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

October 15, 2013

Dear Clients, Partners, and Friends,

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

	Sep. 2013	Year-to-Date
Hong Kong Partners LP*	0.3%	6.3%*
Hang Seng Index **	5.2%	0.9%
Hang Seng Small Cap Index	5.7%	5.5%

Partnersô NAV $2.6668 after management fee and provisions March 2013*, but before annual incentive fees of 15% on appreciation.

Our portfolios of Hong Kong-listed, China-oriented small/mid cap stocks rose 7.2 % for the quarter ending September. Year-to-date, our net gain is 6.3% (after provisions in March). In early September, an uptick in Chinaôs manufacturing index surprised market participants (the August HSBC/Markit PMI for manufacturing was reported at 50.1, the first time in four months this gauge registered above the key threshold of 50). The improvement, together with the ósurpriseô Fed announcement of no imminent tapering, triggered a sharp short covering rally in the large caps.

Your fund is invested along two themes; roughly half the holdings are in turnaround situations and the other half in growth-oriented stocks. With our proprietary software screen, we analyze undervalued stocks, using a similar approach as Warren Buffet, to determine intrinsic values.

To illustrate, we recently purchased shares in a garment manufacturer and retailer of casual wear apparel. The company listed in1996, but trades now just above its IPO price of HK$1.60/share (when it was 10 times smaller). This conservatively run company has no debt, ~HK$1.00/share in cash and trades below book value. A money losing division is being jettisoned which will benefit the bottom line, especially as markets in US and China improve (China retailers have suffered inventory difficulties since the 2008 financial crisis). The stockôs dividend yield is close to 7%.

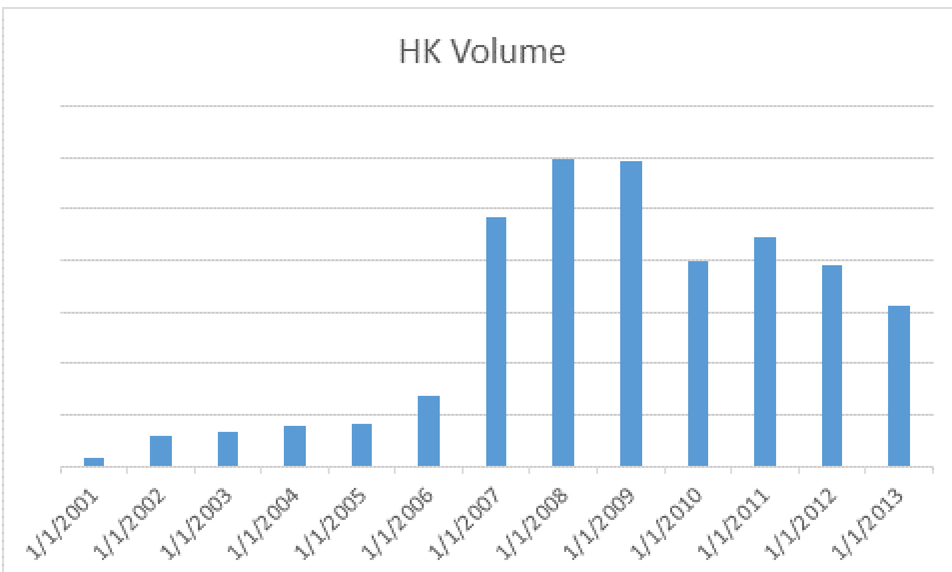
We believe the intrinsic value for the entire company is over HK$8 per share which provides a margin of safety should our analysis of projected earnings fall short.

We are finding exceptional values nowadays and see the overall stock market as significantly undervalued. We outline several reasons to consider.

Traditionally, the Hong Kong stock market has closely followed the US stock market returns. Hong Kongôs currency is pegged to the US$ and many listed companies in Hong Kong have long enjoyed business alliances with the west.

But that close correlation broke down over recent years.

Hong Kongôs Hang Seng Index trades significantly below its 2007 high (the S&P 500, conversely, trades 7 % above its pre-financial crisis high). There have been yearly outflow of funds, as evident in declining volumes since 2007:



This anomaly is an opportunity, in our view.

We can point to one contributing factor for the recent relative underperformance; China bank stocks.

