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If you have sold all your shares in Wealthmark International (Holdings) Limited you should at once pass this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED 和寶國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

CONTINUING CONNECTED TRANSACTION

Financial Advisor to the Independent Board Committee



Barits Securities (Hong Kong) Limited

The Stock Exchange has granted a waiver in accordance with Rule 14A.43 of the Listing Rules for the transactions under the Supply Agreement to be approved by a written Shareholders' approval in lieu of holding a general meeting. In this connection, Orientelite Investments Limited, the controlling shareholder of the Company holding 195,000,000 shares of the Company, representing approximately 58.73% of the issued share capital of the Company and voting rights in general meeting, has given its written approval on 8 June 2006 for the Company to enter into the Supply Agreement and the transactions contemplated thereunder. Accordingly, no separate shareholder approval is required and no general meeting will be held. The information contained in this circular is for Shareholders' information only.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Agricapital”	Agricapital (Tianjin) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;
“Associate”	has the meaning given to that term in the Listing Rules;
“Beilei”	蓓蕾 (天津) 乳業有限公司 (Beilei (Tianjin) Dairy Co., Ltd.), a company established in the PRC;
“Board”	the board of directors of the Company;
“Company”	Wealthmark International (Holdings) Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange;
“Directors”	directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	the committee consisting of Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Sam Zuchowski, each an Independent Non-executive Director of the Company;
“Independent Financial Advisor”	Barits Securities (Hong Kong) Limited;
“Independent Shareholders”	Shareholders that are not persons who have a material interest in the transactions contemplated by the Supply Agreement or associates of such persons;
“Latest Practicable Date”	16 June 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;

DEFINITIONS

“PRC”	the Peoples Republic of China, which for the purposes of this announcement shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance of Hong Kong;
“Shareholders”	holders of the Shares;
“Shares”	shares of HK\$0.10 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supply Agreement”	the raw milk purchase agreement dated 26 May 2006 between Tianjin Agribusiness and Beilei; and
“Tianjin Agribusiness”	天津農墾集團總公司 (Tianjin State Farms Agribusiness Group Company), a state-owned entity established in the PRC.

For the purposes of this circular, an exchange rate of RMB1.03: HK\$1.00 has been used.

LETTER FROM THE BOARD



WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED 和寶國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

Executive Directors:

Mr. Lo Peter (*Chairman*)

Mr. Sun David Lee (*Chief Executive Officer*)

Mr. Li Wentao

Non-executive Director:

Mr. Yeung Ting-Lap Derek Emory

Independent Non-executive Directors:

Dr. Loke Yu

Dr. Leung Kwan-Kwok

Mr. Zuchowski Sam

Registered office:

P.O. Box 309GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

Head office and principal place

of business in Hong Kong:

2116 Hutchison House

10 Harcourt Road

Hong Kong

19 June 2006

To the shareholders of the Company

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTION

1. INTRODUCTION

As announced by the Company on 26 May 2006, Beilei, a company that is 70%-held by Agricapital, a wholly-owned subsidiary of the Company, has entered into a Supply Agreement with Tianjin Agribusiness for the supply of raw milk to Beilei.

LETTER FROM THE BOARD

Beilei has been purchasing supplies of raw milk for the production of its dairy products from subsidiaries of Tianjin Agribusiness since the re-commencement of its production activities in December 2005. Tianjin Agribusiness is the owner of the other 30% equity interest in Beilei, and is therefore a connected person as defined in the Listing Rules. Accordingly, the purchase of raw milk supplies by Beilei from Tianjin Agribusiness constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

It has come to the attention of the Company that the amounts paid by Beilei to Tianjin Agribusiness for the raw milk supplies have exceeded the de minimis threshold set out in Rule 14A.33(3) of the Listing Rules. This occurred in April 2006 and was brought to the Company's attention during the review of management accounts. Accordingly, the transactions between Beilei and Tianjin Agribusiness first became subject to the disclosure requirements under Rule 14A.34 of the Listing Rules in April 2006. In accordance with Rule 14A.35 of the Listing Rules, Beilei has entered into a Supply Agreement with Tianjin Agribusiness, further details of which are set out in paragraph 2 of this letter.

As each of the applicable percentage ratios (other than the profits ratio) for the transactions contemplated by the Supply Agreement is greater than 2.5%, in accordance with Rule 14A.35 of the Listing Rules, such transactions are subject to reporting and announcement requirements and require independent shareholder approval as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

The purpose of this circular is to provide you with details on the transactions contemplated by the Supply Agreement, the recommendation of the Independent Board Committee and the advice of Independent Financial Advisor in respect of the same.

