



December 8, 2014

Dear Clients, Partners, and Friends,

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

	<u>Nov 2014</u>	<u>Year to Date</u>
Hong Kong Partners LP *	-1.4 %	4.4%
Hang Seng Index **	0.0%	2.9%
Hang Seng Small Cap Index	0.0%	-4.8%

Partners' NAV \$2.9772 after management fee, but before annual incentive fees of 15% on appreciation.

Our China-focused portfolios of small/mid cap, Hong Kong-listed holdings decreased slightly in November. A surprise interest rate cut by the People's Bank of China propelled large cap stocks upwards, with a gap opening of 400+ points. As we've noted, credit conditions have been tight in China, and the authorities have room to cut further. Daily rumors of additional China stimulus measures buffeted the market all during the month.

The Occupy Central protests in Hong Kong, sadly, turned violent as court-ordered injunctions to remove street barricades resulted in baton-wielding police clashing with masses of protestors. Global news carried graphic scenes of the late night skirmishes.

Community fatigue, after 60 days of Hong Kong-government inaction, has exasperated the mounting intolerance, on both sides. The PRC Mainland government has resolutely stood firm against any change to its August 31st proclamation on Hong Kong's [suffrage](#).

Frustration with the continued unrest was cited as a possible reason for a sudden stock market retreat of 600 points on December 1 (filling in that previous gap opening). After the close on that day, the government reported Hong Kong retail sales expanded at a slow 1.4% year-on-year pace for October, likely aggravated by the Occupy movement. Investors have been avoiding local retail stocks since late summer on concerns of slower sales (a sector we have no exposure). Certainly, the Occupy situation hasn't helped market sentiment.

The anti-graft campaign in China, though, has had a greater impact on local luxury retail sales during October (than have the protests), as expensive gifts are a no-no under PRC President Xi. The new leader's unprecedented [anti-corruption campaign](#)* in China has been ongoing for two years, but western media speculation regarding the SAR's student protests of a China-led, Tiananmen Square-like crackdown never materialized. In fact,

Beijing gave final approval on November 17th to the historic Shanghai-Hong Kong stock connect program (see my April comments on the Hong Kong/Shanghai stock connect [here](#)).

The Occupy Central impasse seems to be waning, as of this writing. Business confidence will rebound, as it did, for example, in Bangkok earlier this year after the yellow-red shirt clashes simmered down. Although it's been an inconvenience getting around town these past two months (travelling to the business district of Central takes longer in the snarled traffic), I can't complain; I have been in overall support of the students' rallying message (see my September comments [here](#)).

It's been our experience that small/mid cap stocks commonly lag sudden surges in the large, Index stocks when government policy measures or interest rate cuts are announced (and, we clearly have no way to get in front of these announcements, either). We are adding to our holdings during this period.

A year-end review will be forthcoming soon after New Year's.

A very *peaceful* and happy holiday season to all.

Sincerely,

Brook McConnell

President

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Hong Kong

***Juicy scandals await as case unfolds**

Xinhua News Agency broke the news at the stroke of midnight on Friday that former security tsar Zhou Yongkang had been expelled from the Communist Party and formally arrested on a number of serious charges.

Mary Ma

Monday, December 08, 2014

Xinhua News Agency broke the news at the stroke of midnight on Friday that former security tsar Zhou Yongkang had been expelled from the Communist Party and formally arrested on a number of serious charges.

For the public, the accusation that Zhou had extramarital affairs and traded his power for sex was the juiciest.

He was said to have kept at least 29 mistresses, including many hotties at state television broadcaster CCTV.

Concerns had been raised that President Xi Jinping may have met resistance in his corruption fight, after the party's fourth plenum made no mention of the Zhou case in its communique.

Xinhua's announcement showed Xi has now cleared the hurdles in dealing with the prized "tiger."

Although much was previously rumored, the announcement was highly titillating.

It cited six sins allegedly committed by Zhou that included serious violation of party discipline.

He is further accused of taking advantage of his posts and accepting bribes, abusing his power to help relatives, mistresses and friends to make huge illicit profits resulting in serious losses of state owned assets.

Zhou also allegedly leaked party and national secrets. But as said, the most salacious accusation was committing adultery and trading power for sex and money.

In addition, investigators reportedly found evidence of other suspected crimes.

US President Barack Obama recently noted that Xi has managed to consolidate power more quickly and comprehensively than anybody since the late paramount leader Deng Xiaoping.

