SOUTH OCEAN
MANAGEMENT, LTD.
H O N G K O N G
南海管理有限公司

August 8, 2012

Dear Clients, Partners, and Friends,

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

	Jul 2012	Year-to-Date
Hong Kong Partners LP *	-2.3%	-3.5%
Hang Seng Index **	1.8%	7.4%
MSCI HK Small Cap Index	1.3%	2.0%

Partnersô NAV for Jul $2.2711 after management fee, but before annual incentive fees of 15% on appreciation.

There are many cheap values in the Hong Kong stock market today! Our holdings of small/mid cap stocks with earnings geared towards China sell at extremely low valuations.

For instance, our holding in consumer electronics manufacturer, Alco Holdings (code 328hk, US$123 million market cap), which recently reported lower earnings growth, now sells at less than cash value per share. Cheap!

This chart, from Chris Roberts, shows the relative performance of the MSCI China Index versus the MSCI Asia Free ex-Japan Index.

Figure 2: MSCI China vs. MXASJ

It peaked December 2008.

For the last 3.5 years, Hong Kong/China stocks have been underperforming, and, today, after nearly 45 months, stocks listed in Hong Kong have become oversold.

The China óprivate-chipô share sector has dropped even more precipitously.

Witness the Bloomberg Chinese Reverse Mergers Index, which tracks 82 companies listed in the USA. It has lost 46 per cent of its value since last year (May 31, 2011, two days before Muddy Waters issued a report saying Sino-Forest overstated production). The Index peaked at 250 in December 2010 and today trades around 67, down a whopping 73%.

Under-performance of the MSCI China Index began in December 2008, as noted in the first chart. The index actually peaked two years later (November 2010), when issues of a hard landing, shrinking export markets and excess industrial and residential investment concerns started plaguing investors.

Today, those worries look to be under control (see articles below).   The long correction in China shares may be near an end

The Hang Seng Index sells at 9.4x trailing earnings (versus an historic 14x P/E) and 1.36x book value. The China H-share Index sells at 8.2x trailing earnings and 1.3x book value. Our portfolioȏs weighted average P/E is 2.0x this yearȏs expected earnings and 0.5 times average book value.

Surely, Chinaȏs 8% GDP growth supports an attractive base for investors seeking inflation beating returns.

Sincerely,

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Hong Kong

China Has Massive Firepower to Battle Global Slowdown: Stephen Roach

FAST MONEY HALFTIME REPORT, FAST MONEY HALFTIME, HALFTIME, HALFTIME CNBC
Posted By: Lee Brodie | Producer
CNBC.com
| 13 Jul 2012 | 02:18 PM ET

Plenty of market pundits point to China as the main culprit behind weakness in the US stock market.

They say because the latest data suggests **China's economy** is slowing you should run for cover; China is in trouble.

But Yale University senior fellow and former Morgan Stanley Asia executive chairman Stephen Roach thinks they're all full of hooey.

"Beware of people who say things like this," he tells us on CNBC's Fast Money Halftime Report. "Oftentimes they're just talking their own book."

What he thinks China skeptics either don't understand or conveniently forget is that China is both an export *and* investment led economy.

"Urbanization in China is happening at a pace that the world has never seen before. Currently, China is moving 15-20 million people from the countryside into the city and to do that they need to build a huge amount of low and middle income shelter and that is an ongoing feature of the Chinese economy."

In other words, when **China's exports slow**, which is currently the situation, Beijing ramps up investment in urbanization.

"The state planning agency has approved lots of new projects – the rate of approval has picked up materially, and that's the tool that really works (to drive the economy.), says Roach.

But you don't have to take his word for it. All you need to do is look at Beijing's actions a few years back.

"In 2009 when they had exports collapse they put the pedal to the metal on the investment side," he says, And by 2010 China had bypassed Japan as the world's second largest economy.

"China has a huge pipeline of unmet investment needs given the urbanization needs of their economy. It's what they did (to drive the economy) 3-years ago and I'm convinced they'll do it again."

Posted by CNBC's Lee Brodie

China has long term, projected annual growth of 5.1%
2010 GDP: $3.511 trillion*
2050 projected GDP: $25.334 trillion

It may be no surprise that China, the current engine of global growth, is set to be one of the fastest growing economies over the next four decades. But what is noteworthy is that the size of mainland economy, which is currently one-third that of the United States, is expected to grow more than seven-fold to overtake the U.S. by 2050.

It is no wonder that foreign companies across all sectors are flocking to China to set up shop and capitalize on its growth. The country is a leading recipient of foreign direct investment, receiving $116 billion in 2011, according to China's Commerce Ministry.

Growing wealth among Chinese firms has also led to an increasing amount of outward foreign direct investment – increasing the country’s influence on the world economy. In 2011 alone, China invested in 1,392 overseas projects in 132 countries, totaling $332 billion.

Dubbed the “world’s factory,” China’s economy has been largely fueled by its export sector. However, the country’s latest five-year plan aims to shift the economy’s focus to the development of its internal market. One way it plans to do so is by increasing the spending power of its 1.36 billion population by spurring job creation and implementing minimum-wage requirements. The government recently pledged to raise minimum wages by 13 percent a year through 2015 and launch measures to generate 45 million new jobs.

* Based on 2000 U.S. dollars

*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.