THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Paul Y. Engineering Group Limited.

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Paul Y. Engineering Group 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.

Paul Y. Engineering Group Limited
保 華 建 業 集 團 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock code: 577)

PROPOSED PLACING REQUIRING A SPECIFIC MANDATE TO ISSUE NEW SHARES, PROPOSED FILM JOINT VENTURE CONSTITUTING A VERY SUBSTANTIAL ACQUISITION, PROPOSED CAPITAL REDUCTION, PROPOSED DISTRIBUTION IN SPECIE OF A 49% INTEREST IN THE COMPANY'S EXISTING BUSINESSES WITH A CASH ALTERNATIVE, PROPOSED CASH DIVIDEND OF HK$0.25 PER SHARE WITH A SCRIP ALTERNATIVE AND NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company

ANGLO CHINESE CORPORATE FINANCE, LIMITED 英高

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY LIMITED

Sole Global Coordinator

UBS

UBS AG, Hong Kong Branch

Placing Agents

CLSA ASIA-PACIFIC MARKETS

UBS

UBS AG, Hong Kong Branch

A notice convening the special general meeting of the Company to be held at JW Marriott Ballroom on Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m. is set out on pages 242 to 247 of this circular. If you are not able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of the Company in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. 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.

* *For identification purposes only*

24 October 2011

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ACCOMPANYING DOCUMENT
– Form of proxy

Latest time for lodging proxy form for PYE SGM	10:00 a.m. on Sunday, 13 November 2011
PYE SGM	10:00 a.m. on Tuesday, 15 November 2011
Announcement of the poll results of PYE SGM	Tuesday, 15 November 2011
Capital Reduction Effective Date	Monday, 21 November 2011
First day for free exchange of existing share certificates for the new share certificates	Monday, 21 November 2011
Latest day for dealing in the Shares cum-entitlement to the Distribution in Specie, Cash Alternative and Cash Dividend	Monday, 21 November 2011
First day for dealing in the New Shares ex-entitlement to the Distribution in Specie, Cash Alternative and Cash Dividend	Tuesday, 22 November 2011
Latest time for lodging transfer of New Shares to be entitled to the Distribution in Specie, Cash Alternative and Cash Dividend	4:00 p.m. on Wednesday, 23 November 2011
Register of members closed (both dates inclusive)	Thursday, 24 November 2011 – Friday, 25 November 2011
Record Date	Friday, 25 November 2011
Register of members re-opens	Monday, 28 November 2011
Placing Completion Date[1]	On or before Wednesday, 30 November 2011
JV Closing Date [1]	On or before Thursday, 1 December 2011
Despatch further circular enclosing Cash Alternative Election Form, Excess Application Form and Scrip Dividend Form	Thursday, 1 December 2011
Last day of submitting the Cash Alternative Election Form, Excess Application Form and Scrip Dividend Form	Thursday, 15 December 2011
Announcement of the results of the Cash Alternative and Excess applications	Monday, 19 December 2011
Last day for free exchange of existing share certificates for the new share certificates	Tuesday, 20 December 2011
Date of despatching share certificate/ Date of payment for Distribution in Specie, Cash Alternative, Cash Dividend and Scrip Alternative	Thursday, 29 December 2011

Note:

1 In the event that the Placing Completion Date and the JV Closing Date are delayed (and the Placing Agreements and the Legendary East Subscription Agreement provide for respective long stop dates of 31 December 2011), a further announcement on timing, including as to the impact of the delay on the timing of the Distribution in Specie and Cash Dividend, will be made in due course.

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

"associate"	has the meaning ascribed thereto under the Listing Rules
"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 (if exercised)
"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
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"Board"	the board of directors of PYE
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
"CAGR"	compound annual growth rate

"Capital Reduction"	the proposed reduction of the share capital and share premium account of PYE and subdivision of PYE's unissued shares as described in this circular
"Capital Reduction Effective Date"	the date on which the Capital Reduction becomes effective, expected to be on or around 21 November 2011
"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 Shareholders (other than PYI)
"Cash Alternative Election Form"	the form of election to be sent to Shareholders after the Record Date pursuant to which each Eligible Qualifying 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 Shareholders on the Record Date
"China"	the People's Republic of China, for the purpose of this circular, including Hong Kong, Macau and Taiwan
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"CFCC"	China Film Co-Production Corporation
"Directors"	the directors of PYE
"Disney"	The Walt Disney Company
"Distribution in Specie"	the proposed distribution in specie by PYE of one PYE BVI Share for every one New Share held by Qualifying Shareholders on the Record Date
"DreamWorks"	Dreamworks Animation SKG Inc.
"DVD"	Digital Versatile Disc
"Eligible Person"	any employee (whether full time or part time), executives or officers, Directors (including executive, non-executive and independent non-executive Directors) of any member of the Group or any Invested Entity and any consultant, adviser or agent of any member of the Group or any Invested Entity, who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Group or any Invested Entity

"Eligible Qualifying Shareholder"	a Qualifying Shareholder, other than any Overseas Shareholder in respect of whom the 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 Shareholder
"EMEA"	Europe, the Middle East and Africa
"Excess Application Form"	the excess application form to be sent to Shareholders after the Record Date pursuant to which each Eligible Qualifying Shareholder will be able to apply to purchase additional PYE BVI Shares as will be available should those PYE BVI Shares the subject of the Distribution in Specie not all be required to be distributed to Shareholders on a strictly pro rata basis
"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 the New Shares, as further described in this circular
"Enlarged Group"	the Group immediately after the completion of the Transactions
"Existing Businesses"	the existing businesses of the 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 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 Share paid to Shareholders on 7 October 2011
"Fox"	Twentieth Century Fox Film Corporation
"Grantee"	any Eligible Person who accepts an offer in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled, in accordance with the laws of succession applicable, to exercise any option in consequence of the death of the original Grantee

"Group"	PYE and its subsidiaries
"Heads of Agreement"	the legally-binding heads of agreement dated 21 August 2011 entered into between PYE, Legendary, Huayi and Legendary East, which has now been terminated by the Legendary East Subscription Agreement
"High Budget Chinese Co-Productions"	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 People's Republic of China
"Huayi"	Huayi Brothers International Limited, a company incorporated in Hong Kong
"Huayi Brothers"	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)
"Huayi Group"	Huayi Brothers and its subsidiary companies specifically including (but not limited to) Huayi
"Independent Board Committee"	the independent board committee of PYE comprising all the independent non-executive Directors, namely Ir James Chiu, Professor Lee Chack Fan and Mr. Iain Ferguson Bruce, which has been established for the purposes of advising the Independent Shareholders as regards the Distribution in Specie and Cash Alternative
"Independent Financial Adviser" or "Somerley"	Somerley Limited, a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Distribution in Specie and Cash Alternative
"Independent Placees"	the professional, institutional and other investor(s) selected and procured by or on behalf of the Placing Agents 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 as amended by an amendment agreement dated 21 October 2011 entered into by and between PYE and the Placing Agents in relation to the conditional placing of 2,740 million Placing Shares plus an additional 440 million Placing Shares pursuant to the Placing Agents' Upsize Option (if exercised)
"Independent Shareholders"	Shareholders excluding PYI and its associates
"Invested Entity"	any entity in which the Group holds an equity interest
"Joint Policy Statement"	the Joint Policy Statement issued by the Stock Exchange and the Securities and Futures Commission of Hong Kong on 7 March 2007 regarding policy on the listing of overseas companies on the Stock Exchange
"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 upon satisfaction of all the 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"	Friday, 21 October 2011, being the latest practicable date prior to the printing of this circular for the purposes 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., an exempted company incorporated in the Cayman Islands with limited liability. Legendary East is subject to regulations under the Companies Law (2010 revision) of the Cayman Islands
"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 in substantially the form annexed to the Legendary East Subscription Agreement, by and among Legendary East Holdings, Legendary East, Legendary, Huayi, Huayi Brothers, Modern Front, PYE and the JV Management Members (to the extent identified as at the date of execution thereof, the Legendary East Shareholders' Agreement is entered into, and who will otherwise be joined as parties to the agreement by deed of accession at such time as each becomes a holder of Legendary East Shares) relating to the operation of the Film Joint Venture
"Legendary East Subscription Agreement"	the subscription agreement dated 21 October 2011 entered into by and among Legendary East Holdings, Legendary, Huayi, Huayi Brothers, Modern Front, PYE and Legendary East relating to the establishment of the Film Joint Venture
"Lionsgate"	Lions Gate Entertainment Corporation
"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
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Modern Front"	Modern Front Holdings Limited, a private company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
"MOP"	Macau Patacas, the lawful currency of Macau
"MPAA"	Motion Picture Association of America
"Mr. Chang"	Mr. Chang Tat Joel
"Mr. Wu"	Mr. Wu King Shiu, Kelvin
"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 Shareholder(s)"	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

"Paramount"	Paramount Pictures Corporation
"PPV"	pay-per-view
"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(s)"	CLSA Limited and UBS AG, Hong Kong Branch (in alphabetical order)
"Placing Agents' Upsize Option"	the option granted by PYE to the Placing Agents pursuant to the Independent Placing Agreement by virtue of which PYE may be required by the Placing Agents 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 either of the Placing Agents (in respect of its own rights and obligation hereunder) 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 Agents 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 Shareholders obliged to receive, or electing to receive, the Cash Alternative

