January 17, 2018

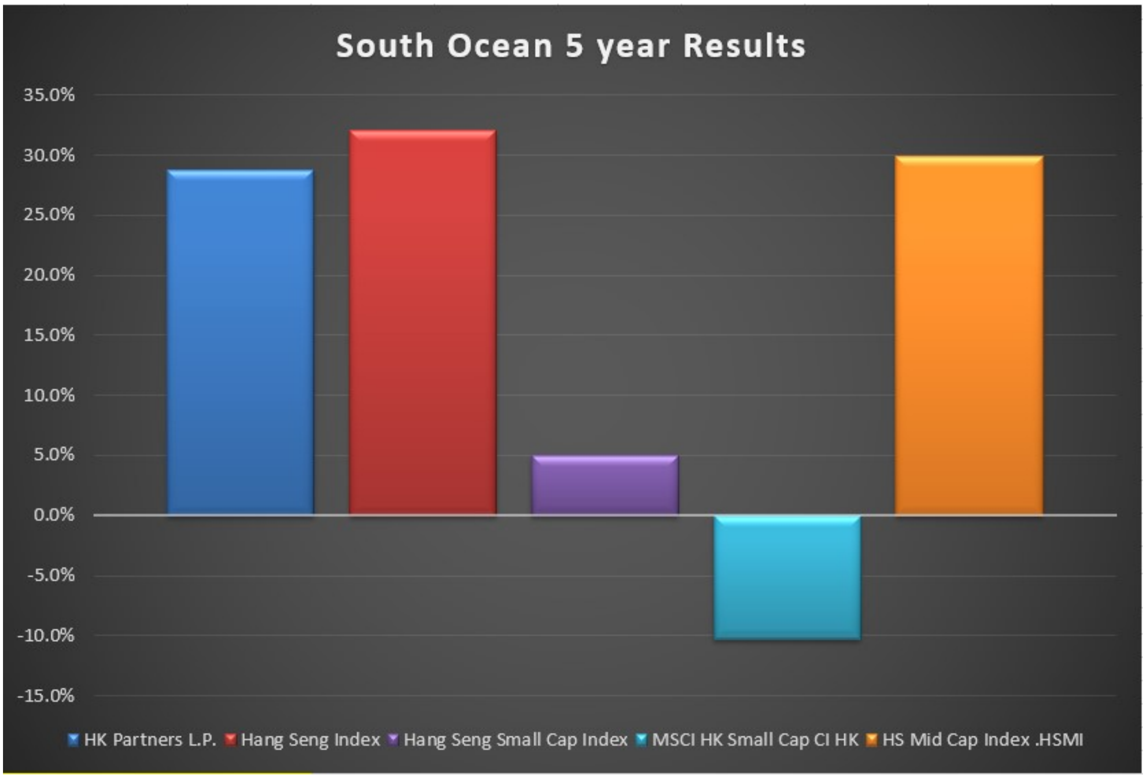
Dear Clients, Partners, and Friends,

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

	Dec 2017	Year-to-date
Hong Kong Partners LP *	0.7%	8.2%
Hang Seng Index **	2.5%	36.0%
Hang Seng Small Cap Index	3.8%	19.2%
MSCI HK Small Cap HK	0.0%	14.3%
HS Mid Cap Index	2.7%	33.5%

Partners' NAV $3.2307 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Since initiating our proprietary discipline of investing in Hong Kong-listed stocks of companies doing business in China, with solid fundamentals and undervalued prices relative to our intrinsic value calculations, results have been favorable:



Our Banquet System screening process uncovers stocks that are generally not found in the mainstream. For example, of the main indexes in Hong Kong, we own one holding in the Hang Seng Small Cap Index (201 constituent stocks, market capitalization HK$1.9 trillion, US$ 201 billion), 7 holdings in the Mid Cap index (185 constituent stock index, market cap of HK$5.7 trillion, US$740 billion) and one stock we began buying in the 4th quarter last year (laggard PC maker Lenovo) in the Hang Seng Blue Chip Index (50 constituents, market cap HK$20 trillion, US$ 2.6 trillion). After screening for stocks to own, we spend most of our time and effort with due diligence, review and analysis of these undiscovered and/or out-of-favor, uncommon values.

