



October 16, 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:

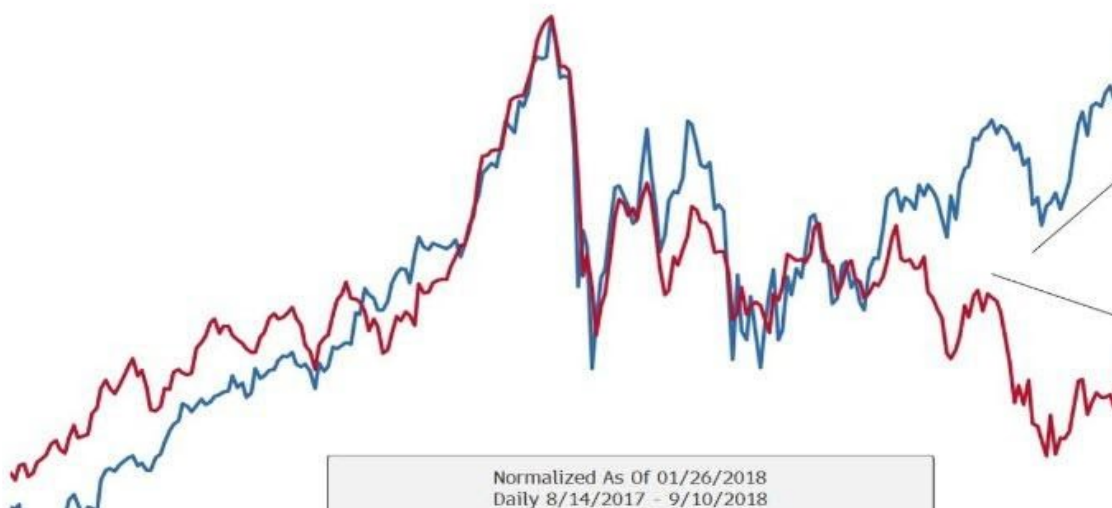
	<u>Sep 2018</u>	<u>Year-to-date</u>
Hong Kong Partners LP*	-0.7%	-19.4%
Hang Seng Index **	-0.4%	-15.5%
Hang Seng Small Cap Index	-2.6%	-16.6%
MSCI HK Small Cap Index	-2.5%	-24.8%
HS Mid Cap Index	-0.5%	-21.6%

Partners’ NAV \$2.6517 after management fee and provisions, but before annual incentive fees of 15% on appreciation.

Continued US/China trade news and fears of a slowing China economy and currency devaluation kept pressuring Hong Kong stocks last month. In mid-month, there was elation that trade talks might be re-started, but hopes were soon dashed. Bearish economists’ commentaries have jolted investors, driving the Hong Kong market to oversold levels.

As shown in this chart, buyers have been concentrated in the US and very little elsewhere:

S&P 500 vs. MSCI ACWI (ex-US) Normalized 1/26/18



The MSCI ACWI index covers approximately 85% of the global equity opportunity set outside the US.

We are finding some extraordinary values evolving in the wake of the adverse investment sentiment. Our weighted average price-earnings ratio is quite low today:

	Price/Book	2017 PE	2018 PE	Yield	Earn Yield
South Ocean Holdings	1.0	6.8	6.2	4.3%	20.0%
Hang Seng Index	1.5	10.5	10.8	3.8%	9.5%

Our strategy, since our founding in 1992, has been to uncover unrealized values in small/mid-capitalized shares of companies listed in Hong Kong with businesses benefiting from operations in China.

We developed an in-house intrinsic value-oriented screen more than 5 years ago, using bottom-up analysis. Our system ranks companies (A, B or C) based on 5 fundamental inputs and calculates a maximum price to pay for the stock. We demand a low enough price to return 20% per year for our long-term holding period. Usually, these are leading, top rated businesses that are out of favor and selling below a reasonably estimated intrinsic value.

We further enhanced our in-house stock selection process with a method used by Peter Lynch (famed mutual fund manager of Magellan Fund at Fidelity). This analysis aligns well with our Warren Buffett-like intrinsic value screen, (called The Banquet System) with some added features.

Lynch would chart the stock price and the earnings per share together and aligned the value of \$1 in earnings per share to \$15 in stock price. He wrote in his book, One Up on Wall Street:

"A quick way to tell if a stock is overpriced is to compare the price line to the earnings line. If you bought familiar growth companies when the stock price fell well below the earnings line, and sold them when the stock price rose dramatically above it, the chances are you'd do pretty well."

Lynch defaulted his earnings line multiple to 15x for all growth stocks. The tweak for our screen is to be flexible with the multiple. We can use an individual stock's lowest annual PE multiple over the last 5 years, (similar to our Banquet System process), and we can draw the earnings line using any meaningful multiple assumed, as well.

For example, Beijing Enterprise Water Group (BEWG, code 371hk) has normally sold at ~20x its earnings annually over the past 5 years. The lowest the shares sold relative to its annual earnings was 15x.

Today, the share price of BEWG is selling below the (green) earnings line, which makes the risk reward of owning this growth stock attractive.



BEWG is also rated a buy on our intrinsic value Banquet System screen. As shown by the red line above, the share price today is selling below the earnings line.

