



April 12, 2016

Dear Clients, Partners, and Friends,

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

	<u>Mar 2016</u>	<u>Year-to-date</u>
Hong Kong Partners LP	11.2%	-5.5 %
Hang Seng Index	8.7%	-5.2%
Hang Seng Small Cap Index	6.6%	-9.7%

Partners' NAV \$2.841 after management fee and provisions March 2013*, but before annual incentive fees of 15% on appreciation.

Our holdings of small/mid capitalized Hong Kong-listed companies, with earnings geared towards China, rebounded sharply in March.

It was a volatile first quarter. The mainland China 300 Index was down 23.5% in the first 20 days of the New Year, closing down 13.8% for the quarter. The share prices of our holdings were under intense market pressure. In March, most of our undervalued, quality smaller growth companies announced year-end financial results that were in-line with expectations, reassuring nervous investors after the tumultuous first three months of the year.

Beijing Enterprise Water Group (BEWG, code 371HK, X% holding, market cap HK\$33.6 billion, US\$4.3 billion) is a leader in waste water treatment and water supply/recycle projects in China. The company has increased earnings >20% annually over the past three years and expects to double its capacity during the next three years. The company is enlisting investment funds (banks/insurance) as financial partners to fund even larger environmental renovation water projects in the future. BEWG will become operator and manager of these 'off-balance' funded projects.

BEWG's 2015 net profit grew 23%, stripping out non-recurring items. The company maintained its dividend payout ratio of 33% and sees strong growth potential. The shares gained 28% since early February lows.

Xinyi Solar Holdings (code 968.HK, 5.4% holding, market cap HK\$19.5 billion, US\$2.5 billion) is the world's largest PV glass manufacturer. It is

also a low cost solar farm operator in China. The company announced its profit attributable to equity holders for the year 2015 grew 144.6% to HK\$1.2 billion (US\$155 million) on revenues that rose to HK\$4.75 billion (US\$613 million), +97.1%. Earnings per share reported were HK\$0.1853 versus HK\$0.08, up 120%%. Efficient management has produced a 26.6% return on equity for shareholders.

The share price jumped 13.1% the following two trading days after the announcement and today sell at 11.1x this year's expected earnings.

Smartphone casing manufacturer Tongda Holdings (code 698 HK, 9.0% holding, market cap HK\$9.0 billion, US\$1.2 billion) reported recurring earnings grew 41.5% last year to HKD702million (US\$91 million), in line with consensus.

The depressed shares rallied 13.6% immediately after the announcement and sell at 9.2 times this year's expected earnings.

Leading wind farm power generator Huaneng Renewables (code 958 HK, 3.3% holding, market cap HK\$22.9 billion, US\$3.0 billion) reported results that beat expectations with recurring earnings growth of 50.0%. Solid prospects for expansion of HN's renewable wind capacity is set by new government policies for wind and solar through 2020.

Huaneng Renewables' shares gained 19.5% immediately after the announcement.

Leading power distribution meter manufacturer Wasion Group (code 3393 HK, 5.6% holding, market cap HK\$, US\$) reported earnings in line with consensus expectations. The company increased the dividend, a sign of confidence by the directors in the future course of the business, which drove the shares immediately higher by 16.4%.

Our weighted average portfolio price-earnings ratio stands at 7.4 times this year's expected earnings. With China's economic indicators suggesting signs of improvement in the first quarter (the manufacturing PMI rose to 50.2 in March, the latest CPI figure showing subdued inflation, a recovering housing market), the government's supply side stimulus measures are showing signs of kicking in, helping stabilize jittery market conditions. The launch later this year of the Shenzhen-Hong Kong stock connect, along with continued Chinese monetary policies to stimulate the economy, should be strong

positives for our small/mid cap, Hong Kong-listed holdings for the remaining of the year.

Sincerely,

Brook McConnell
President

Email: brook@south-ocean.com Website: www.south-ocean.com

Hong Kong

Two charts of interest below provide a simple framework for an overall prospective on China's booming economy.

The first is China's output or Gross Domestic Product (GDP), which has doubled from 2009-2014:



An astounding doubling of GDP is often overlooked in the context of daily commentaries about China's prospects.

