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

10 Feb 2012

Dear Clients, Partners, and Friends,

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

	Jan 2011
Hong Kong Partners LP *	3.2%
Hang Seng Index **	10.6 %
MSCI HK Small Cap Index	6.2%

Partnersô NAV for Jan was $2.4296, after management fee, but before annual incentive fees of 15% on appreciation.

In January (a holiday-shortened month), trading in our holdings of Hong Kong-listed stocks, with rapidly growing businesses in China, was lackluster. Liquidity and trading volumes remained low. A few constituents in the blue chip Hang Seng index accounted for most of the robust gain, over just a few trading sessions.

Our portfolios are concentrated in holdings of primarily small/mid capitalized, cash-rich stocks. The trailing, estimated price earnings ratio (weighted average) is approximately 4 times today.

That is very much undervalued!

For instance, one of our long term holdings, leading audio headset manufacturer, Fujikon, sells at ~HK$1.00/share in the market today, about one half its net equity/book value. ï As of Sept 2011, Fujikon has a net cash position of HK$379.6 million, versus a current market cap of HK$404 million. Cash is just slightly less than the total market cap of the shares! We get the business, then, essentially for free. Ex-cash (thereôs no long term debt), the price earnings ratio is effectively zero, with an 8% dividend yield.

Our largest holding, Chaoda Modern Agriculture, remains suspended on the Hong Kong exchange, with no news to shareholders. We have extra cash (from the recent takeover of our Asian retailer holding, Hang Ten Group) available for re-investing. We continue to visit new companies to invest (see my recent note below). With many companies expected to report financial results within the next month, we are in a black-out period for most of

February and into March. We expect corporate news to pick up after the 30-day quiet period.

Sincerely,

Brook McConnell
President
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Company visit note, translated into Chinese for a local financial weekly…

There were near riots last month in China the day the new Apple iPhone 4S went on sale due to overwhelming demand. That was good news for leading IT product distributor in Asia Pacific, VST Holdings Limited (code 0856 hk).

VST's main revenue driver (80% of total revenues) is the distribution of IT products such as desktop personal computers, notebooks, tablets, handhelds, printers, central processing units (CPUs), hard disk and memory device. The remaining two segments of the business are enterprise systems tools (middleware and operating systems for IT infrastructure) and general IT services, such as IT infrastructure design.

The company has distribution networks encompassing over 24,000 business partners, through its 32 offices in China, Thailand, Malaysia, Singapore, Indonesia, and the Philippines.

It has developed long-term, established partnerships with major tech companies such as HP, Seagate, Apple, Microsoft, AMD, Western Digital, Maxtor, IBM Thinkpad and Dell, where the company plays an integral part of the supply chain for these technology giants.

As a distributor, especially for fast-moving technology products, VST normally keeps a large supply of products on hand in its distribution warehouses. With low gross margins on sales of these products (less than 5%, which is typical in the distribution sector), the aim of the company is to turn inventory as efficiently as possible.

The latest financial interims showed sales grew strongly. Turnover for the six months ended 30 June 2011 amounted to approximately HK$15,154,698,000 (2010: approximately HK$12,291,511,000), representing an increase of approximately 23.3%.

Sales growth for VST should continue to be robust. The China division registered a 48% year-over-year increase for the third quarter last year. Although this growth is from lower margin product distribution business, VST has managed to control operating expenses well, improving its balance sheet and lowering overall debt levels (net gearing ratio currently at 0.56x, an improvement from 0.8x last June).

The shares are depressed, trading at only 3.8 times estimated 2012 expected earnings of $0.37 per share, due to several concerns. The Japanese tsunami caused a slight increase in average inventory to sales days in the first half. Another concern was a fire in its Shanghai warehouse last November. The company claims to be fully insured and net losses will be immaterial.

Thailand's floods late last year destroyed almost all of one vendor's disk drive products. The company claims the resulting loss of supply lifted prices of existing inventory of disk drives by 50%, offsetting loss of top line sales. It is expected that there will be a gradual improvement in the Hard Disk supply chain (Thailand produces 40% of all hard drives), with normalization expected in the second quarter this year.

Lastly, the founder, a 37% owner of the company, has been embroiled in a stock manipulation investigation by the securities regulator. Though the outcome of this case may have a short term impact for the company in the future, business continues as usual today.

VST continues to see healthy momentum in its China distribution business. Robust top line performance was largely due to the strong performance of products like iPad, notebooks and desktops.

VST has participated in a series of share buybacks in the past several months. The dividend may be reinstated to an approximate 15% payout ratio, $0.06 per share for a 4.2% yield. Also, the shares sell below net worth, or roughly 30% below net book value.

We see this valuation as an attractive level where the risk gain ratios are in favor, especially should there be a return to normal business conditions for the company.

*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.