In a nutshell, when China instituted a gigantic (4 trillion Yuan) stimulus package soon after the credit crisis of 2008, much of the credit flowed into unsure ventures, especially real estate. The financial media continuously harped on about this concern, using dire adjectives to describe the probability for bad bank loans. Consequently, investors baulked. Consider the following year-to-date returns of financial stocks:

Name	YTD (%)
HSCI-FINANCIALS INDEX	1.20
China Everbright Ltd	-31.99
China Taiping Insurance Holdings Co Ltd	-28.54
New China Life Insurance Co Ltd	-22.92
China Life Insurance Co Ltd	-18.58
CITIC Securities Co Ltd	-18.16
Far East Horizon Ltd	-17.79
China Merchants Bank Co Ltd	-12.63
Chongqing Rural Commercial Bank Co Ltd	-11.32
China Citic Bank Corp Ltd	-11.09
Haitong Securities Co Ltd	-9.62
Ping An Insurance Group Co of China Ltd	-9.32
Value Partners Group Ltd	-7.81
Agricultural Bank of China Ltd	-4.96
People's Insurance Group of China Co Ltd	-4.60
Hong Kong Exchanges and Clearing Ltd	-4.40
China Construction Bank Corp	-2.57
Bank of Communications Co Ltd	-1.03
Industrial and Commercial Bank of China Ltd	0.00

As of Oct. 4

While we do not own shares in this sector, it illustrates where sentiment resides today. Should those dire forecasts overhanging the marketplace turn out not to be as calamitous as feared, Hong Kongôs market may catapult.

This excellent analysis from BCA Researchôs Chief China Investment Strategist, regarding Chinaôs ñdebt bubbleò, further explains this point. China has thoroughly deliberated the credit issues, which carries several important implications:

> The first is from policymakers' point of view. Alerted by heightened concerns on the leverage issue, the Chinese authorities have been taking precautionary measures. In recent years, the authorities have been trying to cool off the housing sector, restrict local government borrowing and tighten scrutiny on "shadow" banking. Most importantly, regulators have mandated banks to dramatically increase the provision coverage ratio of non-performing loans. The provision coverage ratio of banks has increased from a mere 40% in 2007 prior to the financial crisis to about 300% currently, a massive buffer to protect banks' capital

> base (Chart 3). In fact, preventing regional or national financial crises is among the top priorities of regulators in recent years.
>
> From investors’ perspective, Chinese bank stocks have essentially been abandoned amid the overwhelming concern over the leverage issue, in stark contrast to U.S. bank stocks prior to the global financial crisis. Chart 4 shows that U.S. banks were still trading at two-times book value in the second half of 2007, when the economy was already slipping into recession and banks’ profitability was declining and asset quality was deteriorating. The price-to-book ratio of U.S. banks dropped to 1 in the first half of 2008 when financial stress intensified dramatically. The P/B ratio dropped even further when the situation degenerated into a full-blown crisis.
>
> In China’s case, however, bank stocks’ price-to-book ratio has already dropped to levels comparable to those in the U.S. in the first half of 2008, even though all the performance indicators of Chinese banks have barely deteriorated. It is almost a sure bet that Chinese banks’ asset quality will deteriorate going forward after a lending binge. However, it is equally worth noting that a lot of potential bad news has been priced into the market.

Next monthôs Chinese Communist partyôs Third Plenary Session major focus could be a breakthrough on fiscal reforms. These reforms will address concerns over Chinaôs financial system risks. Premier Li Keqiang said last month the government was taking "targeted measures" to address the issue of local debt. Shanghaiôs Free Trade Zone exemplifies Chinaôs gathering pace of reforms.

Something that is generally not known is mainland bank managers that underwrite a poor-performing loan are unceremoniously demoted from their positions and held personally responsible for remedying the bad loan before being reinstated to their former positions (wouldnôt that be a welcomed regulatory edict by many in the west today!)

This brings up an interesting comparison between Hong Kong and Spain.

Both countries have ôpeggedô currencies: Hong Kong to the US$, Spain to the Euro. There is no possibility to adjust the ôattractivenessô of their currencies.

Spain has undergone a significant deflationary phase with high unemployment, falling real estate values and rising debt ratios.

Spainôs equities are 25% below July 2008 highs.

Likewise, Hong Kong equities are depressed and sell 25% below previous highs of 2007. Yet, Hong Kong has gone through no deflationary collapse as Spain has endured. Unemployment is less than 3% and real estate values have soared over the past five years.

Having already suffered through the Asian Financial Crisis of ô97, Hong Kongôs stock market today doesnôt reflect the same economic dynamics as Spainôs depressed situation.

