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

April 19, 2021

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:

	Mar. 2021	Year-to-date
Hong Kong Partners LP*	0.1%	13.5%
Hang Seng Index**	-5.1%	4.5%
Hang Seng Small Cap Index	-5.7%	8.4%
MSCI HK Small Cap Index	1.2%	19.6%
HS Mid Cap Index	-0.6%	3.5%

Partners' NAV $2.6453 after management fee and provisions, but before annual incentive fees of 15% on appreciation.
Please refer to footnotes at the end of this commentary for descriptions of the Fund's indexes and Fund risk disclosures.

"China's leaders believe that America is in decline."
-Jamie Dimon, CEO/Chairman of JP Morgan, 2020 Shareholder letter

South Ocean's core holdings of Hong Kong-listed, small/mid cap shares of companies benefiting from growth in China were relatively strong during the first quarter. Tech/Internet-related stocks were laggards in March as fresh lockdowns in countries due to resurgent coronavirus concerns, Nasdaq delisting of unaudited US-listed China firms along with new China Internet policies troubled investors (the new Hang Seng Tech Index was down 8.6% for the month, but dropped 30.5% from its mid-month high). It wasn't just tech-related names, but grossly overvalued sectors, such as Chinese liquor stocks and EV/auto stocks, that declined as well.

We managed to avoid the extreme volatility in those highflying segments. Our winners in March were our basic material holdings (XINYI GLASS code 0868.HK, +17.1% and ASIA CEMENT code 0743.HK, + 9.2%) and beneficiaries of China's rebounding economy (retailer BOSIDENG code 3998.HK, +7.0% and conglomerate CKH HOLDINGS code 0001.HK, +5.7%). Our portfolio detractors were smartphone casing manufacturer TONGDA GROUP code 0698.HK, -8.5% and biopharmaceutical firm, 3SBIO code 1530.HK, -11.0%.

Even though credit conditions on the mainland are tight, as authorities try to rein in property speculation, business conditions look bright. For instance, our long time holding in leading auto/construction/solar panels float glass manufacturer, Xinyi Glass, reported a 40+% profit improvement even amidst a volatile economy in China last year, beating estimates. With a strong balance sheet and low gearing, the company envisions a robust, multi-year up cycle on improved global demand for glass and a sustained healthy performance of its automobile glass aftermarket business in the global markets.

Xinyi Glass has strong financial metrics, particularly on forward expectations:

Company	**Xinyi Glass Holdings Ltd**	5Y Average	% Diff 5Y Avg. to YoY
Revenue Growth (YoY)	14.5%	10.3%	40.8%
Revenue Growth (Forward)	29.3%	13.8%	111.8%
EBITDA Growth (YoY)	54.9%	27.3%	101.4%
EBITDA Growth (Forward)	47.8%	18.9%	152.9%
EBIT Growth (YoY)	67.9%	34.4%	97.4%
EBIT Growth (Forward)	55.2%	21.3%	159.8%
EPS Diluted Growth (YoY)	42.5%	25.9%	64.1%
Free Cash Flow/Share Growth (Forward	186.2%	63.1%	195.0%
Operating Cash Flow Growth (Forward)	70.5%	25.1%	180.9%

Refinitiv consensus estimates

We remain positive on the improving prospects of our fully invested portfolios of quality small/mid cap stocks in Hong Kong.

More thoughts on China's progress presented in my new book (on Amazon) and futher views on various macro themes presented below.

Sincerely,

Brook McConnell

President – South Ocean Management, Ltd.

Hong Kong

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"Bad journalism wastes more energy than Bitcoin mining." – Dominic Henderson blog where he stated: 'Not sure who said this but I like it.'

-US/China relations didn't go off cordially with the March 18 meeting in Anchorage. The US's new Biden's administration's top two diplomats, Antony Blinken and Jake Sullivan, the National Security Advisor, met with their Chinese counterpart, Yang Jiechi. China has waited to see whether relations could improve after the dramatic anti-China moves by the Trump administration. But the acrimonious meeting showed the Biden's stance had not moved that much away from the confrontational path of the previous administration.

