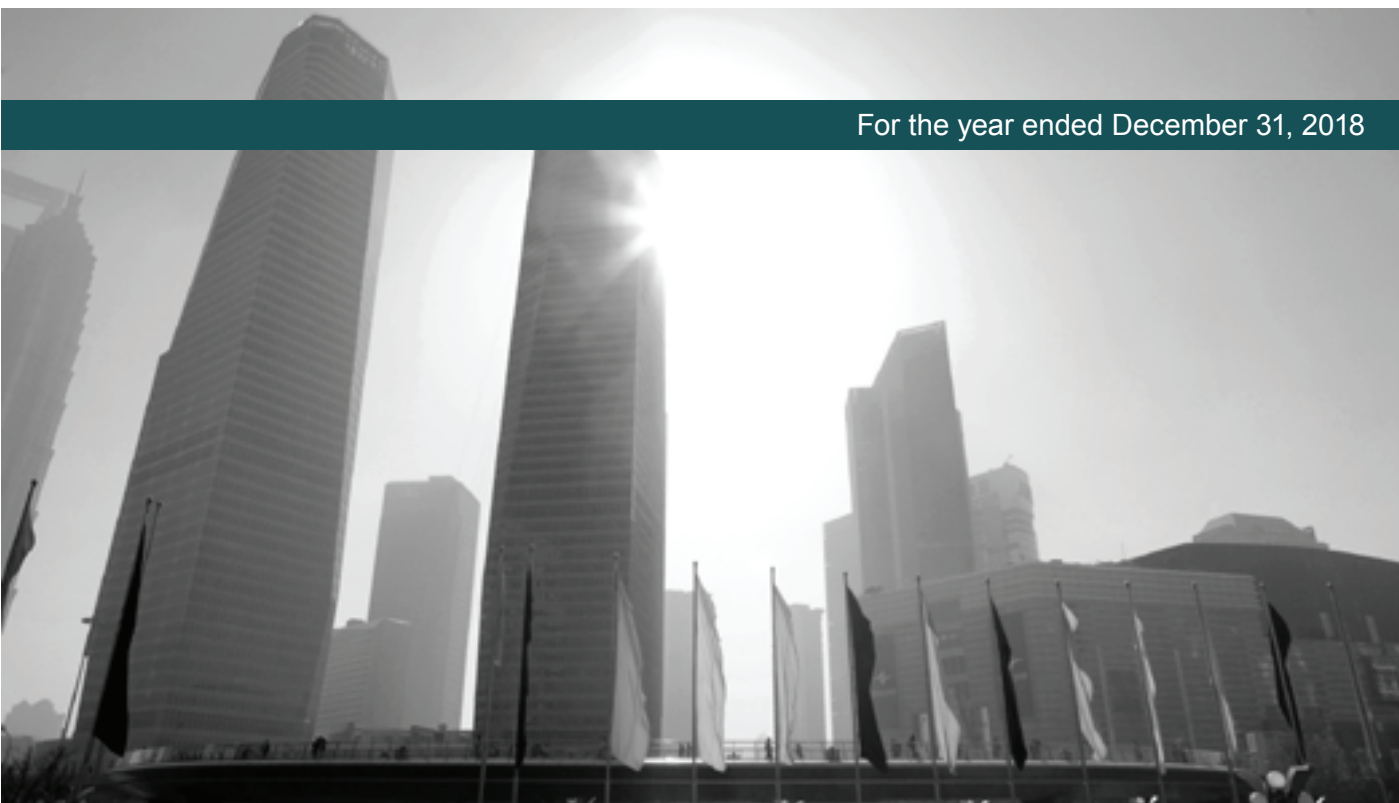




Pacific Alliance China Land Limited

(Incorporated in the Cayman Islands with limited liability)