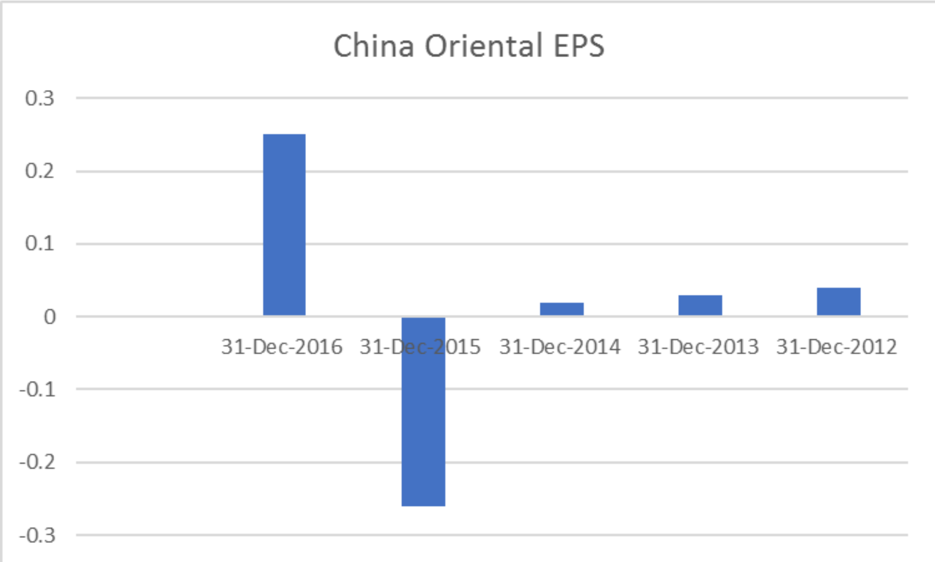
South Ocean's overlooked, quality holdings are relatively cheap:

	Trailing P/E	2017	Yield
HS Index	14.2	12.5	2.8%
Small Cap	12.6	10.9	2.3
Mid Cap	13.8	11.5	2.3
HK Partners	12.2	9.8	3.1

The Hang Seng Index gained 36% gain last year, with Internet giant, Tencent, contributing 20% of that move (we do not own Tencent in our portfolios). In the Hang Seng Small Cap Index, a narrow subdivision has propelled the index's return; primarily, small real estate/financially-oriented stocks and a scattering of material stocks (areas we have no concentration in our portfolios. As mentioned above, we own just one holding that is in the small cap index, leading smart meter manufacturer, Wasion Holdings, code 3393hk). There are many small mainland real estate-oriented companies in the index which are highly favored by mainland China investors that are investing through the Hong Kong/China stock connect program. This group has been the most active sector in the index. Indeed, last year, the financial sector weighting swelled from a 14% weighting of the small cap index to a 27% weighting today.

A few cyclical/material metal stocks also outpaced. This group, which has been trading in the doldrums since 2008, roared back into favor in the second half last year. Iron ore trading/steel manufacturer, China Oriental (code 581hk, a stock we do not own), for example, gained 237% in price and was a top performing Hang Seng Small Cap Index constituent.

Cyclical stocks are difficult to value due to the extreme volatility of earnings and excessively long cycles between profitability and losses.



We do not try to time the cycles and, therefore, did not participate in last year's bounce.

(As an aside, like many 'old economy' companies in the PRC, China Oriental has ventured into real estate development and sales of properties. Most State-Owned-Enterprise-listed companies in China have gone into property development, to 'bolster' their mediocre returns. Much of the credit growth in China since 2008 has been capital earmarked and invested in real estate. The resulting price rise in mainland real estate values has been a concern for the government. Beijing's aim today is not to bring down total nationwide leverage, but to reduce financial risk while maintaining credit support for the real economy).

We own one holding involved in housing construction in China, Hong Kong-listed China State Construction (CSC, code 3311hk, 3.5% position, market cap HK$52 billion, US$6.6 billion). An A-rated company on our Banquet System, CSC has demonstrated 5 years of improving net income and cashflow from operations. Its parent company, one of the world's largest construction firms, is listed on the Shanghai stock exchange. CSC receives support from its parent in garnering China construction projects. Overall, construction will remain robust for CSC in the greater China markets. For perspective, China will have built 105 Skyscrapers in 2017, the US built 189…. ever (buildings of 200m or taller).