(Why they didn't hold their mid-winter meeting in Hawaii instead of Alaska is a bit odd. No wonder there was such a cold reception!)

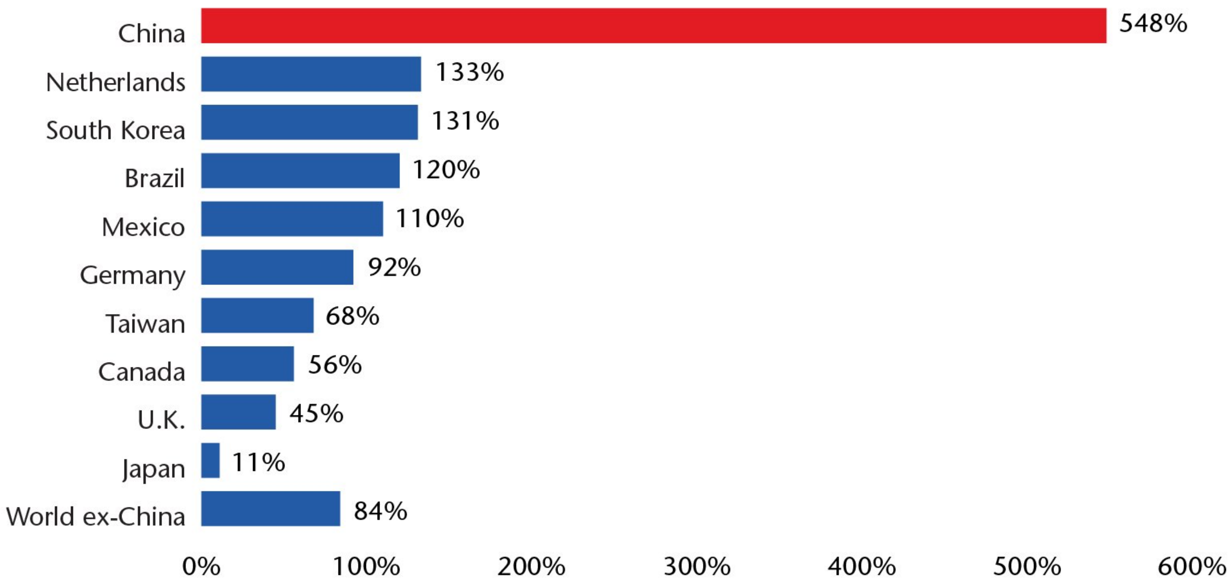
-Andy Rothman of Matthews Asia made several compelling arguments and cases for constructing better US relations with China in his Letter to the President, Dear President Biden, Getting your China policy right is important for building back our economy.

Rothman painted a positive slant to the many issues of dealing with China. He made one point that counters a common western media-focused misconception that China has been bad for US companies:

> **Q: Has engagement with China been good for American companies?**
>
> While China has not lived up to all of its WTO commitments, it has done enough that U.S. exports to that market are up by more than 500% since they joined the WTO in 2001. In contrast, our exports to the rest of the world rose by 84%. Even during last year's trade tensions and pandemic, U.S. exports to China rose 17% year-over-year (YoY), while our exports to the rest of the world *fell* 15%.

Figure 1. **GROWTH RATE OF U.S. EXPORTS TO TOP 10 MARKETS AND WORLD EX-CHINA**

U.S. exports from 2001 to 2020



Source: CEIC

-Interesting narrative and perspective from Beijing's Minister of Affairs in response to 'slave labor' assertions in cotton growing region of Xinjiang Province:

https://youtu.be/BIAyyUjLaQM?t=106

...and further commentary from a fashion expert:

American-Chinese fashion insider sets record straight (double clink the underlined links).