Another factor often confused in market commentary about China's outstanding credit is the fact China's debt is double counted: government bank lending to government-run, State-owned companies is counted twice, yet it's the same IOU. And, China owes very little to outside, foreign entities.

The second chart is China's public debt, measured by CIA World Factbook, which is quite small relative to its output.

Way down the list, at #157, is China's public debt to GDP ratio:

<https://www.cia.gov/library/publications/resources/the-world-factbook/rankorder/2186rank.html>

Public debt compares the cumulative total of all government borrowings less repayments that are denominated in a country's home currency. Public debt should not be confused with external debt.

 [DOWNLOAD DATA](#)

Rank	Country	(% OF GDP)	Date of Information
1	Japan	227.90	2015 est.
2	Zimbabwe	205.30	2015 est.
3	Greece	182.00	2015 est.
4	Lebanon	138.80	2015 est.
5	Italy	135.80	2015 est.
6	Portugal	129.00	2015 est.
7	Eritrea	122.60	2015 est.
8	Jamaica	122.50	2015 est.
9	Cabo Verde	116.20	2015 est.
10	Grenada	110.00	2012 est.
11	Cyprus	107.00	2015 est.
12	Belgium	107.00	2015 est.
13	Singapore	105.60	2015 est.
14	Puerto Rico	105.40	2015 est.
15	Ireland	101.20	2015 est.
16	Barbados	101.00	2015 est.
17	Spain	101.00	2015 est.
18	Bhutan	98.50	2015 est.
19	France	98.20	2015 est.
20	Canada	95.40	2015 est.
21	Ukraine	94.90	2015 est.
22	Sao Tome and Principe	93.90	2015 est.
23	Yemen	93.50	2015 est.
24	Egypt	91.70	2015 est.
25	United Kingdom	90.60	2015 est.

26	Croatia	89.50	2015 est.
27	Antigua and Barbuda	89.00	2012 est.
28	European Union	86.80	
29	Austria	83.40	2015 est.
30	Saint Kitts and Nevis	83.00	2013 est.
31	Iceland	81.90	2015 est.
32	Belize	81.30	2015 est.
33	Jordan	79.20	2015 est.
34	Saint Lucia	77.00	2012 est.
35	Hungary	76.20	2015 est.
36	Ghana	76.00	2015 est.
37	Serbia	75.00	2015 est.
38	Sri Lanka	74.70	2015 est.
39	United States	73.60	2015 est.
40	Morocco	73.40	2015 est.
41	Albania	73.30	2015 est.
42	Maldives	72.80	
43	Sudan	72.10	2015 est.
44	Germany	71.70	2015 est.
45	Dominica	70.00	2012 est.
46	Netherlands	68.90	2015 est.
47	Uruguay	68.60	2015 est.
48	Guyana	67.40	2015 est.
49	Brazil	67.30	2015 est.
50	Malta	67.20	2015 est.
51	Saint Vincent and the Grenadines	67.00	2013 est.
52	Aruba	67.00	2013
53	Bahrain	66.70	2015 est.
54	El Salvador	64.90	2015 est.
55	Pakistan	64.80	2015 est.
56	Israel	64.40	2015 est.

57	Slovenia	62.70	2015 est.
58	Finland	61.20	2015 est.
59	Mauritius	61.10	2015 est.
60	Malawi	61.10	2015 est.
61	Zambia	60.30	2015 est.
62	Costa Rica	59.70	2015 est.
63	Montenegro	59.50	31 December 2014 est.
64	Mozambique	58.30	2015 est.
65	Bahamas, The	57.60	2013 est.
66	Syria	57.20	2015 est.
67	Angola	56.70	2015 est.
68	Senegal	55.70	2015 est.
69	Seychelles	54.80	2015 est.
70	Malaysia	53.50	2015 est.
71	Slovakia	53.10	2015 est.
72	Vietnam	52.70	2015 est.
73	Tunisia	52.60	2015 est.
74	Cote d'Ivoire	52.30	2015 est.
75	United Arab Emirates	52.10	2015 est.
76	India	51.70	2015 est.
77	Marshall Islands	51.30	2013
78	Venezuela	51.20	2015 est.
79	Thailand	50.60	2015 est.
80	Nicaragua	49.50	2015 est.
81	Fiji	49.50	2015 est.
82	Papua New Guinea	48.70	2015 est.
83	Togo	48.70	2015 est.
84	Laos	48.60	2015 est.
85	Kenya	48.60	2015 est.
86	Sierra Leone	48.50	2015 est.
87	Armenia	47.50	2015 est.

