delisted, and liquidation of the Fund is completed, which the Manager expects to take place by the end of the year, all excess cash will be paid to shareholders in a final distribution.

On behalf of the Board of Directors, I would like to thank you for your continued commitment and support.



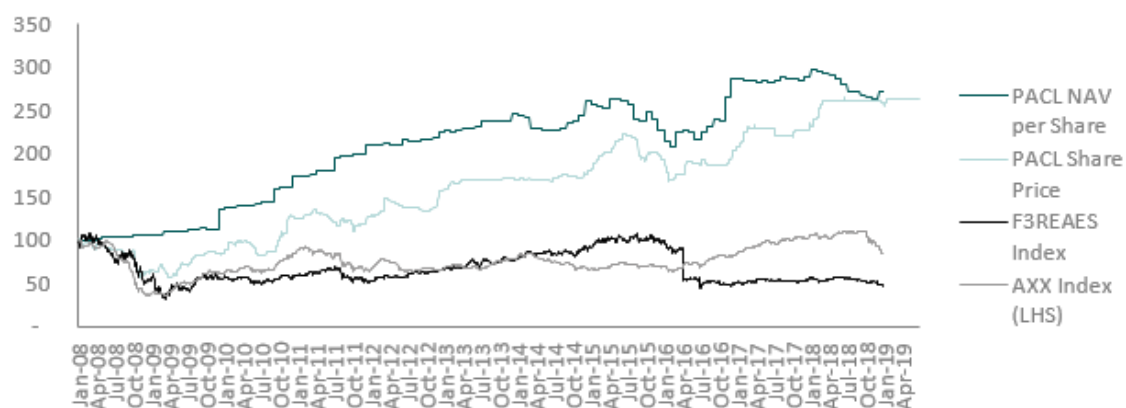
Margaret Brooke
Chairperson

PACIFIC ALLIANCE CHINA LAND LIMITED

(Incorporated in the Cayman Islands with limited liability)

Investment Manager's Report

On 30 June 2019, the Fund's share price closed at US\$2.63, representing a 1.94% increase from 31 December 2018 and a 0.94% discount to the unaudited NAV per share. The Fund's NAV and share price have both outperformed major benchmark indices including the FTSE 350 Real Estate Index (F3REAES) and the FTSE AIM All-Share Index (AXX) on a consistent basis since inception.



PACIFIC ALLIANCE CHINA LAND LIMITED
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Investment Manager's Report (Continued)

	30 June 2019 US\$	31 December 2018 US\$
<u>Realized Gains/(losses) and other income</u>		
Net realized losses (net with tax expense)	-	(5,870,465)
Deposit interest	74,674	1,916,825
	<hr/> 74,674	<hr/> (3,953,640)
<u>Change in Unrealized Gain/(Losses)</u>		
Derivatives	(46,311)	3,187,209
Share of losses/(gains) receivable from /(payable to) PACL II	177,614	(209,795)
Foreign exchange	(34,062)	(2,247,293)
	<hr/> 97,241	<hr/> 730,121
	<hr/> 171,915	<hr/> (3,223,519)

Portfolio Summary

As at 30 June 2019, the Fund held cash of US\$7.3 million (of which US\$0.09 million was held onshore in RMB), as well as investments with a cost of approximately US\$54,000 and a fair value of US\$7,689.

Investments and Cash	Fair value (gross) US\$	Type	% of total
FX Hedging	7,689	Derivatives	0.11%
Cash	7,307,645	Cash ⁽²⁾	99.89%
TOTAL ⁽¹⁾	7,315,334		100.00%

Note

(1) The gross investment value includes an amount attributable to PACL II shareholders.

(2) Of the total cash of US\$7.3 million, US\$0.09 million was held as RMB in PRC banks.

PACIFIC ALLIANCE CHINA LAND LIMITED

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Investment Manager's Report (Continued)

Distribution

Following the completion of the capital reduction of the Tianjin WOFE, a dividend distribution to shareholders of US\$5 million was notified on 5 September 2019.

The dividend distribution amount was based on the unaudited 30 June 2019 NAV of US\$6.9 million, reduced by estimated operating and winding up expenses of US\$0.5 million, plus a US\$1.4 million reserve. Once the liquidation of the Fund is completed, which the Manager expects the process to begin by the end of the year, the excess cash will be paid out as the final distribution.

