



February 12, 2014

Dear Clients, Partners, and Friends,

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

|                           | <u>Jan. 2014</u> | <u>Since last year</u> |
|---------------------------|------------------|------------------------|
| Hong Kong Partners LP     | 2.8%             | 12.6%*                 |
| Hang Seng Index           | -5.5%            | -7.1%                  |
| Hang Seng Small Cap Index | -1.1%            | 3.5%                   |

Partners' NAV \$2.9295 after management fee and provisions March 2013\*, but before annual incentive fees of 15% on appreciation.

Our small/mid cap holdings of Hong Kong-listed, China-gearred equities gained the first month of 2014, in spite of volatile trading conditions in the greater China stock markets. South Ocean's investment approach focuses on individual company specifics, analyzing fundamental business ratios and intrinsic values.

We believe the transformations happening today in China are not yet fully appreciated.

Looking ahead, the main drivers are the reforms underway in China. They emphasize the financial markets, more private investment moving into the state sector, loosening of the one-child policy, welfare system reform (whereby the system of household registration, known as the "hukou" system, will be amended) and better protection for farmers' rights.

Despite the strong performance of our equity portfolio holdings (last year and, so far, this year\*), there is still much value in the Hong Kong equity markets (the Hang Seng Index sells at only 9 times trailing earnings).

With bargain level stock prices and global economic growth appearing poised to accelerate, I am reasonably confident that the risk/gains ratios of owning China-oriented equities are quite attractive.

On a sad note, our founder, Dick McConnell, passed away after a brief illness, post-Christmas. He was 88 years young.

He was my career mentor, my coach, my friend and a wonderful father.

Luckily, I was privileged to have had a caring father who helped guide this struggling English major after university into the brokerage industry. Tutoring under his keen

intelligence, guidance and support, he gave me what amounted to a doctoral degree in value investing.

After we started South Ocean Management together in the early nineties, Dad, from Palm Beach, Florida, regularly lent me his advice after I stayed on in Hong Kong and built a new life for myself. My father treasured visiting the East and was upset after his WWII war legs and injuries kept him from returning after 2000. He and his loving wife, Jayne, had many, many good friends here.

Dad was forged in a great generation, the best and wisest man I've ever known. I shall miss him.

In wishing you a Happy Year of the Horse in 2014, I extend my gratitude to all for your continued support.

Sincerely,

Brook McConnell

President

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Hong Kong

\*- Past performance, as the regulators insist we emphasize, is no guarantee of future performance.