Consolidated Financial Statements



For the year ended December 31, 2018

Contents

for the Year Ended December 31, 2018

Chairman's Statement	1
Investment Manager's Report	2 - 5
Independent Auditor's Report to the Shareholders of Pacific Alliance China Land Limited	6-9
Consolidated Statement of Assets and Liabilities	10
Consolidated Condensed Schedule of Investments	11
Consolidated Statement of Operations	12
Consolidated Statement of Changes in Net Assets	13
Consolidated Statement of Cash Flows	14
Notes to the Consolidated Financial Statements	15 - 27

Chairperson's Statement

As of December 31, 2018, the net asset value (NAV) of Pacific Alliance China Land Limited (the "Company" or "PACL") was US\$7.21 million, or US\$2.7192 per share, representing a 5.64% decrease from December 31, 2017. All of the Company's investments have been exited now so we will continue to focus our efforts on the timely repatriation of RMB and distribution of repatriation proceeds to shareholders. A final distribution is targeted by the end of the second quarter of 2019.

In line with market expectations, China's Gross Domestic Product (GDP) grew 6.6% year-on-year, slightly lower than 6.8% in 2017, indicating a moderate slowdown in China's economic growth. Robust growth in consumption and the services sector contributed positively to economic performance as tertiary industries grew by 7.6% in 2018. Although real estate development investment still increased by 9.5% year-on-year, 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 a positive resolution to the current China-U.S. trade disagreement is possible. 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 in 59 of the 70 cities tracked by the NBS in December, compared with 63 in November. Average new home prices in first-tier, second-tier, and third-tier cities increased 1.3%, 0.7% and 0.7% month-on-month respectively. China's home sales volume, in terms of transacted building floor area, also increased 2.2% year-on-year during 2018. We expect the government to continue to follow a differentiated housing policy strategy for different tier cities, where policy is likely to be more loose in oversupplied areas and tighter in cities with less supply.

