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

June 19, 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:

	May 2017	Year-to-date
Hong Kong Partners LP *	-3.0%	5.1%
Hang Seng Index **	4.2%	16.6%
Hang Seng Small Cap Index	-1.1%	5.9%
MSCI HK Small Cap Index	3.6%	9.1%

Partners' NAV $3.1363 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

> **Superior results don't come from buying high quality assets, but from buying assets – regardless of quality – for less than they're worth. It's essential to understand the difference between buying good things and buying things well.**
> **A low purchase price not only creates the potential for gain; it also limits downside risk.** The bigger the discount from fair value, the greater the "margin of safety" an investment provides.
> - Howard Marks, Oaktree

> *Because security prices can change for any number of reasons and because it is impossible to know what expectations are reflected in any given price level, investors must look beyond security prices to underlying business value, always comparing the two as part of the investment process.*
> - Seth Klarman's Margin of Safety

South Ocean's portfolios are invested in small/mid cap, Hong Kong-listed companies with earnings benefiting from growth in China. Chinese money flows this year have been favoring Hong Kong large cap stocks, particularly Chinese tech, property, and financials, as valuations are more attractive than mainland, A-shares. We are not positioned in these sectors with our portfolios (as our intrinsic value screen doesn't show these sectors as *out-of-favor* enough to buy).

The month of May was very busy as trading in our largest holding, smartphone casing manufacturer, Tongda Holdings (code 0698hk, 9.9% holding) was volatile.

In early May, the company announced a 6% placement of shares at a discounted price to several long-only investment funds, taking the Chairman's position from 45% to 40% of total shares outstanding. The broadening shareholders' base was the primary reason behind the placement, based on discussions with management.

Soon after the placement, rumors emerged of a loss of orders from Huawei and OPPO, two major smartphone customers. The share price fell 10%. The company promptly held an analyst teleconference to assure the rumors were unfounded. Most analysts were satisfied with the explanation.

Shortly thereafter, another rumor hit of a pending short-seller report on the company (short sellers have been active in the Hong Kong market this year), which also proved false.

Sentiment, despite the unfounded, speculative rumors, remained weak and depressed the share price throughout the period, even as the company was aggressively buying back shares daily in the market during the turmoil.

The sharp decline in our largest holding challenged our results in the short term. Yet, we believe the poor sentiment will pass shortly, possibly as soon after the company reports interim financial results in August. Tongda has strong fundamentals and an undervalued, highly rated stock.

Overall, there have been increased inflows of investment funds this year into large and mid-cap stocks, sending the Hang Seng blue chip index to multi-year highs. The Hong Kong market has witnessed both mainland Chinese and foreign investors buying these sectors. Both sets of investors invest primarily in the larger, more liquid stocks. In fact, mainland investors are prohibited from investing outside of these sectors, as is required by the two Shanghai and Shenzhen/Hong Kong stock connect programs.

Hong Kong smaller cap stocks have not participated in the fund inflows, and, in fact, have performed very modestly, to-date. Nevertheless, we have often witnessed small caps 'catch-up' strongly as the cycle of fund inflows lengthens and broadens into the overall market. The Hong Kong market tends to attract more foreign capital, too, as the US dollar declines.

Our holdings of non-index, less followed, smaller companies are of outstanding quality and our patience can be very rewarding, holding these underrated stocks long term until they are 'discovered' by the market.

Since we have adhered to a discipline of buying good businesses cheaply (our intrinsic value screen demands a high return, 20%/year, and maximum price to pay for all holdings), we are generally able to weather any sudden 'storms' with a fair margin of safety for our capital. We remain quite comfortable with all our undervalued holdings.

Sincerely,

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President
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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.