

Vietnam Azalea Fund Limited

3Q17 Quarterly Report

for the period ended 30 September 2017

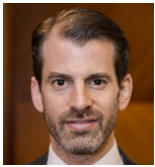
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This report is a confidential document, produced solely for the use of the shareholders, Directors and Investment Committee of Vietnam Azalea Fund Limited (the "Fund") and the Directors, Advisors and employees of Mekong Capital. This report contains confidential information about potential or actual investee companies (as defined in the confidentiality agreements between Mekong Capital and the investee companies), and therefore must be maintained in the strictest confidence, and may not be transmitted, reproduced or made available to any other person. While the information included in this report is based on information obtained from sources considered to be reliable, no assurance can be given that such information is complete or accurate. The information appearing in this report is intended to be accurate only as of the date hereof or as specifically indicated herein. The projections contained in this report are necessarily speculative and subject to a number of contingencies that cannot be known. While the projections are based on information considered to be reliable, no assurance can be given that such projections will prove to be accurate. An investment in the Fund is speculative and involves a high degree of risk. The past performance of the Fund is no indication of future results that may be achieved by the Fund. There can be no assurance that the Fund will achieve its investment objectives over the long term, or avoid losses. The complete terms of investment for the Fund, including the investment program, fees and charges, tax consequences, risk factors, conflicts of interest and liquidity are set forth in the Private Placement Memorandum. If there is any conflict or inconsistency between the information set forth herein and in the Private Placement Memorandum, the Private Placement Memorandum shall take precedence.

1. MESSAGE FROM PARTNER



"... I have learned that one element of being a successful private equity investor is taking a stand to hold the well-managed companies as long as possible (subject to exiting within the Fund's lifetime), even when some stakeholders are not aligned with that."

Recently we have completed the divestment of the final holding of VAF, and we continue to hold only two investments in MEF II, both of which are expected to be divested by early 2018.

As these two funds near their conclusion, we look back at some lessons learned, both what worked and what did not work:

- All our **consumer-driven** investments (ICP, Golden Gate, VAS, MobileWorld, PNJ, Traphaco, Masan Food) were consistently successful, with the exception of Mai Son. It turns out had MEF II held Mai Son longer it too would have been a successful investment, so we essentially sold too early.
- Companies in the business of **distributing 3rd party products** such as Digiworld, ACC and Loc Troi performed moderately – they grew but not as fast as the companies with their own brands or own retail networks. However, this performance may be associated with limitations in the management teams of those companies rather than sectoral issues.
- Companies involved in **manufacturing** (VIVCO, MK Smart, Ngo Han) and **real estate** (Intresco, Nam Long) were money-losing investments for us in all cases except Ngo Han and VIVCO which were small gains.
- By ownership type, another interesting pattern emerges. The companies with **multiple co-founders** were typically the best performing in terms of value creation and growth rates (i.e. MobileWorld, Golden Gate) – companies that were typically open minded and took decisive action at a fast pace. These are the companies that generated blockbuster returns such as the cumulative return exceeding 55x we are expecting by the time we complete the divestment of MobileWorld.
- The **equitized SOEs** typically performed moderately well but the pace of improvement and action in these companies was much slower and hence their growth rates tended to be much slower. This included companies such as Traphaco, PNJ, FPT, Loc Troi Group and Intresco. As a group, the returns on these investments were in the range of 2-3x.
- The worst performing by ownership type were the **family owned** companies, in which we consistently struggled to get them to build management teams or make improvements. These investments tended to be break-even or money losers, and none of them performed well.
- I will not go into **Vision Driven Investing** here as I have covered it in previous reports to shareholders, except to say that the degree to which a company implemented the 14 components of *Vision Driven Investing* is strongly correlated to their rate of long-term profit growth and the consistency with which they achieved their targets. It is also strongly correlated to the investment performance, but only after adjusting for cases in which we invested at an unusually low valuation or overpaid for an investment.
- Unfortunately, we tended to overpay for investments more frequently than investing at what turned out to be low valuations. Generally, I see two themes in this. We consistently overpaid for **pre-IPO investments** during the bubble of 2007 to mid-2018, which clearly hurt the performance of VAF even though VAF significantly outperformed the VN-Index since that time. Regarding **early stage companies**, the companies that were already profitable with normalized profit margins at the time of investment were typically much easier to invest at fair or low entry valuations (such as EV/EBITDA, P/GP), whereas the companies with little or negative net profit tended to result in cases in which we later realized we overpaid even when a ratchet was involved.
- Regarding exits, we have found that exiting is easy in Vietnam as long as there is a reasonable amount of cooperation from the company. 100% of the cases that we struggled to exit were associated with a lack of cooperation and nothing else. We also learned that it is best to sell the **poorly managed** companies as early as possible, as they seldom turn around their performance, while it best to hold the **well-managed** companies as long as possible as those companies tend to deliver year after year. Sometimes there are various pressures to sell the well managed companies, and I have learned that one element of being a successful private equity investor is taking a stand to hold the well-managed companies as long as possible (subject to exiting within the Fund's lifetime), even when some stakeholders are not aligned with that.

