June 9, 2011

Dear Clients, Partners, and Friends,

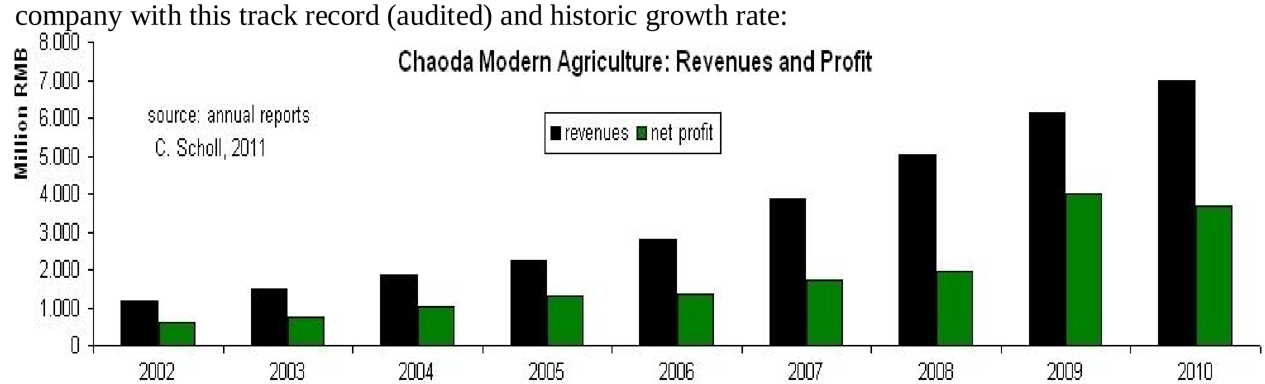
The results for South Ocean Managementôs Delaware LP, Kong Partnersô L.P., before incentive fees, were as follows:

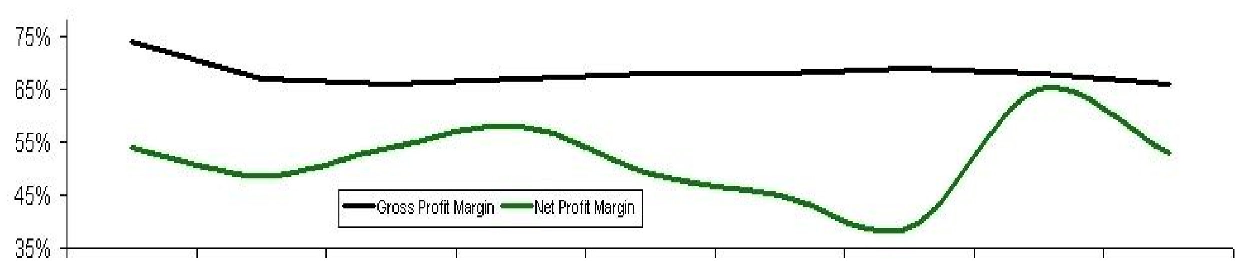
	May 2011	Year-to-Date
Hong Kong Partners LP *	- 2.1%	- 4.1 %
Hang Seng Index **	- 0.2%	2.8 %
BNP Peregrine Greater China Index	0.3%	3.1 %
MSCI HK Small Cap Index	- 1.2 %	0.3 %

Partnersô NAV for May 3.3554 after management fee, but before annual incentive fees of 15% on appreciation.

Rebalancing for MSCI and end of the month portfolio window dressing carried the Hong Kong big cap equities to close higher. Typically, small/mid caps, where we concentrate, lag these technical-type movements, where money flows are often shorter term dealings in large liquid stocks.

Our largest holding, Chaoda Modern Agriculture, was targeted by a local tabloid in a damning article in May, saying the company overstated its land bank (amongst other charges,). Alongside other óinvestigativeô reports on China-based, overseas listed companies, Chaoda was sold down sharply. The company has vigorously denied the allegations, announced legal action against the magazine and has been actively buying back shares in the market. Consequently, our results were depressed last month. Nevertheless, we do not share the marketôs views that Chaoda has committed fraud, as would be deduced from the current price-earnings ratio of 2.3 times for a company with this track record (audited) and historic growth rate:





In fact, almost all small/mid cap stocks in Hong Kong have been sold down by the witch hunt for fraudulent overseas-listed China companies (see further comments below).