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

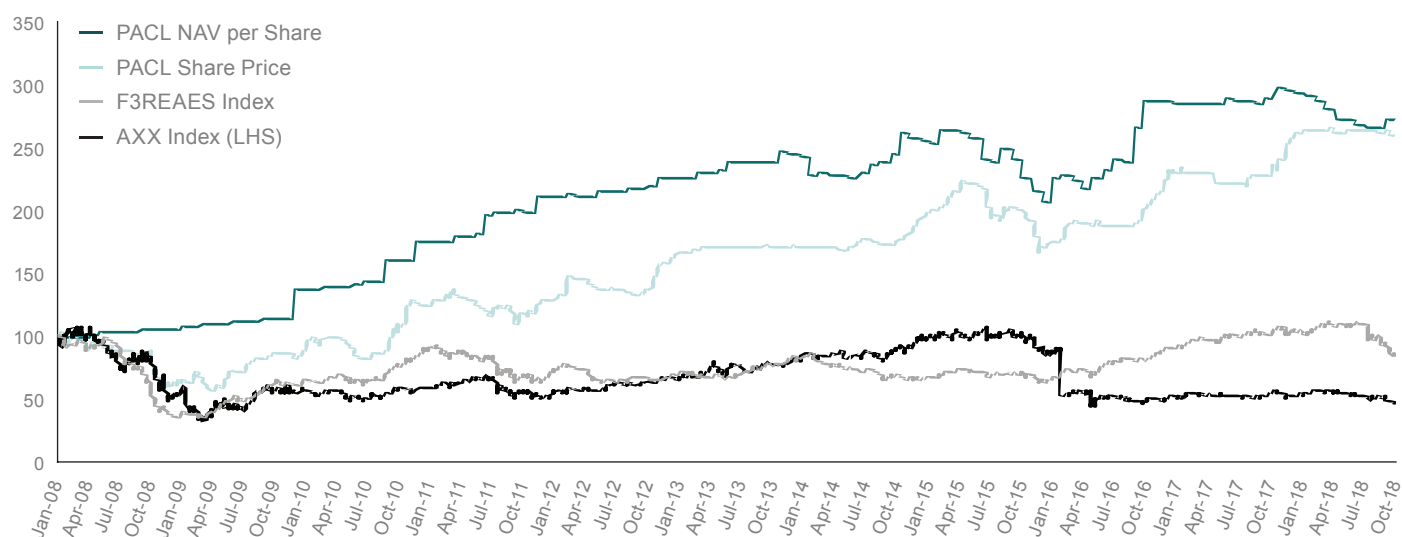


Margaret Brooke
Chairperson

Investment Manager's Report

On December 31, 2018, the Company's share price closed at US\$2.58, representing a 9.2% increase from December 31, 2017 and a 5.1% discount to the NAV per share. The Company'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.



Investment Manager's Report (continued)

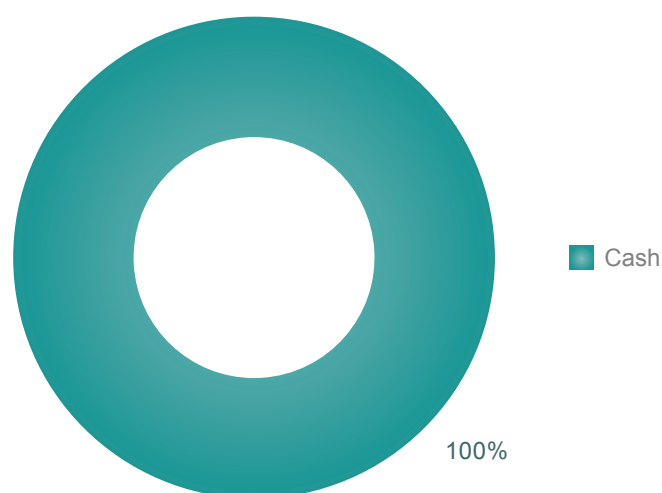
	December 31, 2018 US\$	December 31, 2017 US\$
Realized gains/(losses) and other income		
Net realized losses (net with tax expense)	(5,870,465)	(1,284,378)
Deposit interest	1,916,825	1,960,007
	(3,953,640)	675,629
Change in unrealized gains/(losses)		
Derivatives	3,187,209	(5,419,594)
Other real estate investments	-	(1,513,834)
Share of losses/(gains) receivable/(payable to) from PACL II	(209,795)	295,415
Foreign exchange	(2,247,293)	11,690,979
	730,121	5,052,966
	(3,223,519)	5,728,595

Investment Manager's Report (continued)

Portfolio Summary

As at December 31, 2018, the Company held cash of US\$8.04 million (of which US\$7.0 million was held onshore in RMB, pending repatriation).

Breakdown of unlisted investments by strategy and cash



Investments and Cash	Fair value (gross) US\$	Type	% of total
Cash	8,035,357	Cash ^(1,2)	100%

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

(2) Of the total cash of US\$ 8.04 million, US\$ 7.0 million was held as RMB in PRC banks.

Investment Manager's Report (continued)

Distribution

The timeline below is the Manager's best estimate of amount and timing of the final distribution 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	Tianjin WFOE original invested capital	US\$6.7 million ⁽¹⁾	June 2019

(1) The estimated final distribution amount is based on the December 31, 2018 NAV of US\$7.2 million, as reduced by operating and winding up expenses of US\$0.5 million.

Foreign Exchange Hedging

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

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 2019.

Independent Auditor's Report to the Shareholders of Pacific Alliance China Land Limited (incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Pacific Alliance China Land Limited (the "Company") and its subsidiaries (collectively the "Fund") set out on pages 10 to 27, which comprise:

- the consolidated statement of assets and liabilities as at December 31, 2018;
- the consolidated schedule of investments as at December 31, 2018;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of changes in net assets for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Fund as at December 31, 2018, and of the results of their operations, their changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is summarised as follows:

- Valuation and existence of cash and bank balances

Independent Auditor's Report to the Shareholders of Pacific Alliance China Land Limited (incorporated in the Cayman Islands with limited liability)

Key Audit Matter

Valuation and existence of cash and bank balances

As at December 31, 2018 the Fund has cash and bank balances with an aggregate carrying value of US\$8,035,357. This total is comprised of multiple different bank account balances maintained with a number of different financial institutions with a significant majority denominated in foreign currency, specifically Chinese Renminbi.

