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

November 10, 2011

Dear Clients, Partners, and Friends,

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

	Oct 2011	Year-to-Date
Hong Kong Partners LP (net)	13.7%	-29.8%
Hang Seng Index	12.9%	-14.0%
BNP Peregrine Greater China Index	14.5%	-16.3%
MSCI HK Small Cap Index	13.9%	-17.4%

Partnersö NAV for October $2.4096 after management fee, but before annual incentive fees of 15% on appreciation.

October was a rebound month for our small/mid cap Hong Kong-listed holdings of companies geared towards China, albeit a very measured and uncertain one.

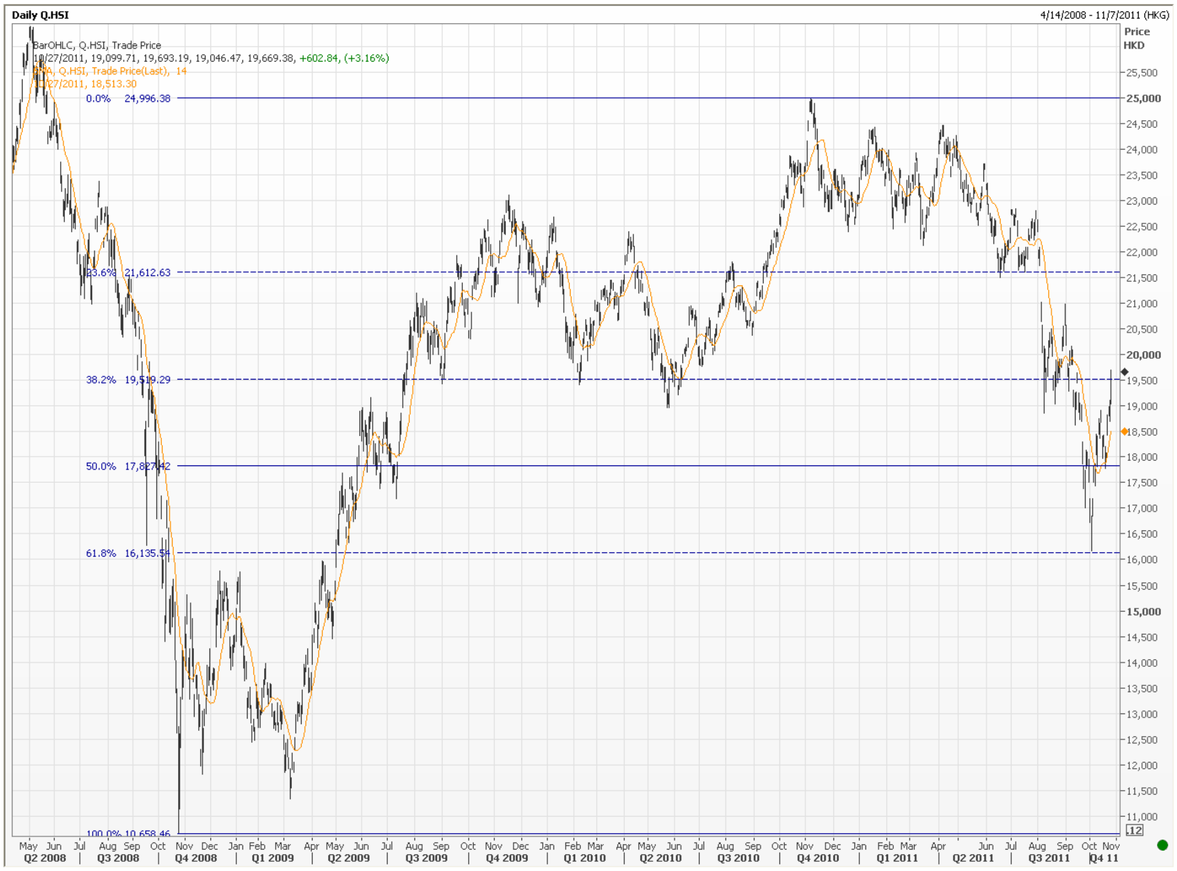
Hong Kong is caught between US economic prosperity/trade outlook (i.e. Hong Kong dollar is pegged to the USD) and Chinaøs economic picture, where there is concern today about the PRCøs economic austerity measures in place to cool heated property and infrastructure investment.

Selling pressures have been intense in the Hong Kong stock market, from April this year through the third quarter. The Wall Street Journal noted there were five 90% down-days for the S&P500 index between September 21 and October 3, 2011, which is reportedly the worst period of selling since 1940!

Hong Kong was not immune.

October, though, is considered the ñbear killerö month of the year. According to the Stock Traderøs Almanac, since World War II, October has ended bear markets in 12 instances.

We could, therefore, be at the end of this correction. Note the following: the Hong Kong blue chip Hang Seng Index declined to 16,140 on October 3rd which is a picture perfect 61.8% Fibonacci retracement of the Hang Seng Indexøs rally, from the bottom, (October 2008, Hang Seng Index at 10,660) to the top, (April 2011, 24,990).



The Hang Seng today trades at 9.2 times trailing earnings versus an historic 14 times average for the index. Cheap!

We have seen it over and over again; investor sentiment in Hong Kong turns on a dime. Risk-on, risk-off outlook ebbs rapidly, changing between rapturous hope/euphoria to absolute despondency, buffeted around each economic/political news item emanating from the US, Euro Zone and China.

This is the norm. Rarely does sentiment reside in-between. But, the correction has undergone a clear retracement.