Sincerely yours,

Christopher E. Freund
Partner

2. FUND REPORTING

2.1 Executive Summary

2.1.1 Fund Update and Overview

VAF's Key Performance Indicators ¹ as of 30 September 2017		
Fund's Gross IRR	Fund's Net IRR	Fund's Net Return Multiple
10.9%	7.4%	1.9x

As of 30 September 2017, the Fund distributed a total amount of US\$59,180,000 to its shareholders, representing 92.3% of the total committed capital.

The Fund expects to distribute a further amount of US\$63,900,000 in November after the completion of the second-tranche divestment in Loc Troi and full divestment in Traphaco.

2.1.2 Realization²

- **Loc Troi** – In September 2017, the Fund completed the full divestment in Loc Troi Group at the price of VND68,000/share for a total gross consideration of approximately US\$12 million. This divestment generated a gross return multiple of 3.5x and a gross IRR of approximately 18.5% on the shares sold by the Fund over the 8.5 year period that the Fund held this investment.
- **Traphaco** – On 8 November 2017, the Fund marked the completion of its final divestment by selling more than 10.3 million shares in Traphaco at the price of VND141,500/ share. This divestment generated over US\$64 million in gross sales proceed, delivering a gross return multiple of 6.3x and a gross IRR of 27.7%.

2.1.3 Board and Shareholder Meetings

- Last Board Meeting and General Shareholders Meeting: 6 June 2017.
- Upcoming Extraordinary Meeting of Shareholders: To be held in early December to pass the special resolution to liquidate the Fund and appoint an official liquidator.

2.1.4 Current Liquidation Plan

As of the time of writing this report, the Fund realized all of its assets and will officially commence the liquidation period by mid-December following the Extraordinary Meeting of Shareholders. The full voluntary liquidation process in the Cayman Islands will take around 3-4 months and is expected to be completed by the end of 1Q18.

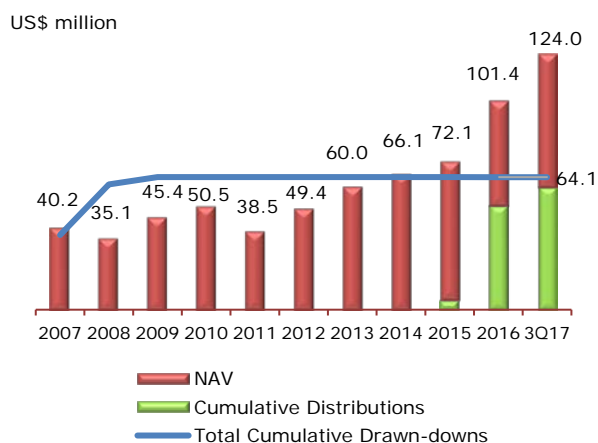
¹ For the definitions of the terms in this table, please refer to Appendix 1.

² Realization data are after tax and divestment related expenses, with dividend and other income taken into account.

