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

May 14, 2014

Dear Clients, Partners, and Friends,

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

	April 2014	Year-to-Date
Hong Kong Partners LP *	-4.6%	1.5%
Hang Seng Index **	-0.1%	-5.0%
Hang Seng Small Cap Index	-4.4%	-8.8%

Partnersô NAV $2.8922 after management fees, but before annual incentive fees of 15% on appreciation.

Our small/mid cap, Hong Kong-listed holdings, benefiting from growth in China, have outperformed over the one year period ending April 30:

HK Partners LP +12.3% versus -2.7%% Hang Seng Index.

Large cap shares in Hong Kong rallied early last month (briefly) on news of the Hong Kong/Shanghai stock exchange link-up (see my further thoughts below). There was a knee-jerk reaction in larger capitalized, dual-listed China shares, sectors where we have little exposure in our portfolios.

Small/mid cap stocks didnôt participate and, generally, lagged. In fact, Hong Kong-listed small/mid cap shares have witnessed volatility recently as sentiment changed abruptly, with no warning (the only ôsparkô I could pin point to the sudden decline was, perhaps, in relation to the steep falls in Nasdaq technology and biotechnology shares in the US).

On the bright side, our holdings began this correction in good shape. We own solid companies in areas that are essential and needed by China.

Beijing Enterprise Water Group, code 0371, is the leading water treatment, sewage and desalination plant operator in China. The capital municipality investment arm, Beijing Enterprise, acquired a 50% stake in the former private company, retaining management. The company partners with China Development Bank to acquire and upgrade regional government and local water treatment plants in many Provinces throughout the mainland (40% of the worldôs population lives in China and India which has only 10% of the worldôs drinking water).

We have positions in electric/hydro utilities, selling at 5x earnings with 6-7% dividend yields. We own the largest BMW dealership on the mainland (Baoxin Auto, code 1293: BMW is perhaps Chinaôs most coveted brand). Several other holdings include a patented (in USA/Macau), Live Multi Game operator (Paradise Entertainment, code 1180)), an Alibaba-like (for small businesses) internet company (HC International, code 8292), the leading motor-bicycle battery manufacturer (Chaowei Power, code 2380), the largest high-intensity, power transmission cable manufacturer (Jiangnan Group, code 1366) and several 4G mobile telecommunications-oriented companies (China Fiber Optic, code 3777, Ka Shui International, code 822 and Tongda Group, code 698).

These strong growth companies have all reported encouraging financial results this year, yet have suffered share price pressure with the overall small cap correction. The Hang Seng Small Cap index today sells at 8.7 times trailing earnings. Our weighted average P/E on this yearôs estimates is 7.8x.

Sincerely,

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Hong Kong

It is Different This Time

Asset allocations to the region will rise and Hong Kong share prices are set to re-rate.

April 14, 2014

By Brook McConnell

A recent proposal by the Chinese government to allow cross border trading between the Shanghai Stock exchange and Hong Kong stock exchange, linking the two exchanges, came as a surprise to the market last week.

There was a knee jerk reaction as wide price gaps between dual listed securities of the two markets narrowed.

A similar plan was introduced in 2007 when Hong Kong investors were exhilarated with the prospect of a tie up with China.

The Hang Seng Index vaulted, hitting all-time highs, from an August 2007 low of 19,400 to over 30,000 by October, as speculation gripped giddy investors of a ‘through train’ being implemented. China A-share prices rose to 60 times earnings, and Hong Kong’s Hang Seng Index price earnings multiple was 24 times. Trading volume in Hong Kong reached HK$200 billion a day or US$26 billion (as compared to last month’s average volumes of HK$68 billion or US$8.8 billion).

Today, China shares trade at single digit P/Es and the Hang Seng at 10.3 times.

The 2007 ill-conceived ‘through-train’ plan was abandoned within four months. Share prices in Hong Kong and the Mainland collapsed and remain almost 40% below those peak levels nearly 7 years ago.