88	Honduras	47.40	2015 est.
89	Congo, Republic of the	47.30	2015 est.
90	Denmark	47.20	2015 est.
91	Colombia	46.90	2015 est.
92	Bosnia and Herzegovina	46.10	2015 est.
93	Virgin Islands	45.90	2014
94	Argentina	45.80	2015 est.
95	Ethiopia	45.80	2015 est.
96	Philippines	45.50	2015 est.
97	South Africa	45.40	2015 est.
98	Mexico	45.20	2015 est.
99	Tonga	45.10	2013
100	Gabon	44.80	2015 est.
101	Dominican Republic	44.70	2015 est.
102	Australia	44.30	2015 est.
103	Sweden	44.00	2015 est.
104	Poland	43.40	2015 est.
105	Bermuda	43.00	FY14/15
106	Trinidad and Tobago	42.10	2015 est.
107	Czech Republic	41.40	2015 est.
108	Tuvalu	41.10	2013 est.
109	Andorra	41.10	2012
110	Macedonia	40.30	2015 est.
111	Qatar	39.90	2015 est.
112	Romania	39.90	2015 est.
113	Panama	39.60	2015 est.
114	Hong Kong	39.50	2015 est.
115	Norway	39.30	2015 est.
116	Mali	39.00	2015 est.
117	Georgia	38.80	2015 est.
118	Lithuania	38.80	2015 est.

119	Djibouti	38.60	2012 est.
120	Latvia	38.50	2015 est.
121	Bolivia	37.50	2015 est.
122	Burundi	37.20	2015 est.
123	Tanzania	36.90	2015 est.
124	Belarus	36.40	2015 est.
125	Benin	35.00	2015 est.
126	Korea, South	34.90	2015 est.
127	Uganda	34.80	2015 est.
128	Switzerland	34.00	2015 est.
129	Cambodia	33.90	2014 est.
130	Rwanda	33.70	2015 est.
131	New Zealand	33.50	2015 est.
132	Curacao	33.20	2012 est.
133	Turkey	33.10	2015 est.
134	Taiwan	32.80	2015 est.
135	Ecuador	32.40	2015 est.
136	Guam	32.10	2013
137	Bangladesh	31.90	2015 est.
138	Chad	31.90	2015 est.
139	Cameroon	31.70	2015 est.
140	Cuba	31.60	2015 est.
141	Guatemala	30.30	2015 est.
142	Nepal	30.00	FY 2012/13 est.
143	Bulgaria	29.20	2015 est.
144	Namibia	28.20	2015 est.
145	Micronesia, Federated States of	28.00	2013
146	Indonesia	27.70	2015 est.
147	San Marino	25.80	2013 est.
148	West Bank	24.40	2013 est.
149	Congo, Democratic Republic of the	22.90	2015 est.

150	Luxembourg	21.70	2015 est.
151	Anguilla	20.10	2015 est.
152	Paraguay	19.90	2015 est.
153	Peru	19.80	2015 est.
154	Kazakhstan	17.60	2015 est.
155	Chile	17.40	2015 est.
156	Botswana	17.00	2015 est.
157	China	16.70	2015 est.
158	Moldova	16.20	2015 est.
159	Equatorial Guinea	15.80	2015 est.
160	Russia	13.50	2015 est.
161	Iran	13.20	2015 est.
162	Azerbaijan	11.80	2015 est.
163	Nigeria	11.70	2015 est.
164	Kosovo	10.60	2014 est.
165	Estonia	10.20	2015 est.
166	Kuwait	9.50	2015 est.
167	Algeria	9.30	2015 est.
168	Kiribati	8.60	2013 est.
169	Uzbekistan	8.30	2015 est.
170	Saudi Arabia	7.80	2015 est.
171	Gibraltar	7.50	2008 est.
172	Oman	7.00	2015 est.
173	Liberia	6.70	2015 est.
174	Libya	6.60	2015 est.
175	Tajikistan	6.50	2013 est.
176	Wallis and Futuna	5.60	2004 est.