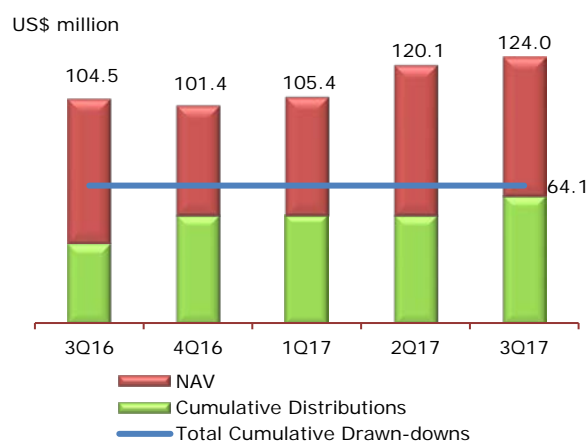
2.2 Fund Summary

Fund Summary				
	30-Sep-16	30-Sep-16	30-Sep-17	30-Sep-17
	US\$	% Committed Capital	US\$	% Committed Capital
Total committed capital	\$64,125,801	100.0%	\$64,125,801	100.0%
Total drawn-down amount	\$64,125,801	100.0%	\$64,125,801	100.0%
Total remaining available for draw-downs	\$0	0.0%	\$0	0.0%
Cumulative distributions	\$37,280,000	58.1%	\$59,180,000	92.3%
Fair value of portfolio	\$66,576,876		\$64,360,666	
Total other assets and liabilities	\$690,984		\$440,496	
Total net asset value	\$67,267,860		\$64,801,162	
Contingent liabilities (including debt, guarantees etc.)	\$0		\$0	
Gross IRR	9.0%		10.9%	
Net IRR	5.8%		7.4%	
<i>Distributions to paid-in capital (DPI)</i>	<i>0.6x</i>		<i>0.9x</i>	
<i>Residual value to paid-in capital (RVPI)</i>	<i>1.1x</i>		<i>1.0x</i>	
<i>Total value to paid-in capital (TVPI)</i>	<i>1.6x</i>		<i>1.9x</i>	
<i>Paid-in capital to committed capital</i>	<i>1.0x</i>		<i>1.0x</i>	
Total invested in portfolio companies	\$98,122,311	153.0%	\$98,122,311	153.0%
Total additional committed to portfolio companies	\$0	0.0%	\$0	0.0%
Total additional planned for follow on investments	\$0	0.0%	\$0	0.0%
Total allocated to portfolio companies	\$98,122,311	153.0%	\$98,122,311	153.0%

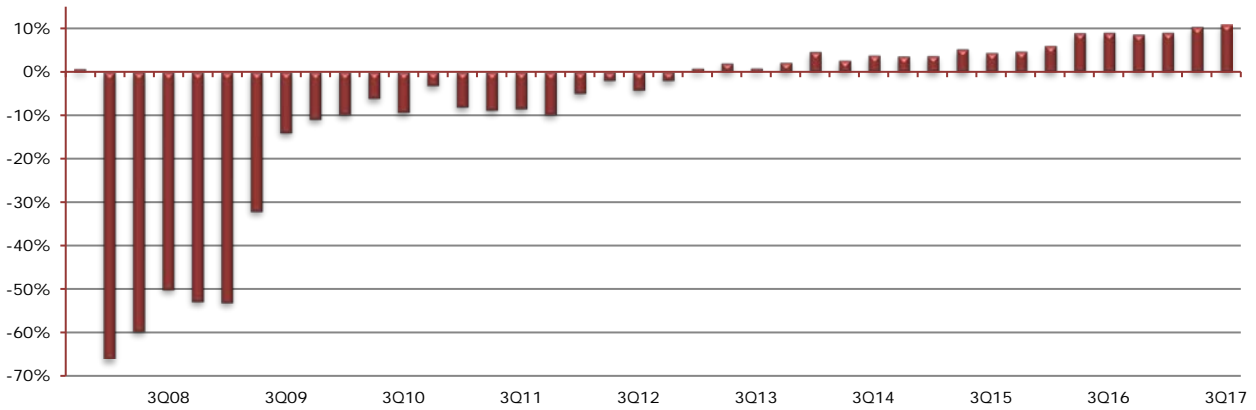
Annual Value Progression Chart
from inception to 30 September 2017