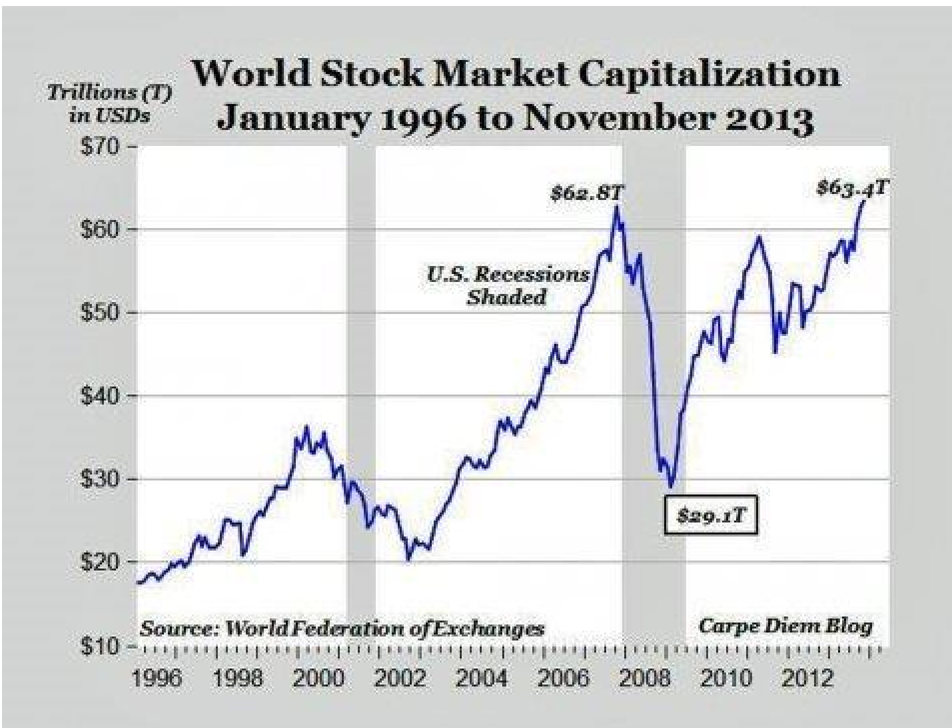
Thereafter, foreign ownership policies of domestic China shares, such as the QDII and QDFI schemes, were convoluted and ad hoc. Like the first B-shares (China exchange traded stocks only available to foreign investors) in the 90s, these former campaigns were just testing grounds.

Under the proposed "through train" scheme, there will be caps that investors will be able to trade in the beginning (transactions up to 550 billion yuan, or HK$691 billion, worth of Hong Kong and Shanghai stocks, net). Yet, lifting shareholder ownership restrictions is an important step to dismantling China's closed capital account.

This new reform is a significant opening and liberalization of the Yuan convertibility.

Which brings up our "Big Bang Theory," which goes like this:

The total world stock market capitalization today is ~$60 trillion.



Hong Kong's stock market capitalization amounts to $3.1 trillion and is ranked 5th largest.

China's stock market has grown from zero, twenty years ago, to one of the largest stock markets in the world. The Shanghai and Shenzhen total stock market capitalizations together amount to US$4 trillion. China and Hong Kong combined amount to US$7.1 trillion. That compares to the world's second largest market, Japan, at US$4.1 trillion.

Yet global pension assets, which amount to US$30 trillion, have only a fraction invested in the Greater China region. For instance, the relative weighting of global investment allocation to Japan was 12.5% in 2012 (down from 15% in 2002). For Hong Kong, it's was just 0.4%. And there isn't any allocation to China, yet.

To index and properly allocate weightings uniformly by stock market capitalizations, global asset allocators need to dramatically increase investments in the region. Moving these gigantic sums takes a lot of time, too, like turning a 747 around in a parking lot. It will be years in the making (Bridgewater Associates founder Ray Dalio says 85% of US pensions will go bankrupt in the next

30 years, with $3 trillion in assets against $10 trillion in liabilities. He noted required pension returns are 9% and pension funds are lucky to get 4%).

The new ‘through-train’ reform is a significant step forward. There are many regulatory issues and differences, of course, between the two markets that need to be ironed-out.   Nevertheless, this should facilitate far larger allocations to the region in the future. When pension asset allocators are forced to increase weightings due to a ’combined’ China/Hong Kong stock market, they will be unable to ignore investing in these stock markets anymore.

Presently, ICBC, China Construction Bank and Agriculture Bank of China shares are all quite cheap; they are also the world’s three largest public companies (with Bank of China and Petrochina ranked #9 and #10).

With China’s economic growth posed to overtake the size of the US economy, the cosmic shift in the global pension allocation universe is only just beginning.

Brook McConnell is President of Hong Kong-based South Ocean Management, Ltd., a SFC/SEC licensed investment manager.

*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.