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

April 9, 2014

Dear Clients, Partners, and Friends,

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

	Mar. 2014	Year to date
Hong Kong Partners LP	-0.3%	6.3%
Hang Seng Index	-3.0%	-5.0%
Hang Seng Small Cap Index	-4.9%	-4.6%

Partnersô NAV $3.0313 after management fee, but before annual incentive fees of 15% on appreciation.

Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results. Warren Buffett

Our small/mid cap, Hong Kong-listed holdings of China-oriented stocks continued outperforming last month. We are pleased with these positive returns for the first quarter, in a muted trading environment.

We screen for quality companies selling at attractive risk/reward valuations. We seek long term gains with these great businesses.

This proprietary, systematic valuation method delivers a maximum price to buy, thereby mitigating risks.

An example is our holding in mid-cap, Li and Fung ("Something very interesting is going on in China comparable to 1979 when Deng Xiaoping opened up China," William Fung told CNBC), one of our top performers in March. Li and Fung reported that its earnings returned to record levels last year, after restructuring and management changes. The stock has been languishing at ½ its peak price, where we began purchasing, and shot up 21% on the report.

Small/mid cap stocks, generally, witnessed profit taking late last month and are, short-term, oversold.

For instance, one of our largest holdings, 4G smartphone casing manufacturer, Tongda Group (code 0698hk), declined sharply after the company opportunistically arranged an 11% placing of new shares.

Our poorest performer, magnesium PC/Smartphone casing manufacturer, Ka Shui Intôl (code 0822hk), suffered a factory fire last December of which insurance coverage claims had yet to be received. The shares are deeply depressed, especially on the companyôs bright operating outlook for the coming years.

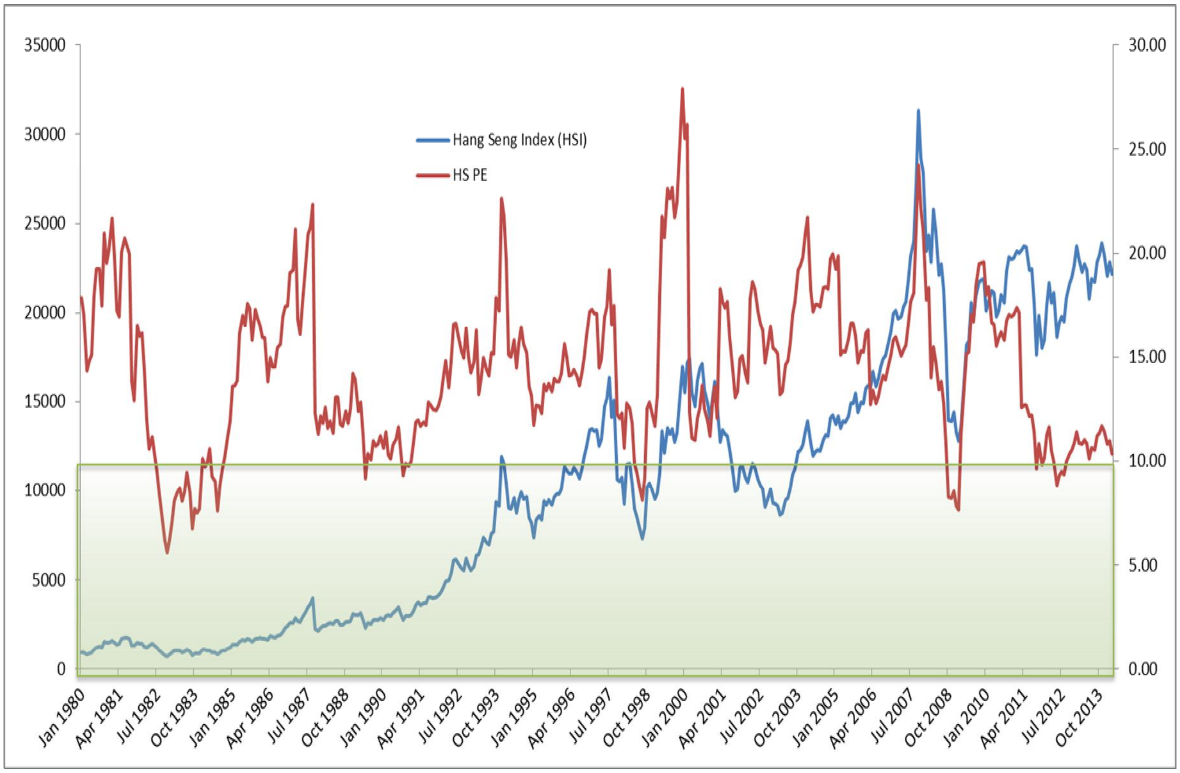
We sold Macau casino operator, Galaxy Holdings (code 0027), during the quarter after it reached our target price (TP: HK$82), for a 130% gain in one year. Vegetable producer, Chaoda Modern Agriculture, a suspended holding, has further delayed release of its audited financials. We await further news.

A recurring theme in todayôs financial news is an apocalyptic bad dream about Chinaôs looming bad bank loans. As we suggested last month, with Stephen Roachôs article, and more recently (A 'Lehman moment' in China? Not quite), BlackRockôs Mark McCombe, chairman for Asia Pacific at BlackRock Asset Management, things that go bump in the night sometimes turn out to be less than feared.

Most of the cataclysmic headline nightmares have already been priced into the stock markets over the past 5+ years. Witness China bank stock prices trading at only 1x asset values today! China has instituted bank reforms (see our September letter regarding Chinaôs ñdebt bubble) where higher capital adequacy ratios have already been implemented. Additionally, the PRC has recently allowed banks to issue preferred shares, thereby further increasing capital adequacy.

We are cautiously optimistic for the Mainlandôs macroeconomic and stock market outlook.

A chart of the Hang Seng Index overlapped with the monthly Price-Earnings ratio (right hand scale) follows. History has shown the main index has traded at a low P/E of 10 times and high of >20 times;



As we noted the end of last year, a 20 multiple on the Hang Sengôs estimated earnings would equate to a 42,000 level, much higher than todayôs ~22,000 level.

We are fully invested in two dozen, diversified, undervalued growth stocks and, we believe, the risk/rewards remain very attractive today.

Sincerely,

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