2. SUPPLY AGREEMENT

Background

Beilei is engaged in the production and sale of dairy products in the PRC. Raw milk is the primary raw material used to produce Beilei's dairy products. Since the re-commencement of its production activities in December 2005, Beilei has sourced its raw milk from subsidiaries of Tianjin Agribusiness. Beilei and Tianjin Agribusiness entered into the Supply Agreement on 26 May 2006 to regulate such supply of raw milk. The terms of the Supply Agreement have been negotiated on an arm's length basis and are on normal commercial terms.

LETTER FROM THE BOARD

Principal Terms

The Supply Agreement has a term of three years commencing on 1 May 2006. Under the Supply Agreement, Tianjin Agribusiness will supply a specified amount of raw milk, which may be adjusted upwards or downwards by up to 5%, to Beilei on an annual basis. Beilei is free to procure additional milk supplies from other third party suppliers. Beilei may terminate the Supply Agreement if the quality of the raw milk supplied does not meet the specifications and requirements of Beilei. Beilei will pay Tianjin Agribusiness on a monthly basis for all purchases made during the previous month. Such payment terms are no less favourable than those offered by Tianjin Agribusiness to independent third parties.

Pricing

The price of the milk supplied under the Supply Agreement is to be determined in accordance with the prevailing market price for raw milk at the time of supply.

Annual caps

Based on the limited historical data available and Beilei's projected supplies requirements over the term of the Supply Agreement as explained below, it is anticipated that, for the relevant periods covered by the Supply Agreement, the maximum aggregate amounts to be paid to Tianjin Agribusiness by Beilei under the Supply Agreement will not exceed:

	<i>RMB</i>	<i>HK\$</i>
For the period from 1 May 2006 to 31 December 2006	11,188,800	10,862,913
For the year ending 31 December 2007	21,078,750	20,464,806
For the year ending 31 December 2008	26,980,800	26,194,951
For the period from 1 January 2009 to 30 April 2009	9,979,200	9,688,544

LETTER FROM THE BOARD

These annual caps have been extrapolated from the amounts paid by Beilei to Tianjin Agribusiness for raw milk since the transactions commenced, being RMB106,940 (approximately HK\$103,825) in December 2005 and RMB2,335,178 (approximately HK\$2,267,163) for the four months ended 30 April 2006. In respect of the cap for the eight-month period covered by the Supply Agreement in 2006, it has been assumed that Beilei's supplies requirements in such period, on a per month basis, will be approximately 2.4 times the average supplies purchased per month in the first four months of 2006, taking into account Beilei's production activities in the first four months of 2004 were still in start-up stage and were affected by Chinese New Year. In respect of the caps for the years ending 31 December 2007, 2008 and 2009, a growth rate of approximately 56%, 28% and 11% over the prior year has been applied, based on an expected increase in market share and market demand, and assuming volume growth only (with constant price). In particular, with respect to the high growth rate for 2007, it has been taken into account that Beilei's production activities will be ramping up over the course of 2006.

Based on the above annual caps, each of the applicable percentage ratios (other than the profits ratio) for the transactions contemplated by the Supply Agreement is greater than 2.5%. Accordingly, in accordance with Rule 14A.35 of the Listing Rules, such transactions will be subject to reporting and announcement requirements and will require independent shareholder approval as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

If the annual caps are subsequently expected to be exceeded, the Company will re-comply with the relevant provisions of the Listing Rules in accordance with Rule 14A.36 of the Listing Rules.

3. BUSINESSES OF THE GROUP AND TIANJIN AGRIBUSINESS

The Group is principally engaged in the manufacturing and sale of handbag products, related accessories and garments, and provision of related subcontracting services. In December 2005, in pursuit of a second line of business, the Group acquired a 70% equity interest in Beilei, a company established in the PRC and engaged in the production and sale of dairy products in the PRC.

Tianjin Agribusiness, a state-owned enterprise established in the PRC, is a holding company with interests in agriculture-related and other businesses.

