



June 11, 2013

Dear Clients, Partners, and Friends,

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

	<u>May 2013</u>	<u>Year-to-Date</u>
Hong Kong Partners LP*	8.3 %	11.2%*
Hang Seng Index **	-1.5%	-1.2%
MSCI HK Small Cap Index	5.2%	13.9%

Partners' NAV for June \$2.789 after management fee and provisions March 2013*, but before annual incentive fees of 15% on appreciation.

Our holdings of Hong Kong-listed, high growth businesses, with earnings geared towards China, considerably out-performed our expectations last month.

For four years, Hong Kong stocks have been out of favor. Positive earnings prospects are generally not reflected in share price valuations.

For example, we added a furniture manufacturer/USA exporter to our portfolios, a company developing retail shops in China. It is an A rated business in our Banquet Investing system (based on fundamentals measures of return on equity, net income growth, cash-flow growth and a healthy balance sheet). The shares were trading sideways throughout the year until the announcement of better than expected earnings in late May. The shares advanced sharply thereafter, gaining 21.1% in just 8 trading sessions.

As we have cited over the past several months, not only are valuations cheap in Hong Kong today, but rampant pessimism is pervasive, deadlocking skittish investors.

Another focus with Hong Kong's economic welfare, besides the dynamics that emanate from China, is the city-state's preoccupation with property and finance. Much has been written about low interest rates forcing property prices far above most citizens' capacity to own, causing the government to step in with heavy duties and taxes to stem the exorbitant rise.

The stock market is heavily geared towards these two sectors. The Hang Seng Property index is down just over 7% this year (we do not own any property or financial stocks in our portfolios).

We own three index constituents stocks, namely Li and Fung, Sands China and Galaxy Entertainment (all purchased earlier this year using our new Banquet Investing, Warren Buffett-style investment program).

On average, these three stocks have gained 9.6 % year-to-date, (sizably out-performing the Index) and have appreciated 13.1% from our average cost. As noted in the table above, the blue chip Hang Seng Index has *declined* year-to-date by 1.8%.

The smaller capitalized, non-index sector of the market has performed slightly better (notwithstanding the relentless downward pressure on property prices), with the Hang Seng Small Cap Index gaining 1.9% year-to-date.

This sub-index of 139 constituent stocks, with an average market cap of US\$1.3 billion, compares to our average market cap (excluding the three stalwart, Hang Seng Index constituent holdings named above) of US\$1.1 billion.

With the launch last year of our proprietary, Buffet-style investment system, our portfolio gains have bettered the overall market returns. Importantly, we don't use elaborate derivatives or shorting to generate this [alpha](#).

And, we believe our best gains have yet to arrive.

Sincerely,

Brook McConnell
President

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PS: It goes without saying that Index-related mutual funds and Hong Kong ETFs (-1.8% in 2013) have lower cost expense ratios than our (+22% pre-provision performance y-t-d) annual management fee cost of 1.5%.

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You get what you pay forí

***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.