We focused on the existence and valuation of cash and bank balances because of the significant number of accounts comprising the total balance and the fact they represented the principal element of the Fund's net asset value as at December 31, 2018.

The accounting policy for cash and bank balances is disclosed in Note 2(e) to the consolidated financial statements. Further information on cash and bank balances is included in Note 3 to the financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

How our audit addressed the Key Audit Matter

We tested the existence of cash and bank balances by obtaining direct confirmations from all of the financial institutions with which the Fund has bank accounts and agreeing the Fund's bank balances to those confirmations. No material exceptions were identified from our testing.

For foreign currency bank balances we agreed their carry value by comparing the foreign currency exchange rates used by the Fund to external pricing sources as at December 31, 2018. No material exceptions were identified from our testing.

consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Shareholders of Pacific Alliance China Land Limited (incorporated in the Cayman Islands with limited liability)

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with US GAAP, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

Independent Auditor's Report to the Shareholders of Pacific Alliance China Land Limited (incorporated in the Cayman Islands with limited liability)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant

deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Carlyon Knight-Evans.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 30, 2019

Consolidated Statement of Assets and Liabilities

as at December 31, 2018

	Note	2018 US\$	2017 US\$
Assets			
Derivative contracts, at fair value (Cost: US\$ Nil; 2017: US\$3,468,680)	5	-	281,471
Prepayment and other receivables	6	546,115	1,165,130
Cash and bank balances		8,035,357	176,563,063
Total assets		8,581,472	178,009,664
Liabilities			
Provision for taxation	8	743,333	9,986,124
Amounts due to PACL II Limited	10(a)	152,135	1,142,339
Performance fee payable	9	133,162	133,162
Provision for investment agency fees		-	1,415,585
Management fee payable	9	315,050	-
Accrued expenses and other payables		23,648	54,171
Total liabilities		1,367,328	12,731,381
Net assets		7,214,144	165,278,283
Analysis of net assets			
Share capital	7	26,531	573,564
Retained earnings		7,187,613	164,704,719
Net assets (equivalent to US\$ 2.7192 per share based on 2,653,078 outstanding shares; 2017: US\$2.8816 per share based on 57,356,356 outstanding shares)		7,214,144	165,278,283

Approved by the Board of Directors

The accompanying notes on pages 15 to 27 are an integral part of these consolidated financial statements.

Consolidated Schedule of Investments

as at December 31, 2018

Investment – Assets	2018				2017			
	% of net assets	% of effective equity interest held	Cost/ principal US\$	Fair value US\$	% of net assets	% of effective equity interest held	Cost/ principal US\$	Fair value US\$
Derivatives	0.00%				0.17%			
Currency Options	0.00%		-	-	0.17%		3,468,680	281,471

The accompanying notes on pages 15 to 27 are an integral part of these consolidated financial statements.

Consolidated Statement of Operations

for the Year Ended December 31, 2018

	Note	2018 US\$	2017 US\$
Income			
Interest income		1,916,825	1,960,007
Total income		1,916,825	1,960,007
Expenses			
Management fees	9	(2,067,143)	(3,605,849)
Legal and professional fees		(392,770)	(689,947)
Other expenses		(380,720)	(766,989)
Performance fees	9	-	(133,162)
Total expenses		(2,840,633)	(5,195,947)
Net investment loss		(923,808)	(3,235,940)
Realized and change in unrealized gains/losses from investments, derivatives and foreign currency			
Net realized (losses)/gains from investments, derivatives and foreign currency transactions	5	(3,456,680)	82,375
Tax expense		(2,413,785)	(1,366,753)
Net change in unrealized gains/(losses) from investments, derivatives and losses on translation of assets and liabilities in foreign currencies	4	939,916	4,757,551
Net (increase)/decrease in amount payable to PACL II Limited from gains/(losses) attributable to PACL II Limited	10(a)	(209,795)	295,415
Net realized and change in unrealized gains/losses from investments, derivatives and foreign currency		(5,140,344)	3,768,588
Net (decrease)/increase in net assets from operations		(6,064,152)	532,648