-JP Morgan's Jaime Dimon Shareholder letter

> ...China's leaders believe that America is in decline. They believe this not only because their country's sheer size will make them the largest economy on the planet by 2030 but also because they believe their long-term thinking and competent, consistent leadership have outshone America's in so many ways. The Chinese see an America that is losing ground in technology, infrastructure and education – a nation torn and crippled by politics, as well as racial and income inequality – and a country unable to coordinate government policies (fiscal, monetary, industrial, regulatory) in any coherent way to accomplish national goals. Unfortunately, recently,

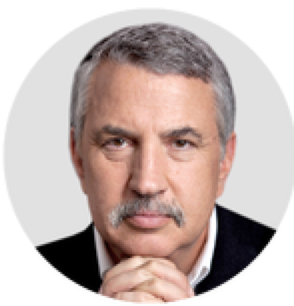
there is a lot of truth to this... For the near term, if China and the United States can maintain a healthy strategic and economic relationship, it could greatly benefit both countries – as well as the rest of the world.

https://reports.jpmorganchase.com/investor-relations/2020/ar-ceo-letters.htm

-Lastly, I recently authored a book about Hong Kong and China, from experiences of living there for almost thirty years. For 25 or those years, I wrote monthly reports about the progress and prospects I witnessed firsthand. China works under a meritocracy, the west under ideology. From political commentator Bill Mahar's hard language rant (America is losing to China YouTube) to the NY Times journalist, Thomas Friedman's latest, many in America are getting a different viewpoint that I've been gathering over my 30 years of living it.

China Doesn't Respect Us Anymore — for Good Reason

We've stopped following our formula for success.



By Thomas L. Friedman
Opinion Columnist
March 23, 2021
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Credit...Kevin Frayer/Getty Images

Sometimes a comedian cuts through foreign policy issues better than any diplomat. Bill Maher did that the other week with an epic rant on U.S.-China relations, nailing the most troubling contrast between the two countries: China can still get big things done. America, not so much.

For many of our political leaders, governing has become sports, entertainment or just mindless tribal warfare. No wonder China's leaders see us as a nation in imperial decline, living off the leftover fumes of American "exceptionalism." I wish I could say they were all wrong.

"New Rule: You're not going to win the battle for the 21st century if you are a 'silly people.' And Americans are a silly people," said Maher. "That's the classic phrase from 'Lawrence of Arabia' — when Lawrence tells his Bedouin allies that as long as they stay a bunch of squabbling tribes, they will remain 'a silly people.' …

"We all know China does bad stuff. They break promises about Hong Kong autonomy; they put Uyghurs in camps and punish dissent. And we don't want to be that. But it's got to be something between authoritarian government that tells everyone what to do and a representative government that can't do anything at all."

Maher added: "On a national level, we've been having Infrastructure Week every week since 2009, but we never do anything. Half the country is having a never-ending 'woke' competition. … The other half believes we have to stop the lizard people, because they're eating babies. … China sees a problem and they fix it. They build a dam. We debate what to rename it."

Yes, China has huge problems. Its leaders are not 10 feet tall, but they are focused on real metrics of success. "China's leaders are fierce but fragile," argues James McGregor, the chairman of the consultancy APCO Worldwide, Greater China. "Precisely because they were not elected, they wake up every day scared of their own people, and that makes them very focused on performance" — particularly around jobs, housing and clean air.

By contrast, many U.S. politicians these days are elected from safe, gerrymandered districts and seek to stay in power by just "performing" for their base with populist theatrics.

Whenever I point this out, critics on the far right or far left ridiculously respond, "Oh, so you love China." Actually, I am not interested in China. I care about America. My goal is to frighten us out of our complacency by getting more Americans to understand that China can be really evil AND really focused on educating its people and building its infrastructure and adopting best practices in business and science and promoting government bureaucrats on merit — all at the same time. Condemning China for the former will have zero impact if we're not its equal in all of the latter.

At last week's Alaska meeting between America's and China's top diplomats, Chinese officials made it quite clear that they no longer fear our criticism, because they don't respect us as they once did, and they don't think the rest of the world does, either. Or as Yang Jiechi, China's top foreign affairs policymaker, baldly told his U.S. counterparts: "The United States does not have the qualification … to speak to China from a position of strength."

