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

March 11, 2016

Dear Clients, Partners, and Friends,

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

	Feb 2016	Year-to-date
Hong Kong Partners LP	-1.5%	-15.0%
Hang Seng Index	-0.4%	-12.8%
Hang Seng Small Cap Index	0.3%	-15.2%
MSCI HK Small Cap Index	1.2%	-13.7%

PartnersôNAV $ 2.5553 after management fees, but before annual incentive fees of 15% on appreciation.

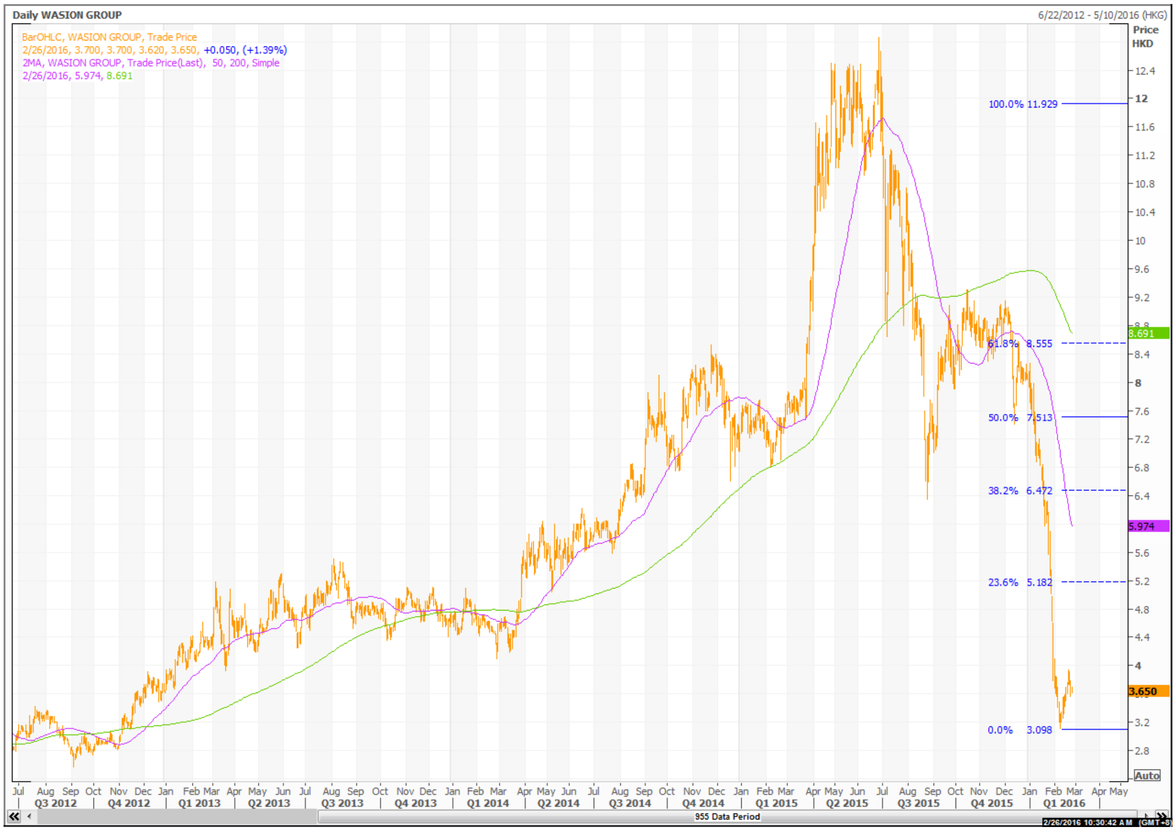
With this yearøs pullback in stock prices, we are finding attractive, small/mid cap stocks listed in Hong Kong, with earnings geared towards China, to invest and own. These stocks have declined to reasonable price levels to buy based on intrinsic value calculations in our proprietary Banquet System software screen.

For instance, during February, we started accumulating Wasion Group (code 3393HK, market cap HK$4.0 billion, USD 510 million), the leading supplier of advanced energy and water metering products/solutions in China. The Hunan Province-based company was listed in Hong Kong in 2005.

The share price had declined 71.1% from its 52-week highs on announced delays in Chinaøs State Grid orders and general market volatility (as an aside, China will continue building out the mainlandøs second electric grid, spending another RMB 2 trillion over the next several years. Construction will entail consuming an estimated 25% of global copper production for ultra-high intensity cables and such).

Wasion Group has an enviable record, producing net income growth every year since 2010. The balance sheet is healthy, with total debt/equity at 25% and a return on equity ratio of 15.5%. The shares were highly favored by the investment community. In May last year, there were 12 buy recommendations, one hold, on Wasion by brokers. Yet our systemøs discipline demanded a much lower price to pay for this quality company.