The accompanying notes on pages 15 to 27 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets

for the Year Ended December 31, 2018

	Note	Share capital and share premium US\$	Retained earnings US\$	Total US\$
At January 1, 2017		615,967	176,129,666	176,745,633
Repurchase of ordinary shares	7	(42,403)	(11,957,595)	(11,999,998)
Net increase in net assets from operations		-	532,648	532,648
At December 31, 2017 and January 1, 2018		573,564	164,704,719	165,278,283
Repurchase of ordinary shares	7	(547,033)	(151,452,954)	(151,999,987)
Net decrease in net assets from operations		-	(6,064,152)	(6,064,152)
At December 31, 2018		26,531	7,187,613	7,214,144

The accompanying notes on pages 15 to 27 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year Ended December 31, 2018

	Note	2018 US\$	2017 US\$
Net (decrease)/increase in net assets from operations		(6,064,152)	532,648
Adjustments to reconcile net change in net assets from operations to net cash generated from/(used in) operating activities			
Purchase of derivatives		-	(105,000)
Proceeds from settlement of derivatives		12,000	-
Net realized and change in unrealized gains/(losses) from investments and derivatives		269,472	6,162,573
Net decrease/(increase) in amount payable to PACL II Limited from gains/(losses) attributable to PACL II Limited		209,795	(295,415)
Change in prepayment and other receivables		619,015	27,942,852
Change in amounts due to PACL II Limited		(1,200,000)	1,200,000
Change in performance fees payable	9	-	(478,419)
Change in provision for investment agency fees		(1,415,585)	-
Change in provision for taxation		(9,242,791)	(10,258,568)
Change in management fee payable	9	315,050	-
Change in accrued expenses and other payables		(30,523)	(794,825)
Net cash (used in)/generated from operating activities		(16,527,719)	23,905,846
Cash flows from financing activities			
Repurchase of shares	7	(151,999,987)	(11,999,998)
Net cash used in financing activities		(151,999,987)	(11,999,998)
Net (decrease)/increase in cash and cash equivalents		(168,527,706)	11,905,848
Beginning balance		176,563,063	164,657,215
Ending balance, representing cash and bank balances		8,035,357	176,563,063

The accompanying notes on pages 15 to 27 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018

1. Organization

Pacific Alliance China Land Limited (the “Fund”) was incorporated on September 5, 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 July 25, 2014, the Fund’s investment policy changed to restrict new investment solely to (a) supporting existing investments, (b) utilizing Renminbi 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.

As of December 31, 2018, all investments under management were realized and all the sale

proceeds had been received by underlying special purpose vehicles.

The consolidated financial statements were approved by the Board of Directors on April 30, 2019.

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.

(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).

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

2. Summary of significant accounting policies (continued)

(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 and disclosures of contingent assets and liabilities as at December 31, 2018 and the reported amounts of income and expenses for the year 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.

Investments in securities traded on a recognized exchange are value 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. Judgment 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.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

2. Summary of significant accounting policies (continued)

(c) Investments (continued)

(ii) Fair value measurement (continued)

In determining the fair value 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. Loans receivable are recorded at fair value in accordance with the guidance set forth in Note 4, and the valuation techniques applied usually take into account the estimated future cash flows, liquidity, credit, market and interest rate factors. 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 banks 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.

(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 year.