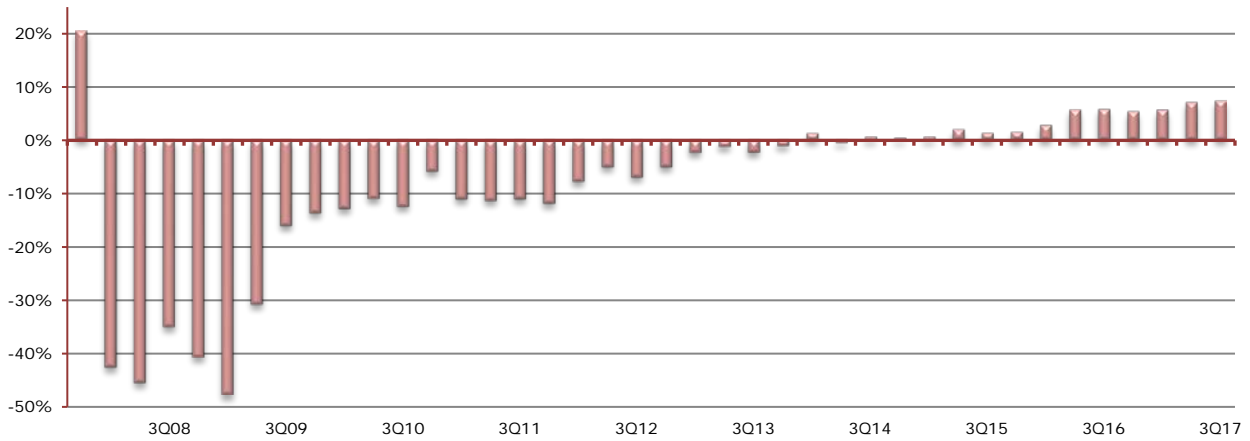
Quarterly Value Progression Chart
from 30 September 2016 to 30 September 2017



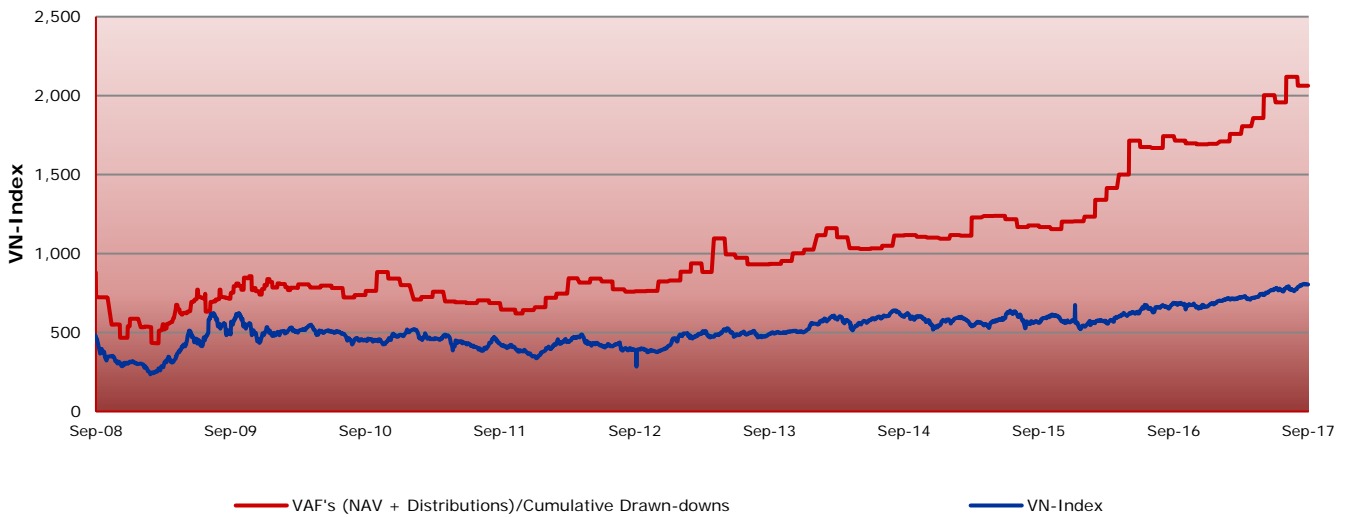
VAF Gross IRR Progression History
since 4Q07 to 3Q17