Ultimately, the government's modernization plan is to fully integrate 70 percent, or roughly 900 million people, of the country's population into city living by 2025. A little over one half of that number have migrated and 'social' public housing construction, a forte and focus of CSC, will continue to be strong.

Though the shares of CSC have been lagging the market, the company reported new orders secured last year of HK$103.14 billion (US$ 13 billion), up 23.1%, as was targeted by the company.

Investors have been highly concentrated in 2017 in a select few large cap stocks. Historically, small cap stocks outperform large caps. Younger companies can grow earnings faster. The Hong Kong/China stock markets have good momentum with solid economic prospects entering 2018. As this cycle continues and market leadership broadens beyond the biggest, large cap growth stocks, we are positioned to gain in the new year.

We trust all our Partners and friends had a good Christmas and New Year holiday. With our own capital invested alongside our Partners, we look forward to a prosperous 2018.

Sincerely,

Brook McConnell
President
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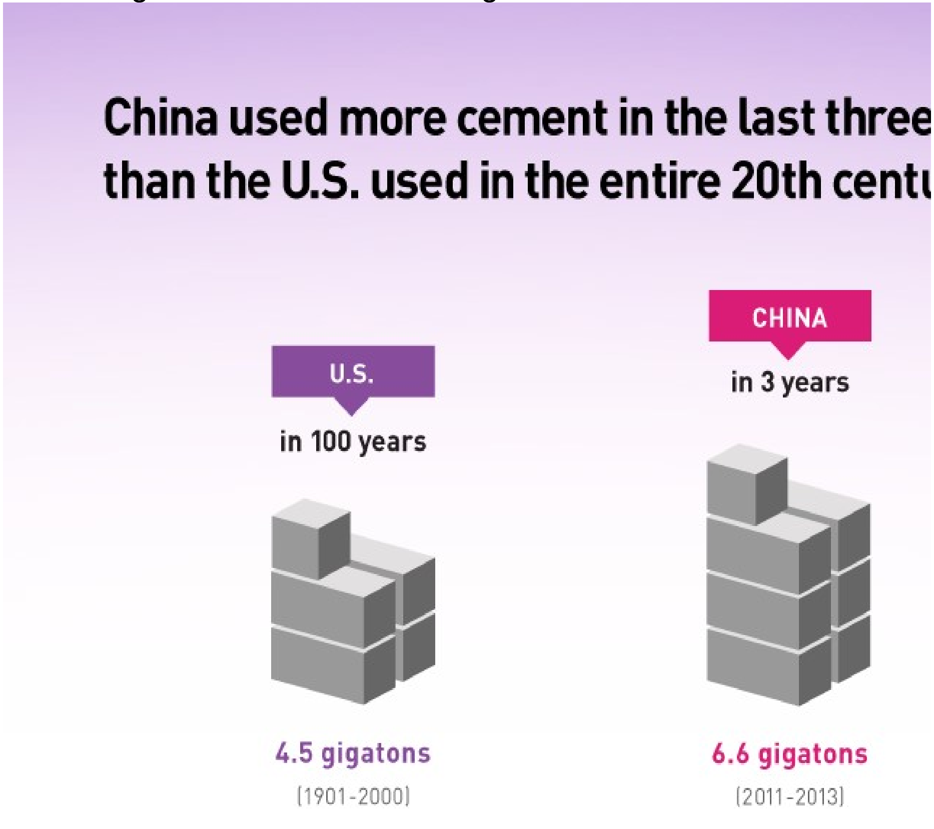
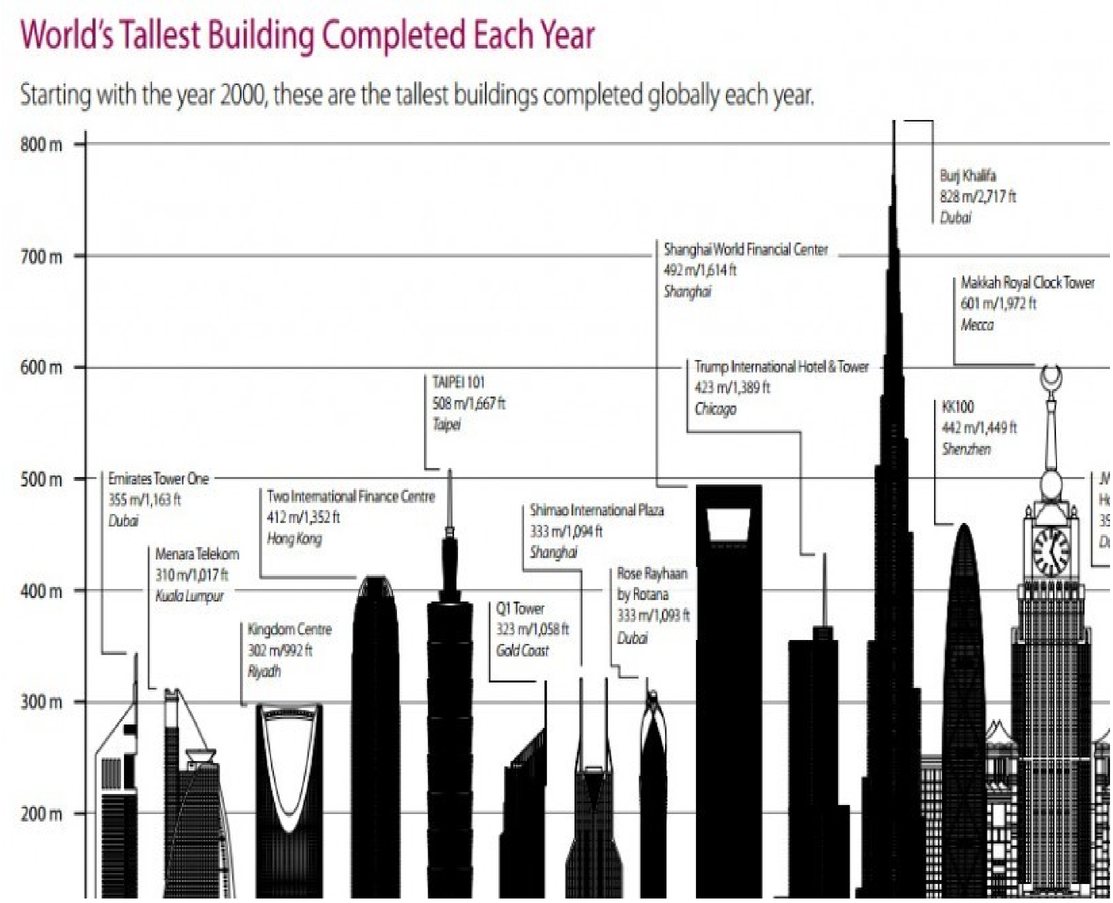
Hong Kong