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 gains and losses in the consolidated statement of operations.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

2. Summary of significant accounting policies (continued)

(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 as 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 tax expenses is made based on the capital gain from realization of investments as at the year-end.

(j) Critical accounting estimates and assumptions

Estimates and judgments 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 year.

3. Concentration of risks

(a) Market risk

Market risk represented 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

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

3. Concentration of risks (continued)

(a) Market risk (continued)

the Fund will be able to realize the value of such investments in a timely manner.

(b) Interest rate risk

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:

	2018	2017
	Net assets	Net assets
	US\$	US\$
	equivalent	equivalent
Renminbi	8,382,900	158,456,062
Pounds Sterling	(1,234,793)	(1,234,793)
Singapore Dollars	71	72
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.

(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 December 31, 2018 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 December 31, 2018, the Fund has cash and bank balances amounting to US\$8,035,357 (2017: US\$176,563,063) 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 counterpart 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 December 31, 2018. Illiquid investments included any securities or instruments which were not actively traded on any major securities market or for which no established secondary market existed where the investments could be readily converted into cash. As at December 31, 2018, all investments were fully realized and currently assets are held in cash as of December 31, 2018. Management considered that there was no such liquidity risk exposed by the Fund as of December 31, 2018.

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

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

3. Concentration of risks (continued)

(e) Liquidity risk (continued)

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 its 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.

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 December 31, 2018, 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.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

4. Investments (continued)

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

The following table summarizes as at December 31, 2017 the fair value of all instruments within the fair value hierarchy:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Currency options	-	281,471	-	281,471
	-	281,471	-	281,471

5. Derivative instruments

The Fund transacts in derivative instruments including options with each instrument's primary risk exposure being equity, credit or 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.

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

The Partnership held Level 2 derivative contracts as at December 31, 2017 as follows:

	Fair Value		Contractual/ notional amounts	
	Assets US\$	Liabilities US\$	Assets US\$	Liabilities US\$
As at December 31, 2017				
Currency options	281,471	-	128,000,000	-

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

5. Derivative instruments (continued)

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

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

Year ended December 31, 2017				
	Average notional US\$	Average number of contracts	Change in unrealized gains/losses US\$	Realized gains/ (losses) US\$
Currency options	128,000,000	2	(5,419,594)	(742,980)

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

As at December 31, 2018 and 2017, 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.

6. Prepayment and other receivables

	2018 US\$	2017 US\$
Interest receivable	96,115	710,605
Prepayment and other receivables	450,000	454,525
	546,115	1,165,130

Notes to the Consolidated Financial Statements

for the Year Ended December 31, 2018 (continued)

7. Share capital and tendered shares

	Number of shares outstanding	Share capital US\$	Total US\$
As at January 1, 2017	61,596,638	615,967	615,967
Re-purchase of tendered shares	(4,240,282)	(42,403)	(42,403)
As at December 31, 2017 and January 1, 2018	57,356,356	573,564	573,564
Re-purchase of tendered shares	(54,703,278)	(547,033)	(547,033)
As at December 31, 2018	2,653,078	26,531	26,531

As at December 31, 2018, the total number of authorized ordinary shares was 10,000,000,000 (2017: 10,000,000,000) with par value of US\$0.01 (2017: US\$0.01) per share. As at December 31, 2018, the Company had 2,653,078 (2017: 57,356,356) 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 require 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 percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

The uncertain tax positions identified by the directors mainly include:

- 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).
- 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).

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

8. Taxation (continued)

- (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 December 31, 2018, the Investment Manager has analyzed the open tax years of all jurisdictions subject to tax examination and the provision for deferred tax and uncertain tax amounted to US\$Nil

(2017: US\$9,242,791) and US\$743,333 (2017: 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 for 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.

9. Management fee and performance fees

Pursuant to the Investment Management Agreement dated November 20, 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 year ended December 31, 2018, total management fee amounted to US\$2,067,143 (2017: US\$3,605,849); There was US\$315,050 management fee payable as at December 31, 2018 (2017: US\$ Nil).