"PRC"	the People's Republic of China, for the purposes of this circular, excluding Hong Kong, Macau and Taiwan
"Proposed Memorandum and Articles of PYE BVI"	the proposed memorandum and articles of association of PYE BVI, a summary of certain provisions of which is contained in appendix IX of this circular
"Proposed New Directors"	the proposed directors of the Company, Mr. Wu and Mr. Chang
"PYE" or the "Company"	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 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 SGM"	the special general meeting of PYE to be convened and held at JW Marriott Ballroom on Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m. to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions, notice of which is set out on pages 242 to 247 of this circular
"PYI"	PYI Corporation Limited (HK stock code: 498), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
"PYI SGM"	the special general meeting of PYI held on Monday, 17 October 2011 to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
"Qualifying Film(s)"	film(s) 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
"Qualifying Shareholders"	all Shareholders registered on PYE's share register or branch share register on the Record Date

"Record Date"	Friday, 25 November 2011 being the record date for the purposes of ascertaining entitlements of the Shareholders to the Distribution in Specie or Cash Alternative and, or, the Cash Dividend or Scrip Alternative, being a date that follows both the PYE SGM and the Capital Reduction Effective Date
"RMB"	Renminbi, the lawful currency of the PRC
"SARFT"	State Administration of Radio, Film and Television, the industrial regulator in the PRC
"Scrip Alternative"	the proposed scrip dividend arrangements of PYE pursuant to which Eligible Qualifying Shareholders will have the option to elect to receive New Shares in lieu of the Cash Dividend as further described in this circular
"Scrip Dividend Election Form"	the form of election to be sent to Shareholders, after the Record Date, pursuant to which each Eligible Qualifying Shareholder will be able to elect to receive New Shares pursuant to the Scrip Alternative
"SFO"	the Securities and Futures Ordinance
"Share(s)"	the existing ordinary share(s) of HK$0.50 each in the share capital of PYE
"Shareholder(s)"	shareholder(s) of PYE
"Share Option Scheme"	the share option scheme for Eligible Persons approved and adopted as at 7 September 2005
"Sole Global Coordinator"	UBS AG, Hong Kong Branch
"Sony"	Sony Pictures Entertainment, Inc.
"Specific Mandate"	a specific mandate to be sought from 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 (as defined on page 31 of this circular)
"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
"Universal"	Universal Pictures
"Upsize Options"	the Placing Agents' Upsize Option and the AID Upsize Option
"US$"	United States dollars, the lawful currency of the U.S.
"U.S."	United States of America
"VOD"	video-on-demand
"Warner Bros"	Warner Bros. Entertainment, Inc.

Note: For the purposes of this circular, the exchange rate used is US$1 = HK$7.8.

Paul Y. Engineering Group Limited
保華建業集團有限公司 *

(Incorporated in Bermuda with limited liability)
(Stock code: 577)

Independent Non-Executive Directors:
James Chiu, *OBE, JP (Chairman)*
Lee Chack Fan, *SBS, JP*
Iain Ferguson Bruce

Non-Executive Director:
Lau Ko Yuen, Tom *(Deputy Chairman)*

Executive Directors:
Chan Fut Yan *(Deputy Chairman)*
Wong Kam Cheong, Stanley *(Chief Executive Officer)*

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24 October 2011

To the Shareholders

Dear Sir or Madam,

PROPOSED PLACING REQUIRING A SPECIFIC MANDATE TO ISSUE NEW SHARES, PROPOSED FILM JOINT VENTURE CONSTITUTING A VERY SUBSTANTIAL ACQUISITION, PROPOSED CAPITAL REDUCTION, PROPOSED DISTRIBUTION IN SPECIE OF A 49% INTEREST IN THE COMPANY'S EXISTING BUSINESSES WITH A CASH ALTERNATIVE, PROPOSED CASH DIVIDEND OF HK$0.25 PER SHARE WITH A SCRIP ALTERNATIVE AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Transactions Announcement. PYE owns the entire issued share capital of PYE BVI, a company that is, itself, the intermediate holding company of the Group's existing businesses. These 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. The Board, in its continuous efforts to explore new projects and potential business developments that stand to benefit PYE and all Shareholders, has made the decision to diversify PYE's business through a series of transactions that would involve PYE undertaking a substantial capital raising exercise, predominantly for the purpose of funding its involvement in a new joint venture with market leaders, 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.

PYE intends to effect a distribution in specie of 49% of PYE BVI, which will enable Shareholders to maintain a direct interest, as well as an interest through their shareholdings in PYE, in the Existing Businesses. In order to provide 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 to provide them with a cash alternative enabling them to realise cash from the distribution.

In addition, PYE is proposing to pay a special cash dividend to the Shareholders in the amount of HK$0.25 per Share and to offer all Eligible Qualifying Shareholders the right to a scrip dividend in lieu of cash.

The combination of this series of transactions represents a significant refocusing of PYE's business activities which the Board believes will, with the release of films co-financed and, or, co-produced by Legendary East, generate strong cash flows. In the early stages of Legendary East's operations, such cash flows are likely to be used to fund further growth of the Film Joint Venture, which the Directors believe will ultimately benefit all Shareholders.

A. PROPOSED PLACING OF NEW SHARES BY PYE PURSUANT TO A SPECIFIC MANDATE

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). The Placing Agreements are described below.

The Independent Placing Agreement

On 21 August 2011, PYE entered into a conditional placing agreement with UBS AG, Hong Kong Branch, which was amended by an amendment agreement dated 21 October 2011, by virtue of which CLSA Limited agreed to be appointed as an additional placing agent, together with UBS AG, Hong Kong Branch as the Placing Agents, and UBS AG, Hong Kong Branch has agreed to be appointed as the Sole Global Coordinator. Pursuant to the Independent Placing Agreement, the Placing Agents have conditionally agreed as agents of the Company, severally and not jointly nor jointly and severally with each other 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 Agents the Placing Agents' Upsize Option pursuant to which PYE may be required by the Placing Agents, 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 Agents shall be entitled to (i) a placing commission of 2.75% of the aggregate Placing Price of the Placing Shares to be alloted and issued under the Independent Placing Agreement (including those allotted on exercise of the Placing Agents' Upsize Option); and (ii) an incentive payment of US$1 million payable at the sole discretion of PYE on the Placing Completion Date. The Directors are of the view that the placing commission reflects a market rate and is fair and reasonable. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each 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 and 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 (unless with the prior written consent of the Company). After the Placing, at least 25% of the total issued share capital of PYE 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 Agents' Upsize Option (which may be exercised independently of the AID Upsize Option) has been granted to the Placing Agents 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.

PYE has provided customary representations and warranties in respect of the Placing including an indemnity in respect of the claim as disclosed in PYE's 2011 annual report and in PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading". The claim in question is one that has been made against the Company and certain subsidiaries for breach of an alleged oral agreement concerning, *inter alia*, a property development project in Beijing. The damages claimed are for approximately RMB780 million. The Company is of the view that the alleged claim is without merit and intends to vigorously defend it, whilst, at the same time, pursuing its own claims for the recovery of sums due to the Group (which, with interest, stood at approximately HK$269 million as at 31 March 2011) in respect of the project. The indemnity provided by the Company in favour of the Placing Agents in respect of this matter, capped at a maximum of RMB780 million, has been so provided to each Placing Agent for itself (were that Placing Agent to subscribe for Placing Shares) and on behalf of the Independent Placees who ultimately subscribe for Placing Shares (but on the basis that the benefit of the indemnity is neither assignable nor transferable) and would be in respect of any diminution in the value of the Placing Shares subscribed arising from the Group's liability for damages in respect of the claim (whether arising from a voluntary settlement or any final court determination, the Group having exhausted its rights of appeal). The Company's liability under the indemnity to any placee ceases on the earlier of (i) that placee transferring 50% or more of the shares subscribed by it; and (ii) the second anniversary of the Placing Completion Date.

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 Agents would not earn placing commissions 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 in relation to 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 individual investors in Hong Kong and overseas. AID Capital is managed and controlled by the general partner, which is another limited partnership, ultimately controlled by the Proposed New Directors.

To the best of the 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 and 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 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, being the associate of the Proposed New Directors. Further details about the Proposed New Directors are set out below.

The AID Upsize Option (which may be exercised independently of the Placing Agents' 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 PYE's 2011 annual report and in PYE's announcement dated 1 August 2011 entitled "Announcement and Resumption of Trading". The indemnity (which again is non-assignable and non-transferable (other than to the respective affiliates of the AID Subscribers)) would relate only to the loss from or in connection with the claims concerning, or relating to, *inter alia*, the Beijing property development project which is quantified as the amount of the Group's liability for damages in respect of the claims times a percentage representing the number of the Placing Shares held by the AID Subscribers or their affiliates at the time the Group's liability for damages in respect of the claims are incurred or suffered over the total number of issued New Shares immediately after completion of the Placing Agreements, subject to a cap at a maximum of US$35 million.

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 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.

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 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 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 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;

(v) a discount of approximately 17.72% to the closing price of HK$0.79 per Share as quoted on the Stock Exchange on 21 October 2011, being the Latest Practicable Date;

(vi) a premium of approximately 20.37% to the price referred to at (v) above after factoring in payment by PYE of the Cash Dividend; and

(vii) a premium of approximately 18.18% to the unaudited pro forma net asset value attributable to its shareholders per New Share, taking into consideration the effect of the Transactions (including the Placing, assuming no exercise of the Upsize Options) as if they had been completed on 31 March 2011, of approximately HK$0.55 per Share.

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 payments to the Placing Agents are made.

The Directors consider that the Placing Price, which was agreed after arm's length negotiations between PYE, the Placing Agents and the AID Subscribers with reference to the market price of the 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 the 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.

Specific Mandate

The Placing Shares will be allotted and issued pursuant to the Specific Mandate, which it is proposed, as regards the Placing Shares, will have a validity period of six months from the date of the PYE SGM.