Conclusion

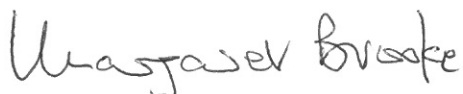
The Fund no longer has active investments. The Fund will, in due course, put a proposal to Shareholders to commence an orderly wind up of the Fund and cancellation of the Fund's shares from trading on AIM. Once the Fund is delisted, and liquidation of the Fund is completed, which the Manager expects to take place by the end of the year, all excess cash will be paid to shareholders in a final distribution.

PACIFIC ALLIANCE CHINA LAND LIMITED
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UNAUDITED CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2019

	Note	As at 30 June 2019 US\$	As at 31 December 2018 US\$
Assets			
Derivative contracts, at fair value (Cost: US\$54,000; 2018: US\$Nil)	5	7,689	-
Prepayment and other receivables	6	450,000	546,115
Amounts due from PACL II Limited	11(a)	25,479	-
Cash and bank balances		7,307,645	8,035,357
Total assets		<u>7,790,813</u>	<u>8,581,472</u>
Liabilities			
Provision for taxation	8	743,333	743,333
Amounts due to PACL II Limited	11(a)	-	152,135
Performance fee payable	10	133,162	133,162
Management fee payable		-	315,050
Accrued expenses and other payables		1,509	23,648
Total liabilities		<u>878,004</u>	<u>1,367,328</u>
Net assets		<u>6,912,809</u>	<u>7,214,144</u>
Analysis of net assets			
Share capital	7	26,531	26,531
Retained earnings		6,886,278	7,187,613
Net assets (equivalent to US\$2.6056 per share based on 2,653,078 outstanding shares; 2018: US\$2.7192 per share based on 2,653,078 outstanding shares)		<u>6,912,809</u>	<u>7,214,144</u>

Approved by the Board of Directors



Director

The accompanying notes on pages 11 to 25 are an integral part of these consolidated financial statements.

PACIFIC ALLIANCE CHINA LAND LIMITED
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UNAUDITED CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AS AT 30 JUNE 2019

Investments - Assets	<u>AS AT 30 JUNE 2019</u>				<u>AS AT 31 DECEMBER 2018</u>			
	% of net assets	% of effective equity interest held	Cost/principal	Fair value	% of net assets	% of effective equity interest held	Cost/principal	Fair value
			US\$	US\$			US\$	US\$
Derivatives	0.11%				0.00%			
Others	0.11%		54,000	7,689	0.00%		-	-
			<u>54,000</u>	<u>7,689</u>			<u>-</u>	<u>-</u>

The accompanying notes on pages 11 to 25 are an integral part of these consolidated financial statements.

PACIFIC ALLIANCE CHINA LAND LIMITED
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UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED 30 JUNE 2019

	Note	Period from 1 January to 30 June 2019 US\$	Period from 1 January to 30 June 2018 US\$
Income			
Interest income		74,674	1,443,228
Total income		<u>74,674</u>	<u>1,443,228</u>
Expenses			
Management fees	10	(65,526)	(1,569,260)
Legal and professional fees		(99,803)	(178,577)
Other expenses		(282,713)	(278,875)
Total expenses		<u>(448,042)</u>	<u>(2,026,712)</u>
Net investment losses		<u>(373,368)</u>	<u>(583,484)</u>
Realized and unrealized gains/(losses) from investments and foreign currency			
Tax expense	9	(25,208)	(2,081,274)
Net change in unrealized (losses) /gains from investments and losses on translation of assets and liabilities in foreign currencies	4	(80,373)	386,672
Net decrease/(increase) in payable to PACL II Limited from gains/(losses) attributable to PACL II Limited	11(a)	177,614	(274,289)
Net realized and unrealized gains/(losses) from investments and foreign currency		<u>72,033</u>	<u>(1,968,891)</u>
Net decrease in net assets from operations		<u>(301,335)</u>	<u>(2,552,375)</u>

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PACIFIC ALLIANCE CHINA LAND LIMITED
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UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD ENDED 30 JUNE 2019

	Note	Share capital and share premium US\$	Retained earnings US\$	Total US\$
At 1 January 2018		573,564	164,704,719	165,278,283
Repurchase of tendered shares	7	(547,033)	(151,452,954)	(151,999,987)
Net decrease in net assets from operations		-	(6,064,152)	(6,064,152)
At 31 December 2018 and 1 January 2019		26,531	7,187,613	7,214,144
Net decrease in net assets from operations		-	(301,335)	(301,335)
At 30 June 2019		26,531	6,886,278	6,912,809

The accompanying notes on pages 11 to 25 are an integral part of these consolidated financial statements.

