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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you have sold or transferred** all your shares in **PYI Corporation Limited** (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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## **PYI Corporation Limited**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 498)**

### **DEEMED VERY SUBSTANTIAL DISPOSAL AND POTENTIAL DISCLOSEABLE TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING**

**Financial Adviser to the Company**

**ANGLO CHINESE** 英  
CORPORATE FINANCE, LIMITED 高

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A notice convening a special general meeting of the Company to be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Monday, 17 October 2011 is set out on pages 65 to 66 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it to Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

23 September 2011

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## DEFINITIONS

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

“AID Capital”	AID Partners Capital I, L.P., an exempted limited partnership registered in the Cayman Islands
“AID Parties”	the AID Subscribers and AID Capital
“AID Subscriber 1”	Rising Wealth Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber 2”	Profit Billion Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber 3”	Mighty Merit Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of AID Capital
“AID Subscriber(s)”	AID Subscriber 1, AID Subscriber 2 and AID Subscriber 3
“AID Subscription Agreement”	the agreement dated 21 August 2011 entered into by and between PYE and the AID Subscribers in relation to the conditional subscription of 360 million Placing Shares plus up to an additional 60 million Placing Shares pursuant to the AID Upsize Option
“AID Upsize Option”	the option granted by PYE to the AID Subscribers pursuant to the AID Subscription Agreement by virtue of which PYE may be required by the AID Subscribers to allot and issue to the AID Subscribers up to an additional 60 million Placing Shares
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“Capital Reduction”	the proposed reduction of PYE’s share capital and share premium account and subdivision of PYE’s unissued shares as described in the Transactions Announcement
“Capital Reduction Effective Date”	the date on which the Capital Reduction becomes effective
“Cash Alternative”	the cash alternative to receiving PYE BVI Share(s) pursuant to the Distribution in Specie, in the amount of HK\$0.30 per PYE BVI Share, available to all Qualifying PYE Shareholders (other than PYI)
“Cash Alternative Election Form”	the form of election to be sent to PYE Shareholders after the Record Date pursuant to which each Eligible Qualifying PYE Shareholder will be able to elect to receive cash, pursuant to the Cash Alternative in lieu of his or her pro rata entitlement to PYE BVI Shares pursuant to the Distribution in Specie
“Cash Dividend”	the conditional cash dividend proposed to be declared and paid by PYE in the amount of HK\$0.25 per New Share held by Qualifying PYE Shareholders on the Record Date
“Connected Person(s)”	has the meaning ascribed to it in Chapter 1 of the Listing Rules
“Deemed Disposal”	the deemed disposal of a very substantial interest of PYI in PYE arising by virtue of the Placing

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## DEFINITIONS

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“Distribution in Specie”	the proposed Distribution in Specie by PYE of one PYE BVI Share for every one New Share held by Qualifying PYE Shareholders on the Record Date
“Eligible Qualifying PYE Shareholder”	a Qualifying PYE Shareholder, other than any Overseas PYE Shareholder in respect of whom the PYE Directors, after making relevant enquiries, consider it necessary or expedient to exclude the distribution of PYE BVI Shares pursuant to the Distribution in Specie and/or, the allotment of New Shares pursuant to the Scrip Alternative, in either case, on account of any legal restrictions or the requirements of any relevant regulatory body applicable to the jurisdiction of the place of address of such Overseas PYE Shareholder
“Exchange Rights”	the rights of each of the members of Legendary East (other than PYE), on the one hand, and PYE, on the other hand, to require an exchange of the Legendary East Shares (as held by the members of Legendary East, other than PYE) for shares in PYE, as further described in this circular
“Existing Businesses”	the existing businesses of the PYE Group, as owned by PYE’s wholly-owned subsidiary, PYE BVI, comprising a management contracting division, a property development management division and a property investment division
“Film Joint Venture”	the establishment and operation of Legendary East as a company that will develop, finance, acquire, produce, distribute and exploit films based on the terms of the Heads of Agreement, and in due course, the Joint Venture Agreements and the other agreements to be entered into pursuant thereto
“Final Dividend”	the final dividend in the amount of HK\$0.01 per PYE Share held by Qualifying PYE Shareholders, as approved by PYE Shareholders at the annual general meeting of PYE held on 26 August 2011
“Heads of Agreement”	the legally-binding heads of agreement dated 21 August 2011 entered into between PYE, Legendary, Huayi and Legendary East
“High Budget Chinese Co-Production”	films based on Chinese history, mythology or culture, filmed predominantly in the English language, with a direct-cost budget which equals to or is greater than US\$50 million that will qualify as a Chinese co-production under applicable Chinese government regulations
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Huayi”	Huayi Brothers International Limited, a company incorporated in Hong Kong
“Huayi Group”	Huayi Brothers Media Corporation, a company incorporated in the PRC, the issued shares of which are listed on the Shenzhen Stock Exchange Growth Enterprise Market (Stock Code: 300027) and its subsidiary companies specifically including (but not limited to) Huayi
“Hubei Minsheng”	湖北民生石油液化气有限公司(Hubei Minsheng Liquefied Petroleum Gas Limited*), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Independent Placees”	the professional, institutional and other investor(s) selected and procured by or on behalf of the Placing Agent to subscribe for any of the Placing Shares on the terms and subject to the conditions set out in the Independent Placing Agreement
“Independent Placing Agreement”	the placing agreement dated 21 August 2011 entered into by and between PYE and the Placing Agent in relation to the conditional placing of 2,740 million Placing Shares plus an additional 440 million Placing Shares pursuant to the Placing Agent’s Upsize Option (if exercised)
“Jiangyin Port”	the port operated by Jiangyin Sunan at Jiangyin, Jiangsu Province, the PRC
“Jiangyin Sunan”	江陰蘇南國際集裝箱碼頭有限公司(Jiangyin Sunan International Container Terminal Co., Ltd.*), a company incorporated in the PRC and a 40% associate of the Company
“Jiaxing Port”	the port developed and operated by a 90% subsidiary of the Company at Jiaxing, Zhejiang Province, the PRC
“Joint Venture Agreements”	the Legendary East Subscription Agreement and the Legendary East Shareholders’ Agreement
“JV Closing”	the contribution of cash and assets to Legendary East on satisfaction of all conditions precedent of the Joint Venture Agreements
“JV Hold Period”	a period of three years following the JV Closing date
“JV Management Members”	certain officers, directors and/or, employees of Legendary East as may be granted equity interests in Legendary East
“Latest Practicable Date”	20 September 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Legendary”	Legend Pictures, LLC, a limited liability company formed in Delaware, the U.S.
“Legendary East”	Legendary East Ltd., a company incorporated in the Cayman Islands with limited liability
“Legendary East Holdings”	Legendary East Holdings, LLC, a limited liability company formed in Delaware, the U.S. and a subsidiary of Legendary
“Legendary East Share(s)”	ordinary share(s) in the share capital of Legendary East
“Legendary East Shareholders’ Agreement”	the shareholders’ agreement to be entered into on or before the JV Closing, by and among parties including Legendary East Holdings, Huayi and Modern Front and relating to the operation of the Film Joint Venture
“Legendary East Subscription Agreement”	the subscription agreement to be entered into on or before the JV Closing by and between parties including Legendary East Holdings, Huayi, Modern Front, and Legendary East relating to, amongst other matters, the issue of new Legendary East Shares and the establishment of the Film Joint Venture
“Listing Committee”	has the meaning ascribed to it in Chapter 1 of the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Modern Front”	Modern Front Holdings Limited, a private company which is a wholly-owned subsidiary of PYE
“Nantong Port”	the port operated by Nantong Port Group at Nantong, Jiangsu Province, the PRC
“Nantong Port Group”	南通港口集團有限公司(Nantong Port Group Limited*), a company incorporated in the PRC and a 45% associate of the Company
“New Shares”	the proposed new ordinary share(s) of HK\$0.20 each in the share capital of PYE as will exist on the Capital Reduction Effective Date
“NYSE”	New York Stock Exchange
“Overseas PYE Shareholder(s)”	PYE Shareholder(s) whose address(es), as shown on the share register or branch share register of PYE on the Record Date, is/are outside Hong Kong
“Placees”	the placees (including the Independent Placees) to subscribe for any of the Placing Shares on the terms and subject to the conditions set out in the Placing Agreements
“Placing”	the proposed placing of the Placing Shares pursuant to the terms of the Placing Agreements
“Placing Agent”	UBS AG, Hong Kong Branch
“Placing Agent’s Upsize Option”	the option granted by PYE to the Placing Agent pursuant to the Independent Placing Agreement by virtue of which PYE may be required by the Placing Agent to allot and issue to Independent Placees up to an additional 440 million Placing Shares
“Placing Agreements”	the Independent Placing Agreement and the AID Subscription Agreement
“Placing Completion Date”	the fifth Business Day after the satisfaction of all the relevant conditions precedent, the fulfilment of which has not been waived by the Placing Agent or the AID Subscribers (as the case may be, if applicable) of the Independent Placing Agreement and AID Subscription Agreement, or such other date as may be agreed by and between PYE and the Placing Agent or the AID Subscribers (as the case may be) (and provided always that all of the conditions precedent, to the extent not waived, remain satisfied on the Placing Completion Date)
“Placing Period”	the period from the execution of the Placing Agreements up to and including 31 December 2011
“Placing Price”	the placing price per Placing Share being HK\$0.65
“Placing Share(s)”	the New Shares proposed to be placed pursuant to the Placing, being 3,100 million New Shares (in the absence of exercise of the Upsize Options) or up to 3,600 million New Shares (on the exercise in full of the Upsize Options)
“Potential Additional PYE BVI Shares Acquisition”	the conditional obligation on the part of PYI to purchase distribution entitlements in respect of up to 231,128,005 PYE BVI Shares, equating to approximately 18.66% of the issued share capital of PYE BVI, from Eligible Qualifying PYE Shareholders obliged to receive, or electing to receive, the Cash Alternative

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## DEFINITIONS

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“PRC”	the People’s Republic of China, for the purposes of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed New Directors”	the proposed new PYE Directors, Mr. Wu King Shiu, Kelvin and Mr. Chang Tat Joel
“PYE”	Paul Y. Engineering Group Limited (HK Stock Code: 577), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
“PYE Board”	the board of directors of PYE
“PYE BVI”	Paul Y. Engineering (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PYE
“PYE BVI Share(s)”	share(s) in the issued share capital of PYE BVI
“PYE BVI Shares Deed of Undertaking”	the deed poll dated 21 August 2011 executed by PYI pursuant to which PYI has undertaken, conditional on the Distribution in Specie being effected, to complete the Potential Additional PYE BVI Shares Acquisition
“PYE Directors”	the directors of PYE
“PYE Group”	PYE and its subsidiaries
“PYE SGM”	the special general meeting of PYE to be convened to consider and, if thought fit, to approve the resolutions relevant to the implementation of the Transactions
“PYE Share(s)”	the existing ordinary share(s) of HK\$0.50 each in the share capital of PYE
“PYE Shareholder(s)”	shareholder(s) of PYE
“PYI” or the “Company”	PYI Corporation Limited (HK Stock Code: 498), a company incorporated in Bermuda, the issued shares of which are listed on the main board of Stock Exchange
“PYI Board”	the board of directors of PYI
“PYI Directors”	the directors of PYI
“PYI Group” or the “Group”	PYI and its subsidiaries
“PYI SGM”	the special general meeting of PYI to be convened and held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 17 October 2011 at 10:30 a.m. to consider and, if thought fit, to approve the resolutions relevant to the Deemed Disposal, notice of which is set out on pages 65 to 66 of this circular
“PYI Shares” or “Share(s)”	the existing ordinary share(s) of HK\$0.10 each in the share capital of PYI
“PYI Shareholder(s)”	shareholder(s) of PYI
“Qualifying Films”	films produced and distributed by Legendary East that are based on Chinese history, mythology or culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis, which meets certain criteria set out in the Legendary East Shareholders’ Agreement

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## DEFINITIONS

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“Qualifying PYE Shareholders”	all PYE Shareholders registered on PYE’s share register or branch share register on the Record Date
“Record Date”	the record date for the purposes of ascertaining entitlements of the PYE Shareholders to the Distribution in Specie or Cash Alternative and/or the Cash Dividend or Scrip Alternative, being a date to be announced by PYE that will follow both the PYE SGM and the Capital Reduction Effective Date
“Remaining Group”	the PYI Group, excluding PYE upon completion of the Deemed Disposal
“RMB”	Renminbi, the lawful currency of the PRC
“Scrip Alternative”	the proposed scrip dividend arrangements of PYE pursuant to which Eligible Qualifying PYE Shareholders will have the option to elect to receive New Shares in lieu of the Cash Dividend as further described in this circular
“SFO”	The Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong
“Specific Mandate”	a specific mandate to be sought from PYE Shareholders at the PYE SGM to allot and issue (1) the Placing Shares pursuant to the Placing Agreements; and (2) the New Shares upon the exercise of the Investors’ Put Right
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction(s)”	the Placing and all matters relating thereto, including the Upsize Options; the Film Joint Venture and all matters relating thereto, including the Exchange Rights; the Distribution in Specie, including all matters relating thereto, including the Capital Reduction and the Cash Alternative; and the Cash Dividend and all matters relating thereto including the Scrip Alternative
“Transactions Announcement”	the joint announcement of PYE and PYI dated 21 August 2011 relating to the Transactions
“Upsize Options”	the Placing Agent’s Upsize Option and the AID Upsize Option
“US\$”	United States dollars, the lawful currency of the U.S.
“U.S.”	United States of America
“Yangkou Port Co”	江蘇洋口港投資開發有限公司(Jiangsu Yangkou Port Development and Investment Co., Ltd.*), a sino-foreign joint venture company established in the PRC
“Yichang Port”	the port operated by Yichang Port Group at Yichang, Hubei Province, the PRC
“Yichang Port Group”	宜昌港務集團有限責任公司(Yichang Port Group Limited*), a company incorporated in the PRC and a 51% subsidiary of the Company

*Note: For the purpose of this circular, the exchange rate used is US\$1 = HK\$78.*

*\* English transliteration for identification purpose only.*

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## LETTER FROM THE BOARD

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# PYI Corporation Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 498)**

*PYI Directors:*

Mr. Lau Ko Yuen, Tom  
*(Deputy Chairman and Managing Director)*  
Dr. Chan Kwok Keung, Charles  
*(Non-Executive Director)*  
*(with Mr. Chan Yiu Lun, Alan as alternate)*  
Mr. Kwok Shiu Keung, Ernest  
*(Independent Non-Executive Director)*  
Mr. Chan Shu Kin  
*(Independent Non-Executive Director)*  
Mr. Leung Po Wing, Bowen Joseph GBS, JP  
*(Independent Non-Executive Director)*  
Mr. Li Chang An  
*(Independent Non-Executive Director)*

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business in Hong Kong:*

33rd Floor, Paul Y. Centre  
51 Hung To Road  
Kwun Tong  
Kowloon  
Hong Kong

23 September 2011

*To the PYI Shareholders and, for information only,  
holders of share options*

Dear Sir or Madam,

### **DEEMED VERY SUBSTANTIAL DISPOSAL AND POTENTIAL DISCLOSEABLE TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING**

#### **INTRODUCTION**

Reference is made to the Transactions Announcement in which the respective boards of directors of the Company and PYE jointly announced that PYE has entered into certain agreements and resolved to pursue certain transactions which, together, would represent a significant refocusing of PYE's business activities which the PYE Board believes will, in due course, generate strong cash flows and ultimately benefit to all PYE Shareholders.

In summary, PYE proposes to pursue a new Film Joint Venture with industry-leading partners, Legendary and the Huayi Group, to develop and produce films, predominantly in the English language intended for a global audience, based on Chinese history, mythology or culture. Based on the binding Heads of Agreement the parties propose to enter into the Joint Venture Agreements, which shall incorporate all of the material terms of the Heads of Agreement (which shall be terminated on the parties entering into the Joint Venture Agreements). PYE proposes to fund its contribution to the Film Joint Venture by means of the Placing. PYE also announced that it planned to reduce its exposure to, and reliance upon, its Existing Businesses by distributing 49% of PYE BVI, the intermediate holding company of PYE's Existing Businesses, which comprise a management contracting division, engaged in building construction and civil engineering projects predominantly in Hong Kong; a property investment division; and a property development management division.

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## LETTER FROM THE BOARD

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### Deemed very substantial disposal

The Placing constitutes a deemed very substantial disposal by PYI, whose percentage share of the issued share capital of PYE will be diluted from approximately 61.92% to approximately 10.14% assuming no exercise of the Upsize Options, or to approximately 8.93% assuming exercise, in full, of the Upsize Options. The impact of the Placing on PYI is therefore a matter that is subject to the approval of the PYI Shareholders in PYI SGM.

### Potential discloseable transaction

In order to provide PYE Shareholders (other than PYI) with immediate liquidity should they not wish to hold shares in PYE BVI, an unlisted company incorporated in the British Virgin Islands, PYI has agreed, conditionally upon the Distribution in Specie being effected, to provide PYE Shareholders (other than PYI) with a Cash Alternative enabling them to realise cash from the distribution. Accordingly, PYI has undertaken to acquire up to the full 18.66% stake in PYE BVI not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equating to a price of HK\$0.30 per PYE BVI Share. Were PYI called upon to meet its full obligation to acquire this 18.66% stake in PYE BVI, this would constitute a discloseable transaction for PYI.

## A. PROPOSED PLACING OF NEW SHARES BY PYE RESULTING IN A DEEMED VERY SUBSTANTIAL DISPOSAL FOR PYI

### Placing Agreements

On 21 August 2011, PYE entered into two conditional agreements to allot a total of 3,100 million Placing Shares, with the prospect of up to an additional 500 million Placing Shares, being allotted on exercise of the Upsize Options (which, if exercised, in full would mean that a total of 3,600 million Placing Shares would be allotted and issued pursuant to the Placing). Brief details of the Placing Agreements are described below.

#### *The Independent Placing Agreement*

On 21 August 2011, PYE entered into a conditional placing agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to place, on a best-efforts basis, 2,740 million Placing Shares at the Placing Price within the Placing Period. In addition, PYE has granted to the Placing Agent the Placing Agent's Upsize Option pursuant to which PYE may be required by the Placing Agent, to allot and issue up to an additional 440 million Placing Shares at the Placing Price within the Placing Period. Subject to the completion of the Independent Placing Agreement, the Placing Agent shall be entitled to (i) a placing commission of 2.75% of the aggregate Placing Price of the Placing Shares to be allotted and issued under the Independent Placing Agreement (including those allotted on exercise of the Placing Agent's Upsize Option); and (ii) an incentive payment of US\$1 million payable at the sole discretion of PYE on the Placing Completion Date. As stated in the Transactions Announcement, to the best of PYE Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner are third parties independent of, and not connected with, PYE and its Connected Persons.

It is expected that there will be not less than six Independent Placees, in aggregate, subscribing for the Placing Shares placed pursuant to the Independent Placing Agreement at the Placing Price within the Placing Period. None of the Independent Placees will be (i) a Connected Person of PYE, Legendary or Huayi, other than in a situation where consent from the Stock Exchange has been obtained as a pre-condition and in compliance with the Listing Rules; or (ii) an associate of the AID Parties or of either of the Proposed New Directors; or (iii) allotted more than 10% of the Placing Shares under the Independent Placing Agreement. After the Placing, at least 25% of PYE's total issued share capital will be held by the public, as required by the Listing Rules. The conditions to the Independent Placing Agreement are set out below.

