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

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Dear Clients, Partners, and Friends,

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

	Nov 2011	Year-to-Date
Hong Kong Partners LP (net)	-4.5%	-34.2%
Hang Seng Index	-9.5%	-21.9%
MSCI HK Small Cap Index	-5.9%	-27.1%

Partnersô NAV for Nov $2.3019 after management fee, but before annual incentive fees of 15% on appreciation.

Trading in small/mid cap portfolios of Hong Kong-listed companies geared towards growth in China was subdued last month. November was a continuation of the bifurcated, schizophrenic market we have witnessed since springtime.

Take, for example, the early part of last month, as stock prices held steady in Hong Kong. By the second week, though, the market weakened on growing Italian sovereign concerns and slow growth fears in China. Chinaøs Premier Wen Jiabao was quoted saying that fiscal easing is only to come following a further drop in property prices on the mainland.

HSBC, the largest Hang Seng Index constituent, which makes up 15 percent of Hong Kong's benchmark stock index, announced on November 9th it had set aside more money for bad loans in the U.S. The bank shares skidded 9.1 percent, taking Hong Kong stocks for a 5.3% overall tumble; the most in three months. By November 25th, the blue chip index had declined 12.3% from its month high.

On first trading day of this month, Hong Kong stocks surged 5.6%, with the Hang Seng Index posting its second-biggest advance since April 2009, after China cut its reserve requirement for lenders as production slowed there. That short term euphoria, though, appears as ethereal as all rallies since April this year as haunting Euro zone concerns are now creeping back and dominating investorsô sentiment.

The overall market remains constrained and this monthly, almost weekly, pattern of back and forth, sudden rallies and declines, has persisted for 8 months straight. As it stands at present, there is no solution in sight for the EU/European debt crisis and we remain restrained in our risk appetite. Sidelined cash in our fund is about 18% of total portfolio value.

We continue to visit companies and hear management insights (our notes below on one recent company visit, Moiselle). We still would rather wait before committing to new positions, even at the extremely attractive valuations we are finding today.

Lastly, we have followed the Sino Forest saga in letters this year as it relates to our own holding in vegetable producer, Chaoda Modern Agriculture.

Sino-Forest mulls going private to escape mess read some recent headlines;

The troubled timber firm also considering partner and merger after stock plunge over fraud claims; Sino-Forest, the Chinese timber company that plunged 74 per cent this year after fraud allegations, says going private is among the options under consideration as it attempts to restore its finances and reputation. It may also raise additional funds, bring in a strategic investor or seek a merger.

As we relayed in our client letters this summer, shares in China-based, Toronto-listed Sino-Forest (which we do not own) fell by 3/4s in June after Carson Block, a short seller, said the company exaggerated its timber holdings. A committee of independent directors set up to investigate the allegations, announced last month that it rejected the claim by Block's Muddy Waters research firm that Sino-Forest was a "Ponzi scheme" and confirmed the company's timber assets, book value and cash balance.

As Sino Forestôs CEO noted, "It is going to be real tough to get back to where we were," we believe Chaoda will face similar challenges when its audit review is completed.

We await that review, while the shares (we have a 7.8% holding) remain suspended from trading.

Last summer, we went to the headquarters of local high end womenôs retailer, Moiselle, to meet top management and try and get a fix on whether recent earnings improvement were sustainable. We were both surprised and encouraged by what we learned.

Though Moiselle was created locally, it carries a European image of a high-end ladies fashion brand, aimed at the more affluent, 25-45 aged woman. Its designers are European, and though average selling prices far eclipse the average Chinese brand pricing, the company remains focused on expanding in China (49% of revenues are generated from Hong Kong, 38% from China). Expansion on the mainland, though, will be guarded, as prime locations in upscale shopping malls and department stores are hard (i.e. expensive) to obtain.

Moiselle reported record profits last year (fiscal year ending December 2010), with operating margins expanding from the companyôs strict management of operating expenditures and stringent cost controls. Net profit for the interim period ending June increased almost 5 fold, including exceptional gains, and profits were up over 40% excluding the exceptional gains. The results were in line with our expectations.

We were surprised to learn of a gain from a property sale. The company has been unsuccessful at finding large enough office space by which to expand in Hong Kong. It intended to move into new office space in Aberdeen, but the large increase in commercial office values in Hong Kong this year made a sale even more opportunistic. The company will continue to operate out of its current location in North Point, Hong Kong until lower priced, more reasonable office prices arrive. We applaud this disciplined approach by management.

With cash from the recent property disposal, Moiselle can expand more diligently in China. Also, given its high-quality fabrics and designs, selling at only around 1/3rd the price of competing European couture brands, the company has significant leverage to grab a golden opportunity to build its brand on the mainland today.

For the six months ending June, the companyôs Hong Kong sales were almost flat, as expected. Total revenue increased 6% YoY to HK$213m with sales in other markets increasing 10%. We note recent slowing growth in Hong Kong Retail Sales Value (OCT +23.1% vs. 24.1% previously). One large retailer, (Belle, code 1880) was trading below it recent share placement price. Numerous other retail/consumer names have also been trading off, such as Luk Fok(590) and Chow Sang Sang(116). Yet, as China bids to increase liquidity on the mainland, as witnessed by the recent banking reserve ratio rate reduction, we see this slowdown as just a temporary swing in local retail sales growth.

The stock is currently trading at just 4.5 times next yearôs expected earnings per share of $0.50, with an expected dividend yield, including the special interim dividend of HK 6 cents, of 8%. This price earnings ratio is well below the industryôs average of roughly 12 times next yearôs estimates.

As attractive a valuation as this established company now sports, along with many other small/mid cap stocks in Hong Kong now, we err to being a bit cautious (than extravagant) in todayôs unsympathetic environment.

Sincerely,

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