LETTER FROM THE BOARD

4. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLY AGREEMENT

Raw milk in Tianjin is supplied by dairy farms and individual dairy farmers. Virtually all dairy farms in Tianjin are owned by Tianjin Agribusiness. Accordingly, Beilei has sourced its raw milk supplies from Tianjin Agribusiness since Beilei's re-commencement of production activities in December 2005. Beilei also sources its raw milk from Tianjin Agribusiness as the Directors believe that the dairy farms owned by Tianjin Agribusiness have better hygiene standards and better quality control over its raw milk supplies than the individual dairy farms in Tianjin, due to the larger scale of Tianjin Agribusiness' operations and the more advanced technology and animal husbandry methods employed by Tianjin Agribusiness. In addition, the Supply Agreement ensures that Beilei will have a steady supply of good quality raw milk over the term of the agreement. The Directors believe that the terms of the transactions under the Supply Agreement are fair and reasonable and in the interests of the Shareholders as a whole. The Directors do not consider there to be any disadvantages of the transactions under the Supply Agreement for Beilei or the Company, as the pricing terms are determined by market price and the credit terms are no less favourable than those provided to independent third parties.

5. CONNECTED TRANSACTION

Beilei is 70%-held by Agricapital, a wholly-owned subsidiary of the Company. Tianjin Agribusiness is the owner of the other 30% equity interest in Beilei, and is therefore a connected person as defined in the Listing Rules. Accordingly, the purchase of raw milk supplies by Beilei from Tianjin Agribusiness under the Supply Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

6. RECOMMENDATION

An Independent Board Committee of the Company has been formed to advise the Independent Shareholders on the terms of the Supply Agreement, and the Independent Financial Advisor has been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

The Independent Board Committee, having taken into account the advice of the Independent Financial Advisor, is of opinion that the terms of the Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and accordingly, recommends that the Independent Shareholders vote in favour of the ordinary resolution regarding the approval of the Supply Agreement.

The letter from the Independent Financial Advisor containing its advice and recommendation to the Independent Board Committee is set out on pages 10 to 16 of this circular. The letter from the Independent Board Committee to the Independent Shareholders containing their recommendation is set out on page 9 of this circular.

LETTER FROM THE BOARD

7. SHAREHOLDERS' APPROVAL

Under the Listing Rules, the transactions contemplated under the Supply Agreement are subject to the approval of the Independent Shareholders by poll. To the best knowledge of the Directors, no Shareholder has a material interest in the transactions contemplated under the Supply Agreement and therefore no Shareholder is required to abstain from voting at any general meeting convened for the approval of the Supply Agreement and the transactions contemplated thereunder. The Stock Exchange has granted a waiver in accordance with Rule 14A.43 of the Listing Rules for the transactions contemplated by the Supply Agreement to be approved by a written Shareholders' approval in lieu of holding a general meeting. In this connection, Orientelite Investments Limited, the controlling shareholder of the Company holding 195,000,000 shares of the Company, representing approximately 58.73% of the issued share capital of the Company and voting rights in general meeting, has given its written approval on 8 June 2006 for the Company to enter into the Supply Agreement and the transactions contemplated thereunder. Accordingly, no separate shareholder approval is required and no general meeting will be held. The information contained in this Shareholders' circular is for information only.

Yours faithfully,

For and on behalf of the Board

Wealthmark International (Holdings) Limited

Peter Lo

Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE



WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED 和寶國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

19 June 2006

To the Independent Shareholders

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTION

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders in connection with the Supply Agreement, details of which are set out in the Letter from the Board contained in the circular to the Shareholders dated 19 June 2006 (the “**Circular**”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Supply Agreement and the advice and opinion of the Independent Financial Advisor in relation thereto as set out on pages 10 to 16 of the Circular, we are of the opinion that the terms of the Supply Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolution regarding the approval of the Supply Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Sam Zuchowski

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the full text of the letter of advice from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders dated 19 June 2006 for incorporation in this circular.



BARITS SECURITIES (HONG KONG) LIMITED

Room 3406, 34/F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

19 June 2006

*To the Independent Board Committee and
the Independent Shareholders of*
Wealthmark International (Holdings) Limited

Dear Sir,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the terms of the Supply Agreement, details of which, among other things, are set out in the Letter from the Board on pages 3 to 8 of this circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires.

The Company's indirect 70%-owned subsidiary, Beilei, has been purchasing raw milk for the production of its dairy products from subsidiaries of Tianjin Agribusiness since the commencement of its production activities in December 2005. Tianjin Agribusiness is the owner of the other 30% equity interest in Beilei, and is therefore a connected person as defined in the Listing rules. Accordingly, the purchase of raw milk supplies by Beilei from Tianjin Agribusiness constitutes a non-exempt continuing connected transaction under Chapter 14A of the Listing Rules.