Conditions precedent

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

(a) the Placing Agents having completed due diligence in relation to the Group, Legendary East, the Transactions and the Placing to the satisfaction of either of the Placing Agents;

(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;

(c) PYE having obtained the approvals of the 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 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 of a very substantial interest of PYI in PYE 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 Agents) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agents;

(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 Agents) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agents;

(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 Agents) set out in the Transactions Announcement and other relevant announcements issued by PYE with the prior written consent of the Placing Agents;

(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;

(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 Agents (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 either 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 either 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 either of the Placing Agents 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 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 Group, whether or not arising out of the ordinary course of business;

(t) the Placing Agents 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 Group, the Transactions or the Placing that (in either Placing Agent's sole judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Placing Agents prior to the date of the Independent Placing Agreement or would reasonably be expected to impair the Placing or the Transactions;

(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 either 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 Agents having completed book-building for the Placing in accordance with the terms of the Independent Placing Agreement and otherwise to the satisfaction of either of the Placing Agents;

(w) the Transactions Announcement and any subsequent announcements (relating to the Placing or other content of the Transactions Announcement) prior to the completion of the Placing to be issued by PYE being in a form and at a time agreed by the Placing Agents (save as to any amendments made with the prior written consent of the Placing Agents) 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 the Transactions Announcement);

(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 Agents and all information that PYE furnishes to the Placing Agents in connection with the Placing and, or, the Transactions; and

(aa) receipt by the Placing Agents, amongst others, of two signed originals 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 either of the Placing Agents or waived by the Placing Agents (to the extent permissible and in respect of its own rights and obligations hereunder) prior to the expiry of the Placing Period or such later date as may be agreed between PYE and the Placing Agents, the Independent Placing Agreement to the extent it relates to the relevant Placing Agent and the obligations of the relevant parties thereunder shall cease and terminate at that time and neither PYE nor the relevant 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 Agents, 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;

(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 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 the Transactions Announcement 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 matters 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 either of the Placing Agents (in respect of its own rights and obligations hereunder) 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.

As the Placing has not been launched and completion of the Placing is subject to the fulfilment of a number of conditions precedent, the Placing may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of PYE.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing is being pursued by PYE 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.

From the net Placing proceeds (assuming no exercise of the Upsize Options and no incentive payments to the Placing Agents are made) of approximately HK$1,966.0 million (for the avoidance of doubt, being an amount net of placing commission), PYE will apply approximately HK$1,719.9 million (equivalent to approximately US$220.5 million) in subscribing for PYE's 50% interest in Legendary East, as described below. The balance, of approximately HK$246.1 million, will be applied for working capital purposes.

In the event that the Upsize Options are exercised in full, PYE will receive additional gross proceeds of HK$325.0 million or net proceeds after placing commission (assuming no incentive payments to the Placing Agents are made) of approximately HK$317.1 million. The additional monies raised are intended to be applied for general working capital purposes.

The expenses for the issue of the Placing Shares, including placing commission, legal and professional fees, publication fees payable by the Company, are estimated at approximately HK$128.9 million, assuming neither Upsize Options is exercised, as disclosed on page 178 to this circular (note 2), and approximately HK$137.8 million, assuming the Upsize Options are exercised in full.

CHANGES TO THE EXISTING ISSUED SHARE CAPITAL OF PYE AS A RESULT OF THE PLACING

The table below sets out the issued share capital of PYE (i) as at the Latest Practicable Date; (ii) as it would be immediately after completion of the Placing assuming no exercise of the Upsize Options and that no Shareholder transfers any Shares (or New Shares) prior to the completion of the Placing or elects to receive New Shares pursuant to the Scrip Alternative; and (iii) as it would be immediately after completion of the Placing assuming exercise in full of the Upsize Options and, again, that no Shareholder transfers any Shares (or New Shares) prior to the completion of the Placing or elects to receive New Shares pursuant to the Scrip Alternative. The completion of the Placing, with or without the exercise of the Upsize Options, will not result in a change of control (as defined in the Takeovers Code).

Name of Shareholder	Shareholdings in PYE as at the Latest Practicable Date		Shareholdings in PYE upon completion of the Placing (assuming no exercise of the Upsize Options)		Shareholdings in PYE upon completion of the Placing (assuming exercise in full of the Upsize Options)	
	Number of Shares	*Approximate %*	*Number of New Shares*	*Approximate %*	*Number of New Shares*	*Approximate %*
PYI[1]	375,826,317	61.92	375,826,317	10.14	375,826,317	8.93
Other Shareholders as at the Latest Practicable Date	231,128,005	38.08	231,128,005	6.23	231,128,005	5.50
The AID Subscribers	nil	nil	360,000,000	9.71	420,000,000	9.98
The Independent Placees	nil	nil	2,740,000,000	73.92	3,180,000,000	75.59
	606,954,322[2]	100.00	3,706,954,322	100.00	4,206,954,322	100.00

Notes:

1 PYI's interest in the Shares is an indirect interest in the Shares held by its indirect wholly-owned subsidiary, Paul Y. Investments Limited.

2 As at the Latest Practicable Date, there are no outstanding share options granted by PYE pursuant to the Share Option Scheme. No share options will be granted prior to completion of the Placing without the prior consent of the Placing Agents and the AID Subscribers.

EQUITY FUND RAISING ACTIVITIES BY PYE DURING THE PAST TWELVE MONTHS

PYE has not engaged in any equity fund raising activities in the 12 months immediately prior to the date of the Transactions Announcement nor since that date until the Latest Practicable Date.

EFFECT OF THE PLACING ON PYI

Deemed very substantial disposal

The Placing will have the effect of diluting all existing 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 represents a deemed very substantial disposal by PYI, after which PYE will no longer be a subsidiary of PYI and its financial position and results will not be consolidated into those of PYI.

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

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.

The unaudited pro forma net asset value attributable to its shareholders per New Share, taking into consideration the effect of the Transactions (including the Placing, assuming no exercise of the Upsize Options) as if they had been completed on 31 March 2011, equates to approximately HK$0.55. Further unaudited pro forma financial information of the Enlarged Group is contained in appendix VIII to this circular.

B. LEGENDARY EAST – THE FILM JOINT VENTURE

Details of the Joint Venture Agreements are as follows:

Date of the Legendary East Subscription Agreement:	21 October 2011.
Parties to the Legendary East Subscription Agreement:	Legendary East Holdings; Legendary; Huayi; Huayi Brothers; Modern Front; PYE; and Legendary East.
Parties to the Legendary East Shareholders' Agreement (to be entered into on or before JV Closing):	Legendary East Holdings; Legendary East; Legendary; Huayi; Huayi Brothers; Modern Front; PYE; and the JV Management Members (to the extent identified as at the date the Legendary East Shareholders' Agreement is entered into, and who will otherwise be joined as parties to the agreement by deed of accession at such time as each becomes a holder of Legendary East Shares). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Legendary and Huayi 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 are based upon the Heads of Agreement and incorporate all of the material terms of the Heads of Agreement (which has now been terminated by 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.

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 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 Legendary East (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 Legendary East. 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 Legendary East. 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 a 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:

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

(ii) completion of the Placing; and

(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 on 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. That said, and for the purposes of clarity to Shareholders, it is anticipated that the Proposed New Directors will be granted an aggregate maximum interest in Legendary East of up to 5% of the total issued share capital of Legendary East comprised as at the date of JV Closing. If not allotted on JV Closing, such interest would be transferred to the Proposed New Directors by Legendary at times to be agreed after JV Closing subject to relevant agreed vesting conditions. 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) (less the aggregate amount of certain dividends previously paid on shares held by PYE) (a condition that has been fulfilled);

(ii) next, the other members of Legendary East (the "**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) (less the aggregate amount of certain dividends previously paid on shares held by Other Memebers); 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.

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, no 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 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**"), require a majority vote, that in some cases, requires a board majority that includes the approval of at least one director appointed by PYE or the approval of at least one director appointed by Huayi 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, Huayi 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 – Until Legendary owns less than 25% of its initial shares as of the JV Closing, and for 5 years thereafter, subject to certain exceptions as set forth in the Legendary East Shareholders' Agreement, 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 – Until Huayi owns less than 25% of its initial shares as of the JV Closing, and for 5 years thereafter, subject to certain exceptions as set forth in the Legendary East Shareholders' Agreement, Huayi shall not be permitted to engage outside of Legendary East in the financing or production of any High Budget Chinese Co-Productions, provided that Huayi shall be permitted to distribute any films (including High Budget Chinese Co-Productions) developed and produced by third parties if Huayi has not participated in the development, financing or production thereof.

(d)	Huayi Brothers	–	Until the first to occur of (i) 31 December 2014 or (ii) the initial theatrical release in the U.S. of the third film greenlit by the greenlight committee (which shall not include the co-financed pictures *Seventh Son* and *Paradise Lost*) or (iii) a termination by Huayi of the master co-production agreement as a result of a "Material Payment Default" (as defined in the master co-production agreement), Huayi Brothers and all of its affiliates and subsidiaries organized within China shall not be permitted to engage, directly or indirectly, outside of Legendary East in the financing or production of any High Budget Chinese Co-Productions, provided that the Huayi Group shall be permitted to distribute in the PRC any films (including High Budget Chinese Co-Productions) developed and produced by third parties if neither Huayi Brothers nor its affiliates or subsidiaries have participated in the development, financing or production thereof.
(e)	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).

DEVELOPMENT, PRODUCTION AND DISTRIBUTION OF QUALIFYING FILMS

Qualifying criteria: Legendary East will initially 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, make the final determination as to whether such project shall be greenlit for production and (following earliest cessation of the Huayi Group's exclusivity commitment to Legandary East) to determine whether a Qualifying Picture will be co-produced with Huayi Brothers.

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 approval of the PYE appointed member and Legendary appointed member shall be required to greenlight a project that does not meet the requirements of a Qualifying Film.