The Placing Agent's Upsize Option (which may be exercised independently of the AID Upsize Option) has been granted to the Placing Agent as a means of expanding the size of the Placing should there be sufficient demand for Placing Shares. It has not been granted in the context of any prospective price stabilisation programme.

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## LETTER FROM THE BOARD

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PYE has provided customary representations and warranties in respect of the Placing including an indemnity in respect of the claim as disclosed in the PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading".

### *The AID Subscription Agreement*

On 21 August 2011, PYE entered into a conditional subscription agreement with the AID Subscribers pursuant to which the AID Subscribers have conditionally agreed to subscribe for 360 million Placing Shares at the Placing Price. In addition, PYE has granted the AID Subscribers the AID Upsize Option pursuant to which PYE may be required by the AID Subscribers to allot and issue up to an additional 60 million Placing Shares at the Placing Price. As this subscription is not the subject of the Independent Placing Agreement, the Placing Agent would not earn a placing commission in respect of the Placing Shares that would be allotted to the AID Subscribers. The conditions to the AID Subscription Agreement are set out below.

AID Subscribers are investment holding companies indirectly wholly-owned by AID Capital and neither has carried on any business activities since its incorporation except for entering into the AID Subscription Agreement. AID Capital, established in 2007, is a private equity investor in Asia, co-founded by the Proposed New Directors. AID Capital invests in growth equity and expansion capital primarily in specific sectors including media and entertainment, technology, retail and consumer-related industries. The previous investments of AID Capital include investments in Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK Stock Code: 1132) and Gushan Environmental Energy Limited (NYSE Stock Code: GU) and its current investments include investments in Asian Citrus Holdings Limited (HK Stock Code: 0073), Legendary and a beverage company in Japan. In addition to financing, AID Capital adopts a hands-on approach and works closely with the companies in which it invests. The current investors in AID Capital include the general partner and a total of 20 limited partners who are institutional and high net worth professional investors in the U.S., the United Kingdom, Hong Kong and the PRC. AID Capital is managed and controlled by the general partner, which is another limited partnership, ultimately controlled by the Proposed New Directors.

As stated in the Transactions Announcement, to the best of the PYE Directors' knowledge, information and belief, having made all reasonable enquiries, the AID Subscribers and their ultimate beneficial owners are, as at the Latest Practicable Date, third parties independent of, and not connected with, PYE, Legendary, Huayi or their Connected Persons.

However, in view of the relationship between the Proposed New Directors and the AID Subscribers as disclosed above, and as it is intended that the Proposed New Directors be appointed as new PYE Directors with effect from the Placing Completion Date, the AID Subscribers are not being treated as Independent Placees. Rather, with effect from the Placing Completion Date, each of the AID Subscribers will be a Connected Person of PYE, being the associate of the Proposed New Directors.

The AID Upsize Option (which may be exercised independently of the Placing Agent's Upsize Option) has been granted to the AID Subscribers as a means of expanding the size of the Placing. It has not been granted in the context of any prospective price stabilisation programme.

PYE has provided customary representations and warranties in favour of the AID Subscribers including an indemnity in respect of the claims as disclosed in the PYE's 2011 annual report and in the PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading".

### **Number of Placing Shares**

The 3,100 million Placing Shares (assuming no exercise of the Upsize Options) represent approximately 510.75% of the existing issued shares of PYE, amounting to 606,954,322 PYE Shares as at the Latest Practicable Date, and approximately 83.63% of the total issued shares of PYE as enlarged by the Placing. The 3,600 million Placing Shares (assuming exercise, in full, of the Upsize Options) represent approximately 593.13% of the existing issued shares of PYE as at the Latest Practicable Date, and approximately 85.57% of the total issued shares of PYE as enlarged by the Placing.

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## LETTER FROM THE BOARD

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The aggregate nominal value of the Placing Shares assuming no exercise of the Upsize Options would be HK\$620 million, and would be HK\$720 million assuming exercise, in full, of the Upsize Options. This reflects the fact that the Placing Shares are shares allotted after the Capital Reduction. This compares with HK\$303,477,161, being the nominal value of the existing PYE Shares in issue, being a pre-Capital Reduction figure.

### Placing Price

The Placing Price of HK\$0.65 per Placing Share represents:

- (i) a discount of approximately 9.72% to the closing price of HK\$0.72 per PYE Share as quoted on the Stock Exchange on 19 August 2011, being the last trading day immediately prior to the date of the Placing Agreements;
- (ii) a discount of approximately 7.14% to the average closing price of approximately HK\$0.70 per PYE Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Placing Agreements;
- (iii) a premium of approximately 38.30% to the price referred to at (i) above after factoring in payment by PYE of the Cash Dividend;
- (iv) a premium of approximately 44.44% to the price referred to at (ii) above after factoring in payment by PYE of the Cash Dividend; and
- (v) a discount of approximately 18.75% to the closing price of HK\$0.8 per PYE Share as quoted on the Stock Exchange on 20 September 2011, being the Latest Practicable Date; and
- (vi) a premium of approximately 18.18% to the price referred to at (v) above after factoring in payment by PYE of the Cash Dividend.

The net placing price after the placing commission under the Independent Placing Agreement is approximately HK\$0.632 per Placing Share and apportioned across the entire Placing (bearing in mind the absence of a placing commission in conjunction with the AID Subscription Agreement) is approximately HK\$0.634 per Placing Share, assuming no exercise of the Upsize Options and no incentive payment to the Placing Agent is made.

As stated in the Transactions Announcement, the PYE Directors consider that the Placing Price, which was agreed after arm's length negotiations between PYE, the Placing Agent and the AID Subscribers with reference to the market price of the PYE Shares in recent months and after factoring in the effect of the Distribution in Specie and Cash Dividend or Scrip Alternative discussed below, is fair and reasonable and in the interests of PYE and PYE Shareholders as a whole.

### Ranking of the Placing Shares

The Placing Shares, when issued and fully paid, will rank *pari passu* in all respects with the other New Shares that will be in issue on the Placing Completion Date and the Placees shall be entitled to exercise all rights attached or accruing to the Placing Shares including the rights to all dividends and other distributions or any return of capital declared, made or paid at any time after the date of issue, excluding any rights to the Distribution in Specie and the Cash Dividend or Scrip Alternative, each as referred to below and the Final Dividend.

### Conditions precedent

The placing of Placing Shares pursuant to the Independent Placing Agreement is conditional upon, amongst others:

- (a) the Placing Agent having completed due diligence in relation to the PYE Group, Legendary East, the Transactions and the Placing to the satisfaction of the Placing Agent;
- (b) the Joint Venture Agreements having been duly entered into and the Film Joint Venture having been duly established based upon the Heads of Agreement;

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- (c) PYE having obtained the approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to implement all the Transactions (excluding the Distribution in Specie), including (i) the Joint Venture Agreements and capital contribution to be made by PYE pursuant thereto; (ii) the Specific Mandate for (1) the issue of the Placing Shares pursuant to the Placing Agreements, and (2) the issue of New Shares pursuant to any exercise of the Investors' Put Right; (iii) the Capital Reduction, (iv) the increase in the authorised share capital of PYE as described in the Transactions Announcement; (v) the Cash Dividend and the Scrip Alternative; and (vi) the appointment of the Proposed New Directors to the PYE Board, and such approvals not having been or proposed to be revoked;
- (d) PYI having obtained the necessary approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to implement the Transactions (excluding the Potential Additional PYE BVI Shares Acquisition) including resolution(s) to approve the Deemed Disposal and such approvals not having been or proposed to be revoked;
- (e) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Shares to be issued under the Transactions (including the Placing Shares, all New Shares to be issued pursuant to the Scrip Alternative and the New Shares to be issued on exercise of the Investors' Put Right) and such listing and permission not having been subsequently revoked;
- (f) the Bermuda Monetary Authority granting all, and not revoking any, necessary approvals and permissions for the creation, allotment and issue of all the New Shares to be issued under the Transactions (including the Placing Shares, all New Shares to be issued pursuant to the Scrip Alternative and the New Shares to be issued on exercise of the Investors' Put Right) and all other applicable approvals, authorisations and consents being unconditionally obtained for the Transactions;
- (g) the taking effect unconditionally and full completion of the Capital Reduction in all respects in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (h) the taking effect unconditionally of the AID Subscription Agreement and the Joint Venture Agreements (save for the completion of the Placing) in all respects in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (i) the simultaneous completion of the AID Subscription Agreement in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the Placing Agent) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agent;
- (j) there not having occurred any breach of, or any event rendering untrue or inaccurate, any of the representations, warranties or undertakings under the Independent Placing Agreement, as given (a) on the date of the Independent Placing Agreement, (b) on the Placing Completion Date, (c) on all dates between the date of the Independent Placing Agreement and the Placing Completion Date on which PYE makes any public announcement or issues of any public documents and (d) on the date of launch of the Placing;
- (k) trading generally not having been suspended or materially limited on, or by, any of the Stock Exchange, the Shanghai Stock Exchange, the Tokyo Stock Exchange, the NYSE or the London Stock Exchange;

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- (l) trading of any securities of PYE not being suspended on the Stock Exchange (other than for any suspension of a routine nature (which does not include the investigation by any regulatory body into any possible breach of the Listing Rules or other applicable laws and regulations) pending publication of the Transactions Announcement);
- (m) a material disruption in securities settlement, payment or clearance services in the U.S., Japan, Hong Kong or the PRC not having occurred;
- (n) any moratorium on commercial banking activities not having been declared by PRC, Japan, Federal or New York State or Hong Kong authorities;
- (o) there not having occurred any event, or series of events beyond the reasonable control of the Placing Agent (including, without limitation, any outbreak or escalation of hostilities, declaration of a national emergency or war, act of terrorism any significant event, development or change in financial markets, currency exchange rates or controls or calamity or crisis, any act of government, strike, labour dispute, lock-out, fire, explosion, flooding, earthquake, tsunami, civil commotion, economic sanctions, epidemic, pandemic, outbreak of infectious disease and act of God) that, in the Placing Agent's judgment in its sole discretion, is material and adverse and which, singly or together with any other event specified above, makes it, in the Placing Agent's judgment in its sole discretion, impracticable, inexpedient or inadvisable to proceed with the offer, sale or delivery of the Placing Shares on the terms and in the manner contemplated in the Independent Placing Agreement;
- (p) there not having come into effect any new law or regulation and there being no change (whether or not permanent) or development (whether or not permanent) involving a prospective change in existing laws or regulations or the interpretation or application thereof by any court or other competent authority which in the sole opinion of the Placing Agent is or is likely to be materially adverse to the success of the Placing, or makes or is likely to make it impracticable or inadvisable or inexpedient to proceed therewith;
- (q) there not having occurred any change (whether or not permanent) or any development (whether or not permanent) involving a prospective change in local, national or international monetary, economic, military, financial, political, legal, industrial, fiscal, regulatory, currency or market conditions (including, but not limited to local, national or international securities (including stock and bonds) market conditions, or currency exchange rates or foreign exchange rates or foreign exchange controls or interbank markets and credit markets);
- (r) any action against any PYE Director not having been commenced by any state, governmental, regulatory or political body or organisation nor any announcement by any regulatory or political body or organisation that it intends to take any such action;
- (s) there not having occurred any material adverse change or development (whether or not permanent) involving a prospective material adverse change in the condition, financial or otherwise, or in the earnings or business affairs or prospects of PYE or the PYE Group, whether or not arising out of the ordinary course of business;
- (t) the Placing Agent not becoming aware, after the date of the Independent Placing Agreement, of any information or other matter (including any matter relating to financial models and underlying assumptions related to projections) affecting PYE or any member of the PYE Group, the Transactions or the Placing that (in the Placing Agent's sole judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Placing Agent prior to the date of the Independent Placing Agreement or would reasonably be expected to impair the Placing or the Transactions;

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- (u) there not having been any acquisition or transaction by PYE proposed, effected or completed after the date of the Independent Placing Agreement and before the completion of the Placing (save as those contemplated in the Transactions Announcement) which would or may reasonably be expected to in the Placing Agent's opinion in its sole discretion, impair or adversely affect the Placing or affect the marketing of the Placing Shares or otherwise makes it inadvisable, inexpedient or impracticable to proceed with the Placing;
- (v) the Placing Agent having completed book-building for the Placing in accordance with the terms of the Independent Placing Agreement and otherwise to the satisfaction of the Placing Agent;
- (w) the Transaction Announcements and any subsequent announcements (relating to the Placing or other content of this circular) prior to the completion of the Placing to be issued by PYE being in a form and at a time agreed by the Placing Agent (save as to any amendments made with the prior written consent of the Placing Agent) prior to the issue thereof by PYE;
- (x) there not having been any capital restructuring and, or, capital reorganisation by PYE proposed, effected or completed after the date of the Independent Placing Agreement (save for those disclosed in this circular);
- (y) except pursuant to the Placing and the Transactions, no issue of new shares or other securities (including any options, warrants or convertible securities) by PYE will be proposed and, or, completed after the date of the Independent Placing Agreement;
- (z) the accuracy and completeness of all representations that PYE makes to the Placing Agent and all information that PYE furnishes to the Placing Agent in connection with the Placing and, or, the Transactions; and
- (aa) receipt by the Placing Agent, amongst others, of one signed original of the legal opinion from PYE's Bermuda legal counsel opining on PYE's due incorporation and valid existence, corporate power and authority to enter into and perform the Independent Placing Agreement and the legal and binding effect and enforceability of the Independent Placing Agreement against PYE.

If the above conditions are not fulfilled to the satisfaction of the Placing Agent or waived by the Placing Agent (to the extent permissible) prior to the expiry of the Placing Period or such later date as may be agreed between PYE and the Placing Agent, the Independent Placing Agreement and the obligations of the parties thereunder shall cease and terminate at that time and neither PYE nor the Placing Agent shall be under any liability to each other under the Independent Placing Agreement, save as regards matters such as governing law and dispute resolution provisions and save for liability in respect of any antecedent breaches of the agreement.

The placing of Placing Shares pursuant to the AID Subscription Agreement is conditional upon:

- (a) similar conditions as apply in relation to the placing of Placing Shares pursuant to the Independent Placing Agreement as set out in the paragraphs (b) to (h), (j) to (u), (x) and (y) above (where applicable, with such modifications that references to the Placing Agent, Independent Placing Agreement and AID Subscription Agreement therein shall be replaced by references to AID Subscribers, the AID Subscription Agreement and the Independent Placing Agreement, respectively);
- (b) the Proposed New Directors having been appointed as the directors of PYE, such appointment to take effect upon completion of the AID Subscription Agreement;
- (c) AID Capital having successfully collected sufficient funds from its limited partners to finance the subscription by the AID Subscribers of their Placing Shares under the AID Subscription Agreement;

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- (d) the representations, warranties and undertakings of PYE in the AID Subscription Agreement being true, correct, complete and not misleading in any material respect at, and as if made on, the Placing Completion Date for the AID Subscription Agreement and all information that PYE furnishes to the AID Subscribers in connection with the Placing under the AID Subscription Agreement and, or, the Transactions being true, correct, complete and not misleading in any material respect;
- (e) there having been no material adverse change or prospective material adverse change in the business, operations, financial conditions or prospects of the PYE Group or Legendary East;
- (f) the simultaneous completion of the Independent Placing Agreement in accordance with the terms (without any variation, amendment or waiver, unless with the prior written consent of the AID Subscribers) set out in this circular and other relevant announcements issued by PYE with the prior written consent of the AID Subscribers, such that the minimum number of Placing Shares allotted pursuant to the Placing will be 3,100 million Placing Shares, raising minimum gross proceeds of HK\$2,015 million (equivalent to approximately US\$258.3 million); and
- (g) the receipt by the AID Subscribers of a signed original of the legal opinion from PYE's Bermuda legal counsel in a form and substance satisfactory to the AID Subscribers opining on PYE's due incorporation and valid existence, corporate power and authority to enter into and perform the AID Subscription Agreement and the legal and binding effect and enforceability of the AID Subscription Agreement against PYE.

If the above conditions are not fulfilled to the satisfaction of the AID Subscribers or waived by the AID Subscribers (to the extent permissible) prior to the expiry of the Placing Period or such later date as may be agreed between PYE and the AID Subscribers, the AID Subscription Agreement and the obligations of the parties thereunder shall cease and terminate at that time and neither PYE nor the AID Subscribers shall be under any liability to each other under the AID Subscription Agreement, save as regards matter such as governing law and dispute resolution provisions and save for liability in respect of any antecedent breaches of the AID Subscription Agreement.

### **Termination**

Shall there be any failure or refusal on the part of PYE to comply with the terms of the Independent Placing Agreement or the AID Subscription Agreement (as the case may be) applicable to PYE, the Independent Placing Agreement or the AID Subscription Agreement (as the case may be) may be terminated by the Placing Agent and the AID Subscribers, respectively, by written notice to PYE given at any time prior to the Placing Completion Date.

### **Completion of the Placing**

Completion of the Placing shall take place on the Placing Completion Date.

### **REASONS FOR THE PLACING**

PYE has announced that it is pursuing the Placing as the catalyst for a significant refocusing of PYE's business activities so as to enable PYE to fund its participation in the Film Joint Venture.

### **EFFECT OF THE PLACING ON PYI**

#### **Deemed very substantial disposal**

The Placing will have the effect of diluting all existing PYE Shareholders' percentage shareholdings in PYE. So far as PYI is concerned, its percentage share of the issued share capital of PYE will be diluted from approximately 61.92% to approximately 10.14% assuming no exercise of the Upsize Options, or to approximately 8.93% assuming exercise in full of the Upsize Options. This constitutes a Deemed Disposal for the purposes of the Listing Rules and

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on the basis that one or more of the percentage ratios exceeds 75%, the Transaction amounts to a deemed very substantial disposal on the part of PYI. PYI has no current intention to sell its PYE Shares.

### FINANCIAL EFFECTS OF THE DISPOSAL

Following completion of the disposal, PYI expects to realise an estimated gain, provided that Distribution in Specie is made, on the Deemed Disposal of approximately HK\$158 million before transaction costs, which is calculated by reference to the Placing Price and after taking into account the net carrying value of PYE as at 31 March 2011. In the event that the Distribution in Specie is not made, it is estimated that PYI will make an estimated loss on the Deemed Disposal of approximately HK\$25 million before transaction costs calculated on the same basis as the gain on the Deemed Disposal. The difference between the above-mentioned estimated gain on the Deemed Disposal of approximately HK\$158 million if the Distribution in Specie is made and the estimated loss of approximately HK\$25 million if the Distribution in Specie is not made represents the fair value of equity interest in PYE BVI distributed by PYE to owners of PYI under the Distribution in Specie of approximately HK\$183 million. The actual amount of the gain or loss to be recognised in PYI's consolidated income statement will depend on the actual transaction costs, the actual market price for the New Shares and the net carrying values of PYE and PYE BVI on the date of completion.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix II to this circular, the financial effects of the Deemed Disposal on the PYI Group are as follows:

- (a) as stated in Appendix II to this circular, the PYI Group's total assets would decrease by approximately HK\$2,392 million from approximately HK\$14,895 million to approximately HK\$12,503 million and the PYI Group's total liabilities would decrease by approximately HK\$2,125 million from approximately HK\$8,569 million to approximately HK\$6,444 million as if the Deemed Disposal had been completed on 31 March 2011;
- (b) as stated in Note 3 to Appendix II to this circular, an estimated loss of approximately HK\$25 million before transaction costs would be resulted from the Deemed Disposal as if the Deemed Disposal had been completed on 31 March 2011 (in the event that the Distribution in Specie is not made); in the event that the Distribution in Specie is made, a net gain of approximately HK\$158 million before transaction costs would be resulted; and
- (c) as stated in Appendix II to this circular, the PYI Group's profit attributable to owners of the Company for the year ended 31 March 2011 would decrease from approximately HK\$200 million to approximately HK\$174 million which is calculated based on (i) the exclusion of result of PYE Group attributable to PYI Group for the year ended 31 March 2011 of approximately HK\$13 million; and (ii) the inclusion of the estimated loss of approximately HK\$13 million before transaction costs arising from the Deemed Disposal as if the Deemed Disposal had been completed on 1 April 2010 (in the event that the Distribution in Specie is not made).

