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

December 12, 2017

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:

	Nov 2017	Year-to-date
Hong Kong Partners LP *	-1.2%	7.5%
Hang Seng Index **	3.0%	32.6%
Hang Seng Small Cap Index	-0.9%	14.8%
MSCI HK Small Cap Index	2.8%	14.4%

Partners' NAV $3.2084 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

"It's waiting that helps you as an investor, and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that."
– Charles Munger, American investor, vice chairman of Berkshire Hathaway, and author.

South Ocean Management has managed portfolios of small/mid cap stocks, listed in Hong Kong, with businesses benefiting from China operations, since our 1992 founding. This year, large cap stocks definitely have been the front runners, with leading sectors including autos, hardware/technology (mainly, Tencent 0700.hk) and China property. We own no shares in this select group of outperforming stocks.

In fact, one of the biggest headaches for a fund manager/investor is to witness an asset class soar, like today's Internet/technology stocks or Bitcoin, while their portfolio remains out-of-favor. The temptation to abandon their discipline and chase performance can be overwhelming.

For instance, today's forecasts by financial analysts on Amazon's disruptive prowess are enormously persuasive. Outperformance and the celebration of these stock sectors, though, reminds me of an article written in the 1970s.

The article, which is mostly from memory, relayed the story of an oil firm known as Atlantic Richfield. In the late 1960's, Arco was drilling for oil in the far north of Alaska. After drilling over 100 dry wells, however, the company was giving up on its Arctic project. The very last well drilled, though, after Arco was packing in the whole operation, came in and hit pay dirt (in fact, that last well drilled may have even been unauthorized by senior company management, as I remember the story, on account of an insistent geologist behind the drilling program).

A second well was immediately drilled and confirmed one of the world's largest oil reserves; 25 billion gallons of crude oil buried under the frozen earth.

The plan for the transportation of the oil was to build a mammoth pipeline, 46" in diameter, running 800 miles from Prudhoe Bay to the port of Valdez in southern Alaska. An enormous undertaking, Atlantic Richfield directly began placing large orders for steel pipe for the historic project.

But by 1971, the pipeline project was in jeopardy. Opposition to construction of the pipeline primarily came from two sources: Alaska Native groups and conservationists. Pipeline opponents claimed the pipeline would block traditional migration routes, decimating caribou populations, making them smaller and easier to hunt.

The ensuing legal entanglement ended all hope of the oil in Alaska ever getting to market. (It wasn't until the Arab oil embargo in 1974 and an executive order by Nixon did the project become resurrected).

Yet, before the legal disputes started, the massive discovery had captured Wall Street's imagination. Atlantic Richfield's stock, which had been languishing around $10/share, rose sharply when the Prudhoe Bay drilling results were announced. The enormity of the potential profits to Atlantic Richfield sent investors and analysts into a frenzy. Within a short period, the share price reached $150/share, well before the first pipe was even laid or oil started flowing.

The shocking collapse of the project abruptly halted the stock price rise, and the shares of Arco fell back to the $10 level (as I recall).

The 1970s article written about the Atlantic Richfield event was entitled, "The Caribou Weren't in the Estimates." Uncommon risks in a crowded, overvalued stock! Whenever investors become enamored with themes and lose sight of value, unforeseen, remote events, such as caribou, can produce devastating losses.

Investors, lacking the patience and discipline to stick with a common-sense approach, can make for rough periods, and diverging from a system is usually where things go wrong.

Our goal is to buy good companies at reasonable prices. Over the short term, stocks can be wildly irrational, priced at both depressed and inflated levels. That presents opportunity and our deferred-gratification gene strongly believes our holdings will deliver solid results over the medium and long term.

At this time of year, we send everyone our sincerest hopes for a peaceful holiday season and Best Wishes for a bright 2018. And, thank you for joining alongside our own investment in South Ocean's investment program.

(PS: *In the summer of 1975, I was a welder's helper involved in the pipeline construction*…continued below).