Production: On or before JV Closing, (i) 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 details of which are set out on page 114 of this circular; (ii) Legendary East and Legendary will enter into a Legendary producer agreement pursuant to which Legendary will render customary production services to Legendary East in connection with Legendary East films, details of which are set out on page 115 of this circular. 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 East and the Studio Distributor, some or all of Hong Kong, Macau, Taiwan, Malaysia and, or, Singapore) (the "**Huayi Territory**"). 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 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 New 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 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) for the initial exchange, 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

(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).

Connected transaction aspects to the Exchange Rights: As identified above, it is anticipated that up to 5% of Legendary East's share capital as at the date of JV Closing will be the subject of grants for the benefit of the Proposed New Directors. Therefore, subject to satisfaction of all relevant vesting conditions, Legendary East Shares held by the Proposed New Directors will be the subject matter of the Exchange Rights. As also noted above, the Proposed New Directors are not, currently, Connected Persons of PYE, but will become Connected Persons on completion of the Placing and would therefore be Connected Persons on exercise of the Exchange Rights (assuming, for these purposes, that each remained a Director or had otherwise ceased to be a Director within twelve months prior to the exercise of the Exchange Rights). As noted above, the PYE's Call Right will be subject to further compliance with, amongst others, Chapter 14A of the Listing Rules at the relevant time. However, for the purposes of approving the Investors' Put Right at the PYE SGM, it should be noted that up to a maximum of 420,695,432 New Shares may be required to be issued by PYE to the Proposed New Directors on exercise by them of their Investors' Put Right in full, in exchange for the transfer to PYE of their respective interests in Legendary East.

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.

Certain consequences of a party reducing its equity interest in Legendary East: Should any of PYE, Legendary or Huayi Brothers voluntarily reduce its respective interest in Legendary East to less than 25% of its initial shares of Legendary East held as of the JV Closing (in the case of Legendary, after having taken into account (and therefore excluding the effect of) transfers of Legendary East Shares to the JV Management Members), PYE, Legendary or Huayi Brothers, as the case may be, would lose its veto rights as regards voting on certain respective super majority voting matters. In addition, each of PYE and Legendary, as the case may be, would lose the right to appoint one of their two respective nominees to the board of Legendary East and Huayi Brothers, as the case may be, would lose the right to appoint its nominee to the board of Legendary East.

Moreover, tied to shareholding size is Legendary's and Huayi's exclusivity commitment to Legendary East (as explained above) and Legendary's entitlement to control the creativity process of the Film Joint Venture via its control of the development committee and the greenlight committee. Accordingly, whilst each of Legendary and Huayi continue to have board and committee nominee rights for a five year period after such time as their respective stakes fall below 25% of their respective original interests in Legendary East, these rights can be terminated earlier at PYE's election. However, were PYE to so elect such earlier termination, for example, (i) as regards Legendary, Legendary would be free of any further exclusivity commitment towards Legendary East and Legendary East would cease to be entitled to use the "Legendary" name and related trademarks, and (ii) as regards Huayi, Huayi would be free of any exclusivity commitment toward Legendary East.

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 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 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 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 Shareholders	231,128,005	6.23	231,128,005	4.36
Legendary[1]	nil	nil	924,216,000	17.45
Huayi[1]	nil	nil	314,424,000	5.94
JV Management Members[1]	nil	nil	349,360,000	6.60
	3,706,954,322	100.00	5,294,954,322	100.00

Note:

1 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.

The table below shows the address of each who is entitled to have the Investors' Put Right as of the JV Closing:

Name	Address
Legendary	4000 Warner Boulevard, Burbank, CA 91522, U.S.
Huayi	Room 1613, Tai Yau Building, 181 Johnston Road, Wanchai, Hong Kong
JV Management Members (including but not limited to Mr. Thomas Tull, Mr. Wu and Mr. Chang)	
Mr. Thomas Tull	4000 Warner Boulevard, Burbank, CA 91522, U.S.
Mr. Wu	16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong
Mr. Chang	16th Floor, The Peninsula Office Tower, 18 Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong

REASONS FOR THE FILM JOINT VENTURE

The Directors are of the view that the Film Joint Venture with market leaders, Legendary and the Huayi Group, will diversify PYE's business and refocus PYE's business activities. As the basis for each party's respective shareholding in the Film Joint Venture was determined through arm's length negotiations between the parties based on their respective contributions, the Directors also believe that combining Legendary's experience in production and financing large-budget 'tentpole' films with the Huayi Group's production and extensive distribution capabilities in China will, in due course, generate strong cash flows. In the early stages of Legendary East's operations, such cash flows are likely to be used to fund further growth of the Film Joint Venture, which the Directors believe will ultimately benefit all Shareholders. Given, among other things, that Legendary and Huayi will bring to the Film Joint Venture (i) know-how and industry knowledge, (ii) contacts and connections with the motion picture industry (including Legendary's connection to a U.S. film studio and worldwide distributor and Legendary's and Huayi's connections to renowned directors and other associated talents), and (iii) execution capability, the Directors believe that the terms of the transactions pursuant to the Joint Venture Agreements are fair and reasonable and in the interests of the Shareholders as a whole.

FURTHER INFORMATION ON THE FILM JOINT VENTURE

Your attention is drawn to appendix I of this circular for further information relevant to the Film Joint Venture, including more information on the business plans of Legendary East, risk factors relevant to the film industry and an overview of the film industry and relevant regulations applicable to the industry. Your attention is also drawn to appendix II of this circular which contains an independent valuation report in respect of the Film Joint Venture. As also noted above, any exercise of the Investors' Put Right by the Proposed New Directors, entitling them, as it would, to be allotted up to a maximum of 420,695,432 New Shares in exchange for the transfer of their aggregate interests in Legendary East, would constitute a connected transaction (assuming, for these purposes, that the relevant Proposed New Director remained a Director, as at or had otherwise ceased to be a Director within twelve months prior to, the date of exercise by him of the Investors' Put Right). In this regard, the Proposed New Directors and all of their respective associates are required to abstain from voting on the resolutions to approve the Investors' Put Right and allotment of New Shares pursuant thereto (to the extent that any of them hold Shares thereby) entitling them to vote at the PYE SGM).

EFFECT OF THE TRANSACTIONS ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

Based on the unaudited pro forma financial information in appendix VIII to this circular which was prepared for illustrative purposes only, upon the completion of the Transactions (including the proposed distribution in specie of 49% interest in PYE BVI but excluding the exercise of the Upsize Options), the total assets of the Group would be increased by approximately HK$1,734.40 million to approximately HK$4,506.05 million, the total liabilities of the Group would be increased by approximately HK$1.10 million to approximately HK$2,168.43 million and equity attributable to shareholders would be increased by approximately HK$1,436.66 million to approximately HK$2,042.05 million as shown in the unaudited pro forma consolidated statement of financial position of the Group. The gearing ratio, which was calculated using the bank borrowings of approximately HK$253.87 million and the equity attributable to shareholders of approximately HK$2,042.05 million would be reduced to about 0.12 while the current ratio would be increased to about 1.07, being current assets of approximately HK$2,308.26 million over current liabilities of approximately HK$2,159.22 million. As shown in the unaudited pro forma consolidated income statement of the Group, the profit of the Group attributable to its shareholders would be reduced from approximately HK$30.08 million to approximately HK$15.34 million due to the distribution in specie of 49% interest in PYE BVI. Please refer to appendix VIII to this circular for the unaudited pro forma financial information of the Enlarged Group.

EFFECT OF THE TRANSACTIONS UNDER THE LISTING RULES

Based on PYE's total capital contribution to Legendary East, the formation of the joint venture under the Joint Venture Agreements will constitute a very substantial acquisition for PYE on the basis that one or more of the percentage ratios exceeds 100% and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Legendary East will be accounted for as an associated company of PYE using the equity method of accounting.

In addition, the Exchange Rights constitute an additional, integral part, of the very substantial acquisition and would, on exercise, also constitute a share transaction of PYE. On the basis that the parties have set a cap on the number of New Shares to be issued on exercise of the Exchange Rights, the approval of Shareholders will be sought in respect of the Investors' Put Right at the PYE SGM. As noted above, any exercise of PYE's Call Right will be subject to further compliance with the relevant requirements of Chapter 14 and Chapter 14A of the Listing Rules at the time of exercise.

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, U.S.

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 Mr. Thomas Tull, Mr. Jon Jashni and Mr. Larry Clark. Prior to founding Legendary, Mr. Tull was the president and a director of The Convex Group and is highly respected in Hollywood. Mr. Jashni was formerly president of Hyde Park Entertainment, a film production and financing company, and senior production executive at 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.

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.

Your attention is drawn to pages 96 to 97 in appendix I of this circular for further information of Legendary.

INFORMATION ON HUAYI

Huayi is a company incorporated in Hong Kong and is a subsidiary of Huayi Brothers. 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.

The Huayi Group has produced many successful movies in China 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 RMB1.5 billion, accounting for approximately 30% of box office sales from locally produced films.

Your attention is drawn to pages 98 to 101 in appendix I of this circular for further information of the Huayi Group.

C. PROPOSED CAPITAL REDUCTION BY PYE AND PROPOSED DISTRIBUTION IN SPECIE BY PYE AND PROPOSED CASH DIVIDEND

Introduction

As part of the Transactions and following on from the Board's decision to refocus the business activities of PYE through pursuit of the Film Joint Venture, the Board is proposing to effect a distribution in specie of 49% of PYE BVI. For the purpose of Distribution in Specie, PYE BVI was incorporated on 8 June 2011 and became a wholly-owned subsidiary of PYE on 29 June 2011, PYE then injected the Existing Businesses and followed by a loan capitalisation by one of the subsidiaries of PYE to PYE BVI such that the Existing Businesses are held by PYE BVI.