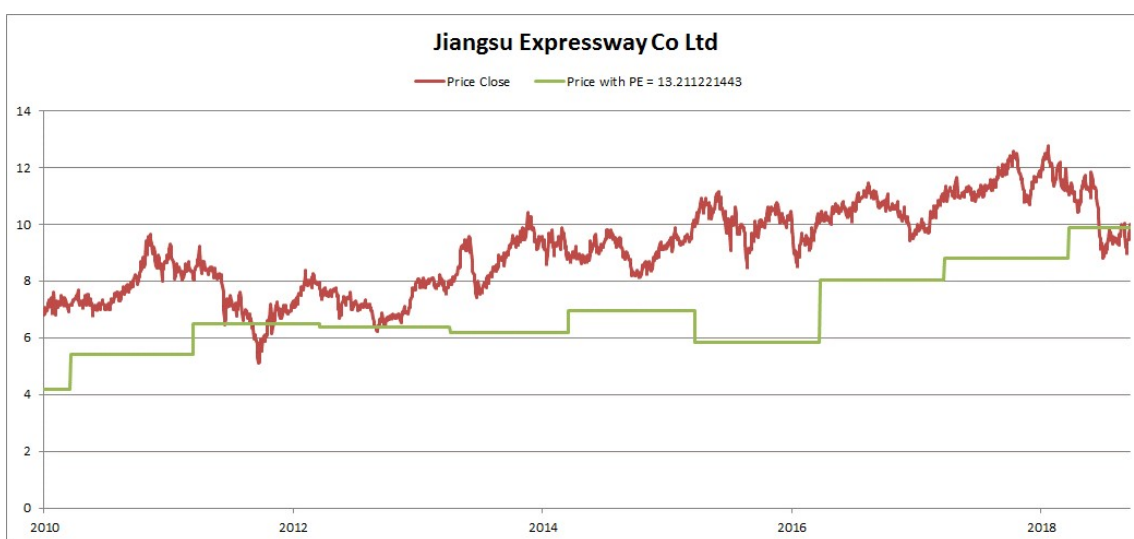
We added to this long time holding of ours after the company announced above average earnings growth in August.

The following is an example of an initial purchase in the 3rd quarter this year of BYD Electronic, a leading manufacturer of smart phone casings. The ranking on our Banquet System intrinsic screen of the company's fundamentals was favorable and the company has enjoyed consistent earnings growth over the past consecutive 4 years. The balance sheet has net cash with no long-term debt. The share price had fallen from a 52-week high of HK\$25 to HK\$8 where we began buying:

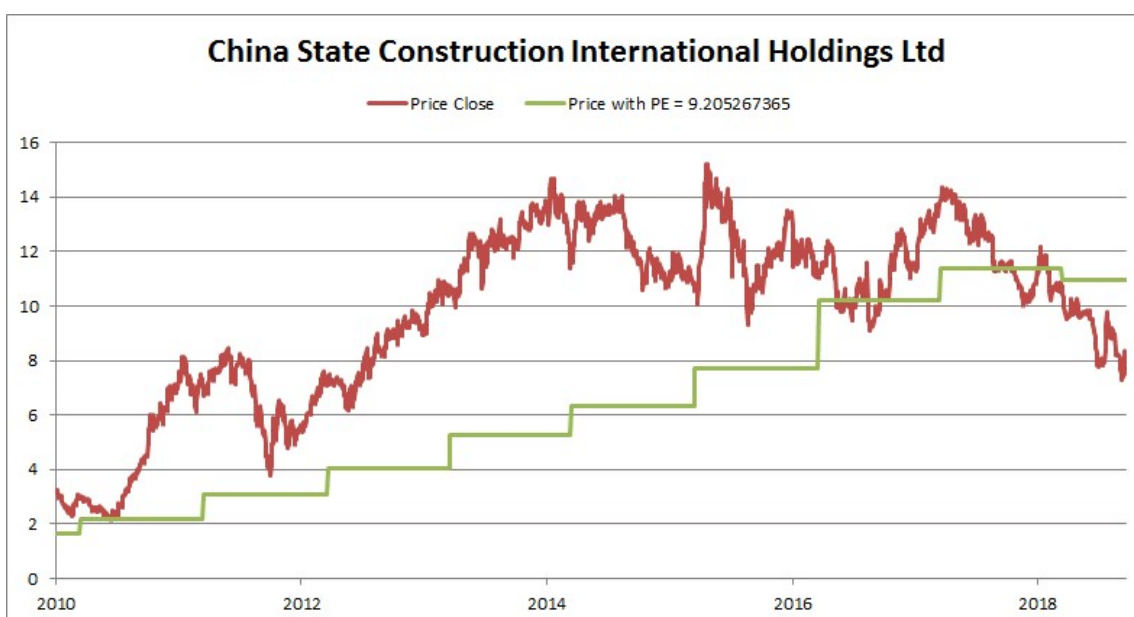


Another example is A-rated toll road and bridge operator, Jiangsu Expressway (code 0177hk, Market cap HK\$12.3 billion, US\$1.6 billion). The Shandong Province-based company, in the busy Yangtze River delta area, has seen steadily rising earnings from increased toll revenues and is expanding its portfolio of toll roads and bridges in the Province. The company pays a generous 5.4% dividend. With an expected 6% long term growth rate, the shares were attractively priced based on our Banquet System screen.

The share price dipped below the green earnings line (earnings per share times lowest annual 5-year price earnings ratio) last month, where we began buying.



We also added to our position in A-rated China State Construction (code 3311hk, HK\$18 billion market cap, US\$2.3 billion) on recent weakness at a price close to \$7.40/share.



Our combined processes further pin-points the risk/reward, overpriced/under-valued areas of the market. As we fine tune our processes, we are able to identify many opportunities in the less-followed small/mid cap stock sectors in Hong Kong.

Lastly, with all the volatile weather (and stock market) conditions around the world (two hurricanes in the US and super Typhoon Manghut in Hong Kong), we hope all our friends were not affected and safe from all the tumult.

Sincerely,

Brook McConnell

President

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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.