



March 8, 2011

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>Feb 2011</u>	<u>Year-to-Date</u>
Hong Kong Partners LP *	-5.6 %	- 4.4 %
Hang Seng Index**	0.8 %	1.3 %
BNP Peregrine Greater China Index	- 2.0 %	- 2.5 %
MSCI HK Small Cap Index	- 5.8 %	- 5.3 %

Partners' NAV for Dec 3.3497 after management fee, but before annual incentive fees of 15% on appreciation.

Unrest and riots in the Arab world, along with continued tightening by the Chinese authorities on runaway property speculation on the mainland, unsettled Hong Kong investors last month. Nevertheless, we have been buying, in the face of the unrest and China tightening measures, adding to our portfolios of small/mid-cap, Hong Kong-listed, companies, a new name, Telefield International Holdings.

Telefield became a public company in January this year at \$1.20 per share, in a weak IPO market, at 7 times last year's estimated earnings. We met management at the company's roadshow and were impressed with their 20 year history. Even though there was fairly decent institutional demand for the new listing, the share price declined below the listing price after the IPO launch, where we have been adding to our position. As a colleague once quipped, "These (underwater) IPOs tend to be the ones that are 10-baggers in 3 to 5 years, not those IPOs that flood the market when the ducks are all quacking for script."

Telefield began manufacturing telecommunication equipment in Hong Kong twenty years ago (if you have an HSBC internet banking account, you probably log in to your online account using a security device manufactured by this outfit). With renowned customers such as Pioneer and Vasco, the company's two factories in China produce high quality, fast growing multi-media products. The company has produced solid returns, turning out a 36% return on equity ratio, which is quite admirable for a manufacturing concern.

Telefield acquired two brands—the recognized US brand, RCA (which is licensed) and German-brand Trekstor (owned). This latter brand was astutely bought out of bankruptcy (the German company had unwisely borrowed in US\$ and had all receivables denominated in Euros). Trekstor already appears to be turning around in less than two years after purchase, due to new product introductions. RCA is a well-known, US brand, with the number two market share in cordless phones for small/medium businesses in the US, behind market leader Vtech. Further brand acquisitions are in the works.

The current market capitalization is HK\$448 million (US\$58mn), which is still too small a threshold for large institutional interest. Brokerage coverage should begin soon. As with many smaller IPOs, the public tradable float makes up 25% of the shareholding structure, with the Cheng founding family owning 35%. Management and executives own another 32% and the Telefield Charitable Fund owns 7.5%. Though the debt-to-equity ratio is slightly elevated (at 39%), we believe it is manageable.

The founders, the Cheng family, should be credited with creating not only a top notch vertically integrated manufacturing operation, but recognized for incentivizing capable executives and managers as shareholders as well. We see this shareholding structure being beneficial for this company's future. Established, well-run manufacturing concerns like Telefield deserve higher valuations (which Hong Kong investors never seem to fully appreciate).

Quite frankly, when it comes to market environments as we experienced in February, we do not know how to avoid political risk. -Facebook riots or sudden armed invasions/conflicts jolt investor confidence over the very short term. And though this volatility, like turbulence at 35,000 feet, can certainly be disconcerting, we remain fully invested and confident in the outlook of our China-gearred investment portfolios.

Sincerely,

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President

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***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.