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, after adjusting for the capitalisation of the amount of approximately HK$259.12 million owed by one of the subsidiaries of PYE BVI to PYE.

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 the Shares in issue so that the Distribution in Specie will be on a one share for one share basis.

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

Proposed Distribution in Specie

The Board proposes, subject to the conditions set out below, to effect the Distribution in Specie, pursuant to which each Eligible Qualifying 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 Board will maintain the operations of the Existing Businesses as disclosed in its 2011 annual report and the 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.

Reason for the Distribution in Specie

The Board, whilst seeking to reduce the scale of PYE's interest in the Existing Businesses in order to focus more on the Film Joint Venture, does wish to ensure that all Shareholders are given the opportunity to maintain an interest in and exposure to the Existing Businesses (in the form of an indirect interest via PYE's retained 51% shareholding in PYE BVI and in the form of a direct interest via their pro rata entitlement to 49% of PYE BVI, to be distributed pursuant to the Distribution in Specie) before their interests in the Existing Businesses are diluted by the Placing to fund PYE's expansion on the Film Joint Venture. The Existing Businesses will continue to be well supported, on the basis that they will continue to be conducted by entities that remain subsidiaries of PYE. Moreover, pursuant to the Potential Additional PYE BVI Shares Acquisition, the second largest shareholder of PYE BVI will be PYI. Since PYI is currently the ultimate holding company of the Existing Businesses, it is entirely familiar with their operations and requirements and will work with PYE to generate sustained further successful results from those businesses.

PYE BVI

PYE BVI is a private holding company incorporated in the British Virgin Islands and is the holding company of the Existing Businesses. In the context of distributing a 49% shareholding interest in PYE BVI, Shareholders may wish to note that a 49% 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$296.64 million. PYE BVI has established a place of business in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 28 September 2011.

Your attention is drawn to appendix IX of this circular for further information relevant to the holding of an interest in PYE BVI. Shareholders may wish to consider this information in the context of deciding on whether or not they wish to elect for the Cash Alternative. There are, contained in appendix IX of this circular, the following items:

– a summary of certain provisions contained in the Proposed Memorandum and Articles of PYE BVI, to be adopted in circumstances where PYE BVI will have any number of shareholders in addition to PYE and PYI following completion of the Distribution in Specie;

– a summary of certain provisions of company law of the British Virgin Islands;

– a table that summaries how the various shareholder protection matters identified in the Joint Policy Statement are provided for as a matter of company law of the British Virgin Islands (if applicable) or will otherwise be provided for in the Proposed Memorandum and Articles of PYE BVI, notwithstanding that PYE BVI will be an unlisted company; and

– a comparison of certain differences as will apply to PYE BVI as compared with a company listed on the Stock Exchange.

Whilst PYE BVI will, as noted above, adopt constitutional documents that contain the protections highlighted in the Joint Policy Statement and as would be appropriate for a BVI-incorporated company seeking a listing on the Stock Exchange, the PYE BVI Shares will not be listed on the Stock Exchange (or any other exchange) as a part of the Transactions nor is there any intention on the part of the Directors that they be so listed.

In this regard, the attention of Shareholders is, in particular, drawn to the comparison of certain differences as will apply to PYE BVI as compared with a company listed on the Stock Exchange (contained in section C of appendix IX of this circular). From this, Shareholders will gather, amongst other things, that:

– the Listing Rules (and therefore, amongst other things, Chapter 14A of the Listing Rules) will not apply to PYE BVI (although, as described in paragraph B.2.(t) of appendix IX of this circular, the Articles include a simple form connected transaction regime);

– the Takeovers Code will only apply to PYE BVI if, at the relevant time of any takeover-related activity relating to PYE BVI Shares, PYE BVI is considered to be a ‘public company in Hong Kong’ even in circumstances where it is not a listed company;

– the disclosure of interests in securities regime, as provided for in Part XV of the SFO will not be directly applicable to PYE BVI;

– the market misconduct provisions and the provisions concerning offences relating to dealings in securities, as provided for in Parts XIII and XIV of the SFO, will not apply in relation to PYE BVI Shares to the extent they remain unlisted. These would include activities such as insider dealing, false trading, price rigging and stock market manipulation and would not be applicable given the unlisted status of the PYE BVI Shares;

– the BVI Companies Act does not contain any restrictions on a British Virgin Islands company's ability to provide financial assistance in connection with the acquisition of its own shares, unlike the Companies Act 1981 of Bermuda (as is applicable to PYE), which permits such financial assistance only in certain exceptional circumstances; and

– there are differences in the compulsory acquisition provisions under the BVI Companies Act and the Companies Act 1981 of Bermuda (the latter being the legislation under which PYE was incorporated).

Shareholders will also note, from the summary of company law of the British Virgin Islands, that the BVI Companies Act does contain unfair prejudice remedies similar to those contained in section 168A of the Hong Kong Companies Ordinance (which section of the Companies Ordinance ought, in any event, to be applicable in light of the fact that PYE BVI has a place of business registered in Hong Kong). Notwithstanding the possibility that the Takeovers Code may, ultimately, not be applicable to PYE BVI, PYE BVI shareholders will still benefit from certain safeguards by virtue of the adoption of the Proposed Memorandum and Articles of PYE BVI and various provisions regarding the protection of minority shareholders under the BVI Companies Act.

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) the passing, at the PYI SGM, of all resolutions, by the requisite majority in each case, necessary to approve the Potential Additional PYE BVI Shares Acquisition;

(c) completion of the Capital Reduction;

(d) receipt by the 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 Group and, or, from any other counter-parties to contracts entered into by members of the Group; and

(e) 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.

The Capital Reduction

In order to create sufficient distributable reserves in the accounts of PYE to effect the Distribution in Specie and the Cash Dividend, PYE proposes to effect a capital reduction comprising the following components:

(i) the nominal value of each issued Share will be reduced from HK$0.50 to HK$0.20;

(ii) every unissued share of HK$0.50 each will be sub-divided into shares of HK$0.20 each; and

(iii) the share premium account of PYE will be reduced by a total amount of not more than HK$267 million.

Based upon the Shares in issue as at the Latest Practicable Date, the effect of the reduction referred to at (i) and (ii) above would affect the authorised and issued share capital of PYE as follows:

Following the Capital Reduction, the authorised share capital of PYE would be reduced from HK$500 million divided into 1,000 million shares of HK$0.50 each to HK$500 million divided into 2,500 million shares of HK$0.20 each; and the issued share capital of PYE would be reduced from HK$303,477,161 divided into 606,954,322 shares of HK$0.50 each to HK$121,390,864.40 divided into 606,954,322 shares of HK$0.20 each. It would also have the effect of creating a contributed surplus account of HK$182,086,296.60.

The amount of approximately HK$182.09 million arising from the reduction of nominal value of the Shares, when added to the amount arising on reduction of the share premium account would create an aggregate contributed surplus of approximately HK$449.09 million which is sufficient for the Distribution in Specie and the Cash Dividend.

PYE is an exempted company incorporated in Bermuda. As such, the Capital Reduction is a process governed by Bermuda law. This does not involve any court procedure in Bermuda (or Hong Kong). The Capital Reduction must be approved by a special resolution of the Shareholders, which will be proposed at the PYE SGM. Moreover, the Directors must be satisfied that PYE will, after the reduction, continue to be able to pay PYE's liabilities as they become due. Based upon information presently available to the Directors, and having made all reasonable enquiries, the Directors are satisfied with PYE's financial position, and expect to continue to be satisfied at the time of effecting the Capital Reduction.

The Capital Reduction does not become effective until all the conditions to the Capital Reduction have been satisfied.

The Capital Reduction is conditional upon:

(a) the passing of a special resolution to approve the Capital Reduction at the PYE SGM;

(b) the Listing Committee granting approval of the listing of, and permission to deal in, the New Shares in issue on the Capital Reduction Effective Date; and

(c) receipt by the 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 Group and, or, from any other counter-parties to contracts entered into by members of the Group.

Implementation of the Capital Reduction will not, of itself, alter the underlying assets, business operations, management or financial position of PYE or the proportionate interests of Shareholders in PYE (except for the payment of related expenses). The Directors believe that the Capital Reduction will not have any adverse effect on the financial position of PYE or the Group. As explained above, the Capital Reduction is a necessary step to enabling PYE to effect the Distribution in Specie and the Cash Dividend.

Proposed increase in the authorised share capital

In conjunction with the Capital Reduction and so as to create sufficient numbers of New Shares for the purposes of effecting the Placing and, potentially, in order to satisfy the obligations of PYE to effect the share swap as referred to in the paragraph headed "Rights to exchange for New Shares" above, PYE proposes to increase the authorised share capital effective immediately after the Capital Reduction becomes effective from HK$500 million divided into 2,500 million shares of HK$0.20 each to HK$2,000 million divided into 10,000 million shares of HK$0.20 each. A resolution to increase PYE's authorised share capital on this basis will be proposed at the PYE SGM.

Free exchange of certificates for New Shares and trading arrangements

Shareholders will be able to submit existing certificates for the Shares to the branch share registrar of PYE, Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for exchange, at the expense of PYE, up to four weeks from the Capital Reduction Effective Date for certificates for the New Shares.

Cash Alternative

As a result of the Distribution in Specie, and excluding the effect of Shareholders taking up the Cash Alternative, the PYE BVI Shares would be held as to 51% by PYE, approximately 30.34% by PYI and approximately 18.66% by 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.

The Directors recognise that Shareholders (other than PYI) may not wish to hold shares in PYE BVI, as PYE BVI is an unlisted company incorporated in the British Virgin Islands. Accordingly, there will be no liquid market for the PYE BVI Shares.

