



March 11, 2016

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>Feb 2016</u>	<u>Year-to-date</u>
Hong Kong Partners LP *	-1.5%	-15.0%
Hang Seng Index **	-0.4%	-12.8%
Hang Seng Small Cap Index	0.3%	-15.2%
MSCI HK Small Cap Index	1.2%	-13.7%

Partners' NAV \$ 2.5553 after management fees, but before annual incentive fees of 15% on appreciation.

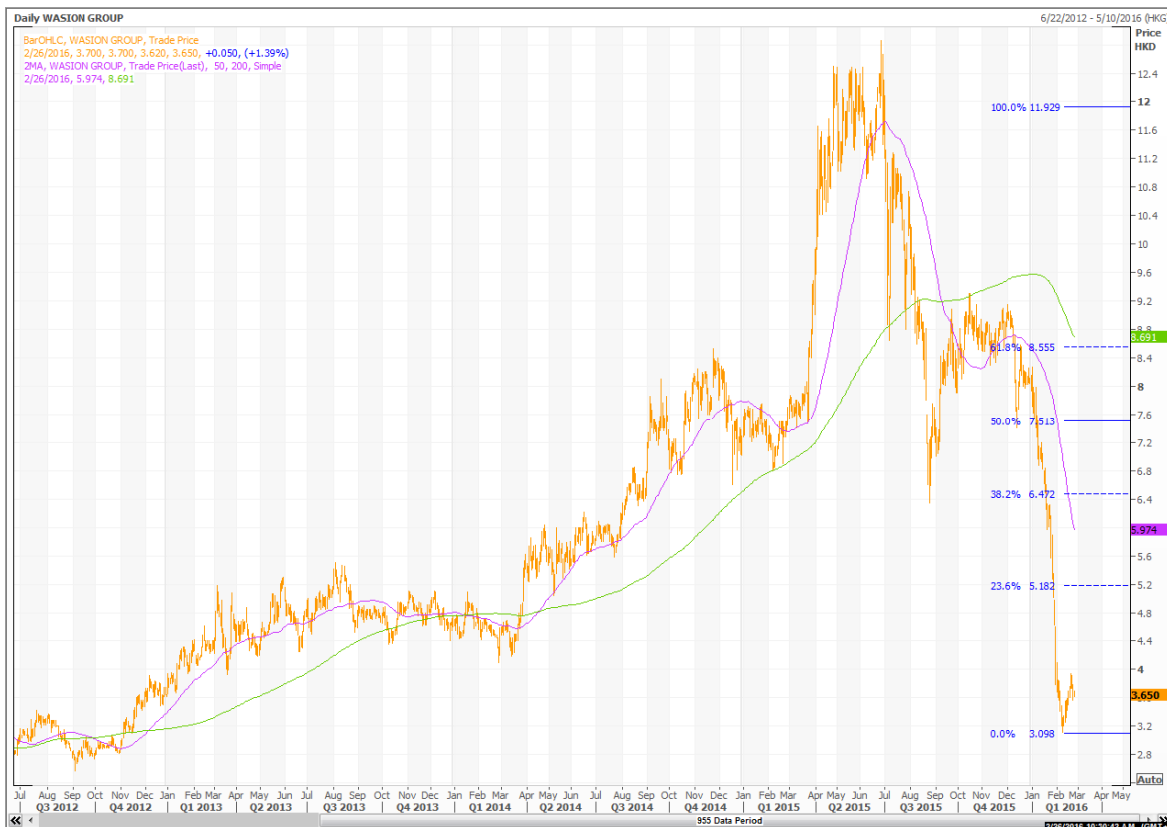
With this year's pullback in stock prices, we are finding attractive, small/mid cap stocks listed in Hong Kong, with earnings geared towards China, to invest and own. These stocks have declined to reasonable price levels to buy based on intrinsic value calculations in our proprietary Banquet System software screen.

For instance, during February, we started accumulating Wasion Group (code 3393HK, market cap HK\$4.0 billion, USD 510 million), the leading supplier of advanced energy and water metering products/solutions in China. The Hunan Province-based company was listed in Hong Kong in 2005.

The share price had declined 71.1% from its 52-week highs on announced delays in China's State Grid orders and general market volatility (as an aside, China will continue building out the mainland's second electric grid, spending another RMB 2 trillion over the next several years. Construction will entail consuming an estimated 25% of global copper production for ultra-high intensity cables and such).

Wasion Group has an enviable record, producing net income growth every year since 2010. The balance sheet is healthy, with total debt/equity at 25% and a return on equity ratio of 15.5%. The shares were highly favored by the investment community. In May last year, there were 12 buy recommendations, one hold, on Wasion by brokers. Yet our system's discipline demanded a much lower price to pay for this quality company.