The unaudited pro forma financial information of the Remaining Group is for illustrative purposes only, based on the judgements and assumptions of the PYI Directors, and because of its hypothetical nature, may not purport to represent the true picture of the financial position of the Remaining Group that would have been attained had completion of the Deemed Disposal had taken place at the dates indicated herein, or the financial results and cash flows of the Remaining Group. Further, the accompanying unaudited pro forma financial information does not purport to predict the Remaining Group's future financial position, results of operations or cash flows.

On completion, PYE will no longer be a subsidiary of PYI and its financial position and results will not be consolidated into those of PYI. PYE will become an available-for-sale investment.

As a deemed very substantial disposal, the impact of the Placing on PYI is a matter that is subject to the approval of the PYI Shareholders in general meeting.

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### Financial information on PYE

The consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011, being PYE's last financial year end, was approximately HK\$605.39 million. This figure has been extracted from its 2011 annual report.

The consolidated net profit before taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010 was approximately HK\$41.66 million and HK\$47.81 million, respectively. These figures have been extracted from its 2011 annual report.

The consolidated net profit after taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010 was approximately HK\$33.76 million and HK\$46.57 million, respectively. These figures have been extracted from its 2011 annual report.

### B. LEGENDARY EAST – THE FILM JOINT VENTURE

Details of the proposed Joint Venture Agreements, as are required to be based on the Heads of Agreement are as follows:

**Parties to the  
Legendary East  
Subscription  
Agreement (to be  
entered into on or  
before JV Closing)  
to include the  
following:**                      Legendary East Holdings; Huayi; Modern Front; and Legendary East.

**Parties to the  
Legendary East  
Shareholders  
Agreement (to be  
entered into on or  
before JV Closing)  
to include the  
following:**                      Legendary East Holdings; Huayi; and Modern Front.

To the best of the PYE Directors' knowledge, information and belief having made all reasonable enquiry, Legendary and Huayi (being parties to the Heads of Agreements) and their respective ultimate beneficial owners are third parties independent of PYE and Connected Persons of PYE. Legendary East is a newly-established company incorporated for the specific purpose of the Film Joint Venture, and is currently an indirect subsidiary of Legendary.

**Termination of the  
Heads of  
Agreement:**                      The Joint Venture Agreements shall be based upon the Heads of Agreement and shall incorporate all of the material terms of the Heads of Agreement (which shall be terminated on the parties entering into the Legendary East Subscription Agreement).

**Purposes:**

- (a) To develop, finance, acquire, produce, distribute and exploit films, based on Chinese history, mythology and, or, culture, filmed predominantly in the English language and intended for theatrical release on a worldwide basis; and
- (b) To co-finance two (and potentially more) other films to be produced or co-produced by Legendary (or its affiliate) and distributed by a U.S. film studio ("**Approved Co-Financed Pictures**"), as further referred to below.

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**Contributions:** The contribution amounts set out below were arrived at after arm's length negotiations between the parties and determined with reference to (i) the relative shareholding interest of each party in Legendary East; (ii) the estimated amount required by Legendary East to develop Qualifying Films; and (iii) future capital requirements of Legendary East.

(a) PYE At JV Closing, PYE will contribute US\$220.5 million in cash to Legendary East. The PYE Board commissioned an independent valuation, by which it has satisfied itself that the fair value of its interest in Legendary East will be equal to or in excess of its cash contribution to Legendary East.

(b) Legendary and Huayi Each of Legendary and Huayi will bring to the venture (i) know-how and industry knowledge, (ii) contacts/connections within the motion picture industry (including Legendary's connection to a U.S. film studio and worldwide distributor and Legendary and Huayi's connections to renowned directors and other associated talents) and (iii) execution capability. Huayi will bring its production and distribution capabilities in the PRC to the venture. Legendary will bring the right to co-finance two (and potentially more) other motion pictures to be produced or co-produced by Legendary (or its affiliate) and distributed by a U.S. film studio to the venture. Legendary will, and Huayi may, contribute projects currently under development which are associated with the above to Legendary East. Apart from the motion picture projects that are currently under development, for which development costs will be reimbursed by Legendary East, there will be no other physical assets to be contributed by either Legendary or Huayi. It is not presently anticipated that Huayi will contribute any motion picture projects currently under development. The valuation of Legendary East is prepared by reference to the business plan of Legendary East.

Huayi (or the Huayi Group) will furnish production services and a percentage of the direct negative costs of each Qualifying Film pursuant to the master co-production agreement, as described below.

At JV Closing, Legendary will also be reimbursed for organization costs, fees and expenses (including legal, accounting and advisory fees) in connection with the formation and financing of Legendary East.

**Conditions precedent:** The JV Closing is conditional upon events including:

- (i) the parties settling and entering into the Joint Venture Agreements based on the Heads of Agreement;
- (ii) completion of the Placing; and

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- (iii) Legendary East (or its subsidiaries) entering into:
  - (a) a master co-production agreement, with Huayi (as contemplated under the sub-heading 'Production' below); and
  - (b) a master distribution agreement with a U.S. film studio or its foreign affiliate (as contemplated under the sub-heading 'Distribution' below).

### Shareholdings:

The shareholdings in Legendary East after JV Closing will be as follows:

- (a) PYE: 50.0%
- (b) Legendary: 40.1%
- (c) Huayi: 9.9%

JV Management Members may, collectively, be granted an aggregate shareholding interest of up to 11% of the issued share capital of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East (the shares therefore being required to be transferred to the JV Management Members by, or otherwise reducing the ownership interests of, Legendary). The JV Management Members are expected to include the Proposed New Directors and Mr. Thomas Tull, the Chairman and Chief Executive Officer of Legendary and future Executive Chairman of Legendary East (amongst others including, potentially, other Legendary executives), although the identities of all of the JV Management Members, the exact number of Legendary East Shares to be held by them and the timing of the same have yet to be determined. The Proposed New Directors will be Connected Persons of PYE with effect from completion of the Placing. It is not currently anticipated that any other JV Management Members will be Connected Persons of PYE (or PYI).

The shares issued to PYE, Legendary and Huayi will be the same, except that the shares issued to PYE will have a liquidation preference. Distributions of operating cash will be made in accordance with ownership percentages. On liquidation, distributions will be made:

- (i) first, to PYE until PYE receives an amount equal to the amount of its initial capital contribution to Legendary East (i.e., US\$220.5 million);
- (ii) next, the other members of Legendary East ("Other Members") will receive a catch up until the Other Members have received an amount equal to the amount distributed to PYE (i.e., US\$220.5 million); and
- (iii) thereafter, PYE and the Other Members will receive amounts in proportion to their respective ownership percentages.

Legendary East will be accounted for as an associate of PYE and thus Legendary East's accounts will not be consolidated into the accounts of PYE. PYE shall nevertheless publish the annual audited results and interim results of Legendary East on receipt of the same from Legendary East.

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- Debt finance:** Legendary East, through its subsidiaries, will use commercially reasonable efforts to obtain a revolving senior secured credit facility in the principal amount of up to approximately US\$225 million, not later than 30 days after the release of the first Qualifying Film. It is not intended that any of PYE, Legendary or Huayi will be required to provide guarantees or any form of security in respect of this debt finance.
- Management and corporate governance:** The board of directors of Legendary East will initially consist of five members, with two members appointed by Legendary, one member appointed by Huayi and two members appointed by PYE.
- Certain matters to be specified in the Legendary East Shareholders' Agreement, such as entering into certain new lines of business or the making of certain amendments to Legendary East's organisational documents (the "**super majority voting matters**"), shall require a majority vote, that in some cases, requires a board majority that includes the approval of at least one director appointed by PYE and, in other cases, a board majority that includes the approval of at least one director appointed by Legendary (and, for some matters, the approval of a director appointed by each of PYE and Legendary).
- Exclusivity:**
- (a) PYE – PYE shall not be permitted, during the JV Hold Period, to invest in any entity whose primary business is to produce and, or, finance High Budget Chinese Co-Productions.
  - (b) Legendary – Legendary shall not be permitted to engage, outside of Legendary East, in the financing or production of any High Budget Chinese Co-Productions.
  - (c) Huayi – Huayi and certain of its affiliates shall not be permitted to engage, outside of Legendary East, in the financing or production of any High Budget Chinese Co-Productions. Huayi shall be permitted to distribute in the PRC any films (including High Budget Chinese Co-Productions) developed and produced by third parties, provided that neither Huayi nor such affiliates have participated in the development, financing or production thereof.
  - (d) JV Management Members – JV Management Members shall not be permitted, during the JV Hold Period, to invest in any entity whose primary business is to produce and, or, finance High Budget Chinese Co-Productions.
- Minimum hold:** Members of Legendary East will not be entitled to sell, transfer or otherwise alienate their interests in Legendary East for the JV Hold Period (subject to limited exceptions), provided however, each member (other than the JV Management Members) shall be permitted to pledge its equity interests in Legendary East to its lenders (or, in the case of PYE, its affiliates' lenders) to the extent required by its credit facilities or other debt agreements (or, in the case of PYE, those of its affiliates).

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### DEVELOPMENT, PRODUCTION AND DISTRIBUTION OF QUALIFYING FILMS

- Qualifying criteria:** Legendary East will seek to produce and distribute one to two Qualifying Films per year for distribution on a worldwide basis. Such films will be filmed predominantly in the English language and based on Chinese history, mythology or culture and will be produced so as to qualify as Chinese co-productions under applicable Chinese governmental regulations, including approval of the screenplay by the applicable regulatory authorities.
- Development:** Legendary East will establish a development committee which will be responsible for making all material development decisions including whether or not to pursue a particular project for development. The development committee will have five members. Legendary will be entitled to appoint three members, Huayi will be entitled to appoint one member and PYE will be entitled to appoint one member. All decisions of the development committee will be made by a majority vote.
- Greenlighting:** Legendary East will establish a greenlight committee responsible for evaluating each project to determine whether such project is (or will be) a Qualifying Film and make the final determination as to whether such project shall be greenlit for production.
- The greenlight committee will have five members. Legendary will be entitled to appoint three members, Huayi will be entitled to appoint one member and PYE will be entitled to appoint one member. In cases where there is no unanimity, a simple majority of the members of the greenlight committee will prevail, provided, however, that the unanimous vote of the greenlight committee shall be required to greenlight a project that does not meet the requirements of a Qualifying Film.
- Production:** On or before JV Closing, a subsidiary of Legendary East and Huayi (or a party within the Huayi Group) will enter into a master co-production agreement pursuant to which the parties will agree to co-produce Qualifying Films in order to qualify as approved Chinese co-productions. Each of Legendary (or its affiliate) and Huayi (or a party within the Huayi Group) will be entitled to a respective fixed fee for each Qualifying Film and Legendary (or its affiliate) will be entitled to a percentage of gross receipts in respect of each Qualifying Film as producer fees.
- Distribution:** On or before JV Closing, a subsidiary or subsidiaries of Legendary East will enter into one or more master distribution agreements with a U.S. film studio or its foreign affiliate (the "Studio Distributor") for the distribution of Qualifying Films throughout the world (other than the territories licensed to Huayi) on terms and conditions yet to be settled (and additionally may enter into one or more other distribution agreements with other U.S. film studios (or their foreign affiliates) on a picture by picture basis).
- Huayi (or a party within the Huayi Group) will distribute each Qualifying Film in the PRC (and, subject to the approval of Legendary and the Studio Distributor, some or all of Hong Kong, Macau, Taiwan, Malaysia and, or, Singapore). Huayi (or a party within the Huayi Group) will be entitled, as its distribution fee, to a percentage of the gross receipts collected by Huayi from the exploitation of its rights to the Qualifying Films.
- Approved co-financed pictures:** Legendary East may co-finance up to 25% of the direct negative costs of two (and potentially more) Approved Co-Financed Pictures. The actual films will be selected by mutual agreement between Legendary and Legendary East via the greenlight committee referred to above, in which regard the

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## LETTER FROM THE BOARD

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approval of the committee must include the approval of the PYE nominee to the committee. Legendary East's interests in any Approved Co-Financed Pictures may be limited to an economic interest in the net proceeds derived from exploitation of the Approved Co-Financed Pictures commensurate with its contribution towards the direct negative costs.

### RIGHTS TO EXCHANGE FOR NEW SHARES

Subject to fulfilment of the Exchange Conditions (as defined below), at any time during the Exchange Rights Period (as defined below):

- members of Legendary East (other than PYE) will each have the right (the **"Investors' Put Right"**) each time, and from time to time, to require PYE to have transferred to it all (to the maximum extent permissible without triggering a mandatory general offer obligation, as referred to below and subject to the cap on the Exchange Rights referred to below) or part (in amounts of not less than 10% of their respective holdings on each occasion) of their respective holdings of Legendary East Shares in exchange for New Shares in PYE; and
- PYE will have the right (**"PYE's Call Right"**) each time, and from time to time, to require the members of Legendary East (other than PYE) to transfer to PYE all (to the maximum extent permissible without triggering a mandatory general offer obligation, as referred to below and subject to the cap on the Exchange Rights referred to below) or part (in amounts of not less than 10% of their respective holdings on each occasion) of their respective holdings of Legendary East Shares (and if part only, then on a pro rata basis as between such members of Legendary East), in exchange for New Shares in PYE,

(together, the **"Exchange Rights"**), in each case at the Exchange Ratio (as specified below).

To the extent that an exercise of the Exchange Rights would oblige the members of Legendary East (other than PYE), either individually or collectively, to make a mandatory general offer for the shares of PYE not otherwise owned by them and their concert parties in accordance with the Takeovers Code, the amount of the shares subject to the exercise of such Exchange Rights will be reduced and the members of Legendary East (other than PYE) will be afforded the opportunity to participate in their pro rata share of the exercise of the Exchange Rights (and the number of shares to be exchanged shall be reduced proportionately to the extent required to avoid having to make such mandatory general offer).

**Exchange Rights Period:** The Exchange Rights may be exercised at any time during the period commencing on the later of (i) 30 months after the JV Closing and (ii) the satisfaction of the last of the Exchange Conditions, and ending 36 months after such commencement date (the **"Exchange Rights Period"**).

**Exchange Conditions:** The Exchange Rights will be conditional on the following (the **"Exchange Conditions"**):

- (i) approval of the same by PYE Shareholders (as an integral part of approving the Joint Venture Agreements);
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in all New Shares to be allotted pursuant to the exercise of the Exchange Rights;
- (iii) exercise of the Exchange Rights not causing the shares of PYE to be de-listed nor being deemed to constitute a new listing for PYE;
- (iv) the fair market value of Legendary East Shares (other than those held by PYE but after giving effect to the liquidation preference of PYE's Legendary East Shares) must be equal to or must exceed US\$220.5 million (and for subsequent exchanges the US\$220.5 million threshold shall be proportionately adjusted based upon the number of shares previously exchanged); and

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## LETTER FROM THE BOARD

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- (v) in the case only of PYE's Call Right, further compliance with the relevant requirements of Chapter 14 and Chapter 14A of the Listing Rules, including the requirement, as necessary, to obtain independent shareholder approval.
- Exchange ratio:** The Legendary East Shares will be exchanged for New Shares, based on the relative fair market values of PYE and Legendary East at the time of exercise of the Exchange Rights on the basis that:
- (i) the respective fair market values of PYE and Legendary East will be as agreed between the parties or otherwise on the basis of appraised valuations by an agreed independent valuer;
  - (ii) having determined the respective fair market values of PYE and Legendary East, the respective fair market values per share (after giving effect to the liquidation preference of PYE's Legendary East Shares), and accordingly the exchange ratio, shall be determined; and
  - (iii) for the purposes of capping the limit of the Exchange Rights, the parties have agreed that the maximum number of New Shares to be allotted and issued shall not, in any event, exceed 3,706,954,322 New Shares (or such greater number of shares as are outstanding after the completion of the Placing depending upon exercise of either or both of the Upsize Options and subject to adjustment in the case of changes to the nominal value of the New Shares by consolidation, sub-division or otherwise).
- Cash alternative:** At the election of the respective holders of the Investors' Put Right, on exercise by PYE of PYE's Call Right, and, at the election of PYE, on exercise by the respective holders of the Investors' Put Right, up to a maximum of 50% of the shares to be exchanged shall be settled by PYE in cash (based on the fair value of the shares being exchanged) in lieu of PYE issuing New Shares to the equivalent value.
- Continuing status of the Legendary East Shareholders' Agreement:** Certain consent and other rights and obligations of Legendary and Huayi shall lapse in circumstances where Legendary and Huayi cease to own certain percentages of the shares of Legendary East, although certain matters relating to the development, production and distribution of Qualifying Films (including as to the composition and roles of the development committee and the greenlight committee) will continue in full force and effect.
- Specific Mandate:** The New Shares to be issued upon exercise of the Investors' Put Right shall be allotted and issued pursuant to the Specific Mandate the authority in respect of which will remain valid until the end of the Exchange Rights Period. The New Shares issued on exercise of the Exchange Rights would not be subject to restrictions on subsequent sales.

For illustrative purposes only, the table below shows one permutation of an exercise of the Investors' Put Right. The information is presented on the assumptions that (i) the Placing proceeds on the basis that there is no exercise of either Upsize Option; (ii) no PYE Shareholder elects to receive New Shares pursuant to the Scrip Alternative; (iii) no additional New Shares are allotted or issued at any time after completion of Placing up to the time of completing the allotment of New Shares on exercise of the Investors' Put Right; (iv) the fair market value of Legendary East is determined as being US\$441 million (and, therefore, that Legendary, Huayi and all of the JV Management Members have an equity interest in Legendary East worth US\$220.5 million in respect of which the Investors' Put Right could be exercised); (v) that the fair market value of PYE per New Share is determined as being HK\$0.65 per New Share; and (vi) that the members of Legendary East (other than PYE) all elect to exercise their respective

## LETTER FROM THE BOARD

rights under the Investors' Put Right to acquire, in aggregate, 29.99% of the outstanding shares of PYE, and on the basis that PYE does not opt to settle any obligation to issue New Shares by means of the cash alternative in lieu of New Shares. In these circumstances, PYE would be required to allot and issue an additional 1,588 million New Shares (total value, at HK\$0.65 per New Share, being approximately HK\$1,032.2 million (equating to approximately US\$132.3 million), and Legendary, Huayi and all of the JV Management Members would retain an equity interest in Legendary East worth approximately US\$88.2 million (US\$220.5 million less US\$132.3 million) equating to a residual interest of approximately 20% of Legendary East.

