



May 9, 2012

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Kong Partners L.P., before incentive fees, were as follows:

	<u>April 2012</u>	<u>Year-to-Date</u>
Hong Kong Partners LP (net)	-3.0%	7.8%
Hang Seng Index	2.6%	14.4%
MSCI HK Small Cap Index	0.7%	14.9%

Partners' NAV for April \$2.5382 after management fee, but before annual incentive fees of 15% on appreciation.

Trading volumes slowed further in Hong Kong, as average daily volume in April was HK\$51 billion (US\$6.6 billion), lowest since 2009. Trading in small cap shares, where we focus, was extremely light.

On the last day of trading for the month, the large cap Hang Seng Index jumped 1.7%, (2.6% for the month), led by China bank stocks, and ended at 21,094, its highest close since March 19. Yet, as of this writing in early May, just after the French elections, the index has backed down to 20,485, giving up all the gains in April.

The semi-official China Federation of Logistics and Purchasing's PMI (Purchasing Managers Index) reported a reading of 53.1 in March, up strongly from 51.0 in February and some way above the 50 mark that separates growth from contraction.

Even though China's economy reportedly rebounded, investors remain at a standstill, mostly sidelined.

China's slowdown and Europe's sovereign debt problems seem to weigh on investors' minds. *"People are saying, how deep is this European thing going to get?"* says Sam Stovall, chief equity strategist at S&P-Capital IQ. *"Both China and the U.S. are closely tied to Europe. Basically, we're mountain climbers — the U.S. is in front, China is behind and Europe is tethered to us. But if Europe should fall, it could drag the rest of us down the mountain as well."*

As such, investors have become defensive.

There was a positive note, however, on vegetable grower Chaoda Modern Agriculture (7.73% holding, code 0682 hk). A Hong Kong tribunal found that Chaoda Chairman Kwok Ho and Chief Financial Officer Andy Chan, who were specified in a civil inquiry into insider trading, didn't break insider trading laws when they divulged the Chinese

vegetable producer's plans to issue shares on investor calls in 2009. This decision was handed down in a 135-page ruling by Hong Kong's Market Misconduct Tribunal.

We have not yet been able to speak to the company. We suspect this verdict was sought by the Hong Kong stock exchange before releasing the company's share suspension. Its auditors could then release the audited figures for its fiscal year end June and first half results ending December.

We await further news on the share suspension now that the Tribunal ordeal has been completed ([here](#) is the 135 page verdict).

Charlie Munger, regarded by some as one of the greatest investors of all times, commenting on Berkshire and his partner Warren Buffett in this 30 minute CNBC interview. He discussed his thoughts on China. He said, "China has grown at a rate, for a country that big, that is unprecedented in the previous history of the world - it is a huge development and enormously important - it affects the whole world."

China's accomplishments are, "the most remarkable human achievements in the history of the world - China has, to an extent, copied Singapore" -

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Getty Images

Warren Buffett

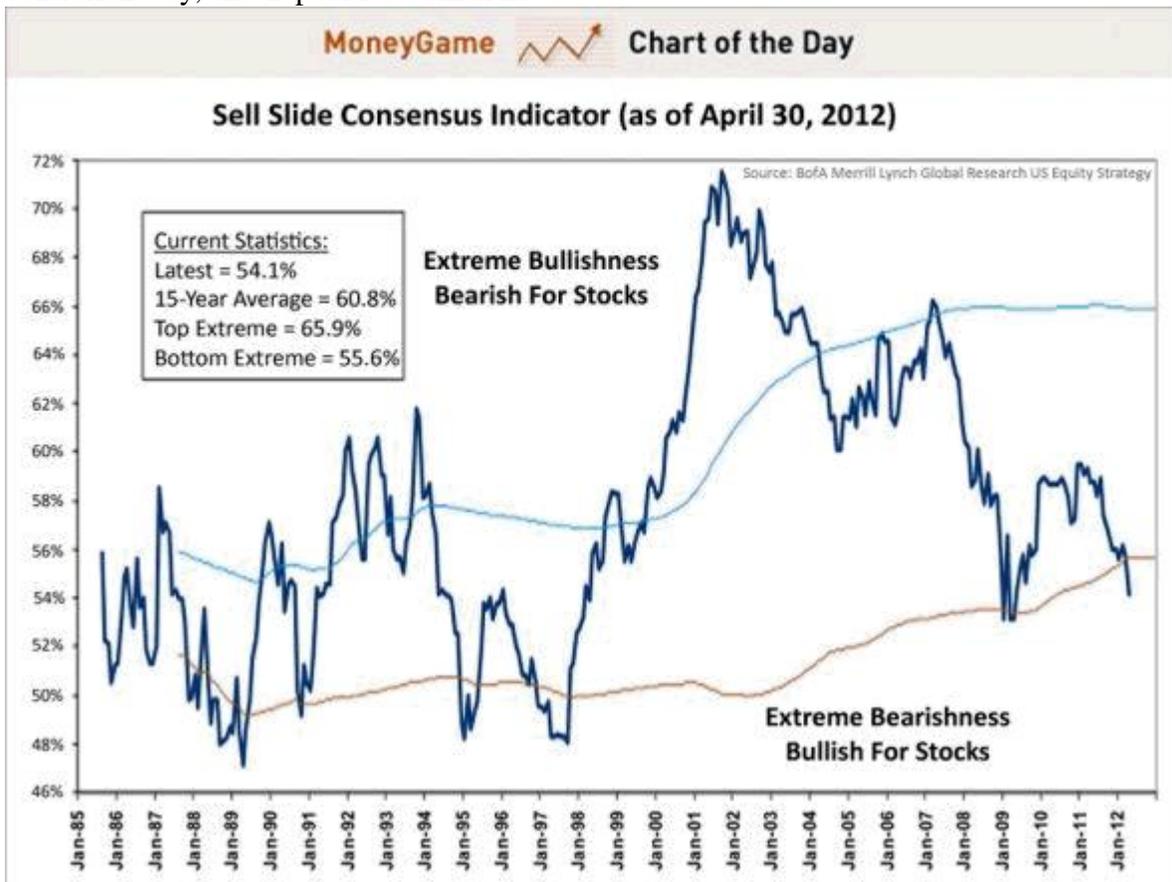


**Berkshire's Charlie Munger** Published: Friday, 4 May 2012 | 4:28 PM ET

By: [Margo D. Beller](#)  
Special to CNBC.com

Munger also commented in the interview, “ when everybody thinks the world is going to hell, we like to be buying.”

With strategists/analysts extremely pessimistic/bearish about the future today, maybe, in a contrarian way, that is positive/bullish news?



Sincerely,

Brook McConnell

President

Email: [brook@south-ocean.com](mailto:brook@south-ocean.com) Website: [www.south-ocean.com](http://www.south-ocean.com)

Hong Kong