Accordingly, 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 PYE BVI Shares) 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 the 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 Share, net of the proposed special cash dividend of HK$0.25 per Share, and multiplied by 49%. The Directors consider that the Cash Alternative should be determined by reference to the traded price of the Shares before the implementation of the Transactions. PYE BVI is effectively a mirror of PYE holding the same businesses, having the same financial structure, the same profits and the same cash flows. While PYE BVI will not be listed in the future, the recent price performance of PYE, such as the 30 days' average closing price of the Shares, must give the clearest indication of what the market would value PYE BVI were it to be listed, particularly as the arrangements contemplated do not result in the change of control of PYE BVI and there is not expected to be any alteration in its Existing Businesses resulting from the implementation of the Transactions. The Directors do not consider it appropriate to calculate the Cash Alternative with reference to the share price of PYE or an evaluation of PYE after the implementation of the Transactions as the value of PYE can be expected no longer to reflect simply the value of the Existing Businesses held through PYE BVI but also an assessment of the value of an interest in Legendary East. Clearly it would be incorrect to include any assessment of Legendary East in the evaluation of PYE BVI since it will have no interest in it whatsoever.

Note that a holder of each Share will end up holding that existing Share (which represents the 51% of the issued share capital of PYE BVI retained by PYE) and a PYE BVI Share (which represents the 49% of the issued share capital of PYE BVI not held by PYE). The 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 Shareholders (other than PYI) who duly complete Cash Alternative Election Forms. Moreover, all Qualifying Shareholders who are not Eligible Qualifying Shareholders will automatically be entitled to the Cash Alternative. For all Qualifying Shareholders obliged to receive or electing to receive the Cash Alternative, a cheque will be sent to them, by post, at their own risk, unless the amount falling to be distributed to any such person is less than HK$100, in which case, it will be retained for the benefit of PYE BVI.

Excess applications

Whilst some Qualifying Shareholders may be required to receive or may elect to receive cash in lieu of their pro rata entitlements to PYE BVI Shares pursuant to the Cash Alternative, it is possible that other Qualifying Shareholders (provided that they are Eligible Qualifying Shareholders) may not only want to receive their pro rata entitlements to PYE BVI Shares pursuant to the Distribution in Specie but also to acquire and pay for additional PYE BVI Shares.

Accordingly, PYE proposes to make arrangements for Eligible Qualifying Shareholders to be given the opportunity to apply to purchase additional PYE BVI Shares.

In the unlikely circumstance that the Distribution in Specie results in the transfer of all 49% of PYE BVI to all Shareholders on a strictly pro rata basis, then there will be no PYE BVI Shares available for purchase by Eligible Qualifying Shareholders.

However, where Qualifying Shareholders stand to receive the Cash Alternative, PYE BVI Shares will be available for purchase at a price of HK$0.30 per PYE BVI Share, being the share price per PYE BVI Share offered by PYI.

Applications for additional PYE BVI Shares may be made by Eligible Qualifying Shareholders on the Excess Application Forms. Should the number of PYE BVI Shares in respect of which valid excess applications have been made exceed the number of PYE BVI Shares available for excess applications, then the excess applications will be scaled back on a fair and equitable basis such that each Eligible Qualifying Shareholder making such an application and PYI would share the relevant number of PYE BVI Shares available according to their respective pro rata shareholdings in PYE on the Record Date. In these circumstances, PYI would not be required to purchase the full 18.66% interest in PYE BVI to which it would otherwise be committed pursuant to the PYE BVI Shares Deed of Undertaking. Thus, the effect of valid excess applications for PYE BVI Shares from Eligible Qualifying Shareholders will be to reduce the obligation on PYI's part to take up the full 18.66% interest in PYE BVI Shares pursuant to the Cash Alternative.

In this manner, the rights and interests of PYI as regards the Distribution in Specie are aligned in all material respects, with all other Shareholders.

Independent advice as regards the Distribution in Specie and the Cash Alternative

PYE has appointed Somerley to advise the Independent Board Committee and the Independent Shareholders as regards the proposed Distribution in Specie and the Cash Alternative.

CASH DIVIDEND

The Board further proposes, subject to the conditions set out below, that PYE will declare and pay a special cash dividend of HK$0.25 per New Share. The Cash Dividend will be paid to the Qualifying Shareholders.

Scrip Alternative

Eligible Qualifying Shareholders will be given the option, by duly completing Scrip Dividend Election Forms, to elect to receive New Shares in lieu of cash in respect of all or part of the Cash Dividend, on the basis that each New Share is required to be allotted and paid up (using the cash otherwise distributable pursuant to the Cash Dividend) as to HK$0.65 per New Share. Accordingly, the number of New Shares which Eligible Qualifying Shareholders would receive in respect of the New Shares registered in their names on the Record Date would be calculated as follows:

$$\begin{array}{c} \text{Number of} \\ \text{New Shares} \\ \text{to be allotted} \end{array} = \begin{array}{c} \text{Number of New} \\ \text{Shares held on} \\ \text{the Record Date} \\ \text{for which} \\ \text{election is made} \end{array} \times \frac{\text{HK\$0.25}}{\text{HK\$0.65}} \quad \begin{array}{c} \text{(Cash Dividend} \\ \text{per New Share)} \\ \\ \text{(the Placing} \\ \text{Price)} \end{array}$$

The Scrip Alternative, which is not part of the Placing, is being proposed by the Directors to enable Eligible Qualifying Shareholders to increase their equity interest in PYE notwithstanding that their relative shareholdings in PYE will be diluted as a result of the Placing. The New Shares to be allotted pursuant to the Scrip Alternative would be so allotted at a price that represents the same discount to market price as the Placing Shares, as referred to above.

The New Shares to be issued pursuant to the Scrip Alternative will rank pari passu in all respects with the other New Shares then in issue (but will not rank for the Distribution in Specie, the Cash Dividend and the Final Dividend). The number of New Shares to be issued to each Eligible Qualifying Shareholder who duly completes a Scrip Dividend Election Form will be rounded down to the nearest whole number. Fractional entitlements to the New Shares will not be issued to such Shareholders and the benefit thereof will accrue to PYE.

Conditions to the Cash Dividend and Scrip Alternative

The Cash Dividend and Scrip Alternative are conditional upon:

(a) the passing, at the PYE SGM, of resolution(s) to approve the Cash Dividend and Scrip Alternative; and

(b) completion of the Placing Agreements.

If the conditions referred to above are not fulfilled, the Cash Dividend and the Scrip Alternative will not be implemented.

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.

FURTHER CIRCULAR

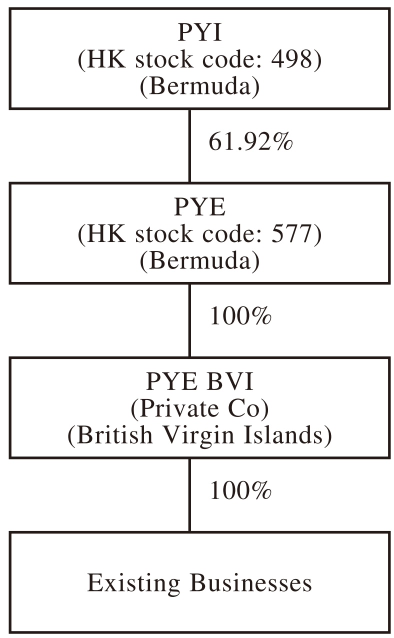
After the Record Date, and assuming all of the resolutions are passed at the PYE SGM, PYE will send a further circular to the Shareholders enclosing, for the attention of Qualifying Shareholders, the Cash Alternative Election Form, the Excess Application Form and the Scrip Dividend Election Form, which circular will explain in further detail (i) arrangements for the payment of the Cash Alternative to Qualifying Shareholders who are not Eligible Qualifying Shareholders; (ii) the rights of Eligible Qualifying Shareholders to elect to receive the Cash Alternative (pursuant to the Cash Alternative Election Form); (iii) the rights of Eligible Qualifying Shareholders to purchase additional PYE BVI Shares, if available (pursuant to the Excess Application Form); and (iv) the rights of Eligible Qualifying Shareholders to elect to receive the Scrip Alternative (pursuant to the Scrip Dividend Election Form), in each case conditional upon all the other conditions to the Placing being fulfilled.

In the event that all resolutions are passed at the PYE SGM other than the resolution to approve the Distribution in Specie, PYE's further circular will enclose only the Scrip Dividend Election Form, pursuant to which Eligible Qualifying Shareholders will be able to elect to receive the Scrip Alternative, again conditional upon all the other conditions to the Placing being fulfilled.

