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

May 11, 2015

Dear Clients, Partners, and Friends,

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

	Apr. 2015	Year-to-date
Hong Kong Partners LP *	17.4%	30.0%
Hang Seng Index **	13.0%	19.2%
Hang Seng Small Cap Index	27.9%	33.2%
MSCI HK Small Cap Index	12.7%	13.6%

Partnersô NAV $3.6809 after management fees, but before annual incentive fees of 15% on appreciation.

Hong Kong stocks exploded in April. Trading volumes quadrupled. As stated in our March client letter, China has continued broadening its reform programs, allowing domestic mutual funds to invest in Hong Kong for the first time.

Our portfolios of quality, small/mid cap, Hong Kong-listed holdings, with businesses geared towards China, rallied strongly.

Few had expected this sudden turnaround.

As we have been highlighting since 2002, and more specifically, last year, in our April 2014 letter, (1) ñIt is Different This Timeé ***Asset allocations to the region will rise and Hong Kong share prices are set to re-rate,"*** Hong Kong is a very under-owned stock market. As we hypothesized a year ago, substantial capital inflows would be destined for Hong Kong;

> … 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.

There had been little support to this viewpoint. Now, more and more banks and research firms are embracing this theme.

One astute analyst (Louis Gave) stated last week Hong Kong/China was ñThe Worldôs Most Crowded Trade.ò ñé outside of a few Chinese retail investors, everyone is ñshort/massively underweight China:ò

> *Today, China accounts for 15% of global GDP ...yet, how many large pension funds, insurance companies, global equity investors, or endowments have 10% of their assets in China today? Or even 5%? We would venture not more than a handful; and this for an obvious reason: China remains an inconsequential part of most people's benchmark. But will this still be the case in a few years' time?*

Goldman Sachs reported recently, ñé active fund managers (are) still underexposed to the market, the rally isn't overé

> *"But despite the rally making China shares more expensive, pressure for active funds to add more mainland exposure is likely to build… Funds of various mandates are underweight the market… (this) has directly led to underperformance ..., and thus have marked benchmark stress and a need to raise exposure to China… If emerging market funds alone increase allocations in the largest underweight sectors in China to marketweight, inflows could be worth $26 billion."*
>
> *"The opportunity set for active managers has been almost completely limited to the HK/China space, which may intensify the pressure for them to close underweight positions."*

Goldman believes including mainland A-shares in the MSCI index would see significant, long-lasting capital flows into the mainland markets.

Credit Suisse expects further gains as the mainland liberalizes its capital account: "More legitimate capital outflow is likely to be the trend in China." (Our own contention is that outbound Chinese capital flows will be a recurring, key headline in the years to come.)

