August 11, 2014

Dear Clients, Partners, and Friends,

The results for South Ocean Managementôs Delaware LP, Kong Partnersô L.P., before incentive fees, were as follows:

	Jul 2014	Year
Hong Kong Partners LP	3.5 %	9.7%
Hang Seng Index	6.8%	6.2%
Hang Seng Small Cap Index	3.4%	-3.8%

Partnersô NAV $3.1275 after management fee, but before annual incentive fees of 15% on appreciation.

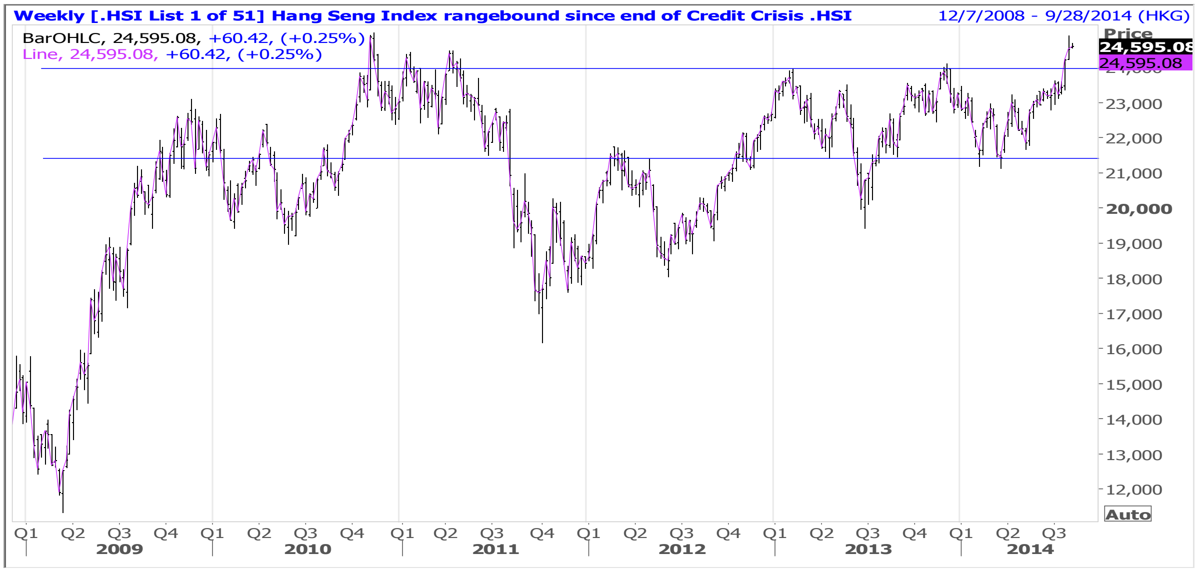
Our small/mid cap holdings of Hong Kong-listed companies with expanding businesses in China, rose in July. Chinese A-shares, traded on the Mainland markets, had the best month in almost two years, as did the Hong Kong-listed China H-share Index.

Part of the reason for the strong moves relates to what we noted last month (regarding the relatively tight credit conditions in China). Interest rate-sensitive Hong Kong-listed Chinese property developers rallied after looser restrictions on property purchases by China local governments emerged.

We do not own positions in H-shares, which are primarily stocks in the real estate, banking/financial and cyclical resource sectors (we claim no gainful insights as to any advanced notice of timing of government edicts or cyclical industry turns). Our principal focus is fundamentally analyzing and owning great businesses of Hong Kong-listed companies at undervalued prices. Our proprietary software screens all stocks in Hong Kong to determine intrinsic values and sets maximum price limits to buy.

During July, the blue chip Hang Seng Index, which has been range-bound since the end of the Credit Crisis decline in early 2009, rose above its previous highs for the year on light, summertime volumes.

It is noteworthy that the Index traded through its 5 year trading band during the month!