While, it's a matter of opinion whether this is a good or bad thing, it's nevertheless fair to say Xi has amassed the political and military muscle that his immediate predecessor Hu Jintao wanted but had failed to garner.

Without this clout, his high-profile fight against corruption would have been doomed to failure.

The arrests of Zhou and that of former central military vice chairman Xu Caihou showed Xi has arrived.

Zhou's arrest is also significant in the sense that it has broken the norm of Politburo standing committee members being immune to criminal liability.

Xi has set a new standard - that even the highest ranking officials are accountable.

That's an important breakthrough.

It's uncertain whether Zhou's trial will be held openly.

In the case of former Chongqing party secretary Bo Xilai, the public was treated to the defiant defense he staged in court. But Bo wasn't accused of leaking party and state secrets.

If Zhou is tried openly, would party and national secrets be revealed?

Xinhua said Zhou's behavior badly undermined the reputation of the party, and significantly damaged the cause of the party and people, leading to serious consequences. It's possible for the 72-year-old to face a death sentence.

The revelation by Xinhua that investigators also found clues of other suspected crimes has created room for imagination to run amok.

Could the evidence be related to rumors that Zhou was linked to the motor vehicle death of his first wife? Or could they be about something more sinister?

A general and his battalion of lovers

http://www.thestandard.com.hk/news_detail.asp?pp_cat=30&art_id=152127&sid=43500851&con_type=1&d_str=20141208&isSearch=1&sear_year=2014

Sex, money and power claims against Zhou

http://www.thestandard.com.hk/news_detail.asp?pp_cat=30&art_id=152128&sid=43500625&con_type=1

***Hong Kong Partners LP risk disclaimer:**

- Hong Kong Partners LP (The "Fund") primarily invests in the Hong Kong equity market with a Greater China focus.
- The Fund invests in China-related companies which involve certain risks not typically associated with investment in more developed markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund is also subject to concentration risk due to its concentration in Hong Kong, particularly China-related companies. The value of the Fund can be extremely volatile and could go down substantially within a short period of time. It is possible that a substantial value of your investment could be lost.
- You should not make investment decision on the basis of this material alone. Please read the explanatory private placement memorandum for details and risk factors.

****Index Descriptions:** The Hang Seng Indexes are a widely recognized capitalization-weighted indexes that measures the performance of the three largest-capitalization sectors of the Hong Kong stock market in descending order. The Hang Seng Index measures the largest 52 market capitalized listed companies in Hong Kong's stock market. The Hang Seng Mid Cap Index represents the next 193 largest capitalized listed companies, the Hang Seng Small Cap Index represents the next 187 largest capitalized listed companies in Hong Kong.

The MSCI HK Small Cap Index is a free float-adjusted market cap weighted index designed to measure the performance of small cap equity securities in the bottom 15% of equity market capitalization in Hong Kong. With 69 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Hong Kong equity universe.

The Hong Kong Partners LP (HKP) is benchmark agnostic and its corresponding portfolio may have significant noncorrelation to any index. The portfolios may invest in all sectors (within and/or on other stock markets) and the composition of securities in the portfolio may change periodically depending on market conditions at the time. Securities in the portfolio will not match those in any index.

Index returns are generally provided as an overall market indicator. You cannot invest directly in an index. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns. Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction.

Before investing you should carefully consider the Partnership's investment objectives, risks, charges and expenses. This and other information are in the prospectus, a copy for Accredited Investors may be obtained by inquiring to info@south-ocean.com. Please read the prospectus carefully before you invest.

The principal risks of investing in HKP: Equity Securities Risk. The value of the equity securities the Fund holds may fall due to general market and economic conditions. Foreign Securities Risk. Investments in the securities of foreign issuers involve risks beyond those associated with investments in U.S. securities. Industrials Sector Risk. Companies in the industrials sector may be adversely affected by changes in government regulation, world events, economic conditions, environmental damages, product liability claims and exchange rates. Consumer Discretionary Risk. Companies in this sector may be adversely impacted by changes in domestic/international economies, exchange/interest rates, social trends and consumer preferences. Information Technology Sector Risk. Information technology companies face intense competition, both domestically and internationally, which may have an adverse effect on profit margins. Detailed information regarding the specific risks of Hong Kong Partners LP can be found in the prospectus. Additional risks of investing in HKP include equity, market, management and non-diversification risks, as well as fluctuations in market value and NAV. An investment in a private limited partnership is subject to risks and you can lose money on your investment in the limited partnership.

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