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

July 11, 2014

Dear Clients, Partners, and Friends,

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

	June 2014	Year-to-Date
Hong Kong Partners LP (net)	-0.3%	6.0%
Hang Seng Index	0.5%	-0.5%
Hang Seng Small Cap Index	1.3%	-6.9%

Partnersô NAV $3.0224 after management fees, but before annual incentive fees of 15% on appreciation.

South Oceanœs portfolios of small/mid cap, Hong Kong-listed companies, benefitting from operations in China, gained in the first half of 2014.

In June, three utility holdings (China Power, code 2380, Huadian Power, code 1071hk and Beijing Enterprise Water, code 371hk) were out-performing positions, gaining 5.7% to 11.7% in price.

Macau gaming stocks were generally weak last month. We sold, earlier in the quarter, two profitable holdings (Galaxy Entertainment and Sands China) and kept Live Multi Game operator, Paradise Entertainment (code 1180hk) in our portfolios. Paradise, which broadcasts live baccarat and 21 games to gamblers throughout all Macau casinos, proposes to enter the US market with its patented gaming technology. We added to our position after the share price, which had appreciated strongly since August last year, declined in June.

Our suspended holding in vegetable grower, Chaoda Modern Agriculture, announced its auditor and independent land appraiser had yet to finish their work, and promised an update to shareholders on the companyœs operations by end of July. If the company can finally produce the delayed audited accounts, the share price suspension should be lifted by the stock exchange.

Our proprietary value software screen (which was written incorporating similar investment methods as Warren Buffett), identifies sound companies selling at undervalued prices. This system enhances our core philosophy of Price-to-Growth (PEG) which weœve followed since our early 1992 founding in Hong Kong. It is a powerful screen that determines an intrinsic value of a business and a maximum price to pay.

For instance, we bought a 3% position earlier this year in a neglected stock that is the leader in the non-glamorous business of manufacturing high-intensity utility cables. As

Chinaôs electric consumption remains quite low, a primary objective is to accelerate construction of the power grids throughout the country.

The shares were selling at 4.5 times projected earnings, a 3.3% dividend yield, no long term debt and a record of 5 continuous years of net income growth.

Though not a ôflavor-of-the-monthö stock, we added to our position on price weakness shortly after our initial purchase.

Our time horizons for purchases are long-term oriented. We bought the shares near HK$1.09/share, with a ten year target price of HK$8/share. However, this US$433 million market cap stock rose sharply (+80%) after an upbeat article in the local press outlined the companyôs attractive prospects. We took partial profits, thereafter, and remain holders today, after the stockôs strong re-rating.

Finding gems to own, like this one, validates the strength behind our fundamental value approach.

A final, general thought about the longer term trends;

Thereôs been much handwringing over Chinaôs slowing economy and downturn (a list of which is too long to itemize).

Certainly, China has its work cut out for it.

But, unlike in the US, EU or Japan (which are undergoing quantitative easing economic policies), credit conditions in China have been the opposite, or very tight.

The 'Reserve Ratio,' or that portion (expressed as a percent) of depositors' balances banks must have on hand as cash, as determined by the China's central bank, is now 18-20%. In the US, the reserve ratio is 0-3% (in many cases).

When the cycle eventually turns and China begins to loosen policy, it will generate a pronounced effect on the depressed stock markets, likely greater than what the USôs loose economic policies have had on the S&P 500ôs performance returns.

Sincerely,

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