PACIFIC ALLIANCE CHINA LAND LIMITED
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UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2019

		Period from 1 January to 30 June 2019 US\$	Period from 1 January to 31 December 2018 US\$
	Note		
Net decrease in net assets from operations		(301,335)	(6,064,152)
Adjustments to reconcile net decrease in net assets from operations to net cash used in operating activities			
Purchase of derivatives		(54,000)	-
Proceeds from settlement of derivatives		-	12,000
Net realized and change in unrealized gains from investments and derivatives		46,311	269,472
Net (increase)/decrease in amount payable to PACL II Limited from (losses)/gains attributable to PACL II Limited		(177,614)	209,795
Change in prepayment and other receivables		96,115	619,015
Change in amounts due to PACL II Limited		-	(1,200,000)
Change in provision for investment agency fees		-	(1,415,585)
Change in provision for taxation		-	(9,242,791)
Change in management fee payable	10	(315,050)	315,050
Change in accrued expenses and other payables		(22,139)	(30,523)
Net cash used in operating activities		<u>(727,712)</u>	<u>(16,527,719)</u>
Cash flows from financing activities			
Repurchase of shares	7	-	(151,999,987)
Net cash used in financing activities		<u>-</u>	<u>(151,999,987)</u>
Net decrease in cash and cash equivalents		(727,712)	(168,527,706)
Beginning balance		8,035,357	176,563,063
Ending balance, representing cash and bank balances		<u>7,307,645</u>	<u>8,035,357</u>

The accompanying notes on pages 11 to 25 are an integral part of these consolidated financial statements.

PACIFIC ALLIANCE CHINA LAND LIMITED
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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

1 Organization

Pacific Alliance China Land Limited (the "Fund") was incorporated on 5 September 2007 in the Cayman Islands. It is a closed-end Cayman Islands registered, exempted Fund. The address of its registered office is PO Box 472, 2nd Floor, Harbour Place, Grand Cayman KY1-1106, Cayman Islands.

The Fund's ordinary shares are traded on the AIM market of the London Stock Exchange. The Fund can raise additional capital up to the authorized share capital as described in Note 7.

The principal investment objective of the Fund and its subsidiaries (collectively, the "Fund") is to provide shareholders with capital growth and a regular level of income from investments in existing properties, new developments, distressed projects and real estate companies in Greater China.

The Fund's investment activities are managed by Pacific Alliance Real Estate Limited ("PARE" or the "Investment Manager"). The Fund appointed Sanne Fiduciary Services Limited to act as the custodian of certain assets of the Fund, and as the administrator and registrar pursuant to the Administration Custodian and Registrar Agreement.

On 25 July 2014, the Fund's investment policy changed to restrict new investments solely to (a) supporting existing investments, (b) utilizing Renminbi cash assets subject to exchange controls restriction 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.

As of 30 June 2019, all investment under management were realized and all sale proceeds have been received by underlying special purpose vehicles.

The consolidated financial statements were approved by the Board of Directors on 26 September.

2 Summary of significant accounting policies

The following significant accounting policies are in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The Fund applies the provisions of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 946-10, Financial Services - Investment Companies (the "Guide"). The Fund is an investment Fund under the Guide. Such policies are consistently followed by the Fund in the preparation of its consolidated financial statements.

PACIFIC ALLIANCE CHINA LAND LIMITED
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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

2 Summary of significant accounting policies (Continued)

(a) Principles of consolidation

These consolidated financial statements include the financial statements of the Fund. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund and deconsolidated from the date that control ceases. Inter-Fund transactions between group companies are eliminated upon consolidation.

The Fund uses wholly and partially owned special purpose vehicles ("SPVs") to hold and transact in certain investments. The Fund's policy is to consolidate, as appropriate, those SPVs in which the Fund has control over significant operating, financial or investing decisions of the entity.

Except when an operating Fund provides services to the Fund, investment in an operating Fund is carried at fair value (refer to Note 2(c) below for fair value measurement).

(b) Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires the Fund's management to make estimates and assumptions that affect the reported value of assets and liabilities, disclosures of contingent assets and liabilities as at 30 June 2019, and the reported amounts of income and expenses for the period then ended. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2(j).

(c) Investments

The Fund may hold both listed securities and unlisted securities, which by nature have limited marketability.