Further, this aberration is indeed not the norm as the Hang Seng Index (HSI) has outperformed over the last 44 years:

Exhibit 2

HSI has outperformed MSCI World over the cycle with an excess return of 5.3% per annum: price performance since index inception (in US$)

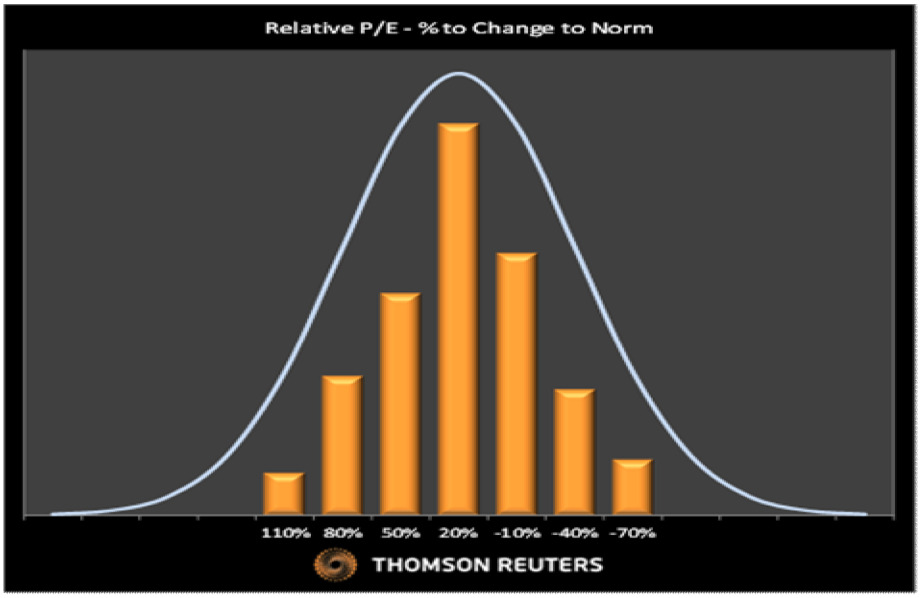
Source: HSI Company, MSCI, Datastream, Morgan Stanley Research, data as of March 14, 2013

Apropos to the alternatives, Warren Buffett noted US stocks have "moved a long way" in the past five years, going from "ridiculously cheap" to "more of less fairly priced now."

"We don't find bargains around but we don't think things are way overvalued either. We're having a hard time finding things to buy."
http://www.cnbc.com/id/101048419

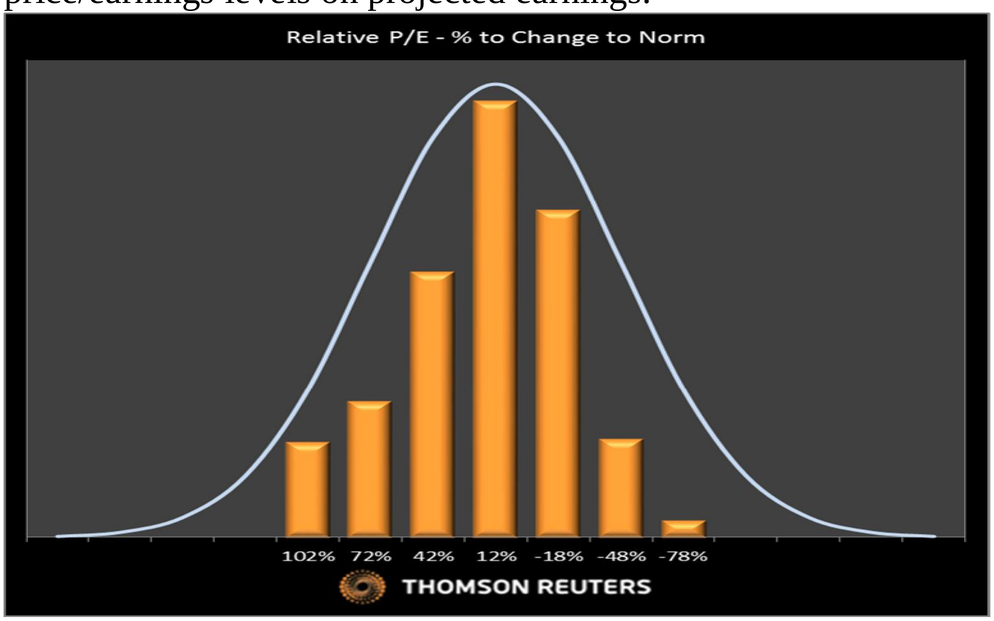
Contrariwise, global investors may well turn to the cheap values in Hong Kong for better returns.

