



February 8, 2013

Dear Clients, Partners, and Friends,

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

	<u>Jan 2013</u>
Hong Kong Partners LP (net)	3.7%
Hang Seng Index	4.7%
MSCI HK Small Cap Index	6.9%

Partners' NAV for Jan \$2.601 after management fee, but before annual incentive fees of 15% on appreciation.

Our portfolios of Hong Kong-listed companies with earnings growth geared towards China gained in the first month this year. Our suspended holding in vegetable producer Chaoda Modern Agriculture, announced the signing on of a new audit firm, a major milestone for the resumption of trading by the Hong Kong stock exchange. We will have a progress update soon.

Earnings report season is starting, companies are in black-out period until their announcements. We also are starting Chinese New Year's, an almost month-long period of business inactivity in the Greater China regions.

As we leave the Year of the Dragon, we enter the Year of the Snake, which is more promising: we are not starting the year with dire hard landing and country default forecasts dominating the headlines.

Our office will be closed, along with the Hong Kong Stock Market, next week, February 11-13 and we resume work on Valentine's Day.

Sincerely,

Brook McConnell
President

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PS: China will soon need to import food, which will impact global markets

China must invest abroad for food security, forum told

With a need to import 100m tonnes of grain each year by 2020, Beijing needs to invest in global agricultural markets, experts say

Tuesday, 22 January, 2013, 12:00am

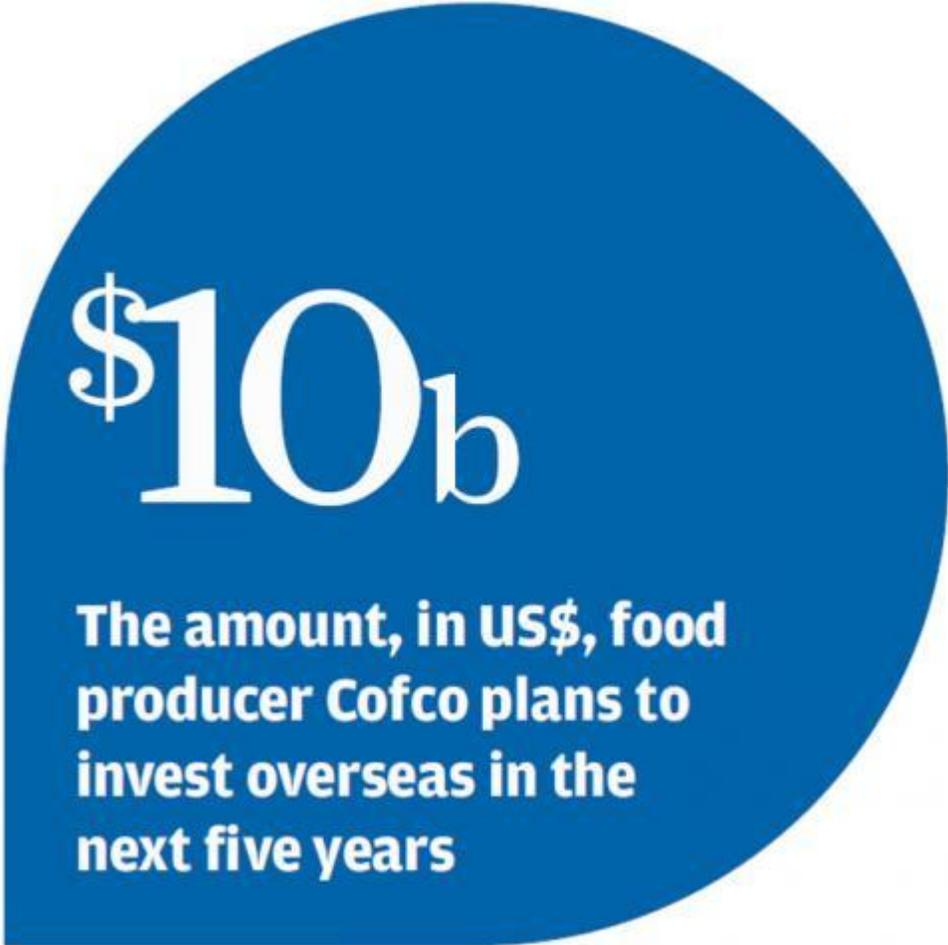
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- China is facing an explosive demand for proteins, which will put enormous pressure on the production of corn and soya beans. Photo: AFP

China must invest overseas to ensure its food security, said speakers at the recent Asian Financial Forum.