Name of PYE Shareholder	Shareholdings in PYE upon completion of the Placing (assuming no exercise of the Upsize Options)		Shareholdings in PYE upon completion of the Investors' Put Right (assuming no exercise of the Upsize Options)	
	Number of New Shares	Approximate %	Number of New Shares	Approximate %
PYI	375,826,317	10.14	375,826,317	7.10
The AID Subscribers	360,000,000	9.71	360,000,000	6.80
Independent Placees	2,740,000,000	73.92	2,740,000,000	51.75
Other PYE Shareholders	231,128,005	6.23	231,128,005	4.36
Legendary <sup>1</sup>	Nil	Nil	924,216,000	17.45
Huayi <sup>1</sup>	Nil	Nil	314,424,000	5.94
JV Management Members <sup>1</sup>	Nil	Nil	349,360,000	6.60
	<u>3,706,954,322</u>	<u>100.00</u>	<u>5,294,954,322</u>	<u>100.00</u>

Note:

<sup>1</sup> The information is presented on the assumption that the JV Management Members will own 11% of the issued share capital of Legendary East at the time of a collective exercise of the Investors' Put Right and that, accordingly, Legendary's interest in Legendary East would have been reduced to 29.1% of the issued share capital of Legendary East at that time.

### INFORMATION ON LEGENDARY

Legendary is a Delaware limited liability company. The principal business of Legendary is the co-financing and production of theatrical motion pictures. Legendary is based in Burbank, California.

With its partner Warner Bros., Legendary's productions include many internationally successful films such as notable blockbusters "The Hangover Part II", "The Dark Knight", "Inception", "Clash of the Titans", "The Hangover", "300", "Superman Returns" and "Batman Begins". Of Warner Bros.' top 10 all-time best selling movies in the North American market, three are Legendary movies, including "The Dark Knight" which is ranked number one grossing over US\$533 million in the U.S.. Legendary has a talented management team led by Thomas Tull, Jon Jashni and Lawrence S. Clark. Prior to founding Legendary, Mr. Tull was president and a director of The Convex Group and is highly respected in Hollywood. Mr. Jashni was formerly president of Hyde Park Entertainment which is a movie production and financing company, and also a senior production executive at 20th Century Fox. Mr. Clark has a depth of experience in the provision of financial and corporate development consulting services to media and entertainment clients. He was formerly the chief financial officer of Creative Artists Agency and senior vice president of corporate development for Sony Pictures Entertainment.

AID Partners Media L.P. (which is wholly-owned by the Proposed New Directors) and AID Capital, through their respective investment vehicles, are investors in Legendary. As at the Latest Practicable Date, they collectively own less than 5% of the equity of Legendary.

### INFORMATION ON HUAYI

Huayi is a company incorporated in Hong Kong and is a subsidiary of Huayi Brothers Media Corporation. The Huayi Group is based in Beijing and is principally engaged in production and distribution of films and related businesses, production and distribution of television shows and series and related businesses, and agency and related services rendered to artists. The Huayi Group is also involved in on-line and mobile gaming, music and cinemas in the PRC.

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The Huayi Group has produced many successful movies in the PRC including 《大腕》 (Big Shot's Funeral); 《手機》 (Cell Phone); 《功夫》 (Kung Fu Hustle); 《天下無賊》 (A World Without Thieves); 《寶貝計劃》 (Rob-B-Hood); 《功夫之王》 (The Forbidden Kingdom); 《非誠勿擾》 (If You Are The One); 《唐山大地震》 (Aftershock) and 《非誠勿擾2》 (If You Are The One 2). In 2010, films produced by the Huayi Group received box-office sales of over RMB 1.5 billion, accounting for approximately 30% of box office sales from locally produced films.

### C. PROPOSED DISTRIBUTION IN SPECIE BY PYE RESULTING IN A POTENTIAL DISCLOSEABLE TRANSACTION FOR PYI

#### Introduction

As part of the Transactions and following on from the PYE Board's decision to refocus the business activities of PYE through pursuit of the Film Joint Venture, the PYE Board has announced that PYE is proposing to effect a Distribution in Specie of 49% of PYE BVI. PYE BVI was incorporated on 8 June 2011 and became a wholly-owned subsidiary of PYE on 29 June 2011, under which the Existing Businesses are held for the purpose of the Distribution in Specie. As at the Latest Practicable Date, PYE owns 100% of the ordinary shares of PYE BVI. PYE BVI presently has an issued share capital of 1,238,682,291 shares of HK\$0.10 each, being approximately double the number of shares in PYE in issue so that the Distribution in Specie will be on a one share for one share basis.

For the financial year ended 31 March 2011, the consolidated net profit of PYE attributable to its shareholders was approximately HK\$30.08 million and the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011 was approximately HK\$605.39 million, as announced in its 2011 annual report, and such numbers are also representative of the consolidated net profit and consolidated net asset value of PYE BVI.

The Distribution in Specie requires PYE to undertake the Capital Reduction, both of which require the approval of the PYE Shareholders at the PYE SGM. Recognising that PYE Shareholders (other than PYI) may not wish to hold shares in PYE BVI, PYI has agreed to provide PYE Shareholders with a Cash Alternative enabling them to realise cash from the distribution. In addition, PYE proposes to pay a Cash Dividend to the PYE Shareholders and to offer all Eligible Qualifying PYE Shareholders the right to receive New Shares pursuant to the Scrip Alternative. These aspects of the Transactions were explained in the Transactions Announcement.

#### Proposed Distribution in Specie

The PYE Board proposes to effect the Distribution in Specie, pursuant to which each Eligible Qualifying PYE Shareholder will be entitled to receive one PYE BVI Share for every one New Share which he or she holds on the Record Date. The Placing Shares will not qualify for the Distribution in Specie.

Following the Distribution in Specie, PYE will continue to hold 51% equity interest in PYE BVI. Thus, PYE BVI will continue to be a subsidiary of PYE and the results of PYE BVI and the Existing Businesses will continue to be consolidated in the consolidated financial statements of PYE. The PYE Board will maintain the operations of the Existing Businesses as disclosed in its 2011 annual report and the PYE Board confirms that there exists no arrangement, understanding, intention or negotiation, whether formal or informal, whether express or implied, whether concluded or otherwise, about any further disposal of the remaining 51% equity interest in PYE BVI or to dispose or terminate or scale down the Existing Businesses.

#### Conditions to the Distribution in Specie

The Distribution in Specie is conditional upon:

- (a) the passing, at the PYE SGM, of all resolutions, by the requisite majority in each case, necessary to approve the Capital Reduction and the Distribution in Specie;
- (b) completion of the Capital Reduction;

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- (c) receipt by the PYE Group of all relevant consents, authorisations or approvals required from any governmental or other competent regulatory authorities (including but not limited to the approval of the Bermuda Monetary Authority) and/or from any bank(s) pursuant to facility agreements entered into by members of the PYE Group and/or from any other counter-parties to contracts entered into by members of the PYE Group; and
- (d) completion of the Placing Agreements.

**If the conditions referred to above are not fulfilled, the Distribution in Specie (and the Cash Alternative referred to below) will not be implemented.**

### **Cash Alternative**

As a result of the Distribution in Specie, and excluding the effect of PYE Shareholders taking up the Cash Alternative, the shares of PYE BVI would be held as to 51% by PYE, approximately 30.34% by PYI and approximately 18.66% by PYE Shareholders other than PYI. The book value of that 18.66% stake equates to a value of approximately HK\$0.49 per PYE BVI Share based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011.

PYI has, conditional on the Distribution in Specie being effected, undertaken, pursuant to the PYE BVI Shares Deed of Undertaking, to acquire up to the full 18.66% stake in PYE BVI (equating to approximately 231,128,005 shares of PYE BVI) not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equating to a price of:

**HK\$0.30 per PYE BVI Share.**

The Cash Alternative of HK\$0.30 per PYE BVI Share was based on 49% of the 30 days' average closing price of PYE Share of HK\$0.76 as quoted on the Stock Exchange during the period ended 19 August 2011, being the last trading date immediately prior to the date of the Placing Agreements, as adjusted for the Cash Dividend i.e. HK\$0.76 less HK\$0.25 multiplied by 49% (equals approximately HK\$0.25). It represents an approximate 20.05% premium to the 30 days' average closing price of HK\$0.76 per PYE Share, net of the proposed Cash Dividend of HK\$0.25 per PYE Share, and multiplied by 49%. The PYI Directors are of the view that the calculation basis for the Cash Alternative of HK\$0.30 per PYE BVI Share is fair and reasonable.

The Cash Alternative will be made available to all Qualifying PYE Shareholders (other than PYI) who duly complete Cash Alternative Election Forms. Moreover, all Qualifying PYE Shareholders who are not Eligible Qualifying PYE Shareholders will automatically be entitled to the Cash Alternative.

### **EFFECT OF THE POTENTIAL ADDITIONAL PYE BVI SHARES ACQUISITION ON PYI**

#### **Discloseable transaction**

As described above, PYI has, conditionally upon the Distribution in Specie being effected, undertaken, pursuant to the PYE BVI Shares Deed of Undertaking, to acquire up to an additional 18.66% of PYE BVI not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million.

Were PYI called upon to meet its full obligation under the PYE BVI Shares Deed of Undertaking, this would constitute a discloseable transaction for PYI under the Listing Rules on the basis that one or more of the percentage ratios applicable to PYI exceeds 5% (but all are less than 25%).

The PYI Board confirms that PYI has the necessary cash on hand to complete the purchase of an additional 18.66% of PYE BVI.

PYE BVI is a private company and the holding company of the Existing Businesses. Through acquiring 18.66% of PYE BVI, PYI would be purchasing an 18.66% attributable interest in the Existing Businesses.

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### Financial information on PYE BVI

An 18.66% interest in the consolidated net asset value of PYE BVI as at 31 March 2011, based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011, equates to approximately HK\$112.97 million.

An 18.66% attributable interest in the consolidated net profits before taxation and extraordinary items of PYE BVI for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, based on the consolidated net profits before taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, equate to HK\$7.77 million and HK\$8.92 million, respectively.

An 18.66% attributable interest in the consolidated net profits after taxation and extraordinary items of PYE BVI for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, based on the consolidated net profits after taxation and extraordinary items of PYE for the financial year ended 31 March 2011 and the financial year ended 31 March 2010, equate to HK\$6.30 million and HK\$8.69 million, respectively.

### Reasons for and benefits of the Transaction

PYI has offered to effect the Potential Additional PYE BVI Shares Acquisition on the basis that it is willing to acquire a direct interest in PYE BVI over and above the indirect attributable interest that it will continue to hold through its shareholding in PYE and the direct interest it will receive by way of its pro rata entitlement to the Distribution in Specie.

The PYI Directors believe that the PYI Shareholders will continue to benefit from PYI's direct and indirect interests in the Existing Businesses which have been consistently profitable in recent years. The shares received through the Distribution in Specie and the Potential Additional PYE BVI Shares Acquisition will allow it to maintain its interest in the Existing Businesses with which it has transactions in the ordinary course of its business for the provision of engineering and management services, whilst also minimising its exposure to the new movie production business, thereby keeping its focus on its current principal business activities.

The PYI Directors believe that the terms of the PYE BVI Shares Deed of Undertaking are fair and reasonable and in the interests of PYI Shareholders as a whole.

### UNDERTAKING TO VOTE BY PYI AND ITS ASSOCIATES AND THE INTER-CONDITIONALITY OF THE TRANSACTIONS

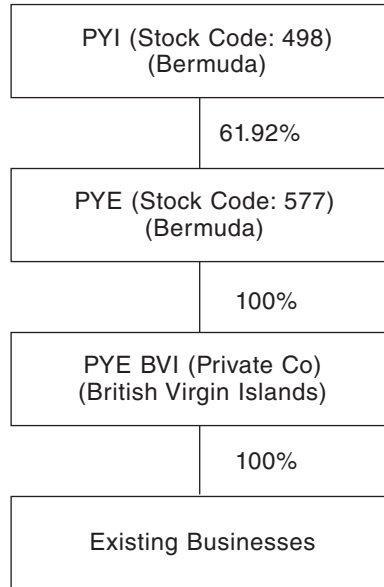
PYI and its associates, which hold shares in PYE, have undertaken to Legendary that they will vote in favour of all the resolutions to implement the Transactions apart from the resolution to approve the Distribution in Specie on which PYI and its associates will abstain from voting. However, in the event that the resolution approving the Distribution in Specie, which will be the first resolution to be proposed at the PYE SGM, is not passed, PYI and its associates will have the right to vote for or against any or all of the remaining resolutions to be proposed at that meeting. If any of those resolutions are not passed, none of the Transactions will be implemented. On the other hand, if all the resolutions apart from the Distribution in Specie are passed and all the other conditions to which the Placing is subject are fulfilled, all the Transactions other than the Distribution in Specie will be implemented. Accordingly, all the Transactions are inter-conditional, apart from the Distribution in Specie.

# LETTER FROM THE BOARD

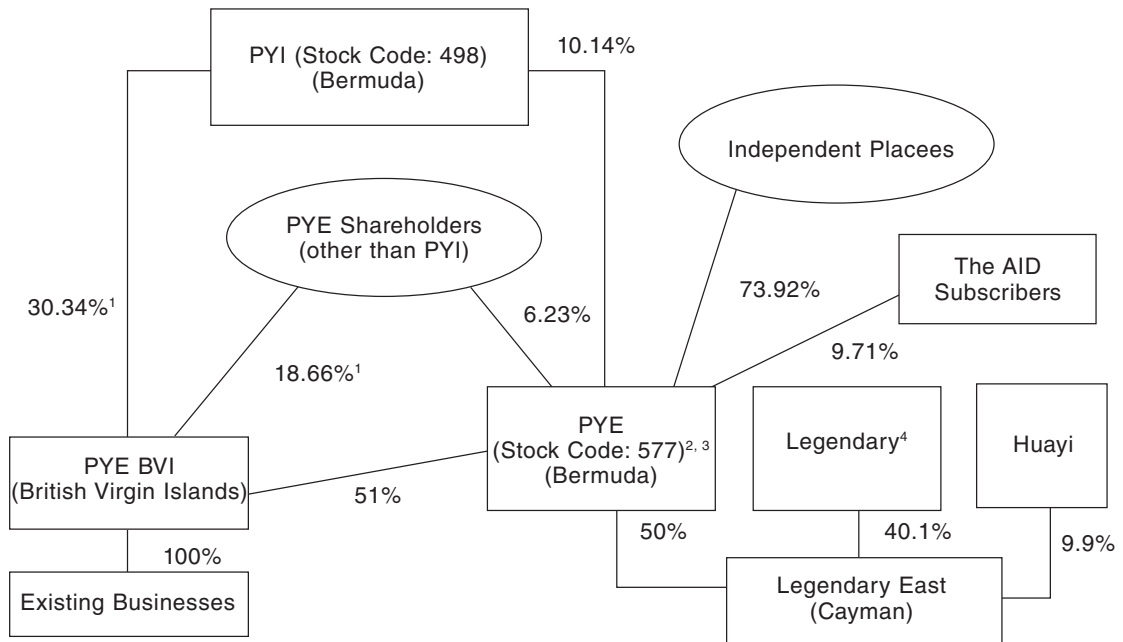
## STRUCTURE OF INTERESTS BEFORE AND AFTER THE TRANSACTIONS

Set out below are simplified diagrams of the structure of the interests of PYE and PYI before and after completion of the Transactions and the Placing (assuming no exercise of the Upsize Options). They do not illustrate the effect of any exercise of the Exchange Rights.

Current structure:



Proposed structure:



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### Notes

- 1 The diagram assumes that the Distribution in Specie is effected on a strictly pro rata basis. In circumstances where all PYE Shareholders other than PYI receive the Cash Alternative, PYE BVI would be held as to 51% by PYE and 49% by PYI.
- 2 The diagram shows the relative shareholdings in PYE assuming that no PYE Shareholders elect to receive New Shares pursuant to the Scrip Alternative.
- 3 In the event of exercise, in full, of the Upsize Options, the Independent Placees and the AID Subscribers will hold 75.59% and 9.98% of the issued share capital of PYE respectively as enlarged by the Upsize Options.
- 4 JV Management Members may collectively be granted an aggregate shareholding interest of up to 11% of the issued share capital of Legendary East. Such grants will not dilute the shareholding interests of PYE or Huayi in Legendary East.

### INFORMATION ON PYE

The PYE Group is an international engineering services group serving Hong Kong, the PRC and the international market with its 60 years' of expertise. Through its subsidiary, PYE BVI, it has three core areas of business: management contracting, property development management and property investment.

Following the completion of the Transactions, the PYE Group will also be engaged in the business of the development and production of movies through its investment in the Film Joint Venture.

### INFORMATION ON PYI AND ITS SUBSIDIARIES

Following the completion of the Transactions, the principal business activities of the PYI and its subsidiaries will remain unchanged and the PYI and its subsidiaries will still principally engage in the business of development and investment in port and other infrastructure projects, land and property development and investment, treasury investment and provision of comprehensive engineering and property-related services through its direct and indirect interests in PYE BVI.

### GENERAL

**As completion of the various Transactions is, in each case, subject to the fulfilment of a number of conditions precedent and effectively all inter-conditional, apart from the Distribution in Specie, the various Transactions may or may not proceed. PYI Shareholders and potential investors should exercise caution when dealing in the shares of PYI.**

### SPECIAL GENERAL MEETING

A notice convening the PYI SGM is set out on pages 65 to 66 of this circular at which resolutions will be proposed, inter alia, to approve the Deemed Disposal.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

To the best knowledge, information and belief of the PYI Directors having made all reasonable enquiries, no PYI Shareholder has a material interest in the Deemed Disposal and the transactions contemplated thereunder which is different from that of the other PYI Shareholders and thus no PYI Shareholder is required to abstain from voting on the relevant resolution to approve the Deemed Disposal and the transactions contemplated thereunder at the PYI SGM.

A form of proxy for use at the PYI SGM is enclosed herewith. Whether or not you propose to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

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### RECOMMENDATION

The PYI Directors consider that the Deemed Disposal is fair and reasonable and that the effect of the Transactions are ultimately in the interests of the PYI Shareholders as a whole. Accordingly, the PYI Board recommends the PYI Shareholders to vote in favour of the resolution at the PYI SGM to approve the Deemed Disposal as described in this circular.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular and the notice of the PYI SGM.

Yours faithfully,  
For and on behalf of  
**PYI Corporation Limited**  
**Lau Ko Yuen, Tom**  
*Deputy Chairman and Managing Director*

## SUMMARY OF FINANCIAL INFORMATION OF PYE GROUP

Set out below are the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of PYE Group for each of the years ended 31 March 2009, 2010 and 2011, and the consolidated statements of financial position of PYE Group as at 31 March 2009, 2010 and 2011.

The financial information of PYE Group for the financial years ended 31 March 2009, 2010 and 2011 have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. Based on their review, nothing has come to their attention that causes them to believe that the financial information is not prepared, in all material respects, in accordance with the accounting policies adopted by the PYI Group in its annual consolidated financial statements for the respective Relevant Periods (as defined in Note 2 to the financial information on PYE Group in Appendix I to the circular) and on the basis of preparation set out in Note 2 to the financial information on PYE Group.