Sincerely,

Brook McConnell

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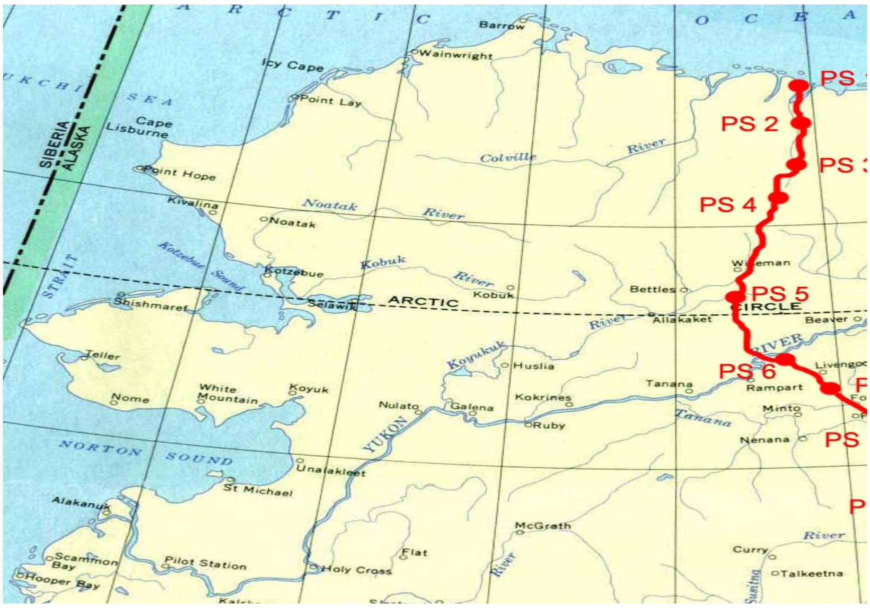
Hong Kong
PS: In the summer of 1975, I worked as a welder's helper involved in the pipeline construction from Pump Station One at Prudhoe Bay, directly south, 100 miles, to the Brook's Range (on a clear day, standing on the shoreline of the Arctic Ocean, you could just make-out the mountain range in the distance over the flat tundra topography).

The pipeline was designed to withstand earthquakes, forest fires, and other natural disasters. Instead of running in a straight line, north to south, it's path zig-zagged, to allow for expansion/contraction during extreme temperatures.

Trans-Alaska Pipeline System From Wikipedia

The entire pipeline was built one half underground and one half above. In the north, it was mostly above ground.



Trans-Alaska Pipeline System From Wikipedia

One mile from Pump Station One, the pipe suddenly disappears underground for about 100 meters. It then rises back above ground and continues thereafter towards the Brooks Range.

This was the infamous 'caribou crossing' which was the oil company's answer to the caribou concerns. The caribou would, allegedly, wander across this opening in the obstructive pipeline and be unaffected in their journey.

As we worked, caribou herds were everywhere along the northern pipeline construction route. They roamed and grazed on the tundra during their summer migratory trips to the north slope. There were also grizzly bears, monstrous moose, wolves, artic fox and Rock Ptarmigan feeding and living along the rivers and permafrost landscape.

Trans-Alaska Pipeline System From Wikipedia

Oftentimes, on windless days and long hours of sunlight, I'd see caribou running, prancing across the melting tundra, shaking off clouds of mosquitos hovering over them. As with the caribou, our hope, in working outside for long hours, was for a slightly strong, steady wind ever blowing to ward off the insane pests.

It was a brutal environment, but mostly, the caribou reminded me of Angus cattle herds in Virginia, undisturbed in their migration by the presence of the steel structure being constructed and easily able to walk under many parts of the pipe (as can be envisioned in the above photo).

Atlantic Richfield studied the use of ice-breaking tankers to sail the crude to southern refineries, but decided it was less risky to build a pipeline. The initial cost estimate to construct the pipeline was $900 million. After the delays, the final cost was near $10 billion.

Brook McConnell

*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.

There can be no assurance that HKP will achieve its investment objective. The LP's portfolio is more volatile than broad market averages. Shares of HKP cannot be bought or sold publicly, there is no active market in the Units and there are restrictions imposed on Limited Partnership unit transfers. Partnership redemptions are handled by Authorized Administrators of the Partnership.