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

September 8, 2011

Dear Clients, Partners, and Friends,

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

	Aug 2011	Year-to-Date
Hong Kong Partners LP *	-14.3%	-22.2%
Hang Seng Index **	-8.5%	-10.9%
BNP Peregrine Greater China Index	-9.4%	-10.9%
MSCI HK Small Cap Index	-11.1%	-15.1%

Partnersô NAV for August $2.7211after management fee, but before annual incentive fees of 15% on appreciation.

Mistake A **mistake** is an error.

mis·take /mɪ steɪk/ Show Spelled [mi-steyk] Show IPA noun, verb, -took, -tak·en, -tak·ing.

noun

1. an error in action, calculation, opinion, or judgment caused by poor reasoning, carelessness, insufficient knowledge, etc.

2. a misunderstanding or misconception.

verb (used with object)

3. to regard or identify wrongly as something or someone else: I mistook him for the mayor.

4. to understand, interpret, or evaluate wrongly; misunderstand; misinterpret

Hong Kongøs Hang Seng Index had its worst month since the financial crisis in 2008 last month in August. Though shares rallied a bit at the end of the month, low overall turnover indicated a lack of any conviction. Trading in small/mid cap stocks, where we focus, was negligible.

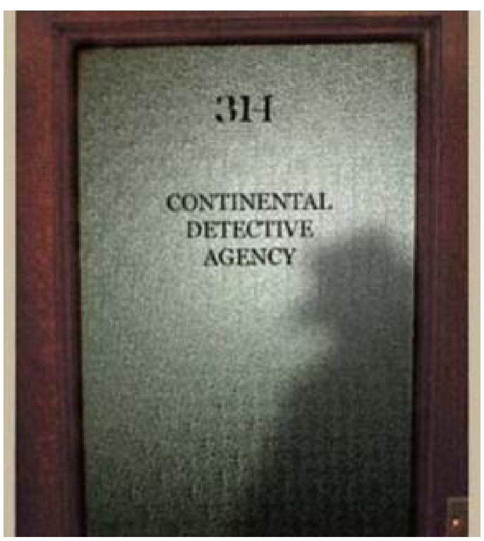
This summer has been rough, no mistake about it. About $8.2 trillion was wiped off the value of global equity markets from July 22 through Aug. 19 as Europeøs debt crisis deepened and investors speculated the U.S. economy may contract. (And where was the US leadership in August, with the black teen unemployment rate at 46.5%, and a scorching heat wave across the nation? Why wasn't our President out suffering with the rest of the nation? Why wasn't he cooling off under a fire hydrant on 186th Street, or shooting hoops with some lads in Detroit, or playing checkers with the blue hairs in San Diego or sharing a fajita with buddies in Houston? Why was he in loafers riding a bicycle in the rich enclave of Martha's Vineyard? Why was VP Biden holding his granddaughter's hand, as if arriving at a tea party, when greeting his Chinese 'bankers' in Beijing?

No wonder S&P downgraded the US's creditworthiness. Was that a mistake?)

I digress.

A recent Wall Street Journal article, *Hedge Funds Add to Asian Stock Falls*, commented on hedge funds forced to sell stocks they wanted to keep; ñRisk Managers have taken over the portfolio managersô function,ò said Paul J. Andersson, head of pan-Asian equity derivative and convertible sales at Citigroup based in Hong Kong. ñThe deciding fact on what to sell and when to sell is price. It has nothing to do with fundamentals.ò

The mayhem in August had an added twist for China investors because of a firm called Muddy Waters, a two-bit research firm, run by a washed-up, Shanghaiôd lawyer. The name conjures up something out of an old, b-rated detective film;



Out of nowhere, this óshadyô firm produced what has become one of the more spectacular, stunning collapses of a Chinese listed company. It is an investment story worthy of a Hollywood film (to be accurate, Muddy Waters has a good track record in uncovering frauds in US-Listed Chinese companies é we are using this imagery to embellish our point.)

Though we have yet to directly analyze the research, the drama of the aftermath of the Muddy Watersô report has been well documented in the financial press.

Muddy Waters posted it report on June 2 claiming Sino-Forest, a Toronto-listed company that says it is China's biggest forestry firm, was not publishing accurate accounts. The Ontario Securities Commission opens an investigation on June 3 and after release of the report on the Muddy Waters website, shares of Sino-Forest collapsed, taking with it some prestigious names. By the close of trade Friday, June 3, Sino-Forest's shares were down 71 per cent.

First, there has been the collateral damage to Yuan-denominated bonds, which were only recently introduced to the markets. Sino-Forest Yuan bonds were the poster boy of the new class of bonds. The bonds declined 50% when Muddy Waters issued its report, taking down with it all other Yuan denominated issues in the fixed income pipeline.

Then, industry hedge fund titan John Paulson, who allegedly made billions for himself in 2008 shorting sub-prime mortgages, was a prominent loser, taking a bath in his 14% ownership stake in Sino-Forest (his flagship Advantage Funds are still off between 25 percent and 35 percent for this year.. was that an mistake?).

