SOUTH OCEAN
MANAGEMENT, LTD.
HONG KONG
南海管理有限公司

August 11, 2017

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Hong Kong Partners' L.P., before incentive fees, were as follows:

	Jul 2017	Year-to-date
Hong Kong Partners LP	0.1%	3.7%
Hang Seng Index	6.1%	24.2%
Hang Seng Small Cap Index	1.8%	8.1%
MSCI HK Small Cap Index	-0.1%	7.5%

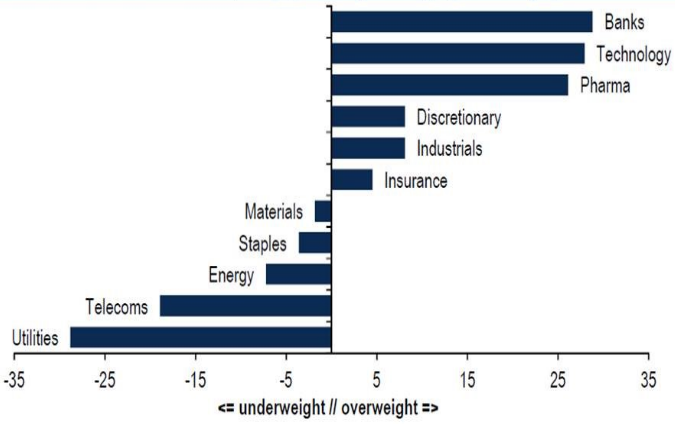
Partners' NAV $3.0948 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Our small/mid cap holdings of Hong Kong-listed, China-geared companies under-performed the large cap, Hang Seng Index. As mentioned in this year's monthly letters, our portfolios are weighted towards utility-like, stable cashflow holdings in the environmental/renewable sectors. These stocks have been out of favor this year as investors have focused on cyclical, Internet and financial names. There have been strong fund inflows (from both foreign and China investors) into HSBC, Internet giant Tencent, property developers and insurers, areas in which we are not invested. It was very quiet across the smaller cap sectors (see recent SCMP article on the small cap sector here).

In fact, the utility sector was the most underweighted group by global investors according to BoA Merrill Lynch Global sector sentiment survey;

On Sector Allocation

Exhibit 35: Global sector sentiment (% saying overweight - % saying underweight)



Source: BofA Merrill Lynch Global Fund Manager Survey

In July, global investors continue to favor banks, technology, pharma, discretionary and industrials and avoid utilities, telecoms, and energy.

Due to this relative under-performance, our holdings have grown in worth to the point that deep values have started to emerge.

Famed value investor, Ben Graham, used several yardsticks to fulfill his standards of value. For instance, our portfolio average current price-to-earnings ratio (P/E) is way below the average 5-year historic P/E. Taken together, our holdings would have to increase 56% (in total) to return to their historic P/E levels. Another measure of value is the inverse of P/E or earnings yield (or earnings divided by price). Our portfolio average earnings yield is 6.4% which is substantially above high-grade Hong Kong corporate yields of 2.6%.

One example of the deep values favored by Ben Graham is our position in wind and solar power generator, Huaneng Renewables (code 958hk, 4.6% holding). HN Renewable sells at 8.8x last year's earnings and 6.7x this year's estimated earnings. Its historic P/E is 16.8 times. Return on equity today is greater than 30% and the shares are selling below book value. Sales, earnings and net book value have increased every year for the past 5 years. HN Renewables is the largest wind farm operator in China and has the highest net margins of all wind power companies. Its parent company is the State-Owned giant Huaneng Group (57% ownership), one of China's largest power producers. Various governmental policies strongly favor wind, solar and hydro power. Renewable energy is in the first priority of power dispatch in China as the government requires that grids purchase renewable power first.

Our weighted average estimated 2017 and 2018 portfolio P/E is 7.5x and 6.6x, respectively. Even if sentiment should stay depressed, our fundamentally solid holdings, with the above types of defensive characteristics, should weather relatively well any market downturns we encounter going forward.

Sincerely,

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