(i) Recognition and derecognition

Regular purchase and sale of investments are accounted for on the trade date, the date the trade is executed. Costs used in determining realized gains and losses on the disposal of investments are based on the specific identification method for unlisted or unquoted investments. Cost includes legal and due diligence fees associated with the acquisition of investments.

Transfer of investments is accounted for as a sale when the Fund has relinquished control over the transferred assets. Any realized gains and losses from investments are recognized in the consolidated statement of operations.

(ii) Fair value measurement

The Fund is an investment Fund under the Guide. As a result, the Fund records and re-measures its investments on the consolidated statement of assets and liabilities at fair value, with unrealized gains and losses resulting from changes in fair value recognized in the consolidated statement of operations.

Fair value is the amount that would be received to dispose of the investments in an orderly transaction between market participants at the measurement date, i.e. the exit price. Fair value of investments is determined by the Valuation Committee of the Fund, which is established by the Investment Manager and the Board of Directors.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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2 Summary of significant accounting policies (Continued)

(c) Investments (Continued)

(ii) Fair value measurement (Continued)

Investments in securities traded on a recognized exchange are valued at the traded price on the exchange in which such security was traded on the last business day of the period.

The fair values of unlisted or unquoted securities are based on the Fund's valuation models, including earnings multiples (based on the budgeted earnings or historical earnings of the issuer and earnings multiples of comparable listed companies) and discounted cash flows. The Valuation Committee also considers the relevant developments since acquisition of the investments, the original transaction price, recent transactions in the same or similar instruments, completed third-party transactions in comparable instruments, reliable indicative offers from potential buyers and rights in connection with realization. Judgement is used to adjust valuation as necessary for factors such as non-maintainable earnings, tax risk, growth stage, and cash traps. Cross-checks of primary techniques are made against other secondary valuation techniques.

In determining fair valuation of certain unlisted securities, the Valuation Committee uses as reference valuations made by independent valuers which rely on the financial data of investees and on estimates made by the management of the investee companies as to the effect of future developments. The independent valuers also assist in the selection of valuation techniques and models. However, there are inherent limitations in any valuation technique due to the lack of observable inputs.

Currency options are valued by the Investment Manager using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable.

Estimated fair value may differ significantly from the value that would have been used had a readily available market for such investments existed and these differences could be material to the financial statements. Additional information about the level of market observability associated with investments carried at fair value is disclosed in Note 4.

(d) Other receivables and payables

Other receivables and payables are initially measured at fair value and subsequently measured at amortized cost.

(e) Cash and cash equivalents

Cash represents cash at bank and does not include restricted cash such as fixed deposits pledged as security for bank loans. Cash equivalents are defined as short-term, highly liquid investments which mature within three months or less of the date of purchase.

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2 Summary of significant accounting policies (Continued)

(f) Share capital

Ordinary shares are classified as equity. Where the Fund purchases the Fund's equity share capital, the consideration paid is deducted from equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity.

(g) Foreign currency translation

The books and records of the Fund are maintained in United States Dollars ("US\$"), which is also the functional currency. Assets and liabilities, both monetary and non-monetary, denominated in foreign currencies are translated into US\$ by using prevailing exchange rates as at financial reporting date, while income and expenses are translated at the exchange rates in effect during the period.

Gains and losses attributed to changes in the value of foreign currencies for investments, cash balances and other assets and liabilities are reported as foreign exchange gain and loss in the consolidated statement of operations.

(h) Taxation

The Fund may be subject to taxes imposed in jurisdictions in which it invests and operates. Such taxes are generally based on income and gains earned. Taxes are accrued on investment income, realized gains, and unrealized gains, as appropriate, when the income and gains are earned. The Fund accrues for liabilities relating to uncertain tax positions only when such liabilities are probable and can be reasonably estimated in accordance with the authoritative guidance contained in ASC 740 Income Taxes described in Note 8.

The Fund files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Fund uses the asset and liability method to provide income taxes on all transactions recorded in the consolidated financial statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the tax rates that the Fund expects to be in effect when the underlying items of income and expense are realized.

(i) Recognition of income and expenses

Interest income on bank balances is accrued as earned using the effective interest method.

Expenses are recorded on an accrual basis. Provision of deferred expenses is made as if the investments are liquidated and realized at value stated as at the period end.

(j) Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no 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 period.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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3 Concentration of risks

(a) Market risk

Market risk represents the potential loss in value of financial instruments caused by movements in market variables, such as equity prices.