## CONSOLIDATED INCOME STATEMENTS

For the years ended 31 March 2009, 2010 and 2011

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Turnover	4,427,216	3,644,873	4,333,791
Cost of sales	(4,230,966)	(3,449,549)	(4,141,601)
Gross profit	196,250	195,324	192,190
Other income	31,213	22,894	12,889
Other gains and losses	–	(2,482)	(74)
Administrative expenses	(170,462)	(152,195)	(155,611)
Finance costs	(18,924)	(13,561)	(10,076)
Share of results of associates	149	3,072	(552)
Share of results of jointly controlled entities	743	(5,241)	2,892
Profit before taxation	38,969	47,811	41,658
Taxation	(2,960)	(1,240)	(7,895)
Profit for the year	<u>36,009</u>	<u>46,571</u>	<u>33,763</u>
Profit for the year attributable to:			
Owners of PYE	40,218	44,688	30,083
Non-controlling interests	(4,209)	1,883	3,680
	<u>36,009</u>	<u>46,571</u>	<u>33,763</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***For the years ended 31 March 2009, 2010 and 2011*

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Profit for the year	36,009	46,571	33,763
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange differences arising from translation of foreign operations	979	437	9,842
(Loss) gain on fair value changes of available-for-sale investments	(2)	96	–
Reclassification adjustment on disposal of available-for-sale investments	–	–	(48)
Release of translation reserve upon disposal of an associate	–	–	(4)
Other comprehensive income for the year	977	533	9,790
Total comprehensive income for the year	<u>36,986</u>	<u>47,104</u>	<u>43,553</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of PYE	41,195	45,221	39,873
Non-controlling interests	(4,209)	1,883	3,680
	<u>36,986</u>	<u>47,104</u>	<u>43,553</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 March 2009, 2010, and 2011

	As at 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	42,019	67,741	148,956
Prepaid lease payments	21,411	20,836	20,261
Goodwill	64,343	61,646	61,646
Other intangible assets	7,565	7,570	7,570
Interests in associates	68,019	71,262	82,178
Interests in jointly controlled entities	2,730	–	4,065
Available-for-sale investments	341	437	–
Other debtors – non-current portion	–	129,486	153,211
	<u>206,428</u>	<u>358,978</u>	<u>477,887</u>
<b>CURRENT ASSETS</b>			
Prepaid lease payments	575	575	575
Loans receivable – due within one year	30,000	77,500	8,148
Amounts due from associates	58,373	26,672	43,760
Amounts due from jointly controlled entities	4	4	22,956
Amounts due from fellow subsidiaries	97,937	137,518	126,845
Amounts due from customers for contract works	196,776	203,794	258,350
Trade and other debtors, deposits and prepayments	1,361,200	1,421,148	1,426,020
Investments held for trading	199	116	–
Pledged bank deposits	65,299	31,569	75,026
Short term bank deposits	176,698	127,183	177,513
Bank balances and cash	199,827	163,833	154,568
	<u>2,186,888</u>	<u>2,189,912</u>	<u>2,293,761</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract works	737,098	962,813	947,938
Trade and other creditors and accrued expenses	778,231	663,446	848,426
Amounts due to associates	2,573	1,003	57,557
Amount due to a jointly controlled entity	–	–	45,000
Amounts due to non-controlling interests	35	64	61
Amounts due to related companies	1,613	1,940	131
Taxation payable	7,889	7,837	14,344
Bank borrowings – due within one year	268,225	317,402	244,667
	<u>1,795,664</u>	<u>1,954,505</u>	<u>2,158,124</u>
<b>NET CURRENT ASSETS</b>	391,224	235,407	135,637
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	597,652	594,385	613,524
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after one year	47,964	4,972	9,203
	<u>549,688</u>	<u>589,413</u>	<u>604,321</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	301,339	303,000	303,477
Reserves	235,476	271,657	301,916
Equity attributable to owners of PYE	536,815	574,657	605,393
Non-controlling interests	12,873	14,756	(1,072)
<b>TOTAL EQUITY</b>	<u>549,688</u>	<u>589,413</u>	<u>604,321</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 March 2009, 2010 and 2011

	Attributable to owners of PYE									
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
<b>At 1 April 2008</b>	<b>298,649</b>	<b>273,113</b>	<b>(153,767)</b>	<b>(46)</b>	<b>3,089</b>	<b>5,280</b>	<b>97,445</b>	<b>523,763</b>	<b>14,183</b>	<b>537,946</b>
Exchange differences arising from translation of foreign operations	-	-	-	-	979	-	-	979	-	979
Loss on fair value changes of available-for-sale investments	-	-	-	(2)	-	-	-	(2)	-	(2)
Profit for the year	-	-	-	-	-	-	40,218	40,218	(4,209)	36,009
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>979</b>	<b>-</b>	<b>40,218</b>	<b>41,195</b>	<b>(4,209)</b>	<b>36,986</b>
Recognition of equity-settled share-based payment expense	-	-	-	-	-	436	-	436	-	436
Issue of shares under scrip dividend scheme	683	(683)	-	-	-	-	-	-	-	-
Issue of shares upon exercise of share options	2,007	2,266	-	-	-	(584)	-	3,689	-	3,689
Release upon lapse of vested options	-	-	-	-	-	(4,291)	4,291	-	-	-
Credit arising on scrip dividends	-	-	-	-	-	-	804	804	-	804
Dividends declared	-	-	-	-	-	-	(33,072)	(33,072)	-	(33,072)
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(795)	(795)
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	3,694	3,694
<b>At 31 March 2009</b>	<b>301,339</b>	<b>274,696</b>	<b>(153,767)</b>	<b>(48)</b>	<b>4,068</b>	<b>841</b>	<b>109,686</b>	<b>536,815</b>	<b>12,873</b>	<b>549,688</b>
Exchange differences arising from translation of foreign operations	-	-	-	-	437	-	-	437	-	437
Gain on fair value changes of available-for-sale investments	-	-	-	96	-	-	-	96	-	96
Profit for the year	-	-	-	-	-	-	44,688	44,688	1,883	46,571
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96</b>	<b>437</b>	<b>-</b>	<b>44,688</b>	<b>45,221</b>	<b>1,883</b>	<b>47,104</b>
Issue of shares under scrip dividend scheme	1,661	(1,661)	-	-	-	-	-	-	-	-
Release upon lapse of vested options	-	-	-	-	-	(841)	841	-	-	-
Credit arising on scrip dividends	-	-	-	-	-	-	1,661	1,661	-	1,661
Dividends declared	-	-	-	-	-	-	(9,040)	(9,040)	-	(9,040)
<b>At 31 March 2010</b>	<b>303,000</b>	<b>273,035</b>	<b>(153,767)</b>	<b>48</b>	<b>4,505</b>	<b>-</b>	<b>147,836</b>	<b>574,657</b>	<b>14,756</b>	<b>589,413</b>
Exchange differences arising from translation of foreign operations	-	-	-	-	9,842	-	-	9,842	-	9,842
Release of translation reserve upon disposal of an associate	-	-	-	-	(4)	-	-	(4)	-	(4)
Reclassification adjustment on disposal of available-for-sale investments	-	-	-	(48)	-	-	-	(48)	-	(48)
Profit for the year	-	-	-	-	-	-	30,083	30,083	3,680	33,763
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48)</b>	<b>9,838</b>	<b>-</b>	<b>30,083</b>	<b>39,873</b>	<b>3,680</b>	<b>43,553</b>
Issue of shares under scrip dividend scheme	477	(477)	-	-	-	-	-	-	-	-
Credit arising on scrip dividends	-	-	-	-	-	-	559	559	-	559
Dividends declared	-	-	-	-	-	-	(9,696)	(9,696)	-	(9,696)
Repayment of contribution to non-controlling interests	-	-	-	-	-	-	-	-	(19,508)	(19,508)
<b>At 31 March 2011</b>	<b>303,477</b>	<b>272,558</b>	<b>(153,767)</b>	<b>-</b>	<b>14,343</b>	<b>-</b>	<b>168,782</b>	<b>605,393</b>	<b>(1,072)</b>	<b>604,321</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 March 2009, 2010 and 2011

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
OPERATING ACTIVITIES			
Profit before taxation	38,969	47,811	41,658
Adjustments for:			
Depreciation of property, plant and equipment	9,401	10,754	16,330
Finance costs	18,924	13,561	10,076
Release of prepaid lease payments	575	575	575
Gain on disposal of available-for-sale investments	–	–	(48)
(Gain) loss on fair value changes of investments held for trading	(33)	83	(70)
Gain on disposal of an associate	–	(25)	–
Gain on disposal a subsidiary	–	(185)	–
Loss on deregistration of a subsidiary	–	5	–
Interest income	(31,213)	(22,894)	(12,889)
Share-based payment expense	436	–	–
Share of results of associates	(149)	(3,072)	552
Share of results of jointly controlled entities	(743)	5,241	(2,892)
(Gain) loss on disposal of property, plant and equipment	(200)	37	1
Loss on disposal of other intangible assets	45	–	–
Impairment loss recognised on receivables	745	711	–
Impairment loss recognised in respect of goodwill	–	2,692	74
Operating cash flows before movements in working capital	36,757	55,294	53,367
Changes in amounts due from (to) customers for contract works, net of attributable interest expenses and depreciation	(59,552)	221,203	(67,810)
Decrease (increase) in trade and other debtors, deposits and prepayments	364,838	(190,761)	6,432
(Increase) decrease in amounts due from associates	(14,611)	31,701	(17,088)
Increase in amounts due from jointly controlled entities	–	–	(22,952)
(Increase) decrease in amounts due from fellow subsidiaries	(88,802)	(26,674)	20,556
(Increase) decrease in investments held for trading	(166)	–	186
(Decrease) increase in trade and other creditors and accrued expenses	(261,600)	(119,734)	186,589
Increase (decrease) in amounts due to related companies	1,580	327	(1,809)
Increase (decrease) in amounts due to associates	1,964	(1,570)	56,554
Decrease in amounts due to fellow subsidiaries	(5,098)	–	–
(Decrease) increase in amounts due to non-controlling interests	(1,006)	29	(3)
Cash (used in) generated from operations	(25,696)	(30,185)	214,022
Overseas tax paid	(8,636)	(1,292)	(1,645)
Hong Kong Profits Tax refunded	1,653	–	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(32,679)	(31,477)	212,377

## CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

For the years ended 31 March 2009, 2010 and 2011

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(20,493)	(38,498)	(99,158)
Refundable deposits paid for potential projects	–	–	(50,000)
(Increase) decrease in pledged bank deposits	(31,160)	33,730	(43,457)
Increase in loans receivable	(54,000)	(112,500)	(10,500)
Additional contribution to an associate	(2,310)	–	(9,300)
Contribution to a jointly controlled entity	–	–	(4,600)
Repayment of loans receivable	24,000	65,000	79,852
Refundable deposits refunded for potential projects	–	–	25,000
Interest received	8,799	7,424	6,336
Proceeds from disposal of available-for-sale investments	–	–	437
Proceeds from disposal of property, plant and equipment	365	340	335
Proceeds from disposal of other intangible assets	30	–	–
Acquisition of subsidiaries, net	–	–	234
Acquisition of additional interests in a subsidiary	(800)	–	–
Adjusted consideration in respect of acquisition of subsidiaries	(369)	–	–
Dividend received from associates	5,762	–	81
Payment for consideration payables on acquisition of interest in an associate	(20,071)	–	–
Additions to other intangible assets	(400)	(5)	–
Repayment of deferred consideration receivable	–	4,000	–
Proceeds from disposal of a jointly controlled entity	–	916	–
Proceeds from disposal of a subsidiary, net	–	328	–
NET CASH USED IN INVESTING ACTIVITIES	(90,647)	(39,265)	(104,740)
FINANCING ACTIVITIES			
Repayment of bank loans	(191,546)	(211,140)	(303,499)
Contribution repaid to non-controlling interests	–	–	(19,508)
Interest paid	(19,272)	(12,855)	(8,855)
Dividends paid	(32,268)	(7,379)	(9,137)
New bank loans raised	300,078	216,425	226,022
Advance from a jointly controlled entity	–	–	45,000
Contribution from non-controlling interests	3,694	–	–
Proceeds from issue of shares upon exercise of share options	3,689	–	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	64,375	(14,949)	(69,977)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(58,951)	(85,691)	37,660
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	263	182	3,405
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	435,213	376,525	291,016
CASH AND CASH EQUIVALENTS CARRIED FORWARD	<u>376,525</u>	<u>291,016</u>	<u>332,081</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Short term bank deposits	176,698	127,183	177,513
Bank balances and cash	199,827	163,833	154,568
	<u>376,525</u>	<u>291,016</u>	<u>332,081</u>

**NOTES TO THE FINANCIAL INFORMATION**

*For the years ended 31 March 2009, 2010 and 2011*

**1. GENERAL**

On 21 August 2011, PYE entered into two conditional agreements to allot a total of 3,100 million Placing Shares, with the Upsize Options of up to an additional 500 million Placing Shares. The Placing constitutes a deemed very substantial disposal by PYI whose percentage interest in the issued capital of PYE will be diluted from approximately 61.92% to approximately 10.14%, or to approximately 8.93% assuming an additional 500 million Placing Shares were issued.

The financial information is presented in Hong Kong dollars, the currency of the primary economic environment in which PYE Group operates (the functional currency of PYE).

**2. BASIS OF PREPARATION**

The financial information of PYE Group has been prepared in accordance with paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purposes of inclusion in the circular to be issued by PYI in connection with the Deemed Disposal.

The financial information has been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values. The amounts included in the financial information for the three years ended 31 March 2011 (the "Relevant Periods") have been prepared using the same accounting policies adopted by PYI Group in the preparation of consolidated financial statements of PYI Group for the respective years in the Relevant Periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods include the results and cash flows of PYE Group for each of the three years ended 31 March 2009, 2010 and 2011. The consolidated statements of financial position as at 31 March 2009, 2010 and 2011 include the assets and liabilities of PYE Group as at the end of those reporting periods.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

The unaudited pro forma financial information presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Deemed Disposal had been completed on 31 March 2011; and (b) the results and cash flows of the Remaining Group as if the Deemed Disposal had been completed on 1 April 2010. This unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group as at 31 March 2011 or at any future date had the Deemed Disposal been completed on 31 March 2011 or the results and cash flows of the Group for the year ended 31 March 2011 or for any future period had the Deemed Disposal been completed on 1 April 2010.

The unaudited pro forma financial information is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2011, the audited consolidated income statement and audited consolidated statement of cash flows of the Group for the year ended 31 March 2011 extracted from the audited consolidated financial statements of the Group and the financial information of PYE Group set out in Appendix I to this circular after giving effect to the pro forma adjustments described in the accompanying notes and was prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

**I.        Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group**

	The Group HK\$'000	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	1,369,085	(148,956)	(931)(b)		1,219,198
Investment properties	727,811		(190,024)(b)		537,787
Project under development	490,121				490,121
Prepaid lease payments	312,864	(20,261)			292,603
Goodwill	61,646	(61,646)			-
Other intangible assets	171,990	(7,570)			164,420
Interests in associates	1,132,027	(82,178)	57,046 (b)		1,106,895
Interests in jointly controlled entities	4,065	(4,065)	57,047 (b)		57,047
Available-for-sale investments	1,270			244,287	245,557
Other debtors – non-current portion	196,319	(153,211)			43,108
	4,467,198	(477,887)	(76,862)	244,287	4,156,736

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

**I.        Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group – continued**

	The Group	Pro forma adjustments			The Remaining Group
	HK\$'000	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000
<b>CURRENT ASSETS</b>					
Stock of properties	1,098,800				1,098,800
Prepaid lease payments	4,229	(575)			3,654
Inventories of finished goods	29,240				29,240
Loans receivable – due within one year	113,147	(8,148)			104,999
Amounts due from associates	42,929	(43,760)	831 (b)		–
Amounts due from jointly controlled entities	22,956	(22,956)			–
Amounts due from fellow subsidiaries	–	(126,845)	126,845 (a)		–
Amount due from a non-controlling interest	1,188				1,188
Amounts due from customers for contract works	258,350	(258,350)			–
Trade and other debtors, deposits and prepayments	1,651,066	(1,426,020)	(454)(b)		224,592
Investments held for trading	46,942				46,942
Available-for-sale investments	91				91
Taxation recoverable	2				2
Pledged bank deposits	83,532	(75,026)			8,506
Short term bank deposits	371,277	(177,513)			193,764
Bank balances and cash	657,799	(154,568)	(8,644)(b)	93,957	588,544
	4,381,548	(2,293,761)	118,578	93,957	2,300,322
Assets classified as held for sale	6,046,209				6,046,209
	10,427,757	(2,293,761)	118,578	93,957	8,346,531
<b>CURRENT LIABILITIES</b>					
Amounts due to customers for contract works	947,938	(947,938)			–
Trade and other creditors and accrued expenses	1,230,931	(848,426)	1,630 (b)		384,135
Deposits received for pre-sale properties	237,048				237,048
Amounts due to associates	66,268	(57,557)	(6,869)(b)		1,842
Amount due to a jointly controlled entity	45,000	(45,000)			–
Amounts due to non-controlling interests	24,276	(61)			24,215
Amounts due to related companies	233	(131)			102
Taxation payable	20,213	(14,344)			5,869
Bank and other borrowings – due within one year	1,255,304	(244,667)	(2,850)(b)		1,007,787
Amount due to PYE	–		126,845 (a)		126,845
	3,827,211	(2,158,124)	118,756	–	1,787,843
Liabilities associated with assets classified as held for sale	3,301,463				3,301,463
	7,128,674	(2,158,124)	118,756	–	5,089,306

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**I.        Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group – continued**

	The Group <i>HK\$'000</i>	Pro forma adjustments			The Remaining Group <i>HK\$'000</i>
		<i>HK\$'000</i> (Note 1)	<i>HK\$'000</i> (Note 2)	<i>HK\$'000</i> (Note 3)	
<b>NET CURRENT ASSETS</b>	3,299,083	(135,637)	(178)(b)	93,957	3,257,225
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	7,766,281	(613,524)	(77,040)(b)	338,244	7,413,961
<b>NON-CURRENT LIABILITIES</b>					
Bank and other borrowings – due after one year	738,585	(9,203)	(61,283)(b)		668,099
Amounts due to non-controlling interests	19,002				19,002
Deferred tax liabilities	484,377		(15,757)(b)		468,620
Deferred income	25,181				25,181
Other payables	173,576				173,576
	1,440,721	(9,203)	(77,040)	–	1,354,478
	<u>6,325,560</u>	<u>(604,321)</u>	<u>–</u>	<u>338,244</u>	<u>6,059,483</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	452,913				452,913
Reserves	4,047,700			(34,228)	4,013,472
Equity attributable to owners of the Company	4,500,613	–	–	(34,228)	4,466,385
Non-controlling interests	1,824,947	1,072		(232,921)	1,593,098
<b>TOTAL EQUITY</b>	<u>6,325,560</u>	<u>1,072</u>	<u>–</u>	<u>(267,149)</u>	<u>6,059,483</u>