Our second largest holding operates in the industrial metal sector in China. When it comes to steel production, there isn’t anything close to China. For example, in 2009, China produced 568 million tons of steel according to the World Steel Association. The second largest steel producing nation after that was Japan, with 88 million tons produced. China was six times greater.

Sinoref Holdings (code 1020.hk, market cap HK$1.75 billion) is a company that supplies high-end steel flow control products to major steel mills in China.

Sinoref became a leading player in the PRC in just three years in existence because of its founder and chairman. Mr. Xu Yejun, Chairman, Co-founder, CEO and Executive Director, has over 25 years of experience in the advanced steel flow control product industry. He is recognized as one of the foremost executives in the industry and branched off to start Sinoref in 2007.

Mr. Xu and his experienced management team have secured a solid customer base (including Baosteel, Wuhan Iron and Shandong Steel Group) with its high quality customized products and strong technological capabilities (the company has 7 patents in registration currently).

Sinoref’s products are essential during the continuous casting process and control of the molten steel flow. As molten steel is poured, it passes through nozzles and flow equipment that must be replaced frequently. Sinoref’s reliable quality has helped secure a steady source of business from customers that are assured of the dependability of the products.

Besides utilizing the latest production technologies, Sinoref’s products are more competitively priced due to, not only stringent cost controls, but also use of local managers versus high cost expatriate managers at competing companies.

Sinoref went public last summer to raise funds to double its manufacturing capacity. New plant and equipment are coming on line this summer, ahead of schedule. The company’s rapid growth is not yet recognized by the market as it aims to generate 600 million Rmb in revenues with the new added capacity from revenues of HK$318million in 2010. This should translate into a higher P/E ratio as well.

December 2010 results were held back by China’s power curbs to the steel industry in the fourth quarter last year. But the worst is over as demand is picking up strongly since the end of the curbs in December last year. For all of 2010, revenue and net profit grew 103.2% and 85.6%, respectively.

Margins to trend lower in FY11 on rising raw-material prices. The second half margins were squeezed as gross margin dipped 4 percentage points to 66% due to higher raw-material prices (graphite prices rose 40%). But Sinoref feels comfortable with these levels as it continues to be a low cost, high quality producer enjoying fast growth.

The companyôs products are being welcome overseas now and a dealership agreement has been made for expansion in Europe.

Risks include the inexperience of management running a publicly-owned company. The company uses in its manufacturing process high grade compounds (raw materials include graphites and resins). Should there be any disruption in the supply, it could cause production bottlenecks; raw materials are 83% of the production cost.

Though the stock has almost doubled in price from the extreme lows last year, the shares still sell at a modest single digit price earnings ratio of 8 times on expected earnings this year of $0.18/share. Sinoref has no long term debt and managed a return on equity last year of 41.7% for shareholders.

An investor lock-up period ends in July and the share overhang will be removed. Therefore, the shares, which have been depressed, will be soon be released of this selling pressure.

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In the News:

Short-seller sets his sights on China Inc.
American lawyer Carson Block has shot to fame by identifying malpractices at mainland companies in which he also happens to have a financial stake.

He focuses on Chinese companies listed in Canada and the US, where many such companies are now under intense regulatory scrutiny. For example, On February 3, Muddy Waters claimed China MediaExpress, a Fujian-based, Nasdaq-listed company that operates video screens displaying ads on mainland buses, was inflating revenues. China MediaExpress's auditor, Deloitte, resigned and the stock is languishing 93 per cent below its February 2 price.

Block's research house Muddy Waters, which he concedes does not have any other permanent employees, made headlines worldwide with a June 2 report claiming Sino-Forest, a Toronto-listed company that says it is China's biggest forestry firm, was not publishing accurate accounts.

By the close of trade Friday, Sino-Forest's shares were down 71 per centé Short selling - a bet that a stock price will fallð involves borrowing shares you don't own in the hope of buying them back later at a lower price. It's nothing new but Block's twist on the practice is to publish on his website sensational, yet seemingly well-researched, reports claiming the companies he targets to sell short are frauds.

Generally, US-listed China companies have higher P/E valuations than similar companies traded in Hong Kong. Still, the cold winds from Toronto blew into Hong Kongôs market with a bitter snip.

Muddy Waters Sino-Forest research ‘pile of crap’: Dundee

Nathan VanderKlippe/ National Post

A worker directs the fall of a tree being harvested by Sino-Forest Corp.