\$10_b

The amount, in US\$, food producer Cofco plans to invest overseas in the next five years

"China and India have to open to global markets like Australia, Africa and Latin America, and invest in these countries' agricultural production for food security," said Fan Shenggen, the director general of the International Food Policy Research Institute.

By 2020, China would need to import 100 million tonnes of grain each year, Fan said. Last year, it imported three million tonnes of rice, three million tonnes of wheat and 60 million tonnes of soya beans.

China accounted for 60 per cent of the world's trade in soya beans, said Frank Ning Gaoning, the chairman of Cofco, China's largest food conglomerate. It also had a US\$27 billion annual food deficit.

State-owned Cofco acquired Australia's Tully Sugar in 2011.

China overtook the United States as the largest animal feed consumer in the world about 18 months ago, said Ismael Roig, the Asia-Pacific president of Archer Daniels Midland, a US food and commodities company.

"China is facing exploding protein demand. The biggest shift in Chinese diet has been to protein. That has put enormous pressure on corn and soya beans. The most opportunities are in protein production," Roig said.

By 2050, global demand for grain and oil seed would rise 60 per cent to 4.5 billion tonnes, he said. "Because the population increase is primarily happening in East Asia, we're going to see more stresses and incremental needs than in other parts of the world. How do we improve trade to access these commodities?"

Asian investors were looking beyond Asia to invest in farmland said Tim Hornibrook, a co-head of Macquarie Agricultural Funds Management.

Half the growth in global food imports came from Asia, but only 25 per cent of world food exports were from Asia, Hornibrook said.

Nebraska, a major US agricultural state, has an office in Beijing, and was looking at ways China could invest in Nebraska and vice versa, said Brett Rierson, the China representative of the United Nations World Food Programme.

Cofco plans to spend more than US\$10 billion on overseas mergers and acquisitions in the next five years, according to mainland media reports.

During the five-year plan to 2015, it would focus its overseas investments on the US, Australia and Southeast Asia, the reports quoted Jiang Hua, a Cofco board member, as saying.

In May 2011, Australian Trade and Competitiveness Minister Craig Emerson launched a joint study with the Chinese government on encouraging Chinese investments in agriculture in Australia.

"We can't adopt the attitude 'let them eat cake'. We need to address policy to enable commerce to meet demand," said David Farley, the chief executive of Australian Agricultural, a beef and agricultural producer.

Australia exported 60 per cent of the food it produced, said Farley. Its food output could feed 60 million people, but if its agricultural technology was exported to places such as Africa, 500 million people could be fed, he said.

"I see an absolute commitment by the Chinese government that food security and safety is an issue for stability," said Rierson.

The affordability of food prices determined whether the middle class would grow or shrink in a developing country like China, he said "That is related to food security," he said.

"Food crisis can lead to political and economic uncertainty," said Colin Chartres, a former director of the International Water Management Institute.

Climate change might reduce crop yields by 30 to 40 per cent in some parts of the world in the next several decades, Fan warned.

"North China may not be able to produce wheat and rice, and may need to import from Australia," he said. "Climate change will hit this region hard, and China and India will be the most vulnerable."

In China, 5 to 14 per cent of the nation's 1.3 billion people are undernourished, according to the UN.

Rierson estimated 4 to 5 per cent of China's gross domestic product was lost every year due to malnutrition.

Children undernourished in their first three years risked having physically and mentally stunted lives, Rierson said. "This has massive economic impact."