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

**II.      Unaudited Pro Forma Consolidated Income Statement of the Remaining Group**

	The Group HK\$'000	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	
Turnover	5,357,200	(4,333,791)	(39,805) (a)(b)		983,604
Cost of sales	<u>(4,916,287)</u>	4,141,601	33,185 (a)(b)		<u>(741,501)</u>
Gross profit	440,913	(192,190)	(6,620)		242,103
Other income	52,408	(12,889)	9,859 (a)(b)		49,378
Other gains and losses	3,682	74			3,756
Administrative expenses	(295,415)	155,611	1,955 (a)(b)		(137,849)
Distribution and selling expenses	(91,014)				(91,014)
Other expenses	(14,172)				(14,172)
Finance costs	(86,282)	10,076	(1,120) (a)(b)		(77,326)
Gain on fair value changes of investment properties	316,214		(9,977) (b)		306,237
Share of results of associates	136,814	552	4,548 (b)		141,914
Share of results of jointly controlled entities	<u>2,892</u>	<u>(2,892)</u>	<u>4,548 (b)</u>		<u>4,548</u>
Profit before taxation	466,040	(41,658)	3,193		427,575
Taxation	<u>(166,852)</u>	<u>7,895</u>	<u>2,399 (b)</u>		<u>(156,558)</u>
Profit after taxation	299,188	(33,763)	5,592		271,017
Loss on deemed disposal of subsidiaries	—			(12,749)	(12,749)
Profit for the year	<u>299,188</u>	<u>(33,763)</u>	<u>5,592</u>		<u>258,268</u>
Profit for the year attributable to:					
Owners of the Company	200,104	(30,083)	17,034	(12,749)	174,306
Non-controlling interests	<u>99,084</u>	<u>(3,680)</u>	<u>(11,442)</u>		<u>83,962</u>
	<u>299,188</u>	<u>(33,763)</u>	<u>5,592</u>		<u>258,268</u>

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

**III.      Unaudited Pro Forma Condensed Consolidated Statement of Cash Flows of the Remaining Group**

	The Group HK\$'000	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 (Note 7)	HK\$'000 (Note 8)	HK\$'000 (Note 9)	
<b>NET CASH FROM OPERATING ACTIVITIES</b>	459,877	(281,729)	16,829	(a)(b)	194,977
<b>INVESTING ACTIVITIES</b>					
Additions to property, plant and equipment	(306,603)	99,158	57	(b)	(207,388)
Additions to interests in associates	(160,696)	9,300	(9,300)	(b)	(160,696)
Increase in project under development	(157,685)				(157,685)
Additions to pledged bank deposits	(83,532)	43,457			(40,075)
Refundable deposits paid for potential projects	(50,000)	50,000			-
Additions in investment properties	(38,356)				(38,356)
Additions to prepaid lease payments	(8,175)				(8,175)
Contribution to a jointly controlled entity	(4,600)	4,600	(9,300)	(b)	(9,300)
Increase in available-for-sale investments	(632)				(632)
Dividend received from associates	55,599	(81)			55,518
Dividend received from available-for-sale investments	-		6,014	(a)	6,014
Release of pledged bank deposits	33,582				33,582
Proceeds from disposal of investment properties	30,279				30,279
Refundable deposits refunded for potential projects	25,000	(25,000)			-
Interest received	7,762	(6,336)	(5)	(b)	1,421
Receipt of deferred income	7,010				7,010
Proceeds from disposal of prepaid lease payments and related other intangible assets	6,361				6,361
Proceeds from disposal of property, plant and equipment	4,120	(335)			3,785
Proceeds from disposal of available-for-sale investments	436	(437)	1	(a)	-
Dividend received from investments held for trading	245				245
Acquisition of subsidiaries, net	234	(234)			-
Deemed disposal of subsidiaries	-			(203,323)	(203,323)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(639,651)	174,092	(12,533)		(681,415)
<b>FINANCING ACTIVITIES</b>					
New bank and other borrowings raised	1,982,550	(226,022)			1,756,528
Contribution from non-controlling interests	154,990				154,990
Increase in amount due to a jointly controlled entity	45,000	(45,000)			-
Repayment of bank and other borrowings	(1,629,245)	303,499	16,999	(b)	(1,308,747)
Interest paid	(153,123)	8,855	3,171	(b)	(141,097)
Repayment of amounts due to non-controlling interests	(28,469)				(28,469)
Repayment of contribution to non-controlling interest	(19,508)	19,508			-
Repayment of loan from a related company	(18,000)				(18,000)
Dividends paid to non-controlling interests of subsidiaries	(3,123)	9,137	(6,014)	(a)	-
Repayment of amount due to PYE	-		(20,556)	(a)	(20,556)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	331,072	69,977	(6,400)		394,649

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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**III.    Unaudited Pro Forma Condensed Consolidated Statement of Cash Flows of the  
Remaining Group – continued**

	The Group HK\$'000	Pro forma adjustments			The Remaining Group HK\$'000
		HK\$'000 (Note 7)	HK\$'000 (Note 8)	HK\$'000 (Note 9)	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	151,298	(37,660)	(2,104) (b)		(91,789)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	7,087	(3,405)	(276) (b)		3,406
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<u>999,032</u>				<u>999,032</u>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<u><u>1,157,417</u></u>				<u><u>910,649</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>					
Short term bank deposits	371,277				193,764
Bank balances and cash	<u>786,140</u>				<u>716,885</u>
	<u><u>1,157,417</u></u>				<u><u>910,649</u></u>

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

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*Notes:*

1. These adjustments represent the exclusion of the assets and liabilities of PYE Group based on the audited consolidated financial statements of PYE Group as at 31 March 2011.
2. The adjustments marked (a) represent the reinstatement of the balances between the Remaining Group and PYE Group as at 31 March 2011, assuming the Deemed Disposal had taken place on 31 March 2011. The adjustments marked (b) related to certain companies jointly controlled by PYI and PYE which were accounted for as subsidiaries of PYI. These jointly controlled companies were deconsolidated, and their assets and liabilities were excluded from the Remaining Group. Their assets and liabilities attributable to the Remaining Group's interest are reclassified as interests in jointly controlled entities and it is assumed that the fair values of the jointly controlled entities approximated to their carrying amounts as at 31 March 2011, and the balances between the Remaining Group and the jointly controlling entities were reinstated as if the Deemed Disposal had taken place on 31 March 2011.
3. These adjustments reflect the resulting estimated loss on Deemed Disposal as if the Deemed Disposal had taken place on 31 March 2011, assuming the Cash Dividend of HK\$0.25 per share, being one of the conditions precedent of the Placing, had taken place on 31 March 2011.

Calculation of loss on Deemed Disposal (Remark i):	<i>HK\$'000</i>
Recognition of interests in PYE retained by PYI (holding 375,826,317 PYE shares) and classified as an available-for-sale investment *	244,287
Net assets of PYE Group attributable to owners of PYI as at 31 March 2011 (being net assets of PYE Group as at 31 March 2011 of approximately HK\$605 million less carrying amount of non-controlling interests of approximately HK\$233 million and Cash Dividend by PYE of HK\$0.25 per share attributable to owners of PYI of approximately HK\$94 million)	<u>(278,515)</u>
Estimated loss on Deemed Disposal before transaction costs and release of attributable reserves	(34,228)
Reclassification adjustment on translation reserve of PYE attributable to owners of PYI	<u>8,881</u>
Estimated loss on Deemed Disposal before transaction costs (Remark ii)	<u><u>(25,347)</u></u>

\* For the purpose of this unaudited pro forma financial information, it is assumed that the Remaining Group has no control nor significant influence over PYE subsequent to the completion of the Deemed Disposal and the Placing Price of HK\$0.65 is assumed to approximate to the fair value of each share of PYE as at 31 March 2011. An assessment of whether the Remaining Group has control or significant influence over PYE will be carried out after the Deemed Disposal, based on the relevant facts and circumstances on and after the Deemed Disposal. The determination of the valuation of the 10.14% interests in PYE retained by PYI will be carried out as at the completion date of the Deemed Disposal and the amount is subject to change upon completion.

*Remarks:*

- i) As the exercise price of the Upsize Options is same as the Placing Price and the Placing Shares are to be placed to parties other than PYI, which are not entitled to the Cash Dividend, assuming the exercise of Upsize Options of PYE will have no impact on the recognition of interests in PYE retained by PYI as well as the calculation above. Therefore, the calculation above has not considered the Upsize Options.

Notes: continued

- ii) If the Distribution in Specie is considered, a net amount of approximately HK\$158,340,000 (including the estimated loss on Deemed Disposal of approximately HK\$25,347,000 and income on Distribution in Specie of approximately HK\$183,687,000) would be recognised by PYI in profit or loss. The income on Distribution in Specie represents the fair value of the 30.34% interest in PYE BVI to be held by PYI, which is determined by reference to the carrying amount of 49% interest in PYE BVI distributed by PYE of approximately HK\$297 million as at 31 March 2011, of which 30.34% interest in PYE BVI is attributable to owners of PYI, as if the Distribution in Specie had been completed on 31 March 2011. For the purpose of this unaudited pro forma financial information, the fair value of the interest in PYE BVI to be held by PYI is assumed to be approximate to its carrying amount as at 31 March 2011. The determination of the valuation of the 30.34% interests in PYE BVI to be held by PYI will be carried out at the completion date of the Distribution in Specie and the amount is subject to change upon completion.
4. These adjustments represent the exclusion of the results of PYE Group for the year ended 31 March 2011, which are extracted from the audited consolidated financial statements of PYE Group for the year ended 31 March 2011, assuming the Deemed Disposal had taken place on 1 April 2010.
5. The adjustments marked (a) represent the reinstatement of the transactions between the Remaining Group and PYE Group for the year ended 31 March 2011, assuming the Deemed Disposal had taken place on 1 April 2010. The adjustments marked (b) related to certain companies jointly controlled by PYI and PYE which were accounted for as subsidiaries of PYI. These jointly controlled companies were deconsolidated, and their results were excluded from the Remaining Group and the results attributable to the Remaining Group's interest are reclassified as share of results of jointly controlled entities as if the Deemed Disposal had taken place on 1 April 2010.
6. These adjustments reflect the resulting estimated loss on Deemed Disposal as if the Deemed Disposal had taken place on 1 April 2010, assuming the Cash Dividend of HK\$0.25 per share, being one of the conditions precedent of the Placing, had taken place on 1 April 2010.

Calculation of loss on Deemed Disposal (Remark i):	HK\$'000
Recognition of interests in PYE retained by PYI (holding 375,826,317 PYE shares) and classified as an available-for-sale investment *	244,287
Net assets of PYE Group attributable to owners of PYI as at 1 April 2010 (being net assets of PYE Group as at 1 April 2010 of approximately HK\$575 million less carrying amount of non-controlling interests of approximately HK\$221 million and Cash Dividend by PYE of HK\$0.25 per share attributable to owners of PYI of approximately HK\$94 million)	(259,830)
Reclassification adjustment on translation reserve of PYE attributable to owners of PYI	<u>2,794</u>
Estimated loss on Deemed Disposal before transaction costs (Remark ii)	<u><u>(12,749)</u></u>

- \* For the purpose of this unaudited pro forma financial information, it is assumed that the Remaining Group has no control nor significant influence over PYE subsequent to the completion of the Deemed Disposal and the Placing Price of HK\$0.65 is assumed to approximate to the fair value of each share of PYE as at 1 April 2010. An assessment of whether the Remaining Group has control or significant influence over PYE will be carried out after the Deemed Disposal, based on the relevant facts and circumstances on or after the Deemed Disposal. The determination of the valuation of the 10.14% interests in PYE retained by PYI will be carried out as at the completion date of the Deemed Disposal and the amount is subject to change upon completion.

*Notes: continued*

*Remarks:*

- i) As the exercise price of the Upsize Options is same as the Placing Price and the Placing Shares are to be placed to parties other than PYI, which are not entitled to the Cash Dividend, assuming the exercise of Upsize Options of PYE will have no impact on the recognition of interests in PYE retained by PYI as well as the calculation above. Therefore, the calculation above has not considered the Upsize Options.
  - ii) If the Distribution in Specie is considered, a net amount of approximately HK\$161,889,000 (including the estimated loss on Deemed Disposal of approximately HK\$12,749,000 and income on Distribution in Specie of approximately HK\$174,638,000) would be recognised by PYI in profit or loss. The income on Distribution in Specie represents the fair value of the 30.39% interest in PYE BVI to be held by PYI, which is determined by reference to the carrying amount of 49% interest in PYE BVI distributed by PYE of approximately HK\$282 million as at 1 April 2010, of which 30.39% interest in PYE BVI is attributable to owners of PYI, as if the Distribution in Specie had been completed on 1 April 2010. For the purpose of this unaudited pro forma financial information, the fair value of the interest in PYE BVI to be held by PYI is assumed to be approximate to its carrying amount as at 1 April 2010. The determination of the valuation of the 30.39% interests in PYE BVI to be held by PYI will be carried out at the completion date of the Distribution in Specie and the amount is subject to change upon completion.
7. These adjustments represent the exclusion of the cash flows of PYE Group, which are extracted from the audited consolidated financial statements of PYE Group for the year ended 31 March 2011, assuming the Deemed Disposal had taken place on 1 April 2010. Certain investing activities of PYE Group about increase and repayment of loans receivable in net amount of approximately HK\$69 million are reinstated as operating activities in accordance with the classification of the consolidated statement of cash flows of the Remaining Group.
  8. The adjustments marked (a) represent the reinstatement of the transactions between the Remaining Group and PYE Group for the year ended 31 March 2011, assuming the Deemed Disposal had taken place on 1 April 2010. The adjustments marked (b) related to certain companies jointly controlled by PYI and PYE which were accounted for as subsidiaries of PYI. These jointly controlled companies were deconsolidated, and their cash flows were excluded from the Remaining Group and reclassified as transactions with jointly controlled entities as if the Deemed Disposal had taken place on 1 April 2010.
  9. These adjustments represent the cash inflow of approximately HK\$94 million arising from the Deemed Disposal (being the Cash Dividend by PYE attributable to owners of PYI), net of the cash outflow from exclusion of cash and cash equivalents of PYE and certain PYI's subsidiaries jointly held by PYI and PYE as at 1 April 2010 of approximately HK\$291 million and HK\$6 million, respectively, assuming the Deemed Disposal had taken place on 1 April 2010.
  10. The adjustments in notes 5 and 8 marked (b) related to certain companies jointly controlled by PYI and PYE and adjustment in note 8 marked (a) related to dividend received from available-for-sale investments are expected to have a continuing effect on the Group. Other pro forma adjustments in notes 4, 5 (except related to certain companies jointly controlled by PYI and PYE), 6, 7, 8 (a) (except related to dividend received from available-for-sale investments) and 9 are not expected to have a continuing effect on the Group.

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## ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF PYI CORPORATION LIMITED

We report on the unaudited pro forma financial information of PYI Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed deemed disposal of 51.78% interest (in the event the Upsize Options are not exercised) or 52.99% interest (in the event the Upsize Options are exercised in full) in Paul Y. Engineering Group Limited might have affected the financial information presented, for inclusion in Appendix II of the circular issued by the Company dated 23 September 2011 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 37 of the Circular.

### Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2011 or any future date or the results and cash flows of the Group for the year ended 31 March 2011 or any future period.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

23 September 2011

**1. MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP****For the year ended 31 March 2011***Segment information relating to the Remaining Group*

For the year ended 31 March 2011, turnover of the Remaining Group amounted to about HK\$984 million, which was mainly derived from the Remaining Group's ports and logistics business of about HK\$538 million and property business of about HK\$379 million.

The profit contribution of reportable segments to the Remaining Group was (i) net gain of about HK\$329 million from ports development business; (ii) net gain of about HK\$155 million from ports and logistics business; (iii) net gain of about HK\$76 million from property business; and (iv) net gain of about HK\$6 million from treasury business.

In the event the Distribution in Specie is implemented, and excluding the effect of PYE Shareholders taking up the Cash Alternative, PYI will hold approximately 30.34% interest in PYE BVI as an associate. The profit contribution from 30.34% interest in PYE BVI to the Remaining Group would be about HK\$9 million for the year ended 31 March 2011. If PYE Shareholders take up the Cash Alternative in full, PYI will acquire an additional 18.66% interest of PYE BVI, arriving at 49% interest in PYE BVI. The profit contribution from 49% interest in PYE BVI to the Remaining Group would be about HK\$15 million for the year ended 31 March 2011.

The profit contribution from the ports development business to the Remaining Group was mainly attributable to the gain on revaluation of about HK\$283 million from about 6.3 sq km land bank situated at the harbour-front industrial zone of Yangkou Port, and the income from usage and management of infrastructure facilities in Yangkou Port.

The performance of the ports and logistics business was benefited by the Remaining Group's bargain purchase gain of about HK\$90 million for additional 15% interest in Jiangyin Sunan International Container Terminal Co., Ltd. ("Jiangyin Sunan"). The performance of Nantong Port Group Limited ("Nantong Port Group") and Yichang Port Group Limited ("Yichang Port Group") are satisfactory with increase in container throughput and cargo throughput respectively. The LPG business of Minsheng Gas recorded a quarterly margin erosion by maintaining a competitive price strategy to capture a larger share of automotive LPG market in Wuhan, and returned to a healthy level afterwards from July 2010.

Units sold for Wanhua Zijin Garden, a residential property development near Yangkou Port, and Nantong International Trade Center, a commercial and office development in Nantong, as well as contribution from Pioneer Technology Building, an investment property in Hangzhou, and certain commercial properties of about 5,000 sq m acquired through Yichang Port Group, had made the property business profitable during the year ended 31 March 2011.

For development of land bank at Xiao Yangkou, about 2 sq km of the 12 sq km had reached the formed and serviced stage as at 31 March 2011. As at 31 March 2011, total value of the Remaining Group's portfolio of trading securities amounted to about HK\$47 million, and portfolio of high-yield loans receivable amounted to about HK\$113 million.

Saved as disclosed above, the Remaining Group had no other significant investment held as at 31 March 2011.

*Capital structure, liquidity and financial resources of the Remaining Group*

As at 31 March 2011, the Remaining Group had total assets of HK\$12,409 million which were financed by shareholders' funds and a variety of credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK\$ and RMB, and did not have any related hedges for the year ended 31 March 2011. No financial instruments were used for hedging purpose. The Remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2011 amounted to about HK\$825 million (including about HK\$128 million reclassified as held for sale), of which about HK\$721 million was denominated in RMB and about HK\$104 million was denominated in HK\$. About HK\$9 million had been pledged to banks to secure general credit facilities granted to the Remaining Group. As at 31 March 2011, the Remaining Group's total borrowings amounted to about HK\$2,980 million (including amounts reclassified as held for sale of about HK\$1,283 million) with about HK\$1,420 million (including about HK\$410 million reclassified as held for sale) repayable on demand or within one year and about HK\$1,560 million (including about HK\$873 million reclassified as held for sale) repayable after one year. Borrowings denominated in HK\$ with about HK\$491 million bore interest at floating rates. Borrowings denominated in RMB with about HK\$2,320 million (including about HK\$1,283 million reclassified as held for sale) bore interest at floating rates and about HK\$169 million bore interest at fixed rates. The Remaining Group's gearing ratio was 0.72, which was calculated based on the total borrowings of about HK\$2,980 million and the Remaining Group's shareholders' fund of about HK\$4,128 million.

#### *Charges on assets*

As at 31 March 2011, certain property interests, property, plant and equipment, inventories, trade receivables and bank balances of the Remaining Group with an aggregate value of about HK\$1,793 million, as well as the Remaining Group's investment in certain subsidiaries of about HK\$140 million were pledged to banks and financial institutions to secure general credit facilities granted to the Remaining Group.

