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

December 10, 2009

Dear Clients, Partners, and Friends,

The results for the South Ocean Management composite and Hong Kong Partner's L.P. before management fees, were as follows:

	Oct 2009	Year-to-Date
South Ocean Composite	6.91%	77.51%
Hong Kong Partners NAV*$2.6539	6.13%	76.24 %
Hang Seng Index**	3.86 %	51.19 %
BNP Peregrine Greater China Index	7.17 %	63.17%
MSCI HK Small Cap Index	4.99%	92.13%

Our portfolios of small/mid cap holdings of Hong Kong-listed companies, with earnings geared towards China, continued to rise last month, even with a conservative exposure in the stock market (cash is ~ 30% of total portfolio value). We made almost no adjustments last month to our portfolios (our brokers are not particularly happy with that either).

At the risk of being repetitious, South Ocean's longer-term results are attached. Since the start of the decade, Hong Kong's stock market has witnessed two sharp, cyclical downturns (2000-2003, *-50.5%*; 2007-2009, *-60.8%*), and subsequent up-turns.

Over this period, our Delaware limited partnership, Hong Kong Partners LP, gained 60.2% (net) versus a gain of 23.5% for the Hang Seng Index and -14% for the S&P 500 Index (through the third quarter this year).

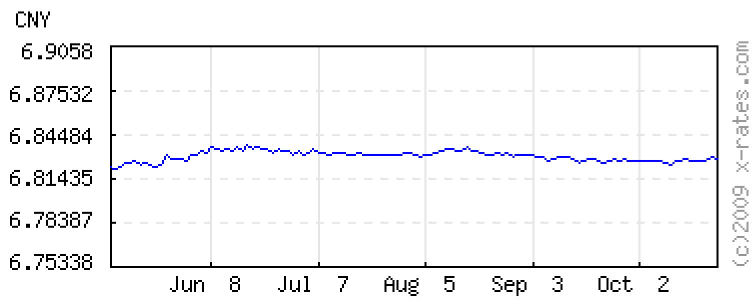
Further, we attained these results without undue risk. We own off-the-radar-screen, well-managed, solid balance sheet companies with low price to growth and low price-to-cashflow stock price ratios. Therefore, when we buy, these stocks have little premium value built into the share prices from exuberant investor expectations.

We visit our companies continually to maintain our understanding of the outlook and to gain insights, an important facet differentiating South Ocean's efforts in managing our portfolios. And as a result of this close monitoring, we believe we develop an enhanced understanding of the risks (in other words, we were not raising the risk profile in our portfolios in order to gain extra return).

Below is an article from a Hong Kong newspaper on our largest holding, organic-quality vegetable grower, Chaoda Modern Agriculture. One potential development on the horizon that would have a likely positive impact on our portfolios, especially Chaoda, involves the Chinese currency. China has kept the exchange rate of its currency at about 6.83 to the dollar since July 2008, after letting the currency strengthen 21 percent in the previous three years.

According to Bloomberg, the dollar has dropped about 13 percent against a basket of currencies from its major trading partners in the past seven months.

During this period, the Chinese Yuan to the US Dollar exchange rate has been steady;



We have considerable exposure in our portfolios to Rmb sourced earnings. Though we do not give currency adjusted returns a high credence when deciding to invest, an appreciation of our companies' Rmb-derived earnings might propel further investor interest in our names, equating into expanding price/earnings ratios.

Sincerely,

Brook McConnell

President
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Back to basics

Timothy Kwai

Monday, November 16, 2009

Making fertilizers is big business and it can encompass an entire country as Chaoda (0682) is proving. Founder Kwok Ho started out developing new strains of fertilizers. The return was good so he began acquiring agricultural land to grow fruits and vegetables.

Now the company is the mainland's leading green-food producer, cultivating and distributing about 150 types of fruits and vegetables from 34 production bases.

Its vegetable farms cover more than 38,000 hectares in 15 provinces and cities. Seventy percent of the produce is sold domestically through Chaoda's wholesale and retail network while the remainder is exported.

The company was selected by the Beijing Olympic Committee to provide more than half the fruit and vegetables consumed by athletes and the media during last year's Games.

In the financial year ending June 30, Chaoda's turnover jumped by 22 percent to 6.12 billion yuan (HK$6.95 billion) and gross profit rose 19 percent to 4.15 billion yuan.

Earnings before interest, taxes, depreciation and amortization gained 15 percent to 3 billion yuan.

Although China is becoming an industrialized nation, farming still plays an important role.

The country's farming sector is highly fragmented with 250 million farming households contributing the most to cultivation. Chaoda has less than 0.5 percent of the total cultivated vegetable land area.

Farming practices are also traditional, non-standardized and inefficient because there is little investment

. That being so, Beijing has been substantially increasing subsidies to farmers since 2004.

In that year, China adjusted its agricultural policy, as it began to subsidize rather than tax agriculture.

Farmers received direct subsidies as agricultural tax was phased out.

In addition, subsidized seed and machinery purchases, and increased spending on rural infrastructure were introduced.

In 2008, China allocated billions of yuan for farm subsidies to support spring ploughing as part of its post- disaster reconstruction efforts following the Sichuan earthquake.

Subsidies this year rose by 17 percent from last year to 120 billion yuan.

However, the subsidies are still insignificant compared in terms of population to those given in farming- intensive nations such as Thailand.

It is expected that China will allocate more money to boost production by enhancing the skills and technology of farmers.

Chaoda has developed a business model that oversees the entire agricultural process from seed and raw materials to cultivation and then transportation of the produce to village buyers before reaching wholesale markets.

Food safety is a major concern these days. There is a great demand for high quality produce following a series of food poisoning cases in recent years.

The company says it has been using organic fertilizers and growing methods to maintain a high standard. Overuse of chemical fertilizers can damage the soil, although production increases in the short term.

With this in mind, Chaoda provides end-users including exporters with organic quality vegetables and fruits.

China has enjoyed the comparative advantages of a low-cost and abundant labor-intensive vegetable industry.

Mainland vegetable exports have grown rapidly in the last decade with a compound annual growth rate of 13 percent between 1998 and 2007. The firm's supply-chain model has been successfully applied to various plantations and provinces across the country.

Previously, Chaoda focused on Fujian province but later expanded the business to even include stockbreeding in Inner Mongolia.

Production bases are diversified and located in 15 provinces.

As every investor knows, farming relies heavily on weather conditions. Unfavorable weather can have an adverse effect on harvests.

Having production bases in several provinces minimizes potential risks from the weather or natural disasters.

Chaoda increased shareholders' value by negotiating long-term leasing of farmlands and spending money on infrastructure like irrigation systems and organizing labor for harvests.

The company has been always been trading at a low price-earnings ratio of three to four. Investors have been concerned about the company's ability to repay two debt obligations.

Chaoda repurchased a total of HK$1.35 billion of convertible bonds in April and May. The current liabilities consist of US$225 million (HK$1.75 billion) guaranteed senior notes due on February 8, 2010.

It is believed that the company has the financial capacity to repay the debts. While its financial position seems to be healthy at present, the firm has raised capital a number of times. Investors would like to know if the company needs more funds to lease quality farming lands for expanding its production base.

Another concern is that it requires months to reap from farming investments as one has to wait for the harvest after the seeds have been planted and manpower expended to nurture growth.

The relatively slow return time period would also justify the low PE.

* Timothy Kwai is an investment strategist at Quam Securities

*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.