An independent board committee of the Company has been formed to advise the Independent Shareholders on the terms of the Supply Agreement, and we have been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders on the same.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

On 8 June 2006, Orientelite Investments Limited, the controlling shareholder of the Company holding 195,000,000 shares of the Company, representing approximately 58.73% of the issued share capital of the Company and voting rights in general meeting, has given its written approval for the Company to enter into the Supply Agreement and the transactions contemplated thereunder. None of the Shareholders has a material interest in the transactions contemplated under the Supply Agreement and therefore no Shareholder is required to abstain from voting at any general meeting convened for the approval of the Supply Agreement and the transactions contemplated thereunder. The Stock Exchange has granted the Company a waiver from the requirement to hold a general meeting of the Shareholders and permission for the Independent Shareholders' approval of the Supply Agreement and the transactions contemplated thereunder.

In formulating our recommendation, we have relied on the information and facts contained or referred to in this circular as well as the representations made or provided by the Directors and senior management of the Company. The Directors have declared in a responsibility statement set out in the appendix headed "General Information" to this circular that they jointly and severally accept full responsibility for the accuracy of the information contained and representations made in this circular. We have also assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true as at the date of this circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and the management of the Company and have no reason to doubt that any relevant material facts have been withheld or omitted.

We have reviewed the published information of the Group, including but not limited to, the announcement of the Company dated 26 May 2006 relating to the continuing connected transaction contemplated under the Supply Agreement respectively. We have also discussed with the management of the Company the backgrounds for and benefits of entering into the Supply Agreement, the pricing basis of raw milk purchased under the Supply Agreement and the basis of setting the annual caps. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this letter and to provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the terms of the Supply Agreement and in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

Background and reasons

The Group is principally engaged in the manufacturing and sale of handbag product, related accessories and garments, and provision of related subcontracting services. In April 2005, the Group was taken over by Orientelite Investments Limited and the shareholding structure of the Group experienced a fundamental change. New Directors and management were appointed to the Group. In late 2005, in pursuit of a second line of business, the Group acquired a 70% equity interest in Beilei. Beilei was established in the PRC on 29 December 1994 as a sino-foreign joint venture company with an operation period of 20 years to engage in the production and sale of dairy products in the PRC. Prior to the acquisition of its equity interest by the Group, Beilei was owned as to 70% by a foreign party and 30% by Tianjin Agribusiness. Beilei substantially reduced production after the first quarter of 2004 and ceased the sale of dairy products at the end of 2004.

Beilei resumed production activities in late December 2005 and began to source its raw milk from subsidiaries of Tianjin Agribusiness. In order to secure the stable supply of raw milk for its production of dairy products, Beilei entered into a Supply Agreement with Tianjin Agribusiness for the supply of raw milk on 26 May 2006.

We understand that each of Mr. Peter Lo, Mr. David Sun and Mr. Li Wentao (who are executive Directors), have experience in the management and operation of business in the food and beverage industry in the PRC. In addition, the previous senior management of Beilei, who have experience in the dairy products business in the PRC, remain with Beilei following the acquisition. The Group intends to leverage on the new management's experience and expertise in the management and operation of business in the PRC food and beverage industry to streamline Beilei's operations and increase efficiency and to seek suitable opportunities to expand Beilei's business with a view to improving its profitability. The new management considered that the PRC dairy industry presents promising growth potential and believed that the acquisition of Beilei will provide the Group with the opportunity to benefit from that industry.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

We note that raw milk in Tianjin is mainly supplied by dairy farms and individual dairy farmers, and virtually all dairy farms in Tianjin are owned by Tianjin Agribusiness. Tianjin Agribusiness, a state-owned enterprise established in the PRC, is a holding company with interests in agriculture-related and other businesses, including the production and sale of dairy products, wine production, fish farming, turf farming, property development and other business. The Directors believe that the entering into of the Supply Agreement could enjoy the following benefits, including but not limited to:

- the dairy farms owned by Tianjin Agribusiness have better hygiene standards and better quality control over their raw milk supplies than the individual dairy farms in Tianjin due to the larger scale of Tianjin Agribusiness's operations and the more advanced technology and animal husbandry methods employed by Tianjin Agribusiness;
- a steady source of supply of good quality raw milk is guaranteed to the Group under the Supply Agreement; and
- a more reliable quality control is provided by Tianjin Agribusiness (as supplier) because Tianjin Agribusiness (as owner), who is also interested in 30% equity interests of Beilei, shares similar interest with Beilei at the same time. In addition, given the physical characteristics of raw milk, the geographical proximity of Tianjin Agribusiness also provides quality assurance.

