



October 16, 2015

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Hong Kong Partners L.P., before incentive fees, were as follows:

	<u>Sep 2015</u>	<u>Year-to-date</u>
Hong Kong Partners LP **	-0.5%	3.6%
Hang Seng Index **	-3.8%	-11.7%
Hang Seng Small Cap Index	1.2%	-10.0%
MSCI HK Small Cap Index	-1.9%	-18.4%

Partners' NAV \$2.9344 after management fees, but before annual incentive fees of 15% on appreciation.

Volatility in China markets, a collapse in energy prices and uncertainty over U.S. interest rate policy rocked Asian and world stock markets over the past quarter. The benchmark Hang Seng Index ended 3.8% lower for September, extending a five-month losing streak. For the third quarter, the Hong Kong index fell 20.6%, the worst quarter since the July-to-September quarter of 2011. Our small/mid cap holdings of quality, Hong Kong-listed companies fell 18.7% over the 3rd quarter versus -26.3% for the Hang Seng Small Cap Index.

Our proprietary stock selection system screens all Hong Kong stocks, renders an intrinsic value for each and, importantly, a maximum price to buy. For the 3 years, 9 months since launching our enhanced stock selection system, our Hong Kong Partners LP net asset value has risen 17.0% (net, after fees) versus -8.0% for the blue chip Hang Seng Index and -6.6% for the Hang Seng Small Cap Index.

Recently, the mainland China stock markets have stabilized (we own no holdings in those markets) and Hong Kong share prices have generally risen since quarter-end, primarily in the large cap oil and financial sectors (we have no exposure to these areas in our portfolios today). Yet, investors still remain wary. The collateral damage to Hong Kong's stock market over the summer has taken trading volumes down 25% as the blue chip index now sells at an 8.8 price-earnings level, near historic lows.

Growth in China's economy has slowed as Beijing attempts to restructure the economy and reform State-owned enterprises. Beijing has also rolled out an unprecedented series of rescue policies, including a market-stabilization fund, raising its holdings in big state banks and financial firms, prohibiting major stock holders and state companies from selling their shares, and clamping down on insider trading.

Soon, China will announce its 13th Five-year Plan. Whether the anticipated announcements, (such as the "One Belt One Road," ["Made in China 2025"](#)) plans, any new

growth targets or easing measures) will regain investor confidence quickly or not is conjecture at this point. Regardless, Hong Kong equities have been heavily discounted and stock values are attractive today.

We invest in several industry trends that China is supporting, such as sports broadcasting, municipal water treatment facilities, electricity production and build-out, solar and IT development, distribution and production. For example, our investment in Beijing Enterprise Water Group (BEWG, code 0371HK, our largest holding at 7.7%) outperformed in the third quarter (and as of this writing, its shares have gained back 11.1% in value versus a rise of 6.2% for the Hang Seng Small Cap Index). BEWG is the leading waste water/sewage treatment company in China, with backing from the Beijing municipal government and China Development Bank.

For the first half through June, the Group recorded revenues of HK\$5,763.7 million (US\$743 million), an increase of 51% over the corresponding year ago period and net profits of HK\$1,160.4 million (US\$150 million), an increase of 63%, in line with expectations. As environmental protection, clean energy and water resource development have been listed among the 11 key development and investment targets by the central government in China, BEWG is a direct beneficiary of those directives.

The company ranked high on our value screen, based on its strong business fundamentals, when we purchased the shares just over two years ago. And, like today, the holding continues to outperform as we have enjoyed a gain of over 200% since that purchase.

PC and smartphone casing manufacturer, Tongda Holdings (code 0698HK, our second largest holding at 7.6%) reported solid results in the first half. Increased smartphone casing revenues from its key smartphone customers, Huawei, Xiaomi and OPPO, continues to drive sales growth. Revenue rose 37% year-over-year, beating forecasts, with recurring net profits rising 65%. Tongda's new metal casings business for smartphones should provide strong growth for the foreseeable future. The shares sell at 11 times this year's estimated earnings.

We continue to investigate and research high growth, quality Hong Kong-listed companies, now selling at substantially lower levels than just 6 months ago. Overall, our portfolio weighted average price earnings ratio on this year's estimated earnings per share is 8.8x, 7.7 times next year's estimates. Our weighted average dividend yield is 5.0%.

Thank you for your investment alongside ours in Hong Kong Partners LP.

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.