#### *Material acquisition and disposal*

During the year ended 31 March 2011, the Remaining Group acquired an additional 15% equity interest in Jiangyin Sunan from 25% to 40% through contribution of about RMB134.8 million to its enlarged registered capital. Apart from the aforesaid, there are no other material acquisition or disposal of subsidiaries and associates during the year ended 31 March 2011.

#### *Contingent liabilities*

As at 31 March 2011, the Remaining Group had contingent liabilities in respect of guarantees given to banks for banking facilities given to third parties of about HK\$65 million.

#### *Commitments*

As at 31 March 2011, the Remaining Group had expenditure contracted for but not provided in respect of acquisition of certain property interests and property, plant and equipment of about HK\$186 million to be mainly financed by shareholders' funds and credit facilities. Apart from the aforesaid, the Remaining Group had no future plans for material investment or capital assets.

#### *Number of employees and remuneration policy*

Including the directors of the Remaining Group, as at 31 March 2011, the Remaining Group employed a total of 1,935 full time employees. Remuneration packages consisted of salary as well as performance-based and equity-based bonuses. The Company has also implemented three share-related incentive schemes to provide alternative means to motivate employees and promote loyalty, which benefited staff both in Hong Kong and the Mainland. As at 31 March 2011, the number of shares issuable for options granted under the share option scheme of the Company was 128,455,237. The staff costs for the Remaining Group amounted to HK\$119 million for the year ended 31 March 2011.

**For the year ended 31 March 2010***Segment information relating to the Remaining Group*

For the year ended 31 March 2010, turnover of the Remaining Group amounted to about HK\$641 million, which was mainly derived from the Remaining Group's ports and logistics business of about HK\$371 million.

The profit contribution of reportable segments to the Remaining Group was (i) net gain of about HK\$405 million from ports development business; (ii) net gain of about HK\$67 million from ports and logistics business; (iii) net gain of about HK\$20 million from property business; and (iv) net gain of about HK\$38,000 from treasury business.

In the event the Distribution in Specie is implemented, and excluding the effect of PYE Shareholders taking up the Cash Alternative, PYI will hold approximately 30.34% interest in PYE BVI as an associate. The profit contribution from 30.34% interest in PYE BVI to the Remaining Group would be about HK\$14 million for the year ended 31 March 2010. If PYE Shareholders take up the Cash Alternative in full, PYI will acquire an additional 18.66% interest of PYE BVI, arriving at 49% interest in PYE BVI. The profit contribution from 49% interest in PYE BVI to the Remaining Group would be about HK\$22 million for the year ended 31 March 2010.

The profit contribution from the ports development business to the Remaining Group was mainly attributable to the gain on revaluation of about HK\$325 million from about 5.2 sq km land bank situated at the harbour-front industrial zone of Yangkou Port, and the income from usage and management of infrastructure facilities in Yangkou Port.

The performance of the ports and logistics business was benefited by the remarkable contribution from Nantong Port Group as a result of increase in iron ore import and domestic demand. Also, contributions were made by ports newly acquired by the Remaining Group during the year, which were 25% interest in Jiangyin Sunan and 51% interest in Yichang Port Group. The LPG business of Minsheng Gas recorded a margin erosion by maintaining a competitive price strategy to capture a larger share of automotive LPG market in Wuhan, and returned to a healthy level afterwards from July 2010.

Units sold for Wanhua Zijin Garden, a residential property development near Yangkou Port, and contribution from Pioneer Technology Building, an investment property in Hangzhou, had made the property business profitable during the year ended 31 March 2010. Nantong International Trade Center, a commercial and office development in Nantong, had pre-sold up to 35% of its total saleable area as at 31 March 2010.

For development of land bank at Xiao Yangkou, about 2 sq km of the 12 sq km had reached the formed and serviced stage as at 31 March 2010. As at 31 March 2010, total value of the Remaining Group's portfolio of trading securities amounted to about HK\$44 million, and portfolio of high-yield loans receivable amounted to about HK\$267 million.

Saved as disclosed above, the Remaining Group had no other significant investment held as at 31 March 2010.

*Capital structure, liquidity and financial resources of the Remaining Group*

As at 31 March 2010, the Remaining Group had total assets of HK\$11,393 million which were financed by shareholders' funds and a variety of credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK\$ and RMB, and did not have any related hedges for the year ended 31 March 2010. No financial instruments were used for hedging purpose. The Remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2010 amounted to about HK\$704 million, of which about HK\$549 million was denominated in RMB and about HK\$155 million was denominated in HK\$. About HK\$2 million had been pledged to banks to secure general credit facilities granted to the Remaining Group. As at 31 March 2010, the Remaining Group's total borrowings amounted to about HK\$2,649 million with about HK\$1,230 million repayable on demand or within one year and about HK\$1,419 million repayable after one year. Borrowings denominated in HK\$ with about HK\$349 million bore interest at floating rates and about HK\$138 million bore interest at fixed rates. Borrowings denominated in RMB with about HK\$1,895 million bore interest at floating rates and about HK\$267 million bore interest at fixed rates. The Remaining Group's gearing ratio was 0.70, which was calculated based on the total borrowings of about HK\$2,649 million and the Remaining Group's shareholders' fund of about HK\$3,776 million.

During the year ended 31 March 2010, the Company completed a rights issue by issuing and allotting 3,019,350,218 rights shares at a subscription price of HK\$0.12 each on the basis of two rights shares for every share of the Company held on 9 June 2009 with net proceeds of about HK\$350 million.

#### *Charges on assets*

As at 31 March 2010, certain property interests, property, plant and equipment, trade receivables and bank balances of the Remaining Group with an aggregate value of about HK\$1,760 million were pledged to banks and financial institutions to secure general credit facilities granted to the Remaining Group.

#### *Material acquisition and disposal*

During the year ended 31 March 2010, the Remaining Group acquired 51% interest in Yichang Port Group at a consideration of about HK\$130 million and disposed 15% interest in Jiangsu Yangkou Port Development and Investment Co., Ltd. ("Yangkou Port Co") at an aggregate consideration of RMB300 million. The Remaining Group remained holding a 60% equity stake in Yangkou Port Co as at 31 March 2010. Apart from the aforesaid, there are no other material acquisition or disposal of subsidiaries and associates during the year ended 31 March 2010.

#### *Contingent liabilities*

As at 31 March 2010, the Remaining Group had contingent liabilities in respect of guarantees given to banks for banking facilities given to third parties of about HK\$46 million.

#### *Commitments*

As at 31 March 2010, the Remaining Group had expenditure contracted for but not provided in respect of acquisition of certain property interests and property, plant and equipment of about HK\$94 million to be mainly financed by shareholders' funds and credit facilities. Apart from the aforesaid, the Remaining Group had no future plans for material investment or capital assets.

#### *Number of employees and remuneration policy*

Including the directors of the Remaining Group, as at 31 March 2010, the Remaining Group employed a total of 1,797 full time employees. Remuneration packages consisted of salary as well as performance-based and equity-based bonuses. The Company has also implemented three share-related incentive schemes to provide alternative means to motivate employees and promote loyalty, which benefited staff both in Hong Kong and the Mainland. As at 31 March 2010, the number of shares issuable for options granted under the share option scheme of the Company was 187,779,569. The staff costs for the Remaining Group amounted to HK\$75 million for the year ended 31 March 2010.

**For the year ended 31 March 2009***Segment information relating to the Remaining Group*

For the year ended 31 March 2009, turnover of the Remaining Group amounted to about HK\$517 million, which was mainly derived from the Remaining Group's ports and logistics business of about HK\$346 million.

The profit contribution of reportable segments to the Remaining Group was (i) net gain of about HK\$375 million from ports development business; (ii) net gain of about HK\$39 million from ports and logistics business; (iii) net gain of about HK\$322 million from property business; and (iv) net loss of about HK\$54 million from treasury business.

In the event the Distribution in Specie is implemented, and excluding the effect of PYE Shareholders taking up the Cash Alternative, PYI will hold approximately 30.34% interest in PYE BVI as an associate. The profit contribution from 30.34% interest in PYE BVI to the Remaining Group would be about HK\$12 million for the year ended 31 March 2009. If PYE Shareholders take up the Cash Alternative in full, PYI will acquire an additional 18.66% interest of PYE BVI, arriving at 49% interest in PYE BVI. The profit contribution from 49% interest in PYE BVI to the Remaining Group would be about HK\$20 million for the year ended 31 March 2009.

The profit contribution from the ports development business to the Remaining Group was mainly attributable to the gain on revaluation of about HK\$334 million from about 5.2 sq km land bank situated at the harbour-front industrial zone of Yangkou Port, and the income from usage and management of infrastructure facilities in Yangkou Port.

Despite the challenging operational environment since the global financial crisis, the performance of the ports and logistics business was satisfactory resulting from the contribution from Nantong Port Group. The LPG business of Minsheng Gas also improved with distribution volume and throughput at the river terminal and the storage tank facilities showing growth again since the third quarter of 2008.

About 2 sq km of the 12 sq km land bank located at Xiao Yangkou had reached the formed and serviced stage during the year ended 31 March 2009 and contributed gain on fair value of investment properties to the Remaining Group. Units sold for Wanhua Zijin Garden, a residential property development near Yangkou Port, and contribution from Pioneer Technology Building, an investment property in Hangzhou, had made the property business profitable during the year ended 31 March 2009. Nantong International Trade Center, a commercial and office development in Nantong, was topped out as at 31 March 2009 and presale activities were underway.

As at 31 March 2009, total value of the Remaining Group's portfolio of trading securities amounted to about HK\$13 million, and portfolio of high-yield loans receivable amounted to about HK\$353 million.

Saved as disclosed above, the Remaining Group had no other significant investment held as at 31 March 2009.

*Capital structure, liquidity and financial resources of the Remaining Group*

As at 31 March 2009, the Remaining Group had total assets of HK\$9,836 million which were financed by shareholders' funds and a variety of credit facilities. The Remaining Group mainly generated revenue and incurred costs in HK\$ and RMB, and did not have any related hedges for the year ended 31 March 2009. No financial instruments were used for hedging purpose. The Remaining Group adopted a prudent funding and treasury policy and managed the fluctuation exposures of exchange rate and interest rate on specific transactions.

Bank balances and cash of the Remaining Group as at 31 March 2009 amounted to about HK\$479 million, of which about HK\$447 million was denominated in RMB and about HK\$32 million was denominated in HK\$. About HK\$118 million had been pledged to banks to secure general credit facilities granted to the Remaining Group. As at 31 March 2009, the Remaining Group's total borrowings amounted to about HK\$2,634 million with about HK\$931 million repayable on demand or within one year and about HK\$1,703 million repayable after one year. Borrowings denominated in HK\$ with about HK\$423 million bore interest at floating rates and about HK\$129 million bore interest at fixed rates. Borrowings denominated in RMB with about HK\$1,947 million bore interest at floating rates and about HK\$135 million bore interest at fixed rates. The Remaining Group's gearing ratio was 0.79, which was calculated based on the total borrowings of about HK\$2,634 million and the Remaining Group's shareholders' fund of about HK\$3,315 million.

*Charges on assets*

As at 31 March 2009, certain property interests, property, plant and equipment and bank balances of the Remaining Group with an aggregate value of about HK\$1,437 million were pledged to banks and financial institutions to secure general credit facilities granted to the Remaining Group.

*Material acquisition and disposal*

During the year ended 31 March 2009, the Remaining Group did not have material acquisition and disposal of subsidiaries and associates.

*Contingent liability*

As at 31 March 2009, the Remaining Group had contingent liability in respect of guarantee given to a bank for banking facilities given to a third party of about HK\$23 million.

*Commitments*

As at 31 March 2009, the Remaining Group had expenditure contracted for but not provided in respect of acquisition of certain property interests, property, plant and equipment and a non-wholly owned subsidiary of about HK\$540 million to be mainly financed by shareholders' funds and credit facilities. Apart from the aforesaid, the Remaining Group had no future plans for material investment or capital assets.

*Number of employees and remuneration policy*

Including the directors of the Remaining Group, as at 31 March 2009, the Remaining Group employed a total of 553 full time employees. Remuneration packages consisted of salary as well as performance-based and equity-based bonuses. The Company has also implemented three share-related incentive schemes to provide alternative means to motivate employees and promote loyalty, which benefited staff both in Hong Kong and the Mainland. As at 31 March 2009, the number of shares issuable for options granted under the share option scheme of the Company was 147,318,833. The staff costs for the Remaining Group amounted to HK\$58 million for the year ended 31 March 2009

**2. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP**

PYI Group is principally engaged in the business of development and investment in port and other infrastructure projects, land and property development and investment, treasury investment and, through its subsidiary, Paul Y. Engineering Group Limited, comprehensive engineering and property-related services.

Upon completion of the Deemed Disposal, the percentage of the issued share capital of PYE owned by PYI will be diluted from approximately 61.92% to approximately 10.14% assuming no exercise of the Upsize Options, or to approximately 8.93% assuming exercise, in full, of the Upsize Options. PYE will as a result become an available for sale investment of PYI and will be holding 51% interest of PYE BVI (if the Distribution in Specie is implemented) and 50% interest in Legendary East (if the acquisition is implemented).

*Assuming Distribution in Specie is not implemented*

In the event the Distribution in Specie is not implemented and upon completion of the Deemed Disposal, the Remaining Group will become principally engaging in the operation of port and port-related business at Yichang Port, Jiangyin Port, Nantong Port and Jiaying Port, liquefied petroleum gas and logistics businesses of Hubei Minsheng and land and property development and investment, the details of which are set out below.

*Assuming the Distribution in Specie is implemented*

In the event the Distribution in Specie is implemented, and excluding the effect of PYE Shareholders taking up the Cash Alternative, PYI will hold approximately 30.34% interest in PYE BVI as an associate. Should PYE Shareholders take up the Cash Alternative in full, PYI will acquire an additional 18.66% interest of PYE BVI, arriving at 49% interest in PYE BVI.

In such circumstances and upon completion of the Deemed Disposal, the Remaining Group will become principally engaging in the operation of port and port-related business at Yichang Port, Jiangyin Port, Nantong Port and Jiaying Port, liquefied petroleum gas and logistics businesses of Hubei Minsheng, land and property development and investment, and comprehensive engineering and property-related services through its associate, PYE BVI (if the Distribution in Specie is implemented), detailed segment information of which are as follows:

**(1) Development and investment in port business***Yangkou Port*

Upon completion of the disposal of 50.1% interest in Yangkou Port Co in May this year, Yangkou Port Co became an available for sale investment of PYI. It is envisaged by the PYI Directors that PYI will continue to enjoy the future growth of Yangkou Port through the remaining 9.9% interest in Yangkou Port Co.

**(2) Operation of ports and logistics business**

Under the PYI Yangtze Strategy, a network of ports has been formed along the Yangtze River:

*Nantong Port Group*

Nantong Port Group, in which the Remaining Group has 45% interest, is principally engaged in providing cargo loading and off-loading, storage, shipping agent, cargo agent, ship anchoring, ship repairing, port machinery, shipping logistics and ship piloting services in Nantong Port, which is located in Nantong, Jiangsu Province, PRC. It continued to perform and grew steadily due to increase in iron ore import and domestic demand as well as enhanced cargo mix and rates. In 2010, annual cargo throughput of Nantong Port Group was around 55 million tonnes and container throughput was 392,000 TEUs, representing 0.4% and 14% year-on-year growth respectively. Nantong Port Group's performance contributed about HK\$50 million for the year ended 31 March 2011 to the Remaining Group's operating profit. The PYI Directors are confident of the performance of Nantong Port Group and its continued contribution to the Remaining Group after the Deemed Disposal.

*Yichang Port Group*

Yichang Port Group, in which the Remaining Group has 51% interest, is principally engaged in transport logistics and properties investments, providing transportation, cargo loading and discharging, storage, shipping agent, cargo agent, port logistics and port equipment rental services in Yichang Port, which is situated on the Yangtze River near the Three Gorges Dam in Yichang, Hubei Province. To capture the growing demand on logistics and transportation services along the Yangtze River, Yichang Port Group is continuously under expansion. The phase two of construction of Yunchi Port Terminal by the Yichang Port Group has commenced in early 2011. Upon completion, the terminal will consist of 17 berths with total annual throughput capacity of 10 million tonnes and 400,000 TEUs.

Yichang Port Group contributed about HK\$21 million for the year ended 31 March 2011 to the Remaining Group's operating profit. In view of the improved performance in annual cargo throughput by 8% during the year ended 31 March 2011 and the potential increase in throughput capacity through Yunchi Port Terminal, the PYI Directors believe that Yichang Port Group will continue contributing to the Remaining Group after the Deemed Disposal.

*Jiangyin Sunan*

Jiangyin Sunan, in which the Remaining Group has 40% interest, is principally engaged in containers loading and unloading, storage, maintenance, washing and leasing of containers with an annual container throughput of 554,000 TEUs in 2010. The container terminal operated by Jiangyin Sunan is the only container terminal in Jiangyin, Jiangsu Province, PRC. Jiangyin Sunan contributed about HK\$94 million to the Remaining Group's operating profit for the year ended 31 March 2011, about HK\$90 million of which was resulted from the Group's bargain purchase of additional 15% interest in Jiangyin Sunan during the year. The PYI Directors consider that Jiangyin Sunan will continue contributing to the Remaining Group after the Deemed Disposal.

*Jiaxing Port*

Jiaxing International Container Feeder Port Limited, in which the Remaining Group has 90% interest, is principally engaged in the development and operation of Jiaxing Port, Jiaxing, Zhejiang Province, PRC. The Jiaxing Port occupies a shoreline of 570 metres and a land mass of 326,000 square metres. It is designed for an annual throughput capacity of 2.5 million tonnes upon completion of 10 berths. The port was declared soft open in mid 2010 with custom, quarantine and other government authorities in place for efficient consignment, clearance and declaration at one stop. In view of the prime location of the port and the alliance formed with Shanghai International Port Group, the PYI Directors are optimistic about the future potential of this development.

*Minsheng LPG*

The LPG business of the Remaining Group is carried on by a wholly owned subsidiary, Hubei Minsheng, which has successfully improved its selling margin of LPG from July 2010 and is expected to contribute to the operating profit of the Remaining Group in the year end of 2011.

**(3) Engineering business**

Assuming the Distribution in Specie is implemented, the Remaining Group will continue to benefit from the provision of comprehensive engineering and property-related services through its possible 30.34% to 49% interest in PYE BVI. If the Distribution in Specie (with or without Potential Additional PYE BVI Share Acquisition) is implemented, the PYI Directors currently do not intend to dispose of or transfer PYI's interest in PYE BVI in the near future.

**(4) Property business**

The Remaining Group has four major property investments in the Mainland, namely, Xiao Yangkou, Nantong International Trade Center, Wanhua Zijin Garden and Pioneer Technology Building. The property business contributed about HK\$86 million to the Remaining Group for the year ended 31 March 2011.

As at 31 March 2011, about 2 square kilometres of the 12 square kilometres land bank situated at Xiao Yangkou have reached the formed and serviced stage of which about 1.9 square kilometres were classified as investment properties and measured at fair value of about HK\$468 million.

Wanhua Zijin Garden is a residential property development near Yangkou Port with a gross floor area of 65,000 square metres and contributed about HK\$18 million to the Group's operating profit for the year ended 31 March 2011.