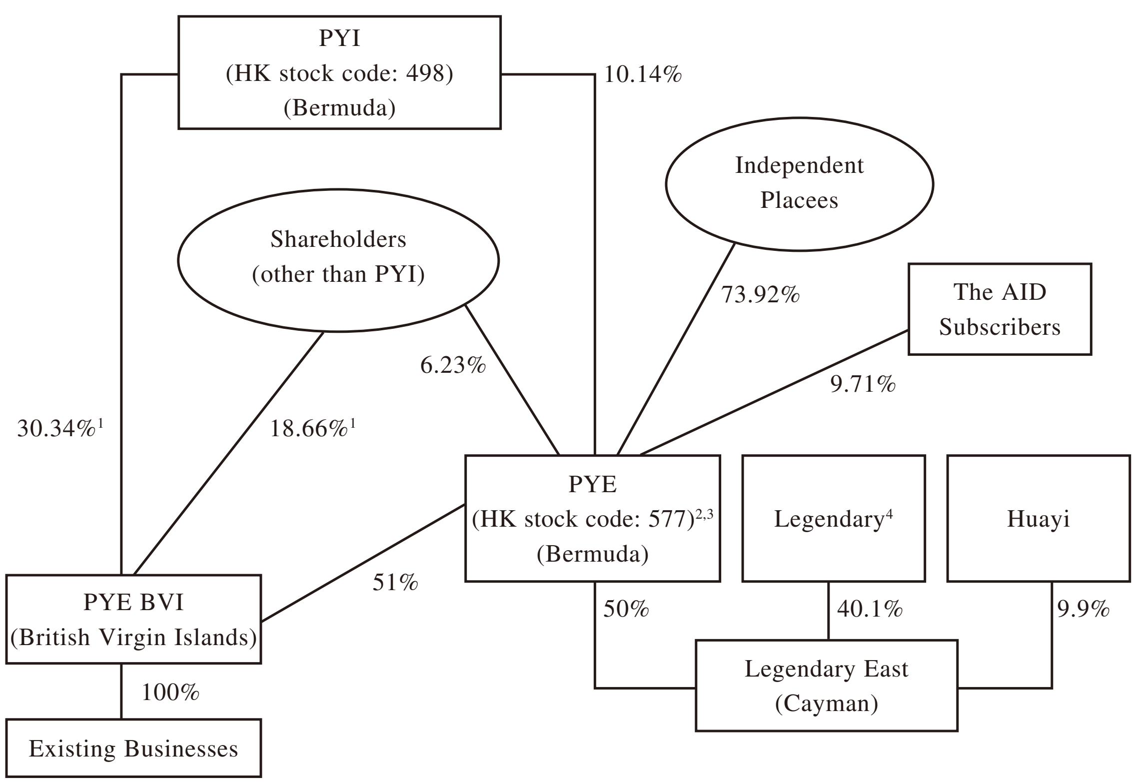
STRUCTURE OF INTERESTS BEFORE AND AFTER THE TRANSACTIONS

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:



Notes:

1 The diagram assumes that the Distribution in Specie is effected on a strictly pro rata basis. In circumstances where all 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 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. For more detail, please refer to the table above, under the heading "Changes to the Existing Issued Share Capital of PYE as a result of the Placing".

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.

D. PROPOSED NEW DIRECTORS

The Board proposes, with the approval of the Shareholders to be sought at the PYE SGM, to appoint the Proposed New Directors to the Board with effect from completion of the Placing. Set out below are brief biographical details of the Proposed New Directors:

Mr. Wu, aged 42

Proposed Position

An executive Director of PYE. In addition, Mr. Wu is to be appointed as a director and the chief executive officer of Legendary East.

Experience

Mr. Wu has over 15 years of experience in the finance and investment industries. He is the principal partner of AID Capital and was formerly the chief executive officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK stock code: 1132), one of the leading film entertainment companies in Asia, from 2009 to 2011. Mr. Wu was formerly the president of Investec Asia Limited from 2005 to 2007, where he managed its direct investment businesses involving energy-related, consumer-related and finance-related industries. Mr. Wu also worked for other investment banks, including as managing director of China Everbright Capital Ltd., head of corporate finance for Grand Cathay Securities (Hong Kong) Limited, director of corporate finance department of Core Pacific-Yamaichi Capital Limited and held senior position in BNP Prime Peregrine Capital Limited. Besides, Mr. Wu also served as chief operating officer of Sega.com Asia Networks Limited in year 2000 and executive director and non-executive director of China Mining Resources Group Limited (HK stock code: 340) from 2007 to 2008. He graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration.

Relationships with Directors, senior management, substantial or controlling Shareholders of PYE

Mr. Wu is not related to any Directors, senior management, substantial or controlling Shareholders of PYE. His relationship to the AID Subscribers is noted below.

Interests in Shares

As at the Latest Practicable Date, Mr. Wu is deemed to be interested in 420 million Placing Shares, being the maximum number of Placing Shares that may be subscribed by the AID Subscribers pursuant to the AID Subscription Agreement, under the SFO, by virtue of the relationship between the Proposed New Directors and the AID Subscribers as disclosed in the sub-section headed "The AID Subscription Agreement" under the section headed "Proposed Placing of New Shares by PYE pursuant to a specific mandate" above.

Service contract

It is proposed that there will be a Director's service contract entered into between Mr. Wu and the Group.

Mr. Wu will be subject to retirement by rotation and re-election at least once every three years at the annual general meeting in accordance with the bye-laws of the Company. He will receive a Director's fee, proposed to be HK$300,000 per annum, to be determined by the Board or its delegated committee pursuant to the authority given by the Shareholders at the Company's general meetings and with reference to the prevailing market conditions. The emoluments (including any bonus payment and Director's fee) of Mr. Wu in future will be disclosed in accordance with the Listing Rules.

Other

Following an investigation of the Securities and Futures Commission (the "**SFC**"), it was found that when China Everbright Capital Ltd. ("**CEC**") was sponsoring the application of Tungda Innovative Lighting Holdings Ltd. for transfer to the main board of the Stock Exchange from the Growth Enterprise Market in 2004, Mr. Wu, being the then managing director of CEC, failed to exercise due skill, care and diligence in supervising another responsible officer in the handling of the transfer application. The SFC accordingly prohibited Mr. Wu from applying to be licensed or registered, approved as a responsible officer of a licensed corporation, given consent to act as an executive officer of a registered institution or to be registered by the Monetary Authority as a person engaged by a registered institution in relation to any regulated activities for two years and six months from 29 December 2008 to 28 June 2011.

Save as disclosed above, there are no other matters concerning Mr. Wu that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirement of Rule 13.51(2) of the Listing Rules.

Mr. Chang, aged 43

Proposed Position

An executive Director of PYE. In addition, Mr. Chang is to be appointed as a director and the chief financial officer of Legendary East.

Experience

Mr. Chang has considerable strategic financial and advisory experience. He has worked closely with Mr. Wu for many years and, in particular, was formerly the chief financial officer and executive director of Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK stock code: 1132) from 2009 to 2011 and 2010 to 2011, respectively. Mr. Chang co-founded AID Capital with Mr. Wu and is currently the managing partner and an investment committee member of AID Capital. Mr. Chang is also an independent non-executive director of Kingsoft Corporation Limited (HK stock code: 3888) since October 2011 and currently a member of the People's Political Consultative Committee of the People's Republic of China (Beihai Guangxi). Prior to the establishment of AID Capital, Mr. Chang was the chief investment officer of Investec Asia Limited from 2005 to 2007, managing director of China Everbright Capital Limited from 2004 to 2005 and executive director of BNP Prime Peregrine Capital Limited from 2002 to 2004. Mr. Chang is also a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chang obtained a bachelor's degree in economics from Monash University in 1990.

Relationships with Directors, senior management, substantial or controlling Shareholders of PYE

Mr. Chang is not related to any Directors, senior management, substantial or controlling Shareholders of PYE. His relationship to the AID Subscribers is noted below.

Interests in Shares

As at the Latest Practicable Date, Mr. Chang is deemed to be interested in 420 million Placing Shares, being the maximum number of Placing Shares that may be subscribed by the AID Subscribers pursuant to the AID Subscription Agreement, under the SFO, by virtue of the relationship between the Proposed New Directors and the AID Subscribers as disclosed in the sub-section headed "The AID Subscription Agreement" under the section headed "Proposed Placing of New Shares by PYE pursuant to a specific mandate" above.

Service contract

It is proposed that there will be a Director's service contract entered into between Mr. Chang and the Group.

Mr. Chang will be subject to retirement by rotation and re-election at least once every three years at the annual general meeting in accordance with the bye-laws of the Company. He will receive a Director's fee, proposed to be HK$300,000 per annum, to be determined by the Board or its delegated committee pursuant to the authority given by the Shareholders at the Company's general meetings and with reference to the prevailing market conditions. The emoluments (including any bonus payment and Director's fee) of Mr. Chang in future will be disclosed in accordance with the Listing Rules.

Save as disclosed above, there are no other matters concerning Mr. Chang that need to be brought to the attention of the Shareholders nor any information to be disclosed pursuant to the requirement of rule 13.51(2) of the Listing Rules.

The Directors are of the view that the previous experiences of Mr. Wu and Mr. Chang are relevant and can enable them to make a valuable contribution to the operations of the Company and Legendary East. Working as senior executives of Orange Sky Golden Harvest Entertainment (Holdings) Limited, Mr. Wu and Mr. Chang focused on strategic planning and overseeing the financial aspects of operation engaged in the production, distribution and exhibition of motion pictures in Asia, experience that is expected to be directly relevant to their management roles for the Company and Legendary East. In addition, their previous investment experiences, including those in the film industry, give them an informed background for the purposes of seeking to safeguard the interest of Shareholders as a whole.

INFORMATION ON PYE AND MODERN FRONT

PYE is the holding company of the Group, which is an international engineering services group serving China and the international market with 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 Group will also be engaged in the business of the development and production of movies through its investment in the Film Joint Venture. The investing entity will be Modern Front, a wholly-owned subsidiary of PYE. Modern Front has not carried on any business since its incorporation on 30 May 2011, save for entering into the Legendary East Subscription Agreement.

INFORMATION ON PYI AND ITS SUBSIDIARIES

Following the completion of the Transactions, the principal business activities of PYI and its subsidiaries will remain unchanged and 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

According to the proposed timetable as set out in page vii of this circular, the first day for dealing in the New Shares ex-entitlement to the Distribution in Specie, the Cash Alternative and the Cash Dividend will be on 22 November 2011; the Record Date for which is scheduled on 25 November 2011. However, Shareholders and potential investors should note that the New Shares will most probably be traded on the ex-entitlement basis before the Placing Agreements are completed. Under the terms of the Placing Agreements, the long stop date for the completion of the Placing is 31 December 2011. If owing to volatile market conditions or for any other reason, the Placing of 3,100 million Placing Shares at the fixed Placing Price of HK$0.65 per Placing Share cannot be achieved, the Distribution in Specie, with the Cash Alternative, and the Cash Dividend will not be made. In that case, PYE will remain in its present form and, other things being equal, is likely to trade on the same basis as it did before the Transactions Announcement. Accordingly, Shareholders and potential investors should exercise caution when dealing in the Shares.

