July 11, 2013

Dear Clients, Partners, and Friends,

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

	Jun 2013	Year-to-Date
Hong Kong Partners LP *	-10.8%	-0.8%*
Hang Seng Index **	-7.1%	-8.2%
Hang Seng C S C	-9.1%	-3.9%

Partnersô NAV $2.4881 after management fees and March 2013 provisions, but before annual incentive fees of 15% on appreciation. *after provisions March 31, 2013

"Ben Graham's favorite allegory is that of Mr. Market, a fellow who turns up every day at the stock holder's door offering to buy or sell his shares at a different price. Usually, the price quoted by Mr. Market seems plausible, but occasionally it is ridiculous..." Benjamin Graham, From Wikipedia

Hong Kong Partners LP, our China-oriented fund of well-managed, Hong Kong-listed growth stocks, increased 3.74% vs. - 6.5 % for the Hang Seng Index for the second quarter ending June 2013.

For Hong Kong market overall, The TR (Thomson Reuters) index of all Hong Kong stocks (a weighted index covering close to 90% of the total market capitalization), declined 7.497% in the first half this year.

Investor sentiment has remained subdued in the Greater China region. For the record, The World ex-US was down for both the Q2 and year-to-date periods.

The last weeks of June were rough as investors fled from Fed interest rate tightening scares along with the China interbank rate surge that sent markets reeling. The Hong Kong market broke out in sweat and convulsions, like a junkie who had lost his needle.

Technically, the selling momentum was as intense as any period since the late 2007 market collapse (which was after the Hang Seng Index had surged from 20,000 to over 30,000 in matter of weeks. I suspect there may have been some weak hands in the market recently, wrong players, such as non-equity fixed income or retail investors, chasing yields. Ben Grahamôs Mr. Market decided to shake them off, emblematically, and take them to the cleaners).

Individual stocks we had been following became cheap in the late June sell-off and we added to our portfolios using sidelined cash. The following chart is the path of the Hang Seng Index in 2013.

That late sell-off: Ridiculous?

Our cash holding is now below 10% of total market value.

The Hong Kong market is a volatile animal, with traumatic declines over the past. Since we arrived in Hong Kong, we have witnessed 20% or greater declines every year (since 1993). That's the nature of the animal, even in good markets we have declines, and trying to predict its direction over the near term is an exercise in futility. We do not claim any special gift in ducking or predicting these events, as we are bottom up, individual stock shareholders, not market momentum investors.

We have outperformed, nevertheless, over these volatile cycles (see our fact sheet www.south-ocean.com)

Actually, in the first six months this year of actively employing our unique new *Warren Buffett-style* investment proprietary software system (South Ocean's *Banquet System*) of screening for great businesses to own at (incredibly) reasonable prices, we have out-performed the market. This performance is even after an 11% provision made on two (temporarily) suspended holdings in our fund made at the end of the first quarter.

With the new system, we have identified and fortified our portfolios by diversifying into an expanded list of companies to own (we own 27 holdings in over a dozen differing industry sectors). Notably, in formulating intrinsic values with our Banquet System, we demand a margin of safety to buy, and require a 20 % minimum annual.

And, because our holdings have strong balance sheets, many with net cash positions, the liquidity crunch in China should not be an issue.

Though the late quarter sell-off was tumultuous, we stuck to our outstanding holdings, even adding in the decline. Importantly, we have yet seen (nor expect at this juncture) any major contraction/reduction in earnings estimates in this already cheap selling market.

Speaking of momentum market players, a Barclayǒs bank survey recently noted an interesting point: "Asian investors are usually momentum-driven. They cash the assets (in) when the market goes down, and buy when it goes up," The bank commented ñé there are more bottom fishers in the developed markets, where investors are more sophisticated and have more experience.ò This inefficiency creates bountiful hunting grounds for sizable ten baggers for our portfolios in Hong Kong.

We are fully invested in China-oriented, growth stocks today. For example, we invested during the last quarter in a company that makes aseptic packaging in China, Greatview Aseptic Packaging (GA PAK, code 468hk, HK$6.4billion market cap, US$831 million, 3.1% dividend yield, no long term debt and net cash gearing).

A little background and description of the businessé

> Tetra pak was invented by a Swedish company 40 years ago. The aseptic packaging technology made possible a cold chain supply, substantially facilitating distribution and storage. In 1943, the Åkerlund & Rausing lab started to work on developing the milk carton package and, in 1944, came up with the idea of constructing a tetrahedron shaped package out of a tube of paper. In aseptic processing the product and the package are sterilized separately and then combined and sealed in a sterile atmosphere, as compared to canning, where product and package are combined and then sterilized. When filled with ultra-heat treated (UHT) foodstuffs (liquids like milk and juice or processed food like vegetables and preserved fruits), the aseptic packages can be preserved without chilling for up to one year, with the result that distribution and storage costs, as well as the environmental impact, is greatly reduced and product shelf life expanded.

GA PAK started manufacturing in 1996 in the Inner Mongolia milk producing region of China, garnering a 13% market share today. Listed in December 2010, its top customers include the major dairy operators in China, Mengniu and Yili. It has captured market share from privately-owned giant, Tetra Pak, with its lower pricing strategy (former Tetra Pak execs make up GA PAKǒs management). The company is expanding internationally, setting up a German plant to operate in the European theater with production just starting.

Revenues have grown 27.1% compounded annually for the past 5 years. Bain Capital was an early backer and owns ~30% today. As dairy products in China represent a fast growing, yet still small per capita consumption ratio in the Chinese market, we believe Greatview Aseptic Packagingôs growth prospects are strong.

Our overall portfolioôs weighted average P/E on this yearôs estimated earnings is 8.1 times with a 3.1% dividend yield. As we have said, we expect the best returns are yet to come.

Sincerely,

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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.