



September 10, 2013

Dear Clients, Partners, and Friends,

The results for South Ocean Managementø Delaware LP, Kong Partnersø L.P., before incentive fees, were as follows:

	<u>Aug 2013</u>	<u>Year-to-Date</u>
Hong Kong Partners LP (net)	5.0%	6.0%*
Hang Seng Index	-0.7%	-4.1%
Hang Seng Small Cap Index	2.1%	-0.2%

Partnersø NAV \$2.6585 after management fees and March 2013 provisions, but before annual incentive fees of 15% on appreciation. \*after provisions March 31, 2013

August is a busy month in Hong Kong for our equity portfolios of Hong Kong-listed, China-oriented, smaller/mid-sized companies.

New stock exchange regulations require listed Hong Kong companies to report within two months their financial interim results. All presentation venues in Hong Kong are fully booked during August for June interim reports.

We attended many of these company analyst presentations held here in the SAR (or, *Special Administrative Region, the official designation for Hong Kong*).

Last month, 23 of our 26 holdings (we have 3 suspended holdings) reported financial interims results. As the dire news headlines, which continually questioned Chinaø economic growth, confronted investors almost daily this summer, it was good that most of these financial results came in about as expected.

One exception was with our holding in electronics distributor, VST Holdings (856hk, 3.1% holding, US\$313 million market cap). Though growth in China's overall software and IT services sector declined through the first 7 months of 2013, VST reported a surprising increase in profitability, to which the shares surged 24% the following trading day.

This is testament to how pessimistic investors view stocks in Hong Kong today: after the surge in price following the earnings release, VST still sells at just 4.7 x expected earnings.

One of our larger holdings, garment manufacturer Luen Thai (311 HK ó 6.3% holding, US\$414 million market cap) reported a respectable 51% increase in first half 2013 earnings on increased orders from Japan-based Uniqlo.

Shares in Luen Thai have increased 165% year-to-date and sell at 6.7 times expected earnings next year. Even after its acquisition of Singapore-listed Ocean Sky Global, with

new operations for Luen Thai in Cambodia, and the added capacity expansion in the Philippines (for Coach bags and accessories), the company remains nearly debt free.

We continue to hold this position as a bevy of new institutional investors will have this equity on their radar screens as the market capitalization nears US\$500 million.

We also remain positive that our suspended holdings will become profitable in the future, as well.

Since instituting our original, systematic investment system (software we developed and modeled after a Warren Buffett, fundamental investment approach), our performance this year has beaten both the large cap blue chip Hang Seng Index and the Hang Seng Small Cap index.

As plunging currencies in emerging markets were in the spotlight last month (markets in India and Indonesia declined by 11% and 15%, respectively, in USD terms), we are pleased with our out-performance relative to the Hong Kong stock market year-to-date. (Of note: Our Delaware-domiciled Hong Kong Partners LP fund's year-to-date performance, shown above, is after 10+% provisions on two holdings (a third holding is less than .5% of total portfolio value) we made in March. The two holdings were written down to zero, but we are expecting a resolution to the suspensions and return/profit from both holdings. Excluding these temporary markdowns, the rest of the portfolio has gained 17.4% this year).

Sincerely,

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Hong Kong