The Toronto stock exchange regulator has accused Sino-Forest of inflating its land holdings of timber in China. One of Sino-Forestós directors is Simon Murray, previous MD of Hutchison Whampoa, the Hong Kong conglomerate of Li Ka shing, and current chairman of the worldós largest commodity company, Glencore.

On June 6, Sino-Forest Corporation announced it had appointed PricewaterhouseCoopers ("PwC") as the independent international accounting firm to assist with the investigations, to examine and review the allegations contained in Muddy Watersô report.

Additionally, Chairman of Sino-Forest, Mr. Allen Chan, commented:
"I have spent 17 years building Sino-Forest and I can promise investors we are not guilty of the charges levied against usé ò

It was announced that Paulson dumps the entire Sino Forest stake on June 14.

The Ontario Securities Commission, Canada's top securities regulator, halted trading in Sino-Forest's stock for a 15-day period on Aug. 26 (now extended). The regulator said that charges of fraud against the company and its executives appear to hold some merit. The regulator said Sino-Forest provided information "that may have been false or misleading".

On Aug 30, Allen Chan resigned as Chairman, pending completion of the review by the Independent Committee of the allegations made by Muddy Waters, after PwC said it needed more time to conclude its investigation.

The independent review will be quite revealing, when it is released.

Though I seem to digress with this long tale about Muddy Waters/Sino-Forest (a company which we have visited here in Hong Kong but do not own), it is to provide a sense of the overall market outlook that has descended over trading of small/mid caps stocks here.

The growing bearish sentiment towards listed mainland firms on allegations of fraud has created a bonanza for hedge funds short selling, or betting against US-listed Chinese companies. These short sellers, like snipers, have held hostage all private China firms listed in Hong Kong during the summer period.

China private shares in Hong Kong (unlike state-owned listed companies, H shares and Red Chips), are selling at large discounts today because of the continued short selling activities.

Market behavior has become erratic. Even whispers of some fund selling decimated illiquid small caps. (One small cap, Shampoo-maker Bawang International 1338.HK, which we donꞌt own, plunged 6.6 percent one recent morning, to an all-time low on ***talk*** that a large fund was unwinding its position in the stock).

Even with good news, shares declined. For example, shares in Chinaꞌs largest orange tree orchid company, Asian Citrus Holdings Ltd 0073.HK, (a long time holding , 4.8% position), sank after stating its profit surged and that its unaudited profit for the year June 2011 is expected to increase substantially compared to audited profit for 2010.

Was that a mistake?

Asian Citrus shares are down 33% in the past three months, selling today at 6.0 times the expected June final number (to be announced later this month).

This is just another example of the random selling this summer in the entire China-oriented sector of the Hong Kong stock market. We own some very compelling values that have been thrown out with the baby. This phase will pass, (best guess near the end of the year when the US Senate Committee announce budget cuts), and a little rational behavior may then return to more fairly value these stocks.

Chaoda Modern Agriculture, our largest holding, also mentioned negatively in a local newspaper article, was swept down with all China shares over the summer. The article asserted, among other things, Chaodaꞌs land holdings were not true. The company vigorously denied it, and several analysts have independently made GPS readings on Chaodaꞌs plantations, re-affirming the reported land areas (curiously, I never see any US company with this problem, like Del Monte Foods, and all 20 of its production facilities (see page 60 http://media.corporate-ir.net/media_files/irol/86/86259/2010AR/Flash/pdf/Del_Monte_2010_Annual_Report_entire.pdf. Is that a mistake?)

Chaoda shares during August sold off to a low of 1.2 times earnings. It currently sells at just 1.7 times earnings as of this writing. The company, since the article, has bought back 40 million shares in the market, (at approximately $3.75/share). None of the major shareholders have sold, and several big brokerage houses have been buying in the overall decline. We added twice to our position, which now stands at 15.2% of total portfolio value.

These extreme valuations and violent share movements are typical signs of what happens at the bottom of market cycle declines. The positives today include the ending of austerity/tightening measures in China. Though China-related shares have continued to suffer due to the anticipated economic slowdown in China, the inflation outlook is getting less bearish.

The Hang Seng Index sells today at a 9.2 trailing P/E, lower than the level in March 2009 (11.2 times), when stocks bottomed after Lehman Brothers Holdings Inc. collapsed.

Chaoda Modern has been sold down out of all proportion to its fundamentals in this summer slide. It has been a public company for 11 years, audited each year (year-end June results will be reported later this month) and its plantations have been óvaluedô by outside valuers (Jones Lang LaSalle Sallmanns Limited, independent professional valuer).

On August 27, the Chinese Premier Wen Jiabao visited Chaoda's Zhangbei Production Base, one of the major suppliers for the 2008 Beijing Olympics.

And that was no mistake!

Sincerely,

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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.