On the basis of the above, we concur with the views of the Directors that the entering into of the Supply Agreement can continue to maintain the relationship between Beilei and Tianjin Agribusiness and will enable Beilei to purchase in priority high quality raw milk from Tianjin Agribusiness. As Tianjin Agribusiness is the existing sole supplier of Beilei, we concur with the views of the Directors that the obligations of Tianjin Agribusiness to supply raw milk to Beilei will help maintain a stable source of supply to Beilei.

Having regard to the above background and circumstances, we consider that the entering into of the Supply Agreement is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Supply Agreement

Pursuant to the Supply Agreement, Tianjin Agribusiness will supply a specified amount of raw milk for three years commencing on 1 May 2006, the amount of which may be adjusted upwards or downwards by up to 5%, to Beilei on an annual basis. Beilei has the liberty to procure additional milk supplies from other third party suppliers and may terminate the Supply Agreement if the quality of the raw milk supplied does not meet the specifications and requirements designated by Beilei.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

We note that the price of the milk supplied under the Supply Agreement is to be determined in accordance with the prevailing market price for raw milk at the time of supply, and on payment terms no less favourable than those offered by Tianjin Agribusiness to independent third parties. As a reference, we have obtained from the Company a pricing schedule listing out the calculation of the price of raw milk in the market and understand that the price of the raw milk is fluctuating over different seasons and also depends on the quality of the raw milk. We have also obtained from the Company some invoices issued by the subsidiary of Tianjin Agribusiness to independent third parties and, upon comparison, we note that the selling price of products available to Beilei are no less favourable than those charged by Tianjin Agribusiness to such independent third parties. We also reviewed supply contracts concluded by the subsidiaries of Tianjin Agribusiness and independent third parties and note that the payment terms available to Beilei from Tianjin Agribusiness is no less favourable than those offered by Tianjin Agribusiness to such independent third parties. On such basis, we consider that the transactions contemplated under the Supply Agreement are to be carried out on terms no less favorable than those offered by Tianjin Agribusiness to other independent third parties.

Annual caps

Set out below are the historical amount of the purchases of raw milk by Beilei from Tianjin Agribusiness for the period from 30 December 2005 to 31 December 2005 and during the first four months of 2006 and the annual caps for the relevant periods covered by the Supply Agreement:

	<i>RMB</i>	<i>HK\$</i>
Historical amount of purchases		
For the period from 30 December 2005 to 31 December 2005	106,940	103,825
For the period from 1 January 2006 to 30 April 2006	2,335,177	2,267,163
Annual caps		
For the period from 1 May 2006 to 31 December 2006 (the "2006 Cap")	11,188,800	10,862,913
For the year ending 31 December 2007 (the "2007 Cap")	21,078,750	20,464,806
For the year ending 31 December 2008 (the "2008 Cap")	26,980,800	26,194,951
For the period from 1 January 2009 to 30 April 2009 (the "2009 Cap")	9,979,200	9,688,544

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

We understand that the cap amounts of the transactions contemplated under the Supply Agreement were determined with reference to (a) the historical amount of purchases of raw milk of Beilei for the period from 30 December 2005 to 30 April 2006, (b) the production capacity of Beilei, and (c) the anticipated growth in sales of Beilei.

We further note that the 2006 Cap for the eight-month period covered by the Supply Agreement in 2006 was determined on the assumption that Beilei's supplies requirements in such period, on a per month basis, will be approximately 2.4 times the average supplies purchased per month in the first four months of 2006, taking into account Beilei's production activities in the first four months of 2004 were still in start-up stage and were affected by Chinese New Year. With reference to the growth in raw milk consumption of Beilei for the period from 1 January 2006 to 30 April 2006 and given that Beilei is still at the emerging stage of the development cycle since the re-commencement of its operation and the dairy products of Beilei were well received by its customers, we consider that the 2006 Cap is justifiable notwithstanding that the history of Beilei might not be long enough to entirely reflect the performance of Beilei.

