



September 10, 2013

Dear Clients, Partners, and Friends,

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

	<u>Aug 2013</u>	<u>Year-to-Date</u>
Hong Kong Partners LP*	5.0%	6.0%*
Hang Seng Index **	-0.7%	-4.1%
Hang Seng Small Cap Index	2.1%	-0.2%

Partnersø NAV \$2.6585 after management fees and March 2013 provisions, but before annual incentive fees of 15% on appreciation. \*after provisions March 31, 2013

August is a busy month in Hong Kong for our equity portfolios of Hong Kong-listed, China-oriented, smaller/mid-sized companies.

New stock exchange regulations require listed Hong Kong companies to report within two months their financial interim results. All presentation venues in Hong Kong are fully booked during August for June interim reports.

We attended many of these company analyst presentations held here in the SAR (or, *Special Administrative Region, the official designation for Hong Kong*).

Last month, 23 of our 26 holdings (we have 3 suspended holdings) reported financial interims results. As the dire news headlines, which continually questioned Chinaø economic growth, confronted investors almost daily this summer, it was good that most of these financial results came in about as expected.

One exception was with our holding in electronics distributor, VST Holdings (856hk, 3.1% holding, US\$313 million market cap). Though growth in China's overall software and IT services sector declined through the first 7 months of 2013, VST reported a surprising increase in profitability, to which the shares surged 24% the following trading day.

This is testament to how pessimistic investors view stocks in Hong Kong today: after the surge in price following the earnings release, VST still sells at just 4.7 x expected earnings.

One of our larger holdings, garment manufacturer Luen Thai (311 HK ó 6.3% holding, US\$414 million market cap) reported a respectable 51% increase in first half 2013 earnings on increased orders from Japan-based Uniqlo.

Shares in Luen Thai have increased 165% year-to-date and sell at 6.7 times expected earnings next year. Even after its acquisition of Singapore-listed Ocean Sky Global, with

new operations for Luen Thai in Cambodia, and the added capacity expansion in the Philippines (for Coach bags and accessories), the company remains nearly debt free.

We continue to hold this position as a bevy of new institutional investors will have this equity on their radar screens as the market capitalization nears US\$500 million.

We also remain positive that our suspended holdings will become profitable in the future, as well.

Since instituting our original, systematic investment system (software we developed and modeled after a Warren Buffett, fundamental investment approach), our performance this year has beaten both the large cap blue chip Hang Seng Index and the Hang Seng Small Cap index.

As plunging currencies in emerging markets were in the spotlight last month (markets in India and Indonesia declined by 11% and 15%, respectively, in USD terms), we are pleased with our out-performance relative to the Hong Kong stock market year-to-date. (Of note: Our Delaware-domiciled Hong Kong Partners LP fund's year-to-date performance, shown above, is after 10+% provisions on two holdings (a third holding is less than .5% of total portfolio value) we made in March. The two holdings were written down to zero, but we are expecting a resolution to the suspensions and return/profit from both holdings. Excluding these temporary markdowns, the rest of the portfolio has gained 17.4% this year).

Sincerely,

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President

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Hong Kong

**\*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](mailto: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.