SOUTH OCEAN 南海管理有限公司

MANAGEMENT, LTD.

H O N G K O N G

October 14, 2019

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:

	Sep. 2019	Year-to-date
Hong Kong Partners LP	2.9%	- 2.4%
Hang Seng Index	1.4%	1.0%
Hang Seng Small Cap Index	- 0.5%	- 4.1%
MSCI HK Small Cap Index	2.6%	-7.0 %
HS Mid Cap Index	1.5%	1.2%

Partners' NAV $2.3841 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Our fully invested portfolios of Hong Kong-listed, small/mid cap stocks rose in the last month of the third quarter. Top performing holdings were recliner chair/sofa manufacturer Man Wah (code 1999hk, +36.2%), wind farm operator HN Renewable (code 958hk, +30.4%) and smartphone casing manufacturer BYD Electronics (code 285hk, +24.5%), all contributing to last month's returns. Investing in quality small/mid cap stocks tends to generate greater returns than larger stocks. Our proprietary intrinsic value screening process helps not only identify strong businesses to own but better facilitates our investment process and risk management disciplines.

During a tumultuous 3-month period ending September, our Hong Kong Partners LP account outperformed and was down just 2.4% versus -8.6% for the blue-chip Hang Seng Index. The Hang Seng Composite Index representing 500 of the top capitalized stocks in Hong Kong (accounting for >90% of total market capitalization) was down 7.5%, with the Property sector down a sharp 12.9% (we have avoided the real estate and finance sectors in Hong Kong).

While we are based in Hong Kong, our investment program is aimed at capitalizing on companies generating earnings from businesses in China...not Hong Kong. Hong Kong has been under extraordinary pressure this past summer. Tourism to the Special Administrative Region (SAR) has collapsed as a result of the ongoing violence. Hotels and retail operations haven't suffered these declines since the 2003 SARS epidemic.

The angst of Hong Kong citizens has been brewing since the 2014 Occupy Central protests. Every weekend has witnessed peaceful, but angry marches on the island by thousands of participants. The Extradition Bill episode in June, along with the suffocating heat, set off tempers and resulted in today's unprecedented violent protests. The international community has now joined in scrutinizing the strife.

In deliberating the relative values in the markets, we have remained invested in extremely cheap stocks listed in Hong Kong which have been under huge duress this year. One underpinning to our confidence is the Hong Kong dollar currency board, which ‘pegs’ the Hong Kong dollar to the US dollar. Though this has been a major cause of Hong Kong’s troubles (as escalating property prices due to the peg have excluded all new buyers from owning a home), the Hong Kong Monetary Authority can defend the currency against most any devaluation scenario. China would also likely not want the instability of an improbable devaluation to hit Hong Kong. When China’s capital account controls are opened and its currency becomes fully convertible, I suspect Hong Kong will link its currency to the motherland’s RMB, but not before.

No one knows what the outcome of today’s chaos will be. Again, though our investments are not directly affected by the ongoing protests affecting the island state, it is extremely distressing and sad for all of us who have lived in Hong Kong to witness the degenerating state of affairs.

Sincerely,

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