Earlier in March this year, we presented this chart:



é noting *a preponderance of stocks in Hong Kong today would increase 20% or more just to return to their typical/average price to earnings ratio/value on expected earnings.*

Today, most stocks remain depressed and below their historic average 10 year price/earnings levels on projected earnings.

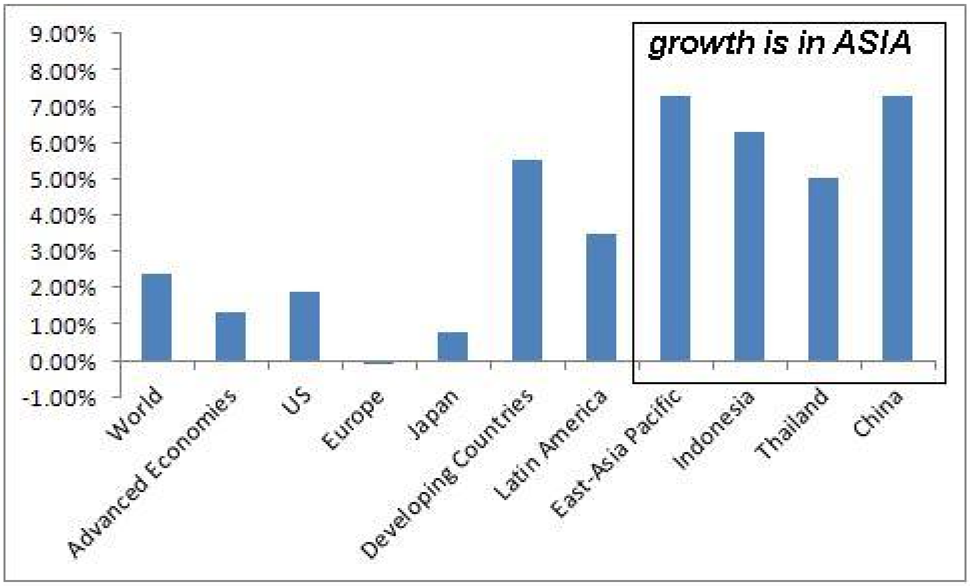


In New York on 26 Sep 2013, Carlyle's David Rubenstein said he is still very bullish on China (CARLYLE GROUP LP, has more than $180 billion in assets under management across 118 funds).

Rubenstein said he thinks China is the second best place to invest in the world, after the U.S. and that Chinese growth may fall to 6 percent or 7 percent, but that was still excellent compared to the rest of the world. "There are still a lot of opportunities there," he said.

Thereôs little reason to believe China wonôt continue growing. As Mark Mobius of Templeton noted; "The new administration in China is just getting its game going, I think that growth engine will continue… Asia remains the world's engine of growth. And as such Asia will continue to outperform."

2013 GDP forecasts



In our view, Hong Kong stocks will likely rapidly catch up as investors are too pessimistic in their outlooks today.

Nonetheless, there is a caution: though the Hong Kong stock market is relatively undervalued, Hong Kongôs residential property market is acutely overvalued.

The average flat size in Hong Kong is ~400 square feet. The average price per square foot (in USD) is calculated from the Ratings and Valuation Department (RVD) in the following chart:

Square Feet	Average price per sq. f. (Hong Kong)
431	$1,466
753-1,076	$1,863

1,076-1,722	$2,266

(and most luxury homes in Hong Kong, or those with 1,000 sf and above, have even crazier costs per square foot; impossible to accurately average).

In the USA, median home prices (using the Western region, which is the priciest) were $287,500 in July this year. According to the latest (2012) new single-family house size data from the U.S. Census Bureau, the median was 2,306 square feet or, a price per square foot of about US$124 for new homes.

The large discrepancy in residential property prices can partially be explained by Hong Kongôs 16.5% flat salary tax, yet just a small portion of the distortion.

According to the China Daily, just ½ of Hong Kongôs 7 million residents own their own premises. Many residents are priced out of owning property, even with the median household income at US$32,051.

Hong Kongôs property market is vulnerable to any rise in US interest rates. Since the HK dollar is pegged to the US dollar, Hong Kongôs adjustable rate mortgages (which account for 90% of all home mortgages) must follow US interest rates.

Nonetheless, we continue to focus on ferreting out attractive, long term values to own with operations benefiting from Chinaôs growth. Macro-economic issues donôt govern our decisions on buying or selling. We remain optimistic and positive about the prospects of all our holdings, even in this slow trading environment.

Sincerely,

Brook McConnell
President
Email: *brook@south-ocean.com* Website: *www.south-ocean.com*
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. 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.