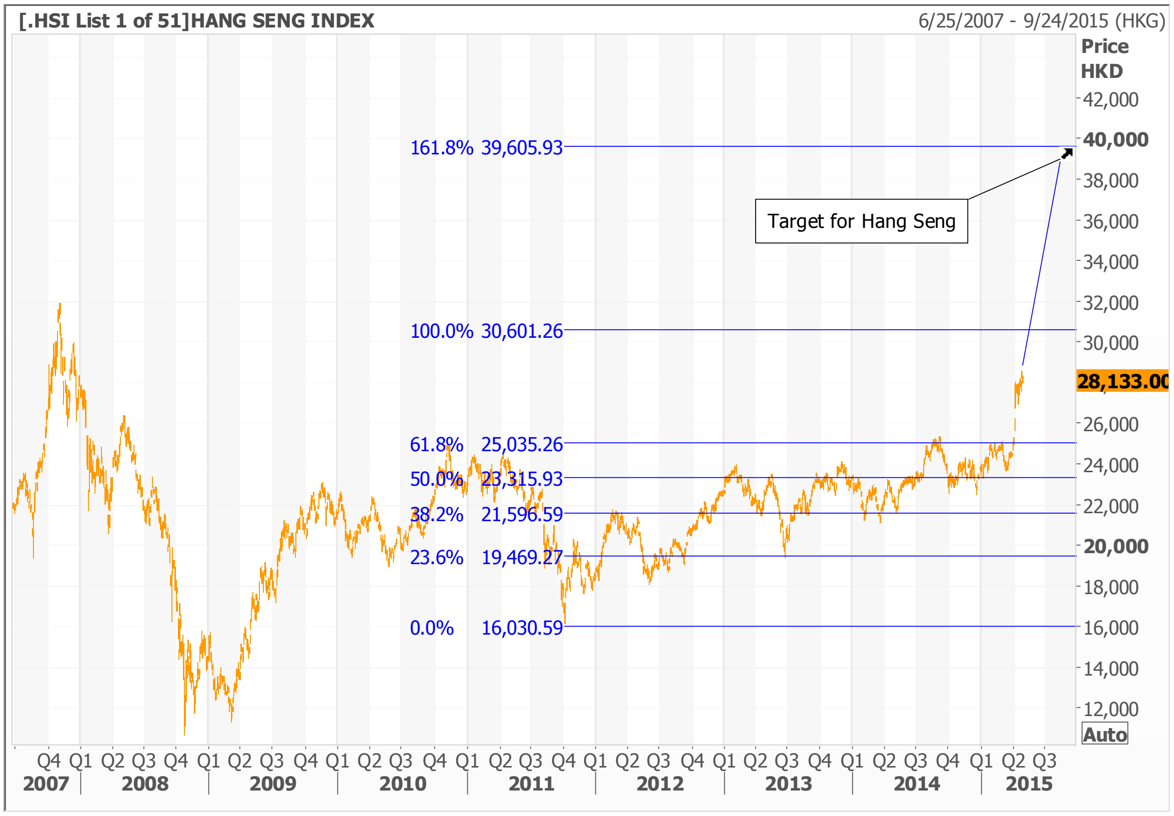
The astounding rise in Chinese citizensô commitments in the mainland A-share market reveals an underweight position in stocks and excess savings. China is ósufferingô from a surplus of savings, with household deposits today standing at US$7.9 trillion (a óhigh qualityô problem). Nomura Bank (Whatôs behind Chinaôs stellar market rally?), believes the real driver of Chinese equities is the direction of savings flows away from property and back into equities. One estimate counts mainland retail investor share holdings in China worth RMB 13 trillion (US$ 2.1 trillion) versus wealth-management products at RMB15 trillion (US$2.4 trillion) and urban housing at RMB 150 trillion (US$24.1 trillion).

In our December 2013 letter (2), we postulated the potential of a much higher Hang Seng Index. *With pessimism this intense and pervasive, we contemplate what might the flip side look like (should pessimism be replaced by optimism)? How about the Hang Seng Index, (currently trading at ~23,000), rising to 38,000 in two years?*

We presented this chart:

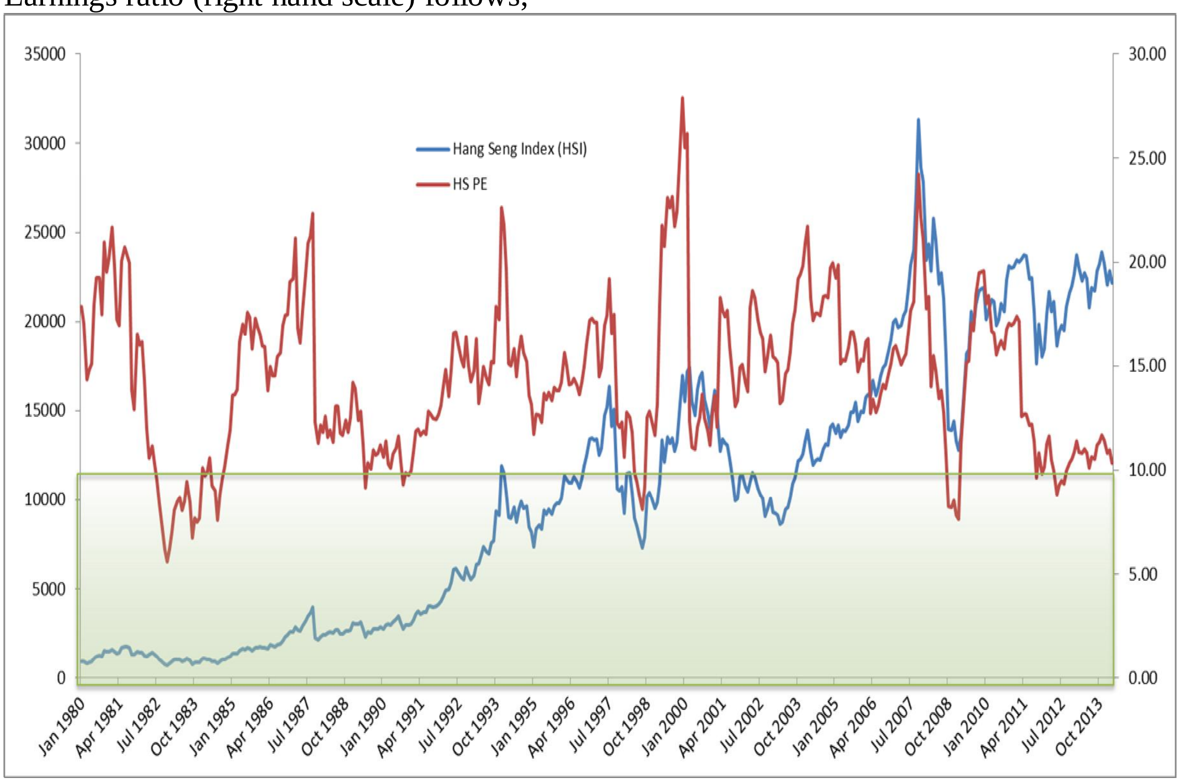
(Fibonacci, the mathematician from the 13th century, constructed some basic numeric sequences. The above projection is generated from those sequences).

We reaffirm that outlook with the matching Hang Seng Index chart updated below:



Laughable?

A chart of the Hang Seng Index going back to 1980 overlapped with the monthly Price-Earnings ratio (right hand scale) follows;



As history reveals, the main index has traded between a depressed P/E of 10 times and a high multiple of >20 times earnings. Consider this simple equation: with 2015 consensus earnings projections for the Hang Seng Index at 2,311, a 20x price-earnings multiple (which is below historic highs) would equate to a ~46,000 level for the Hang Seng.

The Hang Seng sells at just 11.5x trailing earnings today!

Additionally, Chinaôs FX reserves and its money supply are many times greater than Hong Kong. Stock prices in Hong Kong could see multiples far higher than in previous economic cycles purely on the facility to arbitrage differences between the two systems. Itôs not unlikely our 39,600 target could be markedly overshot; in 2007, mainland A-shares reached 60+ multiples!

The action last month is reminiscent of when I was a broker in Washington DC in August 1982. The US markets made a bottom, after years of underperformance and deleterious sentiment. Depressed share prices bolted upwards:

The Dow Jones Average surged amidst much doubt (stagflation, ôDeath of Equitiesö), and began a 20 year bull market. Like 1982, negative sentiment towards Chinaôs economy has been a dominant and prevalent refrain for years. At the end of the ô82 bear market, reformist leaders had taken the helm (Reagan/Thatcher), as in Asia today (Xi/Abe).

The Shanghai Index has risen 86% since November last year. We believe the Hong Kong market has just started (it has only just traded above its multi-year highs: see chart above). Corrections and advances will be sharp, all part of a normal bull market.

More thoughts in this video-taped interview with my long time journalist/editor friend Chris Oliver at his start-up financial media firm in Cyberport. The segment can be viewed here (3 Ctrl- click the link to access this video).

Sincerely,

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Links:
1. http://south-ocean.com/Client%20letter%202014/Client%20Letter%20Apr%202014.pdf

2.http://south-ocean.com/Client%20Letter%202013/client%20letter%20DEC%202013.pdf

3.https://docs.google.com/file/d/0B0oGmz0OoHwpOG5nTTZ1UVlzelk/edit

*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.