Investments were made with a focus on Greater China. Political or economic conditions and the possible imposition of adverse laws or currency exchange restrictions in that region could cause the Fund's investments and the respective markets to become less liquid and also the prices to become more volatile.

The Fund's investments had concentration in a particular industry or sector and performance of that particular industry or sector had a significant impact on the Fund. The Fund's concentration of investments in a particular industry or sector is presented on the consolidated condensed schedule of investments.

The Fund's investments were subject to the risk associated with investing in private equity securities. Investments in private equity securities were illiquid and subject to various restrictions on resale and there can be no assurance that the Fund will be able to realize the value of such investments in a timely manner.

(b) Interest rate risk

Interest rate risk arises from the fluctuations in the prevailing levels of market interest rates which affect the fair value of financial assets and liabilities and future cash flows. The Fund has bank deposits that expose the Fund to interest rate risk. The Fund has direct exposure to interest rate changes in respect of the valuation and cash flows of its interest bearing assets and liabilities.

(c) Currency risk

The Fund has assets and liabilities denominated in currencies other than the US\$, the functional currency. The Fund is therefore exposed to currency risk as the value of assets and liabilities denominated in other currencies may fluctuate due to changes in exchange rates. The net assets of the Fund before the impact of currency hedging are denominated in the following currencies:

	As at 30 June 2019 US\$	As at 31 December 2018 US\$
Renminbi	1,423,025	8,382,900
Pounds Sterling	(1,234,793)	(1,234,793)
Singapore Dollars	71	71
Hong Kong Dollars	(96,686)	(96,686)

The Investment Manager manages the Fund's currency exposure through use of currency options. Refer to Note 5.

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3 Concentration of risks (Continued)

(d) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty to or an issuer of a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at 30 June 2019, the main concentrations of credit risk to which the Fund is exposed arise from derivative contracts, prepayments and other receivables, and cash and bank balances.

As at 30 June 2019, the Fund has cash and bank balances amounting to US\$7,307,645 (2018: US\$8,035,357) held in multiple different bank accounts with a number of different financial institutions. The Fund attempts to minimize its credit risk exposure on its cash and bank balances by monitoring the size of its credit exposure to any one counterparty and by only entering into banking relationships with reputable financial institutions.

(e) Liquidity risk

The Fund was exposed to liquidity risk as the majority of the investments of the Fund were illiquid while some of the Fund's liabilities were with short maturity as of 30 June 2019. Illiquid investments included any securities or instruments which are not actively traded on any major securities market or for which no established secondary market exists where the investments can be readily converted into cash. As at 30 June 2019, all investments were fully realized and currently assets are held in cash. Management considered that there was no such liquidity risk exposed by the Fund as of 30 June 2019.

China currently has foreign exchange restrictions, especially in relation to the repatriation of foreign funds. Any unexpected foreign exchange control in China may cause difficulties in the repatriation of funds. The Fund invests in China and is therefore exposed to the risk of repatriating funds out of China on a timely basis to meet its obligations. Please refer to Note 3(c) above for the Fund's exposure to Renminbi.

The Fund is closed-end and, thus, not exposed to redemptions of shares by its shareholders.

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4 Investments

The Fund discloses the fair value of its investment in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). Three levels of the fair value hierarchy are as follows:

Level 1

Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not considered to be active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund's own assumptions used in determining the fair value of investments).

Inputs to measure fair values broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. An asset or a liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment. The Valuation Committee considers observable data to be such market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an asset or a liability within the hierarchy is based upon the pricing transparency of the asset or liability and does not necessarily correspond to the Valuation Committee's perceived risk of that asset or liability.

As at 30 June 2019, the Fund did not hold any Level 1 and 3 instruments. In determining an instrument's placement within the hierarchy, the Valuation Committee follows the following guidance for investments held by the Fund:

Level 2	Investments in illiquid listed stocks and derivatives are valued using the last traded prices of the listed stocks and derivatives after factoring in discounts for liquidity. Such investments are generally classified within Level 2 of the fair value hierarchy.
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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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4 Investments (Continued)

The following table summarizes the fair value of all instruments within the fair value hierarchy:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<u>As at 30 June 2019</u>				
Investments – derivatives	-	7,689	-	7,689
	-	7,689	-	7,689

There is no investment held by the Fund as at 31 December 2018.