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. Shareholders and potential investors should exercise caution when dealing in the Shares.

An application will, in due course, be made to the Stock Exchange for the listing of, and permission to deal on the Stock Exchange in, the New Shares in issue on the Capital Reduction Effective Date, the Placing Shares, the New Shares to be allotted pursuant to the Scrip Alternative and the New Shares to be allotted on exercise of the Exchange Rights. The listing fee for the New Shares to be issued pursuant to the Placing, Scrip Alternative and exercise of Exchange Rights has been estimated at HK$240,000.

SPECIAL GENERAL MEETING

A notice convening the PYE SGM is set out on pages 242 to 247 of this circular at which resolutions will be proposed, inter alia, to approve:

(i) the Distribution in Specie;

(ii) the Capital Reduction;

(iii) the Joint Venture Agreements and capital contribution to be made by PYE pursuant thereto;

(iv) the increase in the authorised share capital of PYE, the Specific Mandate for (1) the issue of the Placing Shares pursuant to the Placing Agreement, and (2) the issue of New Shares pursuant to any exercise of the Investors' Put Right;

(v) the Cash Dividend and the Scrip Alternative; and

(vi) the appointment of the Proposed New Directors to the Board and the fixing of Directors' remuneration.

The second resolution, relating to the Capital Reduction, is required to be passed as a special resolution of the Company in order to be effective, whereas each of the other resolutions to be proposed at the PYE SGM need only be passed as ordinary resolutions. As regards the first resolution (to approve the Distribution in Specie), PYI and its associates, holding a total of 375,826,317 Shares, representing approximately 61.92% of the issued share capital of PYE, will abstain from voting, on the basis that PYI has agreed to offer the Cash Alternative. As regards each of the other resolutions, the Directors are not aware of any Shareholder having a material interest in the subject matter of the relevant resolution which would require that Shareholder to abstain from voting on the same.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The chairman of the PYE SGM will therefore put each of the resolutions to be proposed at the PYE SGM to be voted by way of a poll pursuant to bye-law 66 of the Company's bye-laws.

A form of proxy for use by the Shareholders at the PYE SGM is enclosed. If you do not intend 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 principal place of business of the Company in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting. 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.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee contained in this circular which contains its advice to the Independent Shareholders as regards the Distribution in Specie and the Cash Alternative and its recommendation to Independent Shareholders as regards voting in respect of the resolution relating to the Distribution in Specie; and (ii) the letter from Somerley contained in this circular which contains its advice as regards the proposed Distribution in Specie and the Cash Alternative.

The Independent Shareholders are advised to read these letters before deciding how to vote on the resolution concerning the Distribution in Specie.

The Directors consider that the Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and therefore recommend the Independent Shareholders to vote in favour of the resolution to approve the Distribution in Specie and recommend all of the Shareholders to vote in favour of the various other resolutions referred to above to approve all other aspects of the Transactions.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Paul Y. Engineering Group Limited
James Chiu, *OBE, JP*
Chairman

* *For identification purposes only*

Paul Y. Engineering Group Limited
保華建業集團有限公司 *

(Incorporated in Bermuda with limited liability)
(Stock code: 577)

24 October 2011

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED DISTRIBUTION IN SPECIE OF A 49% INTEREST IN THE COMPANY'S EXISTING BUSINESSES WITH A CASH ALTERNATIVE

We refer to the circular of the Company dated 24 October 2011 (the "**Circular**") to the shareholders of the Company, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

As the Independent Board Committee, we have been appointed to advise the Independent Shareholders as to whether, in our opinion, the Distribution in Specie and the Cash Alternative, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Distribution in Specie and the Cash Alternative.

We wish to draw your attention to the letter of advice of Somerley containing their advice and recommendations and the principal factors they have taken into account in arriving at the same as set out on pages 57 to 75 of the Circular, and the letter from the Board as set out on pages 11 to 54 of the Circular. Independent Shareholders are recommended to read the letter of advice from Somerley, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular.

Having considered the Distribution in Specie and the Cash Alternative, the contents of the letter from the Board and the principal factors and reasons considered and the recommendations given by Somerley, we are of the opinion that Distribution in Specie and the Cash Alternative are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Distribution in Specie to be proposed at the PYE SGM. Whether or not Eligible Qualifying Shareholders should elect to receive the Cash Alternative and, or, apply to purchase additional PYE BVI Shares are matters of personal preference for each Eligible Qualifying Shareholder in which regard he or she may wish to take into account the information set out in the appendices of the Circular and the various factors referred to by Somerley in its letter of advice.

Yours faithfully,
For and on behalf of the Independent Board Committee of
Paul Y. Engineering Group Limited
James Chiu **Lee Chack Fan** **Iain Ferguson Bruce**
Independent Non-Executive Directors

* *For identification purposes only*

The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

24 October 2011

To: the Independent Board Committee and the Independent Shareholders of Paul Y. Engineering Group Limited

Dear Sirs,

PROPOSED DISTRIBUTION IN SPECIE OF A 49% INTEREST IN PYE BVI, WITH A CASH ALTERNATIVE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Distribution in Specie and the Cash Alternative. Details of the Distribution in Specie and the Cash Alternative are set out in the letter from the Board contained in this circular (the "**Circular**") of the Company to the Shareholders dated 24 October 2011, of which this letter forms a part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the letter from the Board in the Circular, 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 Board believes will, in due course, generate strong cash flows and ultimately be of benefit to all Shareholders. In summary, PYE proposes to pursue a new film joint venture with market leaders, Legendary and Huayi Group. PYE also intends to effect a distribution in specie of 49% of PYE BVI, which will enable Shareholders to maintain a direct interest, as well as an interest through their shareholdings in PYE, in the Existing Businesses. In order to provide 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 to provide them with a cash alternative enabling them to realise cash from the distribution. As an integral part of the aforesaid transactions, PYE also entered into two conditional agreements to allot 3,100 million Placing Shares, with the prospect of up to an additional 500 million Placing Shares pursuant to the Upsize Options, at a Placing Price of HK$0.65 per Share. PYI and its associates will abstain from voting on the resolution approving the Distribution in Specie at the PYE SGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Ir James Chiu, *OBE, JP*, Professor Lee Chack Fan, *SBS, JP* and Mr. Iain Ferguson Bruce, has been established to make a recommendation to the Independent Shareholders as to the Distribution in Specie and the Cash Alternative. We, Somerley, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on these matters.

We are not associated with the Company, PYI or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the Distribution in Specie and the Cash Alternative. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, PYI or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, among other things, the Transactions Announcement, the annual reports of the Company for each of the financial years ended 31 March 2009, 31 March 2010 and 31 March 2011, and the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Company and have assumed that the information and facts provided, and the opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete up to the date of the PYE SGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and that the opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Qualifying Shareholders of their acceptances or non-acceptances of the Cash Alternative since these are particular to their own individual circumstances. In particular, the Qualifying Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own position with regard to the Cash Alternative and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Distribution in Specie and the Cash Alternative, we have taken into account the following principal factors and reasons:

1. Background to and the reasons for the Distribution in Specie and the Cash Alternative

As disclosed in the letter from the Board, the Board has made the decision to diversify the Company's business through a series of transactions that would involve the Company undertaking a substantial capital raising exercise, predominantly for the purpose of funding its involvement in a new joint venture with market leaders, Legendary and Huayi Group, to develop and produce films, predominantly in the English language intended for a global audience, based on Chinese history, mythology or culture. In line with the Board's decision to refocus the Company's business activities through pursuit of the Film Joint Venture, the Board is proposing to effect the Distribution in Specie.

As set out in the letter from the Board, the Board, whilst seeking to reduce the scale of the Company's interest in the Existing Businesses in order to focus on the Film Joint Venture, wishes to ensure that all Shareholders are given the opportunity to maintain an interest in and exposure to the Existing Businesses (in the form of an indirect interest via the Company's retained 51% shareholding in PYE BVI and in the form of a direct interest via their pro rata entitlement to 49% of PYE BVI, to be distributed pursuant to the Distribution in Specie) before their interests in the Existing Businesses are diluted by the Placing to fund the Company's expansion through the Film Joint Venture. The Capital Reduction will be effected in order to create sufficient distributable reserves in the accounts of the Company to facilitate the Distribution in Specie and the Cash Dividend.

As also mentioned in the letter from the Board, the Directors recognise that Shareholders (other than PYI) may not wish to hold shares in PYE BVI, as PYE BVI is an unlisted company incorporated in the British Virgin Islands and there will be no liquid market for the PYE BVI Shares. Accordingly, 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 not otherwise held by the Company or PYI for an aggregate cash sum of approximately HK$69.34 million, equivalent to a price of HK$0.30 per PYI BVI Share as the Cash Alternative. The Board further proposed that the Company will declare and pay to the Qualifying Shareholders the Cash Dividend of HK$0.25 per New Share, with the option to elect to receive New Shares in lieu of cash in respect of all or part of the Cash Dividend. As confirmed by the Company, the payment of the Cash Dividend by PYE will have no impact on the net asset of PYE BVI and its subsidiaries (the "**PYE BVI Group**").

Further details of, among other things, the Placing, the formation of the Film Joint Venture, the Capital Reduction, the Distribution in Specie, the Cash Alternative, the Cash Dividend and the Scrip Alternative are set out in