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

February 14, 2017

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:

	Jan 2017
Hong Kong Partners LP *	1.8%
Hang Seng Index **	6.2%
Hang Seng Small Cap Index	2.1%
MSCI HK Small Cap Index	2.3%

Partners' NAV $3.0376 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

January was an abbreviated month of trading in the China markets as the lunar Chinese New Year's celebration began earlier than usual. Late in the month, large capitalized Hong Kong share prices gained sharply after the Dow Jones Industrial Average passed through the 20,000 level. Though the Hang Seng Index jumped (+1.4%) that day, volumes were extremely light at the end of the month as the market headed into the holidays.

At South Ocean, we manage focused portfolios concentrating on a small number of small/mid cap stocks listed in Hong Kong we have researched carefully. Our top 10 holdings, all companies benefiting from operations in China, often amount to over 50% of total portfolio value. During certain periods, our concentrated holdings can and do produce movements that diverge from those of the blue-chip indexes, but we've managed to sustain better than index results over the longer term (of note, our Hong Kong Partners LP has gained 15.9%, net, versus 10.2% for the Hang Seng Index and 7.4% for the US Vanguard Large Cap ETF in the ten years ending December 2016).

Our equity investments are geared towards basic needs in China. For instance, a long-term, core holding in our portfolios is Beijing Enterprises Water Group (BEWG:371 HK, 7.9% holding, HK$48.5 billion market cap or US$6.3 billion), the leading wastewater treatment operator in China. Water shortages are severe in over 400 Chinese cities. Most ground water on the Mainland is polluted with heavy metals, and is not safe for human consumption. China is spending US$80 billion a year over the next four years to meet mounting urban water needs, resolve water shortages and to advance infrastructure.

BEWG owns and operates over 300 wastewater plants in China. As a leader in municipal waste water treatment, the company enjoys strong government backing (Beijing Enterprises owns 44%) and solid execution (net income has grown each of the past 5 years by greater than 30% compounded). In addition to wastewater treatment, the company is expanding into river/lake rehabilitation, ecological system restoration, integrated environmental water services and industrial wastewater treatment. Beijing Enterprises Water Group trades at 13.2 times consensus 2017 earnings, below its average annual P/E of 24.9 times.

Besides water treatment investments, China is leading the way forward in total infrastructure expenditures—investing more than North America and Western Europe combined since the Great Recession of 2009. Our renewable/environmental holdings are also beneficiaries of this government spending.

Today, there's concern about what the Trump administration will propose regarding trade and tariffs with China. Though other emerging markets are far more vulnerable to American protectionism, China remains the focal concern in the financial media. Yet, the Middle Kingdom has already advanced a long way towards reorienting its economy towards more internal drivers. "The services sector accounts for 52 percent of the economy, and that is highly likely to be an underestimation, given the poor collection of data from the private sector," according to this CNBC article.
http://www.cnbc.com/2017/01/24/trumps-protectionism-may-hit-emerging-markets-but-not-china.html

We pointed out the possibility, in last month's commentary, of the Hong Kong market being primed for a strong, multi-year advance. Recently, a few strategists are beginning to recommend an overweight investment posture towards Chinese equities. Though sentiment remains largely negative towards China-oriented stocks, the Mainland's economic, supply-side reforms continue to gain traction.

We envision an attractive stock market environment developing.

Sincerely,

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An interesting statistic; according to Bloomberg, China's railways probably carried about 356 million passengers -- more than the population of the U.S. -- during the Lunar New Year holiday, which extends for over a month…

…and, trains carry far more travelers than airlines in China…

Though China has more than 60% of the world's high speed railroads, can you imagine being stuck in this crowd (20 second video, click: [Up to 100,000 travellers stranded at train station in China])?

*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.