As at 30 June 2019, derivatives of US\$7,689 (31 December 2018: US\$Nil) were held directly by the Fund.

All Level 3 investments held had been disposed as at 31 December 2018, therefore there was no valuation review of Level 3 investments as at 30 June 2019.

5 Derivative instruments

The Fund transacts in derivative instruments including options with each instrument's primary risk exposure being equity, credit and foreign exchange. The Fund enters into currency options to hedge itself against foreign currency exchange rate risk for its foreign currency denominated assets and liabilities due to adverse foreign currency fluctuations against the US dollar.

The fair value of these derivative instruments is included within the consolidated statement of assets and liabilities with changes in fair value reflected as net realized gains/(losses) from investments or net change in unrealized gains/(losses) from investments within the consolidated statement of operations. The Fund does not designate derivatives as hedging instruments under FASB ASC 815.

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5 Derivative instruments (Continued)

The Partnership held Level 2 derivative contracts as follows:

<u>As at 30 June 2019</u>	<u>Fair Value</u>		<u>Contractual/notional amounts</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>
Currency options	<u>7,689</u>	<u>-</u>	<u>7,000,000</u>	<u>-</u>

There were no Level 2 derivative contracts held by the Fund as at 31 December 2018.

The following table indicates the gains and losses on derivatives, by contract type, as included in the consolidated statement of operations.

	<u>Average notional</u>	<u>Average number of contracts</u>	<u>Period ended 30 June 2019</u>	
			<u>Change in unrealized gains/losses</u>	<u>Realized gains/(losses)</u>
	<u>US\$</u>		<u>US\$</u>	<u>US\$</u>
Currency options	<u>7,000,000</u>	<u>1</u>	<u>(46,311)</u>	<u>-</u>

	<u>Average notional</u>	<u>Average number of contracts</u>	<u>Year ended 31 December 2018</u>	
			<u>Change in unrealized gains/losses</u>	<u>Realized gains/(losses)</u>
	<u>US\$</u>		<u>US\$</u>	<u>US\$</u>
Currency options	<u>59,000,000</u>	<u>1</u>	<u>3,187,209</u>	<u>(3,456,680)</u>

Average notional amounts are derived from the total outstanding contracts at each quarter end. The above realized and unrealized gains/losses on derivatives are included in realized and change in unrealized gains from investments, derivatives and foreign currency in the consolidated statement of operations.

As at 30 June 2019 and 31 December 2018, the Partnership does not have any derivative assets or cash collateral being used by counterparties to offset derivatives liabilities on its statements of assets, liabilities and partner's capital.

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6 Prepayment and other receivables

	As at 30 June 2019 US\$	As at 31 December 2018 US\$
Interest receivable	-	96,115
Prepayment and other receivables	450,000	450,000
	<u>450,000</u>	<u>546,115</u>

7 Share capital, and tendered shares

	Number of shares outstanding	Share capital US\$	Total US\$
As at 1 January 2018	57,356,356	573,564	573,564
Re-purchase of tendered shares	(54,703,278)	(547,033)	(547,033)
As at 31 December 2018 and 1 January 2019	<u>2,653,078</u>	<u>26,531</u>	<u>26,531</u>
As at 30 June 2019	<u>2,653,078</u>	<u>26,531</u>	<u>26,531</u>

As at 30 June 2019, the total number of authorized ordinary shares was 10,000,000,000 (2018: 10,000,000,000) with par value of US\$0.01 (2018: US\$0.01) per share. As at 30 June 2019, the Fund had 2,653,078 (2018: 2,653,078) ordinary shares in issue.

8 Taxation

The Fund adopted the authoritative guidance contained in FASB ASC 740 on accounting for and disclosure of uncertainty in tax positions, which required the Directors to determine whether a tax position of the Fund is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority.

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8 Taxation (Continued)

The uncertain tax positions identified by the Directors mainly include:

- (a) Whether any of the Fund and its offshore SPVs would be deemed as a China Tax Resident Enterprise ("TRE") under the China Corporate Income Tax ("CIT") Law. If an offshore entity is deemed as a China TRE, its income would be subject to China CIT at 25% (rate could be reduced to a lower rate of 9% in certain jurisdiction in China).
- (b) Whether any of the Fund and its offshore SPVs that may derive income would be deemed as having an establishment or place in China. If an offshore entity has an establishment or place in China, income derived by the offshore entity that is derived from China by the establishment or place or income that is effectively connected to the establishment or place would be subject to China CIT at 25% (rate could be reduced to a lower rate of 9% in certain jurisdiction in China).
- (c) Whether any of the Fund and its offshore SPVs is subject to Hong Kong profits tax. An entity would be subject to Hong Kong profits tax if (i) the entity carries on a trade, profession or business in Hong Kong; (ii) profits are derived from that trade, profession or business carried on in Hong Kong (excluding gains of a capital nature); and (iii) the profits arise in or are derived from Hong Kong, i.e. have a Hong Kong source.