Nantong International trade Center, a commercial and office development in the heart of Nantong city with a gross floor area of some 80,000 square metres. The office tower was completed in October 2010 and the commercial podium is scheduled for completion by end of 2011. It contributed about HK\$38 million to the Remaining Group's operating profit for the year ended 31 March 2011 and is expected to continue its contribution after the Deemed Disposal.

In Hangzhou, the Remaining Group holds an investment property, Pioneer Technology Building, which is an office building with gross floor area of some 20,000 square metres, has contributed rental income of about HK\$8 million for the year ended 31 March 2011 and its occupancy was about 95% as at 31 March 2011. It is expected that the Remaining Group will continue to hold this property for rental income in future.

PYI expects that the business segments stated above will continue to provide stable revenue to the Remaining Group. In addition, new investment opportunities will be sought when arise. With the strengthened financial position, the PYI Directors believe PYI is poised to capture new growth and further enhance PYI Shareholders' value.

**3. WORKING CAPITAL**

After taking into account the expected Completion of the proposed Deemed Disposal, proposed Cash Dividend by PYE, Cash Alternative and the present internal financial resources available as well as the available banking facilities, and in the absence of unforeseen circumstances, the PYI Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

**4. INDEBTEDNESS**

At the close of business on 31 July 2011, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding total borrowings of approximately HK\$2,584 million, comprising bank borrowings of approximately HK\$2,458 million of which approximately HK\$1,731 million were secured by fixed charges on certain of the Group's assets, including property interests, trade receivables, bank deposits and shares charge on certain investments in subsidiaries of the Company, and unsecured other borrowings of approximately HK\$126 million.

In addition, as at 31 July 2011, the Group had contingent liabilities in respect of guarantees given to banks for banking facilities given to third parties, associates and jointly controlled entities of approximately HK\$113 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 31 July 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the PYI Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the PYI Group. The PYI Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS BY PYI DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the PYI Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to PYI and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, were as follows:

### (1) Interest in Shares

Name of PYI Director/ chief executive	Capacity	Long position/ short position	Number of Shares held	Approximate percentage of the existing issued share capital of the Company
Lau Ko Yuen, Tom	Beneficial owner	Long position	14,237,475	0.31%
	Family interest & Interest of controlled corporation (Note 1)	Long position	146,863,544	3.24%
Chan Kwok Keung, Charles	Beneficial owner	Long position	35,936,031	0.79%
	Interest of controlled corporation (Note 2)	Long position	1,213,537,695	26.79%
Kwok Shiu Keung, Ernest	Beneficial owner	Long position	3,900,000	0.09%

*Notes:*

- Such interests are indirectly held by a company which is equally owned by Mr. Lau Ko Yuen, Tom and his spouse in the proportion of 50% and 50%.
- Such interests were held by Hollyfield Group Limited ("Hollyfield"), a wholly-owned subsidiary of ITC Investment Holdings Limited ("ITC Investment" which was, in turn, a wholly-owned subsidiary of ITC Corporation Limited ("ITC")). Galaxyway Investments Limited ("Galaxyway"), an indirect wholly-owned company of Dr. Chan Kwok Keung, Charles, owned approximately 26.89% of the issued share capital of ITC. Dr. Chan Kwok Keung, Charles also personally held approximately 6.76% of the issued share capital of ITC. By virtue of his aggregate interest of approximately 33.65% in ITC, Dr. Chan Kwok Keung, Charles was deemed to be interested in the Shares held by Hollyfield.

**(2) Options to subscribe for Shares**

Name of PVI Director/ chief executive	Date of grant	Exercisable period	Exercise price per Share HK\$	Number of underlying Shares comprised in the options	Approximate percentage of the existing issued share capital of the Company
Lau Ko Yuen, Tom	28.12.2004	28.12.2004 to 26.08.2012	0.43762	18,416,666	0.41%
	28.12.2004	28.12.2004 to 26.08.2012	0.52940	18,416,666	0.41%
Chan Shu Kin	28.12.2004	28.12.2004 to 26.08.2012	0.43762	1,841,666	0.04%
	28.12.2004	28.12.2004 to 26.08.2012	0.52940	1,841,666	0.04%
Leung Po Wing, Bowen Joseph	08.09.2006	08.09.2006 to 26.08.2012	0.85762	3,683,334	0.08%
Li Chang An	06.02.2007	06.02.2007 to 26.08.2012	1.05881	3,683,334	0.08%

Save as disclosed above, as at the Latest Practicable Date, none of the PVI Directors and 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 Part XV 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 or as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS**

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the PVI Directors, the following are details of the persons (other than a PVI Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares 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 were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the PVI Group:

**(A) The Company****(1) Substantial PYI Shareholders**

Name of PYI Shareholder	Capacity	Long position/ short position	Number of Shares/ underlying Shares held	Approximate percentage of the existing issued share capital of the Company
Chan Kwok Keung, Charles	Beneficial owner	Long position	35,936,031	0.79%
	Interest of controlled corporation (Note 1)	Long position	1,213,537,695	26.79%
Ng Yuen Lan, Macy	Interest of spouse (Note 2)	Long position	1,249,473,726	27.58%
ITC	Interest of controlled corporation (Note 1)	Long position	1,213,537,695	26.79%
ITC Investment	Interest of controlled corporation (Note 1)	Long position	1,213,537,695	26.79%
Hollyfield	Beneficial owner (Note 1)	Long position	1,213,537,695	26.79%
Third Avenue Management LLC ("Third Avenue LLC")	Investment manager (Note 3)	Long position	485,314,668 (Note 4)	10.72%
Third Avenue Small Cap Value Fund ("Third Avenue Fund")	Beneficial owner (Note 3)	Long position	485,270,668 (Note 5)	10.71%

**(2) Other PYI Shareholders**

Name of PYI Shareholder	Capacity	Long position/ short position	Number of Shares/ underlying Shares held	Approximate percentage of the existing issued share capital of the Company
Daniel Saul Och	Interest of controlled corporation (Note 6)	Long position	452,152,467	9.98%
Och-Ziff Capital Management Group LLC ("Och-Ziff Capital")	Interest of controlled corporation (Note 6)	Long position	452,152,467	9.98%
Och-Ziff Holding Corporation ("Och-Ziff Holding")	Interest of controlled corporation (Note 6)	Long position	452,152,467	9.98%
OZ Management, L.P. ("OZ Management")	Investment manager (Note 6)	Long position	452,152,467	9.98%
Hof Hoomeman Bankiers NV (formerly known as VPV Bankiers NV)	Investment manager	Long position	227,603,803	5.03%
CIM Investment Management Limited	Investment manager	Long position	228,000,000	5.03%

*Notes:*

- (1) Hollyfield, a wholly-owned subsidiary of ITC Investment (which was, in turn, a wholly owned subsidiary of ITC), owned 1,213,537,695 Shares. Accordingly, ITC Investment and ITC were deemed to be interested in the said 1,213,537,695 Shares held by Hollyfield. Galaxyway, an indirect wholly-owned company of Dr. Chan Kwok Keung, Charles, owned approximately 26.89% of the issued share capital of ITC. Dr Chan Kwok Keung, Charles also personally held approximately 6.76% of the issued share capital of ITC. By virtue of his aggregate interest of approximately 33.65% in ITC, Dr. Chan Kwok Keung, Charles was deemed to be interested in these Shares held by Hollyfield.
- (2) Ms. Ng Yuen Lan, Macy, the spouse of Dr. Chan Kwok Keung, Charles, was deemed to be interested in the said 1,213,537,695 Shares held by Hollyfield and 35,936,031 Shares held directly by Dr. Chan Kwok Keung, Charles.
- (3) Third Avenue LLC, through its controlled entities (including Third Avenue Fund) held interests in 485,314,668 Shares/underlying Shares. As such, Third Avenue LLC was deemed to be having the same interests in the said 485,314,668 Shares/underlying Shares as Third Avenue Fund and another entity controlled by Third Avenue LLC.
- (4) Such interests comprised 475,758,107 Shares and 9,556,561 underlying Shares in respect of warrants issued by the Company entitling holders thereof to subscribe for new Shares of the Company.

So far as is known to the PYI Directors and chief executive of the Company, the warrants issued by the Company expired after 4:00 p.m. on 25 September 2009. With the exclusion of those 9,556,561 underlying Shares, the interests in the said 475,758,107 Shares represent approximately 10.5% of the issued share capital of the Company.

- (5) Such interests comprised 475,714,107 Shares and 9,556,561 underlying Shares in respect of warrants issued by the Company entitling holders thereof to subscribe for new Shares of the Company.

So far as is known to the PYI Directors and chief executive of the Company, the warrants issued by the Company expired after 4:00 p.m. on 25 September 2009. With the exclusion of those 9,556,561 underlying Shares, the interests in the said 475,714,107 Shares represent approximately 10.5% of the issued share capital of the Company.

- (6) OZ Management, an entity controlled by Och-Ziff Holding which was, in turn, solely owned by Och-Ziff Capital (approximately 77.4% of the voting power at general meeting of which was controlled by Mr. Daniel Saul Och), held, through its affiliated funds, 452,152,467 Shares. As such, Mr. Daniel Saul Och, Och-Ziff Capital, Och-Ziff Holding and OZ Management were deemed to be having the same interests in the Shares as the affiliated funds of OZ Management.

As at the Latest Practicable Date, Dr. Chan Kwok Keung, Charles is the chairman and executive director of ITC. Details of the shareholding of ITC in the Company are set out in the paragraph above. Save as disclosed herein, none of the PYI Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**(B) Other members of the Group**

Name of subsidiary	Name of shareholder	Approximate percentage of the existing issued share capital/ registered capital
江蘇洋通開發投資有限公司 (Jiangsu Yangtong Investment and Development Co., Ltd.*)	如東縣東泰社會發展投資有限責任公司 (Rudong County Dongtai Community Development and Investment Ltd.*)	25.0%
Jiaxing International Container Feeder Port Limited	嘉興市港航建設開發有限責任公司	10.0%
Yichang Port Group	(1) 宜昌市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Yichang Municipal Government*)	16.714%
	(2) 宜昌市夷陵國有資產經營有限公司 (Yichang Yiling State-owned Assets Operation Co. Ltd.*)	32.286%
宜昌中理外輪理貨有限責任公司	中國外輪理貨總公司	20.0%
Paul Y. – Concentric Joint Venture	Concentric Construction Limited	49.0%
Paul Y. – CREC Engineering Co., Limited	China Railway Engineering (Hong Kong) Limited	30.0%
Paul Y. – CREC Joint Venture	China Railway Engineering Corporation	30.0%
Paul Y. – CREC(HK) Joint Venture	China Railway Engineering Corporation	40.0%
Paul Y ISG Joint Venture	ISG Asia (Macau) Limited	40.0%
PYSCG JV Limited	SCG (H.K.) Limited	49.0%
PYSCG – NF JV Limited	Nam Fong Construction and Real Estate Company Limited	26.6%

Save as disclosed above, the PYI Directors are not aware that there is any party who, as at the Latest Practicable Date, had an interest or short positions in the Shares and underlying Shares 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 other member of the PYI Group or had any options in respect of such Shares.

\* English transliteration for identification purpose only

**4. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the PYI Directors had any existing or proposed service contract with any member of the PYI Group which does not expire or is not terminable by such member of the PYI Group within one year without payment of compensation (other than statutory compensation).

**5. LITIGATION**

As at the Latest Practicable Date, no member of the PYI Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the PYI Directors to be pending or threatened against any member of the PYI Group save and except that a writ of summons was served upon PYE and two of its subsidiaries on 28 July 2011 claiming

for, amongst others, damages in a sum of approximately RMB780 million. It is stated in the writ of summons that PYE and two of its subsidiaries were alleged to be in breach of certain terms contained in all alleged oral agreement (which is denied). A related matter in which PYI is a party to the legal proceedings has already been disclosed in note 22 to the consolidated financial statements in the annual report of PYE for the year ended 31 March 2011 and note 32(c) to the consolidated financial statements in the annual report of PYI for the year ended 31 March 2011. The alleged claim under the writ of summons is basically derived from the matter disclosed therein.

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the PYI Directors were aware, none of the PYI Directors or their respective associates were considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the PYI Group.

## 7. PYI DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

No contract or arrangement in which any of the PYI Directors is materially interested and which is significant in relation to the business of the PYI Group subsisted as at the Latest Practicable Date. As at the Latest Practicable Date, none of the PYI Directors had any direct or indirect interest in any assets which have been, since 31 March 2011 (the date to which the latest published audited accounts of the PYI Group were made up), acquired or disposed of by or leased to any member of the PYI Group, or are proposed to be acquired or disposed of by or leased to any member of the PYI Group.

## 8. EXPERTS AND CONSENTS

The following is the qualification of the expert whose letter and report are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants

Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Deloitte has no shareholding, directly or indirectly, in any member of the PYI Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the PYI Group.

As at the Latest Practicable Date, Deloitte has no direct or indirect interest in any assets which have been, since 31 March 2011 (the date to which the latest published audited accounts of the PYI Group were made up), acquired or disposed of by or leased to any member of the PYI Group, or are proposed to be acquired or disposed of by or leased to any member of the PYI Group.

## 9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, are entered into by members of the PYI Group within the two years immediately preceding the Latest Practicable Date and which are or may be material:

- (i) an agreement dated 30 November 2009 entered into between Glory Well Limited ("Glory Well"), an indirect wholly-owned subsidiary of PYI, 南通國有資產投資控股有限公司 (Nantong State-owned Assets Investment Holdings Limited\*) ("Nantong SOA"), 如東縣日泰基礎設施建設投資有限公司 (Rudong County Ritai Infrastructure Development and Investment Co., Ltd.\*) ("Ritai") and 如東縣東泰社會發展投資有限責任公司 (Rudong County Dongtai Community Development and Investment Co., Ltd.\*) ("Dongtai") where Glory Well agreed to dispose of an aggregate of 15% interest in Yangkou Port Co, as to 10% to Nantong SOA at a consideration of RMB200 million in cash and as to 5% to Ritai at a consideration of RMB100 million in cash;

- (ii) the capital increase agreement dated 29 June 2010 entered into between 江陰臨港新城開發建設有限公司 (Jiangyin New Harbour City Development and Construction Co. Ltd.\*), 上海國際港務(集團)股份有限公司 (Shanghai International Port (Group) Co. Ltd.\*), 江蘇江陰港口集團股份有限公司 (Jiangsu Jiangyin Port Group Co. Ltd.\*) and Paul Y. Corporation Limited, an indirect wholly-owned subsidiary of PYI, pursuant to which the registered capital of Jiangyin Sunan was increased from US\$12.5 million (equivalent to approximately RMB100.7 million) to RMB400 million and the equity interest of Paul Y. Corporation Limited in Jiangyin Sunan was increased from 25% to 40% at a consideration of RMB134.8 million in cash;
- (iii) the conditional agreement dated 31 January 2011 entered into between Glory Well as vendor and Ritai as purchaser in relation to the disposal of 50.1% equity interest in Yangkou Port Co at a consideration of RMB1,507 million payable in cash by instalments (“Yangkou Disposal”);
- (iv) a share transfer agreement dated 28 March 2011 entered into between Glory Well, Nantong SOA, Ritai and Dongtai in relation to the Yangkou Disposal;
- (v) a joint venture agreement dated 28 March 2011 entered into between Glory Well, Nantong SOA, Ritai and Dongtai in relation to the Yangkou Disposal;
- (vi) a share charge executed by Ritai in favour of Glory Well in respect of the 50.1% interest in Yangkou Port Co as security for due and punctual payment of the remaining instalments of the consideration of the Yangkou Disposal by Ritai and the release of the corporate guarantee given by PYI for the syndicated loan of RMB960 million; and
- (vii) PYE BVI Shares Deed of Undertaking.

\* English transliteration for identification purpose only

## 10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the PYI Directors confirmed that there has been no material adverse change in the financial or trading position of the Group since 31 March 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 11. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong Kowloon, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke HM 08, Bermuda and the branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Ko Hiu Fung, Bachelor of Laws (LLB), a qualified barrister of England and Wales and Hong Kong.
- (e) Save for the names of the PRC entities mentioned in this circular for which the Chinese version shall prevail over the English transliteration thereof in case of any inconsistency, the English text of this circular, the notice of the PYI SGM and the accompanying form of proxy shall prevail over their respective Chinese text.

**12. 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 33rd Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong Kowloon, Hong Kong, from the date of this circular up to and including the date of the PYI SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 March 2010 and 31 March 2011;
- (c) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (d) the letter of consent referred to in the paragraph headed “Experts and Consents” in this appendix;
- (e) the financial information on PYE Group, the text of which is set out in Appendix I of this circular;
- (f) the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II of this circular;
- (g) a copy of each circular of the Company issued pursuant to the requirements of Chapter 14 and/or 14A of the Listing Rules since 31 March 2011.

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## NOTICE OF SPECIAL GENERAL MEETING

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# PYI Corporation Limited

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 498)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of PYI Corporation Limited (the “Company”) will be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 17 October 2011 at 10:30 a.m. for the purpose of considering, and if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT:**

- (a) the deemed disposal of a very substantial interest of the Company in Paul Y. Engineering Group Limited as referred to in the circular to the shareholders of the Company dated 23 September 2011 of which this notice forms part (the “**Deemed Disposal**”) be and is hereby approved;
- (b) any one director of the Company be and is hereby authorised for and on behalf of the Company to exercise, perfect and deliver all such documents and to do all such acts and things and any two directors or any director and the company secretary of the Company be and are hereby authorised to affix the Company’s seal to all such documents and deliver the same as deeds of the Company, in any such case as may be necessary or desirable to implement or give effect to the Deemed Disposal and any ancillary agreements or documents contemplated thereunder (including without limitation, the execution of any deeds and/or documents and the exercise or enforcement of any right thereunder) and to make and agree to such variation, amendments or waivers of matters relating thereto as he, in his absolute discretion, may consider to be desirable, appropriate or necessary and in the interests of the Company.”

By Order of the Board  
**PYI Corporation Limited**  
**Ko Hiu Fung**  
Company Secretary

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal  
place of business in Hong Kong:*  
33rd Floor, Paul Y. Centre  
51 Hung To Road,  
Kwun Tong Kowloon  
Hong Kong

Hong Kong, 23 September 2011

*Notes:*

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint a proxy in respect of part only of his holding of shares of the Company. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, shall be deposited at the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof, at which the person named in the instrument proposes to vote and, in default, the instrument of proxy shall not be treated as valid.

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## NOTICE OF SPECIAL GENERAL MEETING

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3. Completion and return of the proxy form will not preclude members of the Company from attending and voting in person at the meeting or at any adjournment thereof (as the case may be) should they so wish, and in such event, the instrument appointing a proxy shall be revoked.
4. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share capital shall alone be entitled to vote in respect thereof.

As at the date of this notice, the board of directors of the Company comprises of:

Mr. Lau Ko Yuen, Tom	:	<i>Deputy Chairman and Managing Director</i>
Dr. Chan Kwok Keung, Charles (with Mr. Chan Yiu Lun, Alan as alternate)	:	<i>Non-Executive Director</i>
Mr. Kwok Shiu Keung, Ernest	:	<i>Independent Non-Executive Director</i>
Mr. Chan Shu Kin	:	<i>Independent Non-Executive Director</i>
Mr. Leung Po Wing, Bowen Joseph <small>GBS, JP</small>	:	<i>Independent Non-Executive Director</i>
Mr. Li Chang An	:	<i>Independent Non-Executive Director</i>