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").

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

9. Management fee and performance fees (continued)

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 year ended December 31, 2018, total performance fees amounted to US\$ Nil (2017: US\$133,162). As at December 31, 2018, performance fees payable amounted to US\$133,162 (2017: 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.

10. Related party transactions

Apart from the related party transactions disclosed in Note 9, the Fund also had the following significant related-party transactions.

(a) Restructuring with PACL II Limited

On March 2, 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 would be used to realize and distribute cash from exited investments based on the investment and asset positions held by the Fund as at December 31, 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 3 years after its ordinary shares were first issued. On January 5, 2012, the duration of PACL II was extended by 1 year to March 2, 2013 upon the written election by the Investment Manager. On February 28, 2013, the duration of PACL II was further extended by 2 years to March 4, 2015 upon the written election by the Investment Manager and a major of the shareholders. On January 30, 2015, the Investment Manager made an election to extend the duration of PACL II by 1 year to March 4, 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 of December 31, 2018, 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, non-interest bearing.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

10. Related party transactions (continued)

(a) Restructuring with PACL II Limited (continued)

The following table summarizes the movements in amount due to PACL II.

	2018 US\$	2017 US\$
At January 1	(1,142,339)	(237,755)
Fund transfer to/(from) PACL II from/(to) the Fund	1,200,000	(1,200,000)
Share of operating expenses paid by the Fund	302,181	184,416
Exchange (losses)/gains	(511,977)	111,000
At December 31	(152,135)	(1,142,339)

(b) Directors' remuneration

The Fund pays each of its directors an annual fee and the total fees incurred amounts to US\$30,000 (2017: 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 year 2018, Jon-Paul Toppino agreed to waive his directors' fees and committee fees.

transaction (see Note 7) which closed on the same date. PAX LP's interest in the Fund remains unchanged at 13.5%. As at December 31, 2018, PAX LP held 358,173 shares of the Company, representing 13.5% of total outstanding shares of the Company.

In August 2017, PAX LP sold 572,451 ordinary shares of the Fund as part of the Fund's share repurchase transaction (see Note 7) which closed on the same date. PAX LP's interest in the Fund remains unchanged at 13.5%. As at December 31, 2017, PAX LP held 7,743,281 shares of the Fund, representing 13.5% of total outstanding shares of the Fund.

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

Pacific Alliance Asia Opportunity Master Fund ("PAX LP") is managed by a fellow subsidiary of the Investment Manager.

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

In February, June and December 2018, PAX LP sold 890,644, 3,681,901 and 2,812,563 ordinary shares of the Fund as part of the Fund's share repurchase

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2018 (continued)

11. Financial highlights

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

	2018 US\$	2017 US\$
Per share data (for a share outstanding throughout the year)		
Net asset value at January 1	2.8816	2.8694
Net investment loss	(0.0419)	(0.0564)
Net realized and unrealized losses from investments	(0.1205)	0.0686
Net asset value at December 31	2.7192	2.8816

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

	2018	2017
Total return before performance fees ⁽¹⁾	(5.64%)	0.43%
Performance fees	0.00%	0.00%
Total return after performance fees ⁽¹⁾	(5.64%)	0.43%
Ratios to average net assets⁽²⁾		
Total expenses	(2.97%)	(3.05%)
Net investment loss	(0.97%)	(1.90%)

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

(2) Average net assets is derived from the beginning and ending NAV, adjusted for cash flows in relation to capital transactions for the year. For the year ended December 31, 2018, the average net assets amounted to US\$95,670,321 (2017: US\$170,595,207).

12. 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 years ended December 31, 2017 and 2018, there is no unfunded commitment in investments.

13. Subsequent events

Management has performed a subsequent events review from January 1, 2019 through to April 30, 2019 being the date that the financial statements were available to be issued.



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