The Investment Manager has assessed that the Fund and its offshore SPVs are not TREs in China and do not have any establishment or place of business in China. Gains from the disposal of investments in China by the Fund or its SPVs may be subject to China withholding tax at 10% without considering the potential relief that may be available under any tax treaty between the tax jurisdiction of the transferor and China. In addition, where Chinese equity investments are held via an offshore intermediate holding fund, exit of the Chinese equity investment disposal of shares in the offshore intermediate holding fund could be regarded as an indirect transfer of the Chinese equity investment. According to the General Anti Avoidance Rules under the China CIT Law, if an investment holding structure and investment exit via indirect transfer do not have a reasonable commercial purpose, the Chinese tax authority is empowered to disregard such arrangement and impose withholding tax on the gains from such an indirect transfer. The directors have reviewed the structure of the investment portfolio and assessed the potential withholding tax implications, and considered adequate provision to China tax has been made on the Fund's financial statements.

As at 30 June 2019, the Investment Manager has analyzed the open tax years of all jurisdictions subject to tax examination and the provision deferred tax and uncertain tax amounted to US\$Nil (2018: US\$Nil) and US\$743,333 (2018: US\$743,333) respectively. The Investment Manager has reviewed the structure of the investment portfolio and assessed the potential withholding tax implications and considered adequate provision to China tax has been made on the Fund's consolidated financial statements.

The Investment Manager has reviewed the structure of the Fund's investment portfolio and considered the Fund's exposure to countries in which it invests to be properly reflected in the Fund's consolidated financial statements.

Under current Cayman Islands legislation applicable to an exempted Fund, there is no income tax, capital gains or withholding tax, estate duty, or inheritance tax payable by the Fund in the Cayman Islands.

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9 Tax Expense

A reconciliation of tax expense is as follows:

	Period from 1 January to 30 June 2019 US\$
Corporate Income Tax	25,208
Tax Expense	25,208

10 Management fees and performance fees

Pursuant to the Investment Management Agreement dated 20 November 2007, the Investment Manager was appointed to manage the investments of the Fund. The Investment Manager will receive an aggregate management fee of 2% per annum of the quarterly Net Asset Value ("NAV"). The management fee is paid quarterly in advance based on the NAV at the first day of each fiscal quarter. For the period ended 30 June 2019, total management fees amounted to US\$65,526 (30 June 2018: US\$1,569,260); payable amounted to US\$Nil (31 December 2018: US\$315,050).

The Investment Manager is also entitled to receive performance fees from the Fund in the event that the year-end NAV is greater than the higher of (a) the year-end NAV for the last year in which a performance fee was payable ("High Water Mark"); and (b) the NAV on Admission increased by a non-compound annual hurdle rate of 8% ("Hurdle").

The performance fees will be calculated as follows:

- 0% of the relevant increase in the year-end NAV if the year-end NAV is at or below the Hurdle;
- 100% of the relevant increase in the year-end NAV above the Hurdle up to a non-compound annual rate of 10% (the "Catch-up"); and
- 20% of the relevant increase in the year-end NAV above the Catch-up.

For the period ended 30 June 2019, total performance fees amounted to US\$Nil (30 June 2018: US\$Nil). As at 30 June 2019, performance fees payable amounted to US\$133,162 (31 December 2018: US\$133,162).

Under the Investment Management Agreement, the performance fees earned by the Investment Manager shall be paid 75% in cash and 25% in the Fund's ordinary shares ("share portion"). The Fund may elect to meet its share obligation either by issuing new shares at NAV or purchasing the equivalent number of shares in the market.

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11 Related party transactions

Apart from the related party transactions disclosed in Note 10, the Fund also had the following significant related-party transactions.