VAF Net IRR Progression History
since 4Q07 until 3Q17



2.3 Performance of VAF vs. VN-Index from Inception to 30 September 2017



3. PORTFOLIO REPORTING

3.1 Portfolio Summary

Portfolio Summary										US\$
as of 8 November 2017 ³										
Exited Investment	Sector/ Industry	Date of Initial Investment	Date of Final Exit	Original Cost of Investment ⁴	Realized Value ⁵	Dividend/ Other Income	Unrealized Value	Value of Fund's Investment	Gross IRR (%)	Gross Multiple (x)
Vietnam Tanker (VTO)	Marine Transportation	May-08	Mar-09	\$1,825,659	\$636,628	\$14,445	\$0	\$651,073	-71.9%	0.4x
Kinh Bac City (KBC)	Industrial Park Development	May-08	Jul-09	\$12,960,942	\$8,674,465	\$0	\$0	\$8,674,465	-31.0%	0.7x
PetroVietnam Fertilizer	Fertilizer	May-08	Jun-10	\$8,113,766	\$4,011,842	\$589,850	\$0	\$4,601,692	-25.0%	0.6x
Masan Food	Food Processing	May-09	Dec-10	\$9,420,697	\$18,816,264	\$0	\$0	\$18,816,264	57.6%	2.0x
FPT	IT Related Services & Trading	Jun-11	Apr-16	\$5,416,632	\$8,534,572	\$1,245,013	\$0	\$9,779,585	13.0%	1.8x
Nam Long	Real Estate	Jun-10	Jun-16	\$9,100,000	\$6,629,776	\$635,677	\$0	\$7,265,452	-3.8%	0.8x
Intresco	Real Estate	Sep-07	Jul-16	\$22,864,537	\$13,661,002	\$844,911	\$0	\$14,505,912	-9.2%	0.6x
PNJ	Jewelry Retail	Dec-07	Nov-16	\$13,681,097	\$26,589,423	\$3,342,022	\$0	\$29,931,445	11.6%	2.2x
Loc Troi	Agriculture	Dec-08	Sep-17	\$4,394,618	\$11,789,854	\$3,576,868	\$0	\$15,366,722	18.5%	3.5x
Traphaco	Pharmaceutical	Dec-07	Nov-17	\$10,344,363	\$60,742,228	\$4,328,052	\$0	\$65,070,280	27.7%	6.3x
GRAND TOTAL				\$98,122,311	\$160,086,054	\$14,576,836	\$0	\$178,281,329	10.9%	1.9x

³ This is the completion date of the Fund's final divestment.

⁴ Based on the VND original cost of all shares held by the Fund, converted using the actual foreign exchange rates on the transaction dates, determined by the Fund Administration of VAF.

⁵ The realize value was after tax and divestment related expenses.

4. INVESTOR CUMULATIVE CAPITAL ACCOUNTS

CAPITAL ACCOUNTS								
as of 30 September 2017								
Investor code	Total commitment	Ownership percentage	Cumulative distributions	Net contributions	Cumulative realized portfolio gains/ (losses)	Cumulative unrealized portfolio gains/ (losses)	Cumulative operating income and expenses other than portfolio gains/ (losses)	Fair value as of 30 Sep 17
	(1)		(2)	(3) = (1) + (2)	(4)	(5)	(6)	(7) = (3) + (4) + (5) + (6)
Investor VAF - 01	\$12,803,189	20.0%	(\$11,815,723)	\$987,466	\$3,679,068	\$10,060,678	(\$1,739,063)	\$12,988,149
Investor VAF - 07	\$6,633,940	10.3%	(\$6,122,287)	\$511,653	\$1,906,300	\$5,212,915	(\$933,956)	\$6,696,912
Investor VAF - 08	\$6,627,572	10.3%	(\$6,116,410)	\$511,162	\$1,904,470	\$5,207,910	(\$935,007)	\$6,688,535
Investor VAF - 10	\$4,735,759	7.4%	(\$4,370,506)	\$365,253	\$1,360,847	\$3,721,334	(\$660,907)	\$4,786,527
Investor VAF - 12	\$1,925,345	3.0%	(\$1,776,850)	\$148,495	\$553,259	\$1,512,926	(\$262,308)	\$1,952,372
Investor VAF - 14	\$1,609,881	2.5%	(\$1,485,716)	\$124,165	\$462,608	\$1,265,036	(\$227,032)	\$1,624,777
Investor VAF - 15	\$3,313,970	5.2%	(\$3,058,375)	\$255,595	\$952,288	\$2,604,100	(\$467,762)	\$3,344,222
Investor VAF - 16	\$3,163,454	4.9%	(\$2,919,467)	\$243,986	\$909,036	\$2,485,825	(\$445,972)	\$3,192,875
Investor VAF - 18	\$965,929	1.5%	(\$891,430)	\$74,499	\$277,565	\$759,022	(\$136,429)	\$974,656
Investor VAF - 19	\$965,929	1.5%	(\$891,430)	\$74,499	\$277,565	\$759,022	(\$136,429)	\$974,656
Investor VAF - 20	\$384,721	0.6%	(\$355,049)	\$29,672	\$110,552	\$302,311	(\$50,547)	\$391,988
Investor VAF - 21	\$395,681	0.6%	(\$365,164)	\$30,518	\$113,701	\$310,924	(\$56,317)	\$398,825
Investor VAF - 22	\$321,976	0.5%	(\$272,038)	\$24,834	\$92,522	\$253,007	(\$45,830)	\$324,533
Investor VAF - 23	\$320,601	0.5%	(\$295,874)	\$24,727	\$92,126	\$251,926	(\$42,209)	\$326,570
Investor VAF - 24	\$257,581	0.4%	(\$237,715)	\$19,866	\$74,017	\$202,406	(\$36,765)	\$259,524
Investor VAF - 25	\$160,445	0.3%	(\$148,071)	\$12,375	\$46,105	\$126,077	(\$22,339)	\$162,217
Investor VAF - 26	\$225,203	0.4%	(\$190,277)	\$17,368	\$64,713	\$176,963	(\$31,528)	\$227,517
Investor VAF - 28	\$13,304,952	20.7%	(\$12,278,785)	\$1,026,167	\$3,823,253	\$10,454,960	(\$1,880,306)	\$13,424,073
Investor VAF - 29	\$5,977,587	9.3%	(\$5,516,556)	\$461,031	\$1,717,693	\$4,697,156	(\$845,064)	\$6,030,815
Investor VAF - 30	\$16,044	0.03%	(\$14,807)	\$1,237	\$4,610	\$12,607	(\$2,789)	\$15,666
Investor VAF - 31	\$16,044	0.03%	(\$14,807)	\$1,237	\$4,610	\$12,607	(\$2,789)	\$15,751
Ex-Investors			(\$42,665)					
TOTAL	\$64,125,801	100.0%	(\$59,180,000)	\$4,945,801	\$18,426,909	\$50,389,713	(\$8,961,264)	\$64,801,162