Our largest holding, organic vegetable producer Chaoda Modern Agriculture, made the following, two-point announcement at the end of September:

1. *The board of directors (the "**Board**") of Chaoda Modern Agriculture (Holdings) Limited (the "**Company**") notes an article published on 26 September 2011 on Bloomberg News alleges that proceedings have been commenced against the Company in the the Market Misconduct Tribunal (the "**MMT**").*
*The Board wishes to announce that proceedings (the "**Proceedings**") have been commenced in the MMT against Mr. Kwok Ho ("**Mr. Kwok**") (currently the chairman and executive director of the Company) and Mr. Chan Chi Po Andy ("**Mr. Chan**") (currently the chief financial officer and executive director of the Company) and another individual (a third party unrelated to the Company) to determine whether any market misconduct in the nature of insider dealing or otherwise had taken place, the identity of every person who had engaged in the suspected market misconduct and the amount of any profit gained or loss avoided as a result of the suspected market misconduct.*

The Company is not a "specified person" against whom the Proceedings were commenced, and no allegation of misconduct is made against the Company. It appears that the suspected "dealing" relates to an overseas fund manager's sale of 374,000 shares of the Company in June 2009.
The substantive hearings for the Proceedings are scheduled to be held from 30 January 2012.

2. Suspension of trading
Trading in the Company's shares was suspended at the request of the Company from 1:30pm on 26 September 2011. Trading in the Company's shares will remain suspended pending a further announcement from the Company to address a report issued by Anonymous Analytics on 26 September 2011.
The Company will make further announcement(s) as and when appropriate.

Since the suspension, there has been no further news from the company. We strongly suspect the auditors wanted to double check all accounting before releasing the financials for fiscal year-end June 2011.

Last year, in August, 2010, the company issued convertible bonds with a 2015 maturity (US$200 million), a placing of existing shares and call options (all totaling roughly US$350 million). As of December, 31, 2010, the company reported 2.044 billion Rmb of cash on its balance sheet.

There is a put option on the convertible bonds s stating should the shares be suspended for 60 days, the holders can put back the bonds to the company at par.

The 60 day suspension will end Friday, November 25th and we suspect this will mark a particularly relevant date for shareholders of the company.

The next time you try on a new pair of Nikeọs, the tissue paper inside the shoe box may be made by a company we recently invested. Our analysis follows:

Youyuan Intọl (2268 HK, US$ 307 million market capitalization) is the leading manufacturer of wrapping tissue paper on the mainland with a 22% market share. Wrapping tissue is used extensively as wrapping or cushion material for clothing, footwear, fruit and other consumer products (such as tissue paper toilet seat covers). The company uses a wide distribution/sales network within China to sell tissue and paper products from its new, advanced manufacturing facilities on the mainland.

Youyuan is a low cost manufacturer, using a recycled raw material (deinked pulp) which gives it a considerable advantage (i.e. higher margins) over competitors in China. The cost of deinked pulp was 40% lower than virgin wood pulp costs in the first six months this year. The company claims it is the only paper manufacturer in China capable of using deinked pulp for producing tissue paper.

The Company is engaged in manufacturing with three plants, operating at full capacity, in four segments: double-sided and single-sided MF tissue paper (85% of total business), copy paper and paper towels and ivory boards (the latter two products were introduced just last year).

As of December 31, 2010, the Companyọs production capacity for wrapping tissue paper aggregated approximately 136,800 tons a year. During 2010, the Companyọs total sales volume was approximately 161,000 tons , of which double-sided MF tissue paper comprised 77,200 tons, single-sided MF tissue paper 49,300 tons, copy paper 15,600 tons, paper towels 7,600 tons and ivory board 11,300 tons.

For the fiscal year ended 31 December 2010, Youyuan International Holdings Limited's revenues increased 69% to 1.2 billion RMB. Net income rose 55% to 256.5 million RMB.

FY (Dec 31)	2010	2009	2008
Revenue (M)	1,224.30	724.79	562.02
EBITDA (M)	326.27	207.58	163.62
EBIT (M)	294.83	183.77	145.68
Income Available to Com Excl ExtraOrd (M)	256.55	165.94	126.40
Diluted EPS Excluding ExtraOrd Items	0.29	0.22	0.13

Reuters

Interim results for the first half ending June this year were in line, with net profit rising 46% to RMB 149 million. After subtracting listing expenses from the 2010 IPO exercise, net income grew a respectable 23%.

First half revenues of RMB 686 million increased 28% over the previous year on capacity expansion and the two new paper product introductions. Double-sided and single MF tissue paper segment revenues expanded rapidly, with single-sided MF tissue paper revenue growth of 55% to RMB 212 million. The two new product lines, paper towel and ivory board, saw growth to RMB93 million through June this year, up 280%.

Net gearing increased from 6% last year to 22% in the June interim period as capital expenditure increased. Along with the expanded capacity, Youyuan raised average selling prices by 11% in the first half.

Second half results this year (to be reported in 1Q 2012) should see continued business growth, similar to the first half.

As a smaller, faster growing, niche player in the PRC paper market, Youyuan should experience (way) above average growth. As with other fast growing small/mid cap stocks, there is limited trading liquidity (the founder owns 60% and another 15% is closely owned by two investors).

The shares sell at P/Es of only 5.6x and 4.1x for FY2011 and 2012, based on estimated EPS of HK$0.41 and HK$0.56, respectively , and a recent share price of $2.29. This entry price is at a substantial discount to larger peers, and only slightly above book value per share. The company is cash rich, with Rmb 189 million cash on hand and Rmb 200 million of unused credit lines.

Youyuan is wholly capable of financing its planned capital expenditures of RMB 550 million as capacity will be increased another 40% next year.

We continue to discover and select fast growing, cash-rich smaller companies in the Hong Kong market, that we invest with an eye on outsized, above expected growth targets over the pursuing six to 18 months.

Sincerely,

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