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

August 12, 2010

Dear Clients, Partners, and Friends,

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

	Jul 2010	Year-to-Date
Hong Kong Partners LP (net) *	4.43 %	8.21 %
Hang Seng Index **	4.48 %	-3.85 %
BNP Peregrine Greater China Index	4.34 %	-4.47 %
MSCI HK Small Cap Index	5.42 %	9.15 %

Partners' NAV for July was $3.095, after management fee, but before annual incentive fees of 15% on appreciation.

Our defensive portfolios of Hong Kong-listed, small niche, fast growth companies performed well in July. The Hong Kong stock market had a relief rally after the European bank stress tests mid month, gaining 4.8% in the last ten trading sessions. Our core investment positions in small/mid cap Hong Kong-listed companies, with earnings geared towards China, held their gains through the month.

We raised cash in our portfolios as markets crested last April, but in this July's reporting season, several of our holdings reported better than expected earnings and proved their worth. To illustrate, we wrote in our March 2009 client letter last year:

> *Amidst all the uncertainty today, we see little risk in owning these stocks. For example, Hang Ten, which operates over 760 retail outlets in Asia and China under the propriety brand names "Hang Ten" and "Arnold Palmer," was purchased at HK$0.37/share, near its 52-week low. The stock pays a HK$0.07 per share annual dividend or a 20% dividend yield. Should the company grow earnings just 5% annually over the next 4 years and keep the present dividend payout, we will receive total dividend income close to the amount we paid for the stock. In other words, even should the stock price go to zero after four years, we have not lost our investment.*

The casual sports-wear clothing retailer (code 448, market cap HK$1,071 billion, US$138mn) reported positive results in July for the year ending in March 2010. The shares have now risen above HK$1.00, yet still sell at just 6.8 times our estimates for earnings this year (4.7 times cashflow). The company's balance sheet is strong, with a net debt to equity ratio at 20% and cash of HK$.37 per share. With its China expansion quickening, the market applauded the increased dividend payout (a 7% yield).

Another holding that reported in July is cash-rich, consumer electronics maker, Alco Holdings (code 328, market cap HK$1,902bn, US$248mn). This well-managed manufacturer of LED TVs and audio equipment generated higher profits and shareholder equity returns in a difficult industry environment. The shares advanced sharply to a new 52-week high after raising its dividend. The shares now sell at 7.4 times trailing earnings and 1.2 times tangible book value.

Several more of our small/mid cap holdings will be reporting in August. Presently, we have been buying a China-oriented, base metal miner at a depressed price of HK$0.21 per share. This company will have, after the pending sale of one of its PRC mines, HK$0.35 a share in cash, no debt.

We have been cautious since springtime. The financial press/media has been relentlessly negative on China. Surprisingly, Shanghai leaped 7% in July, with the stock market there having perhaps already priced in the worst (with a peak to trough decline of 31.8%). Suddenly, most major banks now forecast sustained momentum for the mainland bourse (except HSBC private bank, which is still negative).

A rising Shanghai stock market benefits Hong Kong shares indirectly. Persistent Chinese RMB currency inflows increase Hong Kong's money stock. As a testing ground for freer convertibility of the RMB, Hong Kong benefits from the increased liquidity moving across the border from China's massive domestic savings.

We have 33% cash (as a percent of total market value) on the sidelines and though I regret not having invested more in the market during July, I've felt there's enough latent risk outstanding, globally, to not to go full throttle yet. It's frustrating and not highly profitable managing at the same attitude as both the market and general opinion. But even as stocks slowly advance in a trendless market, I would rather err on the side of caution.

We have been visiting many companies this summer and, with our cash available, we'll have plenty of ammunition to take advantage of opportunities that may appear.

Sincerely,

Brook McConnell
President
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*Hong Kong Partners LP risk disclaimer:

- Hong Kong Partners LP (The "Fund") primarily invests in the Hong Kong equity market with a Greater China focus.
- The Fund invests in China-related companies which involve certain risks not typically associated with investment in more developed markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund is also subject to concentration risk due to its concentration in Hong Kong, particularly China-related companies. The value of the Fund can be extremely volatile and could go down substantially within a short period of time. It is possible that a substantial value of your investment could be lost.
- You should not make investment decision on the basis of this material alone. Please read the explanatory private placement memorandum for details and risk factors.

**Index Descriptions: The Hang Seng Indexes are a widely recognized capitalization-weighted indexes that measures the performance of the three largest-capitalization sectors of the Hong Kong stock market in descending order. The Hang Seng Index measures the largest 52 market capitalized listed companies in Hong Kong's stock market. The Hang Seng Mid Cap Index represents the next 193 largest capitalized listed companies, the Hang Seng Small Cap Index represents the next 187 largest capitalized listed companies in Hong Kong.

The MSCI HK Small Cap Index is a free float-adjusted market cap weighted index designed to measure the performance of small cap equity securities in the bottom 15% of equity market capitalization in Hong Kong. With 69 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Hong Kong equity universe.

The Hong Kong Partners LP (HKP) is benchmark agnostic and its corresponding portfolio may have significant noncorrelation to any index. The portfolios may invest in all sectors (within and/or on other stock markets) and the composition of securities in the portfolio may change periodically depending on market conditions at the time. Securities in the portfolio will not match those in any index.

Index returns are generally provided as an overall market indicator. You cannot invest directly in an index. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns. Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction.

Before investing you should carefully consider the Partnership's investment objectives, risks, charges and expenses. This and other information are in the prospectus, a copy for Accredited Investors may be obtained by inquiring to info@south-ocean.com. Please read the prospectus carefully before you invest.

The principal risks of investing in HKP: Equity Securities Risk. The value of the equity securities the Fund holds may fall due to general market and economic conditions. Foreign Securities Risk. Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. Industrials Sector Risk. Companies in the industrials sector may be adversely affected by changes in government regulation, world events, economic conditions, environmental damages, product liability claims and exchange rates. Consumer Discretionary Risk. Companies in this sector may be adversely impacted by changes in domestic/international economies, exchange/interest rates, social trends and consumer preferences. Information Technology Sector Risk. Information technology companies face intense competition, both domestically and internationally, which may have an adverse effect on profit margins. Detailed information regarding the specific risks of Hong Kong Partners LP can be found in the prospectus. Additional risks of investing in HKP include equity, market, management and non-diversification risks, as well as fluctuations in market value and NAV. An investment in a private limited partnership is subject to risks and you can lose money on your investment in the limited partnership.

There can be no assurance that HKP will achieve its investment objective. The LP's portfolio is more volatile than broad market averages. Shares of HKP cannot be bought or sold publicly, there is no active market in the Units and there are restrictions imposed on Limited Partnership unit transfers. Partnership redemptions are handled by Authorized Administrators of the Partnership.