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

May 14, 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:

	Apr 2018	Year-to-date
Hong Kong Partners LP*	-0.1%	-4.7%
Hang Seng Index **	2.6%	3.0%
Hang Seng Small Cap Index	0.3%	7.1%
MSCI HK Small Cap Index	1.3%	-3.0%

Partners' NAV $3.0789 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Our oversold holdings of small/mid capitalized Hong Kong-listed companies were little changed in April. Our portfolios' weighted average Price-to-Earnings ratio on this year's expected earnings remains depressed at only 7.0 times (vs 11.7x for the Hang Seng Index). The overall market has been marking time since January's high point. We have made very few adjustments in our portfolios during this range-bound trading environment.

China continues to open its markets which is of massive interest to global investors. Recent rulings are accelerating the opening of China's financial industry to outside investors. The regulator is to issue draft rules concerning the issuance of CDR's (China Depository Receipts) which will encourage off-shore listings. New rules that will allow overseas listed companies to list domestically is a strong signal that China is open for business. It should be noted China's stock markets have grown from a total market cap of just US$418 billion in 2003 to US$8.7 trillion today, second only to US stock markets.

There are various macro themes relating to China/US issues of today.

First, China last month issued new rules easing restrictions on foreign ownership of local JV firms. Foreign banks will be allowed to take full ownership of China banking entities;

> *International politics are looming large over the race among global investment banks to secure coveted permits for taking majority stakes in Chinese securities joint ventures.*
>
> *… Amid escalating tensions with President Donald Trump's administration over trade and investments, Beijing wanted to signal that getting majority control over local JVs -- something Wall Street has desired for years -- could take longer for U.S. firms, according to these people.*
>
> *The securities regulator's stance illustrates how U.S. companies could be left at a disadvantage, at least in the short term, as President Xi Jinping opens big parts of*

China's $12.7 trillion economy further to foreign firms. China has warned in negotiations with Trump's team that its opening measures won't be applicable to American investors if the U.S. doesn't meet Beijing's request for equal treatment of Chinese investment.

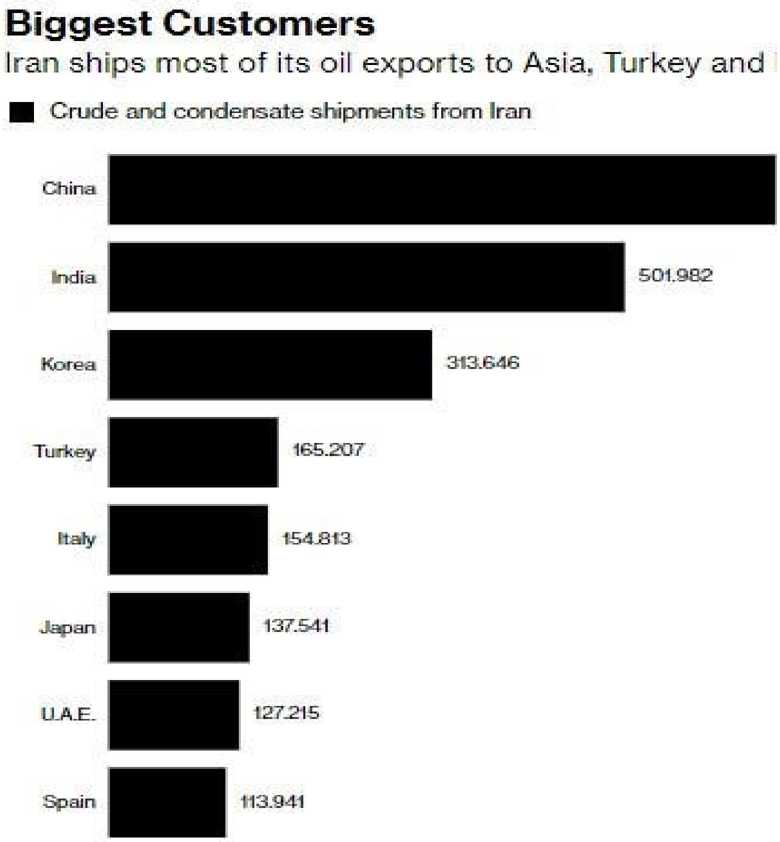
… JPMorgan Chief Executive Officer Jamie Dimon on Tuesday said in an interview he hopes there won't be a trade war and -- if there is one -- "hopefully it doesn't affect JPMorgan."

Dimon reiterated that JPMorgan…, one day wants a wholly-owned onshore securities business. Morgan Stanley and Goldman Sachs are also pursuing majority control of their China JVs.

Wall Street's Quest for China Supremacy Takes a Political Turn

Second, President Trump announced on May 8, 2018 that the United States would withdraw from the Joint Comprehensive Plan of Action ("JCPOA"), the Iran nuclear deal implemented in January 2016. Following relevant wind-down periods, the United States would begin re-imposing all nuclear-related sanctions that were lifted pursuant to the JCPOA.

From my viewpoint, Iran sanctions by the US (acting unilaterally) will be hard to impose as major economies are customers of Iran's oil production and have elected not to go along:



As of now, the European Union, Russia and China are reported to remain definitely committed to preserving the JCPOA.

Third, comments relayed on CNBC by Warren Buffet's investing partner, Charlie Munger, May 7th

•"The best companies in China are cheaper than the best companies in the United States," Berkshire Hathaway's Charlie Munger tells CNBC.
•"I don't think it would be all that hard for any smart person to find four or five great companies in China to invest in," he says.
•Munger says his family is "substantially" invested in China, where they began investing 14 years ago.
https://www.cnbc.com/video/2018/05/07/charlie-munger-best-companies-in-china-are-cheaper-than-best-us-companies.html?play=1

Munger explicitly said "American investors are missing China," and they don't understand China (we couldn't agree more).

Charlie Munger plays Berkshire's hand in China bet and seeks more opportunities
Tuesday, 8 May 2018 | 2:23 PM ET

Warren Buffett's longtime investing partner Charlie Munger thinks Americans should look for opportunities in China, where Berkshire Hathaway has invested on electric automaker BYD.

https://search.cnbc.com/rs/search/view.html?source=CNBC.com&categories=exclude&partnerId=2000&keywords=CHARLIE%20MUNGER%20CHINA

This link is an interview regarding China and other trends by the Vice Chairman of Berkshire Hathaway:
https://finance.yahoo.com/news/cant-invest-china-like-charlie-munger-182024691.html

> *"I think a shrewd person can find more bargain stocks in China than he can find in the United States," Munger said. "That's all. That's all I meant. It was a happier hunting ground for the value investor."*
>
> *"I didn't say it was easy," Munger added. "But if you work at it, you can find more [attractive investment opportunities]. And better."*
> *Charlie Munger*

Lastly, ***'The world will not do something stupid'*** Warren Buffett said after his annual shareholder meeting when asked about a trade war. He is optimistic the U.S. and China will avoid a serious trade conflict; "It's counter to the interests of every country in the world."
Warren Buffett on trade war: 'The world will not do something stupid'
https://www.cnbc.com/.../warren-buffett-on-trade-war-the-world-will-not-do-something-...

We can openly hope Buffett's optimism proves prophetic.

Sincerely,

Brook McConnell

President
Email*:* *brook@south-ocean.com* Website: *www.south-ocean.com*
Hong Kong

*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.