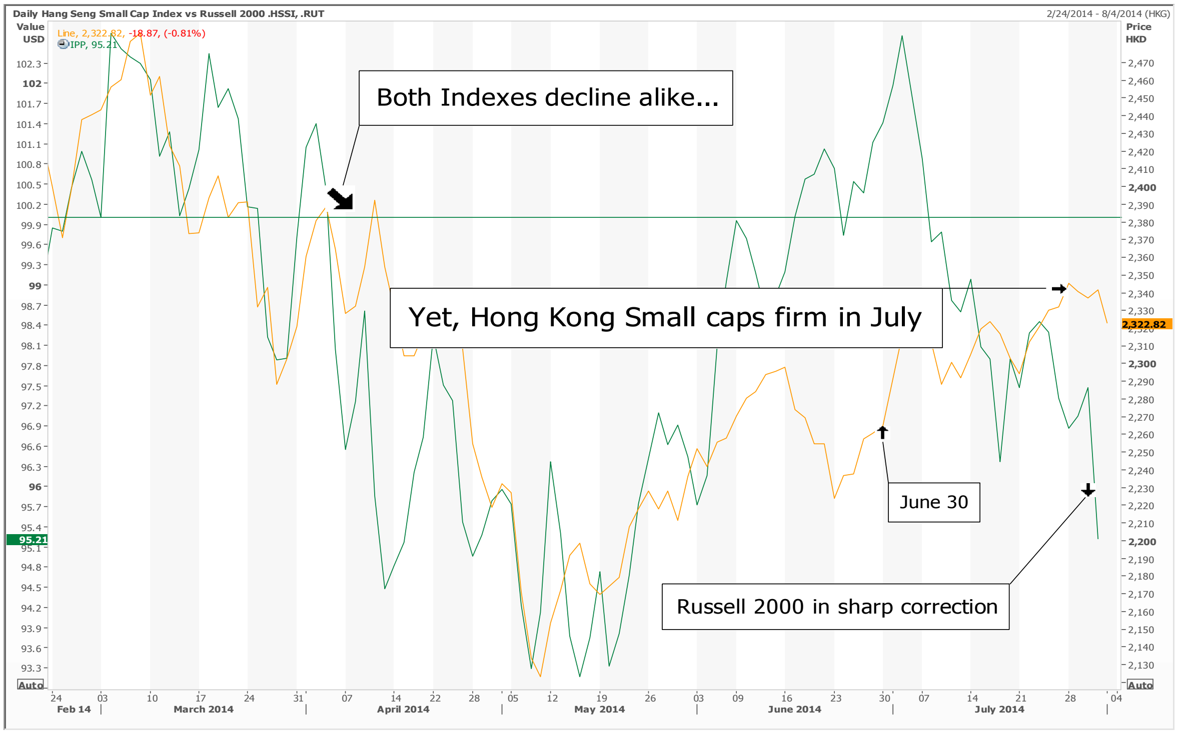
There were net inflows of foreign funds all month. The Hong Kong Monetary Authority intervened to keep the Hong Kong dollar at its pegged rate of 7.25/1 to the US dollar. According to the South China Morning Post, ñSince July 1, the Hong Kong dollar has repeatedly hit the strong end of the currency peg to the US dollar. That caused the HKMA inject more than HK$65 billion (US$ 8.4 billion) into local money markets.ò

Also noteworthy is the action in Hong Kong small caps.

In early March to early May this year, the Hang Seng Hong Kong Small Cap Index and the US small cap Russell 2000 Index declined in tandem. Investors in Hong Kong seemed to key in on western market trends last spring.

Last month, that correlation diverged, with Hong Kong small caps advancing in contrast to a sharp correction in US small caps.

The Russell 2000 declined 6.1% in July versus a +3.4% gain for Hong Kong small caps:



Our strongest gainers last month were two holdings benefitting from the cellular 4G build out in China.

Tongda Holdings (code 698hk, HK$6.3 billion market cap, US$813 million) is increasing the number of 4G-equipped smartphones built for local brands, such as Huawei, ZTE and Lenovo.

China Fiber (code 3777hk, HK$2.9 billion market cap, US$503 million) is the largest fiber optic patch cords manufacturer in China. This leading position is further enhanced by the high barriers to entry to becoming an approved supplier to Chinaôs telecom operators. China Fiber will benefit from the 1.4 million 4G transceiver base stations being constructed over the next several years in China.

Both Tongda (11.6 x estimated earnings) and China Fiber (6.5x estimated earnings) are cash-rich, having completed fund raising exercises to meet the expected demand for the next generation cellular systems.

After the past five years of uncertainty, the Hang Seng Index sells today at a low 10.6x trailing earnings. As weôve been outlining all year in these letters, there remains upside risk to the underweighted Hong Kong market.

Though pullbacks and corrections will undoubtedly occur for China-oriented stocks and markets in the months ahead, a positive is the recently announced Communist Partyôs Fourth Plenary Session for the 18th Central Committee meeting in October that will mark an important milestone ï there will be many more reforms announced at the meeting, signifying further development of Chinaôs óopening up.ô

Sincerely,

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