For the 2007 Cap, the 2008 Cap and the 2009 Cap, we note that the Group will focus on its dairy business in Tianjin in 2006 and intends to gradually penetrate into Beijing and northeast regions of the PRC in 2007 and 2008. In order to cater for such expansions, Beilei's production activities will be ramping up over the course of 2006, with an anticipated growth rate of approximately 56% and 28% for 2007 and 2008 respectively. The Directors expect that the growth rate will slow down to 11% in 2009. According to the 2006 research report titled "China's booming dairy market" issued by McKinsey & Co., a multinational management consulting firm advising companies on issues of strategy, organization, technology, operations and different industries market trends, PRC's dairy industry will double in size as measured by sales revenue, from approximately RMB80.0 billion in 2005 to approximately RMB156.8 billion in 2010. In particular, the revenues from sales of milk beverages, cheese and yogurt in PRC which amounted to approximately RMB4.8 billion, RMB0.8 billion and RMB7.2 billion respectively in 2005, will increase to approximately RMB11.2 billion, RMB4.8 billion and RMB27.2 billion respectively in 2010, representing a compound annual growth rate of approximately 22%, 38% and 31% respectively. In predicting the likely evolution of the dairy market, the research report studied consumption patterns and consumer preferences in more than 150 cities and towns, with statistics extracting from "China Dairy Industry Yearbook 2004" and "China Statistical Yearbook 2004". Based on the substantial growth in raw milk consumption of Beilei for the four months ended 30 April 2006 and taking into account the potential industry growth rate and the fact that the production facilities have not been fully utilised, we consider that the basis of determining the annual increment of the 2007 Cap, the 2008 Cap and the 2009 Cap is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

After taking into consideration the above factors, we consider that the basis of determination of as well as the cap amounts is fair and reasonable so far as the Company and the Shareholders are concerned. However, the Shareholders should note that the cap amounts relate to future events and they do not represent forecasts of turnover to be generated and purchase cost to be incurred from the transactions contemplated by the Supply Agreement. Consequently, we express no opinion as to how closely the actual turnover to be generated and the actual purchase cost to be incurred under the transactions contemplated by the Supply Agreement correspond with the cap amounts.

RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, we consider that the transactions contemplated by the Supply Agreement are in the interest of the Company and the Shareholders as a whole and the terms thereof as well as the cap amounts are fair and reasonable so far as the Company and the Shareholders are concerned. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution approving the Supply Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Barits Securities (Hong Kong) Limited

Terence Hong

Managing Director

Alfred Wong

Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, neither the Directors nor the Chief Executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken on were deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any person (not being a Director or chief executive of the Company) who as at the Latest Practicable Date had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares held in the Company	% of issued share capital of the Company
Orientalite Investments Limited (<i>Note</i>)	195,000,000	58.73
China Enterprise Capital Limited (<i>Note</i>)	195,000,000	58.73

Note:

Orientalite Investments Limited is a wholly-owned subsidiary of China Enterprise Capital Limited. Orientalite Investments Limited has a direct discloseable interest in the Company. As a result of its relationship to Orientalite Investments Limited, China Enterprise Capital Limited also has a discloseable interest as it is taken under the SFO to be interested in the same Shares.

4. DISCLOSURE OF DIRECTORS' INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with any member of the Group which is not determinable within one year without payment of compensation (other than statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors or any proposed Director or the Independent Financial Advisor (in its capacity as expert) has had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Company were made up), or which are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) No Director is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.
- (d) No Director has any interest, and as far as each Director is aware none of his associates have any interests, in any business which competes or is likely to compete, either directly or indirectly, with the existing business of the Group.

5. EXPERT'S QUALIFICATION AND CONSENT

- (a) The Independent Financial Advisor is a corporation licensed to carry at type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. The Independent Financial Advisor has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report (which has been prepared for inclusion in this document) and references to its name and its report in the form and context in which they are respectively included.
- (b) As at the Latest Practicable Date, the Independent Financial Advisor did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

6. MATERIAL CHANGES

Save as disclosed herein, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up).

7. MISCELLANEOUS

- (a) The qualified accountant and secretary of the Company is Ms. Chan So Fong, FCCA, CPA. Ms. Chan is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at P.O. Box 309GT, Uglan House, South Church Street, George Street, Grand Cayman, Cayman Islands. The Company's head office and principal place of business in Hong Kong is situated at 2116 Hutchison House, 10 Harcourt Road, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English language text of this document shall prevail over the Chinese language text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 2116 Hutchison House, 10 Harcourt Road, Hong Kong up to and including 3 July 2006:

- (a) the Supply Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (c) the consent letter from the Independent Financial Advisor referred to in the section headed "Expert and Consent" in this Appendix; and
- (d) the advice letter from the Independent Financial Advisor dated 19 June 2006, the text of which is set out on pages 10 to 16 of this circular.