

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P.  
and  
AVENUE ASIA SPECIAL SITUATIONS FUND III  
(PARALLEL), L.P.**

**COMBINED FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
(IN LIQUIDATION)**

**DECEMBER 31, 2014**

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

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(IN LIQUIDATION)  
DECEMBER 31, 2014**

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## Independent Auditor's Report

To the General Partner and Limited Partners of  
Avenue Asia Special Situations Fund III, L.P. and  
Avenue Asia Special Situations Fund III (Parallel), L.P.

We have audited the accompanying combined financial statements of Avenue Asia Special Situations Fund III, L.P. (the "Fund") and Avenue Asia Special Situations Fund III (Parallel), L.P. (the "Parallel Fund") (collectively, the "Partnership"), which comprise the combined statement of assets, liabilities and partners' capital (in liquidation) as of December 31, 2014 and the related combined statements of operations (in liquidation), of changes in partners' capital (in liquidation), and of cash flows (in liquidation) for the year then ended.

### *Management's Responsibility for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Partnership's preparation and fair presentation of the combined financial statements 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 Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position (in liquidation) of Avenue Asia Special Situations Fund III, L.P. and Avenue Asia Special Situations Fund III (Parallel), L.P., at December 31, 2014, and the results of its operations (in liquidation), changes in its partners' capital (in liquidation) and its cash flows (in liquidation) for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 1 to the combined financial statements, the term of the Partnership expired on October 8, 2012, upon which the General Partner commenced the winding-up process of the Partnership. The Partnership has adopted a liquidation basis of accounting effective January 1, 2012. On December 31, 2014, the Partnership made a final distribution to its partners and the liquidation of the Partnership is expected to be completed in 2015. Our opinion is not modified with respect to this matter.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The statement of changes in capital account (in liquidation) is presented for purposes of additional analysis and is not a required part of the combined financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

*PricewaterhouseCoopers*

March 12, 2015

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**COMBINED STATEMENT OF ASSETS, LIABILITIES AND PARTNERS' CAPITAL  
(IN LIQUIDATION)  
DECEMBER 31, 2014**

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**ASSETS**

Total Assets	\$	<u>          -</u>
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**LIABILITIES AND PARTNERS' CAPITAL**

Total Liabilities	\$	<u>          -</u>
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Partners' Capital		<u>          -</u>
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Total Liabilities and Partners' Capital	\$	<u>          -</u>
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See notes to combined financial statements.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**COMBINED STATEMENT OF OPERATIONS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Investment Income:</b>	
Other Income	\$ 9,737
Total investment income	<u>9,737</u>
<b>Expenses:</b>	
Professional fees	40,995
Foreign tax	24,070
Other	488
Total expenses	<u>65,553</u>
Net investment loss	<u>(55,816)</u>
<b>Realized and unrealized gain/(loss) from foreign currency:</b>	
Net realized loss from foreign currencies	(3,484)
Net change in unrealized gain on translation of assets and liabilities in foreign currencies	3,484
Net realized and unrealized gain from foreign currency	<u>-</u>
Net decrease in partners' capital resulting from operations	<u>\$ (55,816)</u>

See notes to combined financial statements.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**COMBINED STATEMENT OF CHANGES IN PARTNERS' CAPITAL  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Partners' capital at December 31, 2013	\$ 573,355	\$ 309,709	\$ 883,064
Distribution	(537,971)	(289,277)	(827,248)
Net decrease in partners' capital resulting from operations	(3,643)	(52,173)	(55,816)
Reversal of prior year's incentive allocation to General Partner	(31,741)	31,741	-
Partners' capital at December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to combined financial statements.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**COMBINED STATEMENT OF CASH FLOWS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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Cash flows from operating activities:	
Net decrease in partners' capital resulting from operations	\$ (55,816)
Adjustments to reconcile net decrease in partners' capital resulting from operations to net cash used in operating activities:	
Decrease in operating liabilities:	
Accrued expenses	(176,214)
Other liabilities	(40,135)
<b>Net cash used in operating activities</b>	<u>(272,165)</u>
Cash flow from financing activity:	
Distribution	(827,248)
<b>Cash used in financing activity</b>	<u>(827,248)</u>
Net decrease in cash	(1,099,413)
Cash, December 31, 2013	1,099,413
Cash, December 31, 2014	<u>\$ -</u>
<b>Supplemental cash flow information:</b>	
Foreign tax paid during the year	<u>\$ 64,205</u>

See notes to combined financial statements.



**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**1. ORGANIZATION:**

The combined financial statements include the accounts of Avenue Asia Special Situations Fund III, L.P. (the "Fund") and Avenue Asia Special Situations Fund III (Parallel), L.P. (the "Parallel Fund") (collectively, the "Partnership"). Avenue Asia Capital Partners III, LLC (the "General Partner"), a Delaware Limited Liability Company, is the general partner of the Partnership. Avenue Asia Capital Management, L.P. (the "Investment Manager"), a Delaware Limited Partnership and an affiliate of the General Partner, is the investment manager of the Partnership.