Surprised? What did you think, that the Chinese didn't notice that our last president inspired his followers to ransack our Capitol, that a majority of his party did not recognize the results of our democratic election, that a member of our Congress believes that Jewish-run space lasers cause forest fires, that left-wing anarchists were allowed to take over a section of downtown Portland, creating havoc for months, that during the pandemic the U.S. printed money to help its consumers keep spending — much of it on Chinese-made goods — while China printed money to invest in even more infrastructure, and that gun violence in America is out control?

- **IAN JOHNSON** writes that the administration's tough stance on Chinese relations "complicates doing what is really needed: engaging, with realistic expectations, with the other side."
- **GAIL COLLINS**, Opinion columnist, has a few questions about gun violence: "One is, what about the gun control bills? The other is, what's with the filibuster? Is that all the Republicans know how to do?"

You think they didn't notice?

Which brings me to the 2022 Winter Olympics, scheduled for China.

A rising number of voices are beginning to suggest that we boycott the China Games. I have sympathy with that call, as we watch China crush the infrastructure of democracy in Hong Kong and use internment camps to brutally suppress Uyghur Muslims in Xinjiang with utter indifference to world opinion. How do we just ignore all that and focus on ice skating?

But here's the thing: The competition that we really need to focus on winning is not the 2022 Olympics but the 2025 Olympics.

Oh, you haven't heard of the 2025 Olympics? They are not on your NBC calendar? Well, they are on Chinese President Xi Jinping's calendar. Xi unilaterally declared the 2025 Olympics in 2015 and suggested that there would be only two competitors: China and America. It was an initiative that Xi's government called "Made in China 2025."

It was a 10-year plan to modernize China's manufacturing base by massively investing government resources to dominate what Xi defined as the 10 key high-tech industries of the 21st century, and he was implicitly daring America to go head-to-head.

The industries include artificial intelligence; electric cars and other new energy vehicles; 5G telecommunications; robotics; new agricultural technologies; aerospace and maritime engineering; synthetic materials; and biomedicine.

And just a few weeks ago, when China issued its 14th five-year plan, to run through 2025, Xi basically doubled down on his government's investment in "innovation-driven development." Message to America: We will try to beat you at your own game so we will never, ever again be dependent on you for high-tech goods.

My message to China is: Be careful. Some of your diplomats sound awfully arrogant. As the proverb says: "Pride goeth before destruction, and a haughty spirit before a fall." America still excels in a lot of areas.

But my message to my fellow Americans is: We now have to return to and double down on what was our formula for success.

And that is: educating our work force up to and beyond whatever technology demands; building the world's best infrastructure of ports, roads and telecommunications; attracting the world's most energetic and high-I.Q. immigrants to enrich our universities and start new businesses; legislating the best regulations to incentivize risk-taking while curbing recklessness; and steadily increasing government-funded research to push out the boundaries of science so our entrepreneurs can turn the most promising new ideas into start-ups.

On this front there is some hope, noted McGregor: "Congress has begun sorting through the hundreds of China bills introduced in the last Congress to forge bipartisan legislation to invest in science and technology, R&D and U.S. leadership in the same technologies that China has declared as the next frontiers." And President Biden is talking about spending trillions!

Nothing could be more important. Because good ideas — respect for human rights, democracy, an independent judiciary, free markets, protection for minorities — don't just win in the world because they are good ideas. They diffuse and are embraced because others see them producing justice, power, wealth, opportunity and stability in countries that practice them.

American ideals infused every global institution in the 20th century because we were powerful, and we were powerful because more often than not we implemented our ideals.

But, if we as a country continue to act as we have of late — "dumb as we want to be" — then our power will be diminished and with it the power of our ideals. We will have steadily less influence on China and on the world at large no matter how loudly we chant "U.S.A., U.S.A., U.S.A." So, let's make sure we win the Olympics that count.

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- 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.

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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.

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