Last month, we began buying when the shares had declined to 6 times expected earnings, 1.0 times tangible book value and a dividend yield of 6.5%:



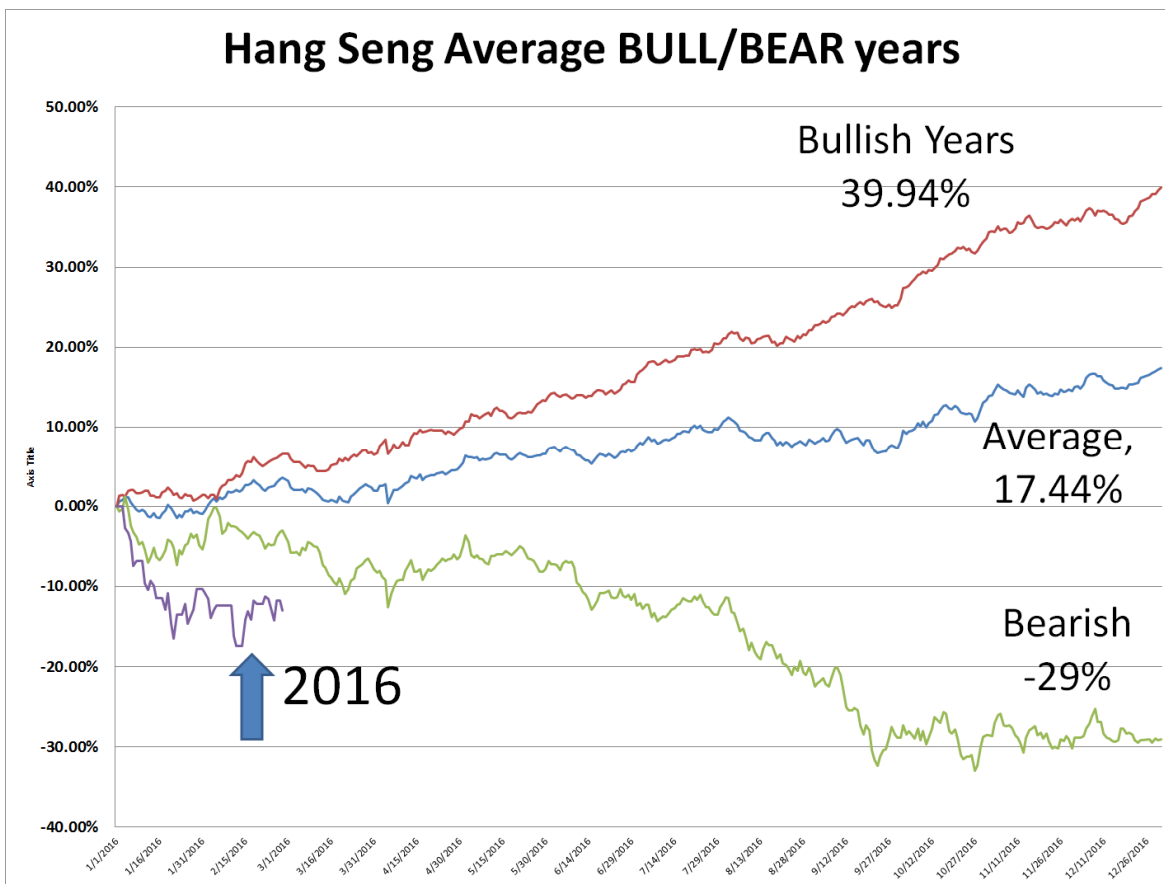
We don't try to time purchases or predict market highs/bottoms. Rather, we seek to own quality stocks after markets/stock prices have collapsed, which provides better risk-adjusted, above average returns over time.

As we acknowledged last month, we don't know when stock prices will stop falling and turn. Missing out on the turn, though, can be hazardous, as seen in this chart by [Ritholtz Asset Management](#);



Therefore, we have been selectively adding to our holdings in this downturn. And, markets have certainly come down this year.

We calculated and averaged the past 25 years in Hong Kong's stock market to present a picture of where the market is today. The first two months' return this year is significantly below average:



The purple line is the daily average % change in the blue chip average through February.

Hong Kong is a deeply submerged market today.

Our holdings are carefully selected, across a dozen industry sectors, directly benefiting from growth in China. We have less than a 5% cash holding, with our portfolio selling at a (weighted average) 6.6 times this year's expected earnings, 1.0 times book value, a 5.6% (weighted average) dividend yield and a 17.2% earnings yield.

This is a very cheap portfolio! We are confident in our holdings and are fully invested.

Sincerely,

Brook McConnell
President

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***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.