(a) Restructuring with PACL II Limited

On 2 March 2009, the Fund held an extraordinary general meeting to approve a tender offer that allowed shareholders to exchange all or part of their shares for shares in PACL II Limited ("PACL II"), a Cayman Islands private vehicle that will be used to realize and distribute cash from exited investments based on the investment and asset positions held by the Fund as at 31 December 2008 ("Tender Offer Portfolio"). PACL II is also managed by the Investment Manager. It was due to, without any further action on the part of its shareholders, automatically wind up and dissolve in three years upon when its ordinary shares were first issued. On 5 January 2012, the duration of PACL II was extended by one year to 2 March 2013 upon the written election by the Investment Manager. On 28 February 2013, the duration of PACL II was further extended by two years to 4 March 2015 upon the written election by the Investment Manager and a majority of the shareholders. On 30 January 2015, the Investment Manager made an election to extend the duration of PACL II by one year to 4 March 2016.

As part of this restructuring, the Fund repurchased 180,166,107 shares at a tender price of US\$1.01 per share in exchange for holders of these shares receiving the same number of shares in PACL II.

Under the terms of the tender offer, PACL II is entitled to receive 50.33% of the proceeds from the Tender Offer Portfolio, which reflects a 5% discount of its proportionate share of the Tender Offer Portfolio. As such, the amount due to PACL II is recorded as a payable by the Fund, adjusted at each period end based on the movement in the fair value of the underlying assets and the income and expense attributable to the Tender Offer Portfolio. The amount is unsecured and non-interest bearing.

The following table summarizes the movements in amount due from/(to) PACL II.

	As at 30 June 2019 US\$	As at 31 December 2018 US\$
Opening	(152,135)	(1,142,339)
Fund transfer from PACL II to the Fund	-	1,200,000
Net decrease/(increase) in payable from gains/(losses) attributable to PACL II	177,614	(209,796)
Closing	<u>25,479</u>	<u>(152,135)</u>

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11 Related party transactions (Continued)

(b) Directors' remuneration

The Fund pays each of its Directors an annual fee of US\$30,000 (2018: US\$30,000). If a Director is a member of the Valuation Committee or Audit Committee, the Director also receives an additional annual fee of US\$10,000, and the Chairman of either Committee receives an additional annual fee of US\$5,000. During the period ended 30 June 2019, Jon-Paul Toppino agreed to waive his directors' fees and committee fees.

(c) Share capital held by funds managed by fellow subsidiaries of the Investment Manager

As at 30 June 2019, PAX LP held 358,173 (2018:358,173) shares of the Fund, representing 13.5% (2018:13.5%) of total outstanding shares of the Fund.

PAX LP is managed by a fellow subsidiary of the Investment Manager.

12 Financial highlights

Net asset value per share at the end of the period is as follows:

	2019 US\$	2018 US\$
Per share data (for a share outstanding throughout the period)		
Net asset value as at opening of the period	2.7192	2.8816
Net investment losses	(0.1407)	(0.0419)
Net realized and unrealized gains/(losses) from investments	0.0271	(0.1205)
Net asset value as at closing of the period	<u>2.6056</u>	<u>2.7192</u>

The following represents the ratios to average net assets and other supplemental information:

	From 1 January to 30 June 2019	From 1 January to 30 June 2018
Total return before performance fees (1)	(4.18%)	(2.88%)
Performance fees	0.00%	0.00%
Total return after performance fees (1)	<u>(4.18%)</u>	<u>(2.88%)</u>
Ratios to average net assets (2)		
Total expenses	(6.21%)	(1.47%)
Net investment loss	<u>(5.18%)</u>	<u>(0.42%)</u>

(1) Total return represents the change in NAV (before and after performance fees), adjusted for cash flows in relation to capital transactions for the period.

(2) Average net assets is derived from the beginning and ending NAV, adjusted for cash flows in relation to capital transactions for the period. For the period ended 30 June 2019, the average net assets amounted to US\$7,209,502 (2018: US\$95,670,321).

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13 Commitment and contingency

In the normal course of business, the Fund may enter into arrangements that contain a variety of representations and warranties that provide general indemnification under certain circumstances. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund and which have not yet occurred. However, based on experience, the Directors expect the risk of loss to be remote, and, therefore, no provision has been recorded.

For the period ended 30 June 2019 and year ended 31 December 2018, there is no unfunded commitment in investments.

14 Subsequent events

The Manager has performed a review of subsequent events from 1 July 2019 through to 26 September, being the date that the financial statements were available to be issued.

There is a distribution to shareholders of US\$ 5.0 million by way of a dividend of US\$1.88 per share on 20 September 2019.