5. FINANCIAL REPORT

5.1 Income Statement

Vietnam Azalea Fund Limited Income Statement ⁶		
	3Q17	US\$ From inception to 30 Sep 17
Income		
Bank Deposit Interest Income	\$12,457	\$1,585,229
Dividend Income	\$65,833	\$14,467,500
Realized Investment Gain/ (Loss)	\$8,729,466	\$27,599,736
Realized Investment FX Gain/ (Loss)	(\$1,025,571)	(\$9,172,827)
Realized Non-Investment FX Gain/ (Loss)		(\$5,703)
Unrealized Investment Gain/ (Loss)	(\$2,221,842)	\$50,162,873
Other Income	\$1,185	\$115,212
Total Income	\$5,561,527	\$84,752,021
Expenses		
Management Fees	\$349,209	\$14,510,948
Administration Fees	\$14,700	\$663,204
Professional Fees		\$387,769
Annual Filing Fees	\$611	\$10,431
Director Fees	\$26,219	\$740,425
Withholding Tax Expense	\$12,099	\$78,083
Director & Officers Insurance Expense	\$5,387	\$276,285
Servicing		\$106,087
Audit Expense	\$2,495	\$165,892
Bank Charges	\$2,777	\$47,633
Custody Fees	\$20,602	\$572,324
Organizational Expense		\$188,167
Other Expenses	\$3,445,051	\$3,989,755
Broker Fees	\$13,770	\$400,808
Total Investment Expenses	\$3,892,920	\$22,137,810
Net Profit/(Loss)	\$1,668,607	\$62,614,211
Currency Translation Differences		
Unrealized Investment FX Gain/ (Loss)	\$2,166,544	\$226,839
Unrealized Non-Investment FX Gain/ (Loss)	\$24,185	(\$2,985,689)
Total Comprehensive Income/(Loss)	\$3,859,336	\$59,855,361

⁶ This Income Statement is unaudited and prepared by Deutsche Bank AG Mauritius, VAF's Fund Administrator.