Interesting charts and various thoughts below:



One of the big problems with putting down so much concrete is that it deteriorates. In the coming decades, the United States and China alone will need to spend trillions of dollars replacing and disposing of concrete laid down in the past generation. There are

also environmental problems, including all the carbon dioxide that's released during production.
Skyscraper curse anyone?



The Real "New World Order" Is Coming To Life [4]

Posted with permission and written by Rory Hall, The Daily Coin [4]

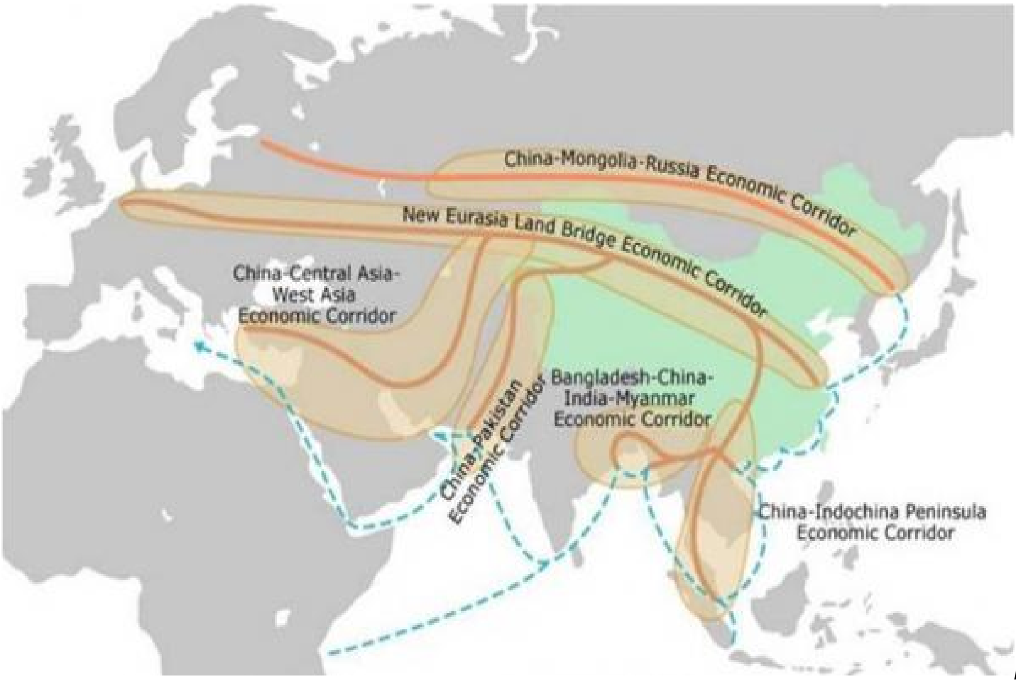
https://www.zerohedge.com/news/2017-11-02/real-%E2%80%9Cnew-world-order%E2%80%9D-coming-life

If you want to see what is going to change the lives of your children and grandchildren, look no further than the map published below. This is WHERE the future will be, regardless of the naysayers. The Belt and Road Initiative is going to transform the world and, once this project is 25-30% complete – within the next 5-7 years – the impact will be felt globally.

Natural resources will be funneled into the Eastern countries, or they will simply never leave from the country they mined or extracted. Global employees will disappear from Western market places as their services will be needed in the East and so it will go right down the line. Buckle up kids, as we are going to be faced with a very bumpy ride unless the criminal scum holding onto yesterday suddenly have their “come to Jesus” moment and realize they are outside looking in.

As reported by ZeroHedge: [5]

> *Dear Mustafa,*
> ***I arrived in Karachi at 5.30am this morning on the direct PIA flight from Heathrow.*** *The city of 26 million people had not yet woken up and I made it to the Sind Club in under 20 minutes. But as I write this now I can hear the horn-filled throb of city life on all four sides of the Club walls; this city pulsates with growth.*
>
> *If you click on the map [6] I attach here you will see one of the main reasons – the Chinese Economic Corridors – otherwise know as ‘One Belt…One Road’.* ***Pakistan lies directly on one of these routes, but look at this map carefully as it will change our world and world order, wherever we live.***



[4]

Let's look at some facts on ‘One Belt…One Road’:

- *It connects 65 countries and 4.4 billion people.*

- *In 2016 Chinese companies signed 8,158 contracts in 61 countries worth $150b.*
    - *In 2016 China's trade with the One Belt…One Road countries reached $953b.*

Over the next 10 years, China will spend $2 trillion on 'One Belt…One Road' infrastructure, and, more amazingly, they are not asking the investee countries and corporates to pay it back*; 80% of the money spent will be a perpetual bond, with only the interest needed to be paid. The principal is never returned.*

What is also very clear from the map is that China has no interest in controlling the seas. *In fact they have taken a conscious decision to bypass the seas, to bypass the 7th, 8th and 9th US fleets that currently ring the Eurasian landmass.* ***The US navy can sail the oceans to their heart's content, the action is now on land.*** *And to that end the first test train from China arrived directly in London in July this year; it took 20 days less than by sea. This is all pretty revolutionary stuff.*

China is attempting 'the project of the century.'
And as I am served a cool lemonade at the Club, a final remnant of the British empire, ***it is another empire – the American empire – that may be taking its last few sips of leadership.***
See you in London next week. Chris

No since in acting like this is not happening or that China is going to run out funds or somehow not be able to complete this project – you would be 100% wrong in that assessment. The Belt and Road Initiative is going to place China back at the head of the global economy; exactly where she was until the West all but destroyed the nation with the opium wars beginning in the early part of the 1800's. China, up until that time, was the world's only super-power and the worlds largest economy. China occupied these positions before these positions were measured/known – she just was and the world knew it. The day for her to reclaim the throne is coming - what it will mean for the rest of the world, at this time, is unknown.

*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.