Financial Post Staff Jun 7, 2011 ï 6:54 PM ET | **Last Updated: Jun 8, 2011 7:33 AM ET**

By David Pett and John Shmuel

Sino-Forest Corp. shares resumed their freefall on Tuesday but not everyone is ready to throw in the towel just yet, as one of Bay Street’s longest-serving equity analysts offered up the most spirited defence of the timber company since U.S.-based short seller Muddy Waters accused it of fraud last Thursday.

“We are going to provide you with some information on why Muddy Waters research is a pile of crap,” said Richard Kelertas, an analyst at Dundee Capital Markets, during a conference call he held with clients on Tuesday afternoon. “We believe there’s nothing true in that report.”

The tough words came hours after Moody’s Ratings Services Corp. placed Sino Forest under review spooking investors and sending the stock lower. Down 34% to $4.05 in heavy trading on the Toronto Stock Exchange, shares have now fallen 78% from last Wednesday’s closing price of $18.21.

Mr. Kelertas, who has covered Sino-Forest since 2004 as one of 27 company’s under his watch, accused Carson Block, the founder of Muddy Waters, of fraudulent activity related to Sino-Forest documents filed with China’s State Administration for Industry and Commerce (SAIC).

Muddy Waters research relied 100% on these filings, he said, but based on an article from Benjamin Wey, president of the New York Global Group, it is highly unusual that SAIC filings match a public company’s SEC filings. As such, Mr. Kelertas said it should not be taken as evidence of fraud – not in the least.

“This smoking gun right now on the SAIC filings and the misuse of them and the illegal use of them is going to knock this Muddy Waters story back where it came from,” he said.

The analyst also alleged that Mr. Block pre-marketed the Sino-Forest report to hedge funds five weeks before it was published in order to generate short interest in the stock. He noted that short positions almost doubled in a two-to-three week period.

Furthermore, Mr. Kelertas claimed that this isn’t the first time that Muddy Waters has acted dubiously. He said a researcher with the short seller told management at Orient Paper Corp., the first Chinese company targeted by the short seller back in 2010, that he would write a research report for them in return for US$300,000.

Mr. Kelertas said Orient Paper declined the offer and two months later, Muddy Waters issued their initial report calling the company a fraud.

Mr. Kelertas pointed out that since then, Orient Paper has refuted every single claim, while Deloitte & Touche, hired as independent auditors found Muddy Waters guilty of using false information.

When not picking apart Mr. Block and his research, Mr. Kelertas was steadfast in his support for Sino-Forest.
He said the company will come clean but it will take time to address all of the allegations. In addition to releasing more documentation related to its timber assets, not only in Yunnan region, but elsewhere in China, he said the company will explain the complex network of authorized intermediaries and also provide more information on the investment companies that are put in place in order to do business as a foreign company with domestic subsidiaries.
"We expect those next steps to be expedited very quickly over the next week or ten days," adding Sino-Forest wants to get most of this information into the public realm before they announce their first quarter on June 14.
Mr. Kelertas isn't the only Canadian analyst that has come to Sino-Forest defence this week. RBC Capital Markets analyst Paul Quinn also came out in favour of the company, maintaining an Outperform rating on the stock, though noting an above average risk in owning shares.
In a note, Mr. Quinn said Sino-Forest provided a "strong response" in releasing documents that attempted to disprove allegations made by Muddy Waters. But while Mr. Quinn said the data was a good first step, he also acknowledged that the company's stock would remain volatile for a while yet.
"We don't expect a meaningful recovery to pre-Muddy Waters share price levels until after the report by Sino's Independent Committee and the analyst tour in July," he said.
Meanwhile, Moody's said it will asses the allegations made by Muddy Waters, and focus on five key areas in the coming days. This will include examining the conversion of Sino-Forest's reported sales to cash flow, considering that the material increase in working capital during 2010 was greater than the company's increase in sales. Moody's said Sino-Forest's first quarter results on June 14 will likely provide insight into this.
"Moody's notes that Sino-Forest has been growing aggressively, and needs ongoing access to the equity and debt markets to continue such growth," the ratings agency said.
With a market cap of just over $995-million, Sino-Forest's value to shareholders has fallen to less than its balance sheet cash position of US$1.26-billion.
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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.