5.2 Balance Sheet

Vietnam Azalea Fund Limited Balance Sheet ⁷ as of 30 September 2017		US\$
Assets		
Financial Assets at Fair Value Through Profit or Loss		\$64,360,666
Receivables and Prepayments		
Interest Receivable		\$7,976
Other Receivable		\$59,460
Prepaid Management Fee		\$116,403
Prepaid Other Equivalents		\$6,086
Cash and Cash Equivalents		\$3,583,460
Total Assets		\$68,134,051
Equity and Liabilities		
Capital and Reserves Attributable to Shareholders		
Ordinary Shares		\$99,750
Share Premium		\$4,846,051
Retained Earnings		\$62,614,211
Cumulative Translation Reserve		(\$2,758,850)
Total Equity		\$64,801,162
Liabilities		
Accrued Fees and Other Payables		
Accrued Audit Fees		\$7,405
Accrued Director Fees		\$78,288
Accrued Custody Fees		\$17,157
Accrued Administration Fees		\$14,700
Other Accruals		\$91,585
Other Payables		\$3,123,753
Total Liabilities		\$3,332,888
Total Equity and Liabilities		\$68,134,050

⁷ This Balance Sheet is prepared by Deutsche Bank AG Mauritius, VAF's Fund Administrator.

6. APPENDICES

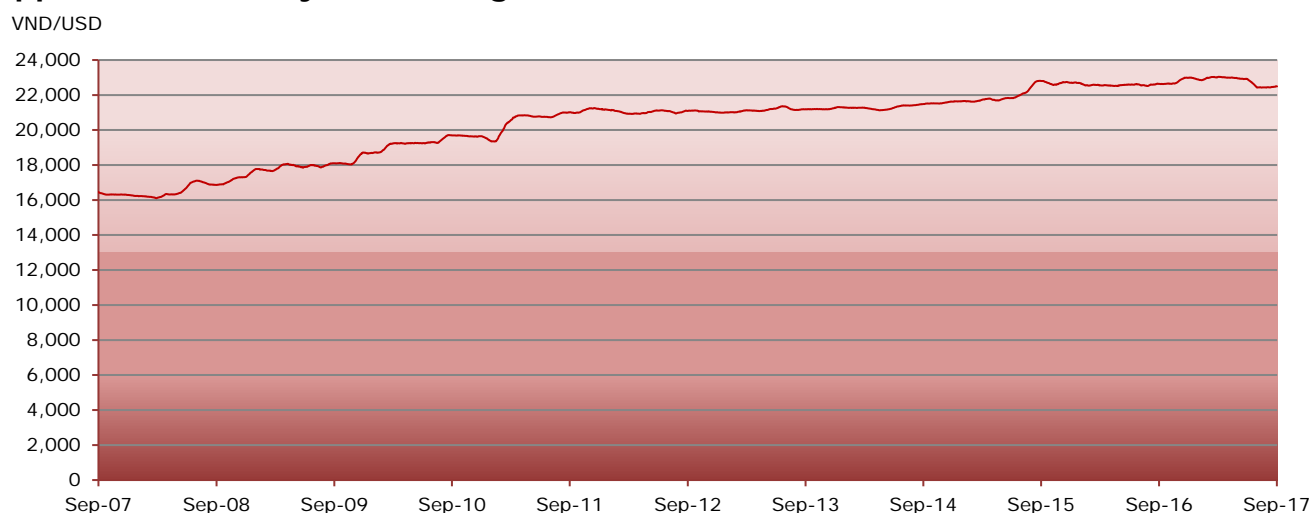
Appendix 1: Glossary

1. **Fund's Gross IRR** is the gross return on the Fund's investment portfolio, which takes into account all cash flows between the Fund and all of its investments, and the valuation of the unrealized portfolio excluding cash and other assets held by the Fund.
2. **Fund's Net IRR** is the net return to the investors, which accounts for the cash flows between the Fund and the investors, net of management fees, carried interest (paid and payable) and all other charges to the Fund, and the valuation of the unrealized portfolio.
3. **Fund's Net Return Multiple** is the sum of distributions to the investors and NAV of the Fund at the end of the reporting period divided by the sum of capital contributions from the investors to the Fund.

Appendix 2: Fund Overview

Fund Overview	
First closing date	12 June 2007
Investment period	2 to 4 years
Term	10 years (subject to 4 year extension)
Hurdle rate	8%
Carried interest rate	80-20
Management fee rate	<ul style="list-style-type: none"> - From 12 June 2007 to 12 June 2011: 2% of Committed Capital per annum - From 12 June 2011 onwards: monthly Management Fee shall be the greater of (i) one twelfth of two per cent. per annum of the Net Asset Value as at the latest Valuation Day; and (ii) \$25,000.
Fund domicile	Cayman Islands
Legal form	Limited Liability Company
Management company	Mekong Capital Partners
Investment strategy	Investing in leading Vietnamese companies prior to a public stock market listing or thereafter, through negotiated transactions, and divesting such interests on the Exchanges at a premium to the purchase price
Investment focus by geography	Vietnam
Principal contact	Christopher E. Freund – Partner (chris@mekongcapital.com)

Appendix 3: History of Exchange Rate of VND/USD



Source: www.oanda.com (30-day moving average trend type)

Appendix 4: Cash Flow Schedule and Net IRR Calculation

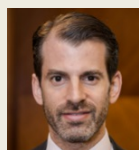
Investors Commitment US\$64,125,801					
as of 30 September 2017					
Date of Cash Flow	Contributions from Investors ⁸	Distributions to Investors	Fund's Net Asset Value (NAV)	Cash Flow and NAV	
				until 30-Sep-16	until 30-Sep-17
29-Jun-07	(\$7,412,500)			(\$7,412,500)	(\$7,412,500)
17-Jul-07	(\$19,272,500)			(\$19,272,500)	(\$19,272,500)
6-Sep-07	(\$8,387,889)			(\$8,387,889)	(\$8,387,889)
14-Nov-07	(\$1,055,436)			(\$1,055,436)	(\$1,055,436)
2-Jan-08	(\$4,986,812)			(\$4,986,812)	(\$4,986,812)
1-May-08	(\$14,962,500)			(\$14,962,500)	(\$14,962,500)
23-Dec-08	(\$7,980,000)			(\$7,980,000)	(\$7,980,000)
30-Dec-09	(\$68,164)			(\$68,164)	(\$68,164)
17-Jul-15		\$5,000,000		\$5,000,000	\$5,000,000
7-Apr-16		\$6,000,000		\$6,000,000	\$6,000,000
5-May-16		\$3,180,000		\$3,180,000	\$3,180,000
22-Jun-16		\$5,000,000		\$5,000,000	\$5,000,000
22-Jul-16		\$18,100,000			\$18,100,000
30-Sep-16			\$67,267,860	\$67,267,860	
28-Nov-16		\$13,000,000			\$13,000,000
4-Aug-17		\$8,900,000			\$8,900,000
30-Sep-17			\$69,801,162		\$69,801,162
Total	(\$64,125,801)	\$59,180,000			
Net IRR ⁹				5.8%	7.4%
Multiples					
				0.6x	0.9x
				1.1x	1.0x
				1.6x	1.9x

⁸ This is based on the Drawn-down Due Date, not the actual cash inflow. In case the shareholder would like to receive more details, kindly contact us for the information.

⁹ The Net IRR is calculated based on the actual cash inflow and outflow.

Appendix 5: Fund's Contact Information

For Inquiries for Fund's Board of Directors/ For Inquiries Regarding Fund's Strategy and Investments



Name: **Christopher E. Freund**
 Title: Chairman of VAF
 Partner of Mekong Capital
 E-mail: chris@mekongcapital.com
 Phone: +84 28 3827 3161 Ext: 105
 Mobile: +84 907 822 377

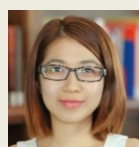
Chris Freund founded Mekong Capital in 2001 and is a Partner. Chris is a member of Mekong Capital's Management Committee, Investment Recommendation Committee and is the Chairman of Mekong Capital's Board of Directors. Chris is also a member of the Board of Directors of several investee companies.

For Inquiries Regarding Fund Administration/ Shareholders Reporting/ Board Meetings



Name: **Truong Dieu Le**
 Title: Partner
 E-mail: le@mekongcapital.com
 Phone: +84 28 3827 3161 Ext: 104
 Mobile: +84 908 194 322

Le is responsible for supervising all activities of the Operations Team including Finance & Accounting, Human Resources, Investor Relations, Compliance, IT and Administration.



Name: **Le Nguyen Phuong Thuy**
 Title: Senior Investor Relations Officer
 Email: phuongthuy@mekongcapital.com
 Phone: +84 28 3827 3161 Ext: 107
 Mobile: +84 122 741 1313

Phuong Thuy is responsible for fund administration, fund reporting and maintaining relationship with shareholders and Directors of Vietnam Azalea Fund Limited.

Phuong Thuy is also the main contact for all logistics-related matters for Board meetings, shareholder meetings, company visits, etc. of Vietnam Azalea Fund Limited.

-- End of Appendices --