Last month, we began buying when the shares had declined to 6 times expected earnings, 1.0 times tangible book value and a dividend yield of 6.5%:

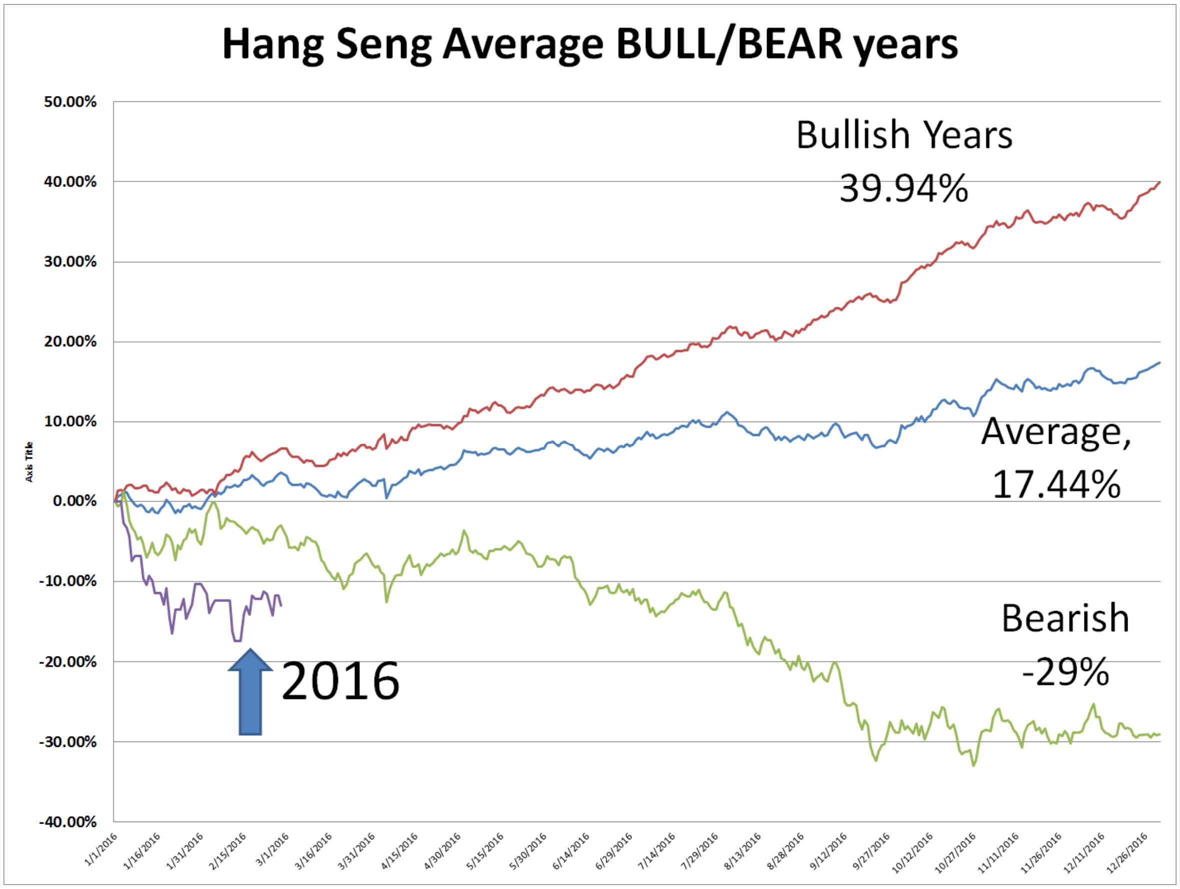


We don't try to time purchases or predict market highs/bottoms. Rather, we seek to own quality stocks after markets/stock prices have collapsed, which provides better risk-adjusted, above average returns over time.

As we acknowledged last month, we don't know when stock prices will stop falling and turn. Missing out on the turn, though, can be hazardous, as seen in this chart by [Ritholtz Asset Management];

Therefore, we have been selectively adding to our holdings in this downturn. And, markets have certainly come down this year.

We calculated and averaged the past 25 years in Hong Kongôs stock market to present a picture of where the market is today. The first two monthsô return this year is significantly below average:



The purple line is the daily average % change in the blue chip average through February.

Hong Kong is a deeply submerged market today.

Our holdings are carefully selected, across a dozen industry sectors, directly benefiting from growth in China. We have less than a 5% cash holding, with our portfolio selling at a (weighted average) 6.6 times this yearôs expected earnings, 1.0 times book value, a 5.6% (weighted average) dividend yield and a 17.2% earnings yield.

This is a very cheap portfolio! We are confident in our holdings and are fully invested.

Sincerely,

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