Pursuant to the Private Placement Memorandum (the "PPM"), the Partnership invested primarily in corporate debt or other obligations of foreign companies. Investments are primarily made in: (i) companies that are in financial distress or undergoing restructuring, reorganization or bankruptcy; (ii) companies experiencing operational or financial difficulty in which the Investment Manager anticipates a turnaround; (iii) companies in industries that are in turmoil; and (iv) companies that are undervalued because of discrete extraordinary events.

Pursuant to the terms of the Amended and Restated Agreement of Limited Partnership of the Fund and the Amended and Restated Agreement of Limited Partnership of the Parallel Fund (collectively, the "Agreements"), the commitment period of the Partnership (the "Commitment Period") ended on October 8, 2006 (the "Termination Date") and the Partnership shall continue in effect until October 8, 2010, which, pursuant to the Agreements has been extended with the consent of the General Partner and a majority of the limited partners until October 8, 2012. The term of the Partnership expired on October 8, 2012, upon which the General Partner commenced the winding-up process of the Partnership in accordance with Article 12 of the Agreements. The Partnership has adopted a liquidation basis of accounting effective January 1, 2012. The adoption of Accounting Standards Update ("ASU") No. 2013-07, *Presentation of Financial Statement - Liquidation Basis of Accounting*, which specifies changes in recognition and measurement of assets and liabilities and changes in the financial statements format under liquidation basis of accounting, become effective on 1 January 2014. This resulted in no accumulate effect adjustments but changes in presentation and disclosures.

On December 30, 2014, the Partnership made a final distribution of \$827,248 to its partners, resulting in zero net assets and zero partners' capital at this date. The liquidation of the partnership is expected to be completed in 2015.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

*Basis of Preparation and Use of Estimates* - These combined financial statements have been prepared on the liquidation basis of accounting and in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires the use of estimates and assumptions by the Investment Manager, that affect the reported amounts of income and expense during the year. Actual amounts and results could differ from such estimates and such differences could be material. The General Partner has determined that the Partnership is an investment company in conformity with U.S. GAAP and follows the accounting and reporting guidance for investment companies.

*Cash* - includes cash at banks and clearing broker. At December 31, 2014, there was no cash balance.

*Income Recognition* - Interest income is recognized on an accrual basis. Interest is only recognized if amounts are reasonably estimable and collectible. Interest income on the Partnership's cash held at banks and broker is recognized on an accrual basis, net of applicable withholding taxes. Dividend income is recognized on the ex-dividend date, net of applicable withholding taxes.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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*Allocations of Profit and Loss* - Allocations of profit and loss are proportionate to the total commitments of the partners, subject to the management fee and an incentive allocation to the General Partner as described in Note 4.

*Foreign Currency* - The functional and reporting currency of the Partnership is the U.S. dollar. Investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at each measurement date. Transactions related to investments and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of investments held or sold during the year. Such fluctuations are included in the realized and unrealized gain or loss from investments in the combined statement of operations.

*Income Taxes* - No provision is made in the combined financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

Interest, dividends and other income realized by the Partnership from non-U.S. sources and capital gains realized on the sale of investments of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced.

The General Partner intends to conduct the business of the Partnership so that the Partnership's activities do not constitute a U.S. trade or business or create a taxable presence in any of the non-U.S. jurisdictions in which the General Partner, the Investment Manager or its affiliates have offices or activities or in which the Partnership has investments.

Interest and penalties, if any, assessed under the relevant tax law are recognized as incurred and are included in foreign tax expense in the combined statement of operations and other liabilities in the combined statement of assets, liabilities and partners' capital.

The Partnership follows the authoritative guidance for uncertainty in income taxes included in ASC 740, *Income Taxes*, which requires the Partnership to determine whether a tax position of the Partnership is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation process, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax position recognized in the combined financial statements is measured as the largest benefit that is greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority.

The Partnership files tax returns in the U.S. Federal, New York state and city jurisdictions. As of December 31, 2014, the tax years that remain subject to examination by such jurisdictions under the statute of limitations are 2011 and thereafter. As of December 31, 2014, no tax liability pursuant to ASC 740 has been recorded in the combined financial statements.

*Representations and Warranties* - In the normal course of business, the Partnership enters into arrangements with third parties that contain representations and warranties, and may include indemnifications. The Partnership's maximum exposure under these arrangements is unknown. However, the Investment Manager expects the risk of material loss to be remote and no amounts have been recorded as liabilities relating to such arrangements at December 31, 2014.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**3. FAIR VALUE MEASUREMENT AND DISCLOSURES:**

During the year and as at December 31, 2014, the Partnership did not have any investments.

**4. PARTNERSHIP TERMS AND RELATED PARTY TRANSACTIONS:**

Pursuant to the terms of the Agreements, prior to the Termination Date, the Investment Manager received: (i) a management fee equal to 2.0% per annum of the aggregate committed capital of the limited partners of the Partnership (unless amended by individual agreement), payable semiannually in advance, and (ii) a management fee equal to 1.5% per annum of the aggregate committed capital of the limited partner of the Parallel Fund payable semiannually in advance. After the Termination Date, the Investment Manager receives a management fee equal to 1.5% per annum of the aggregate unreturned capital contributions of the limited partners (unless amended by individual agreement) payable semiannually in advance. Pursuant to the amendment to the term of the Partnership, effective January 1, 2011, the Investment Manager receives a management fee equal to 1.25% per annum of the aggregate unreturned capital contributions of the limited partners (unless amended by individual agreement) payable semiannually in advance.

Pursuant to the terms of the Agreements, the General Partner is entitled to receive an incentive allocation, provided certain performance thresholds are met as described in the provisions below. The incentive allocation is accrued currently and periodic changes are reflected as equal and opposite increases/decreases to the respective capital balances of the General Partner and the limited partners in the combined statement of changes in partners' capital. At the end of each period, the amount accrued reflects the amount the General Partner would be paid assuming a complete liquidation of the portfolio at the net asset value at such date.

The incentive allocation becomes distributable to the General Partner (i) after the expiration of the Commitment Period and (ii) only after each limited partner has received back its contributed capital, plus an amount equal to 8% cumulative compounded annual rate of return (the "Preferred Return") on the capital contributed by such limited partner. Once each limited partner has received its contributed capital plus the Preferred Return, the General Partner is entitled to receive one or more distributions until the General Partner has received aggregate distributions such that, following such distribution(s), the General Partner will have received 20% of the aggregate distributions made in excess of the capital contributed by the limited partners, unless amended by individual agreement. Distributions thereafter are allocated 80% to limited partners and 20% to the General Partner, unless amended by individual agreement.

In connection with certain private investment transactions (including bank debt investments, corporate bonds, private companies, and NPLs), one or more investment funds, including the Partnership, managed by the General Partner or its affiliates (collectively, the Partnership and the other affiliated funds are referred to as the "Avenue Funds") may act as the counterparty to the external party and administer the aggregate flow of funds with the external party. In many of these transactions, an Avenue Fund may sell or participate a portion of such investments to other Avenue Funds and thereafter act in an agency capacity for the other Avenue Funds, including the Partnership. The Avenue Funds periodically settle related transactions as soon as practical with the other Avenue Funds involved in the transactions (including, follow-on investments, distributions, interest, fees and partial prepayments). At December 31, 2014, the Partnership has no receivable or payable from other Avenue Funds arising from these transactions.

**AVENUE ASIA SPECIAL SITUATIONS FUND III, L.P. and  
AVENUE ASIA SPECIAL SITUATIONS FUND III (PARALLEL), L.P.**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
(IN LIQUIDATION)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**5. CAPITAL:**

The Partnership had total committed capital of \$628,200,000, of which \$452,511,200 was drawn from the limited partners and \$31,389,434 was drawn from the General Partner during the Commitment Period. Effective with the expiration of the Commitment Period on October 8, 2006, the General Partner is required to make distributions at least once a year in accordance with the terms of the Agreements. Except as otherwise provided in the Agreements, withdrawals are not permitted.

**6. FINANCIAL HIGHLIGHTS:**

The information presented below represents the financial highlights for the year ended December 31, 2014, applicable to the limited partner of the Partnership:

Total return (after expenses but before the incentive allocation)	(16.85%)
Incentive allocation	<u>10.25%</u>
Total return (after expenses and the incentive allocation)	<u>(6.60%)</u>
Expenses (before the incentive allocation)	21.44%
Incentive allocation	<u>(11.11%)</u>
Expenses (including the incentive allocation)	<u>10.33%</u>
Net investment loss	<u>(18.25%)</u>

Total return for the limited partner is calculated based on a time-weighted rate of return methodology. Periodic rates of return are compounded to derive the total return. The operating expense ratio, net investment income ratio, as well as the incentive allocation used for purposes of the expense ratio, are calculated based on monthly average limited partner's capital. The net investment income ratio does not reflect the effects of the General Partner's incentive allocation.

**7. SUBSEQUENT EVENTS:**

The Partnership has evaluated subsequent events through March 12, 2015, the date the combined financial statements were authorized for issue and has concluded that no events that would require disclosure in these combined financial statements occurred from the date of the combined financial statements through the date the combined financial statements were authorized for issue.

**AVENUE ASIA SPECIAL SITUATIONS FUND III (Parallel), L.P.**  
**STATEMENT OF CHANGES IN CAPITAL ACCOUNT OF**  
**Pennsylvania Public School Employees' Retirement System**  
**FOR THE YEAR ENDED ENDED DECEMBER 31, 2014**

Capital balance at December 31, 2013	\$192,219
Distribution	(184,668)
Depreciation	( 8,884)
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Capital balance before General Partner's Incentive Allocation	(1,333)
Reversal of prior year's incentive allocation to General Partner	1,333
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Capital balance at December 31, 2014	\$ 0

As of December 31, 2014, your capital account percentage is 0.0000%.

These amounts are not to be used for tax purposes.

This statement of changes in partner's capital should be read in conjunction with the combined financial statements of Avenue Asia Special Situations Fund III, L.P. and Avenue Asia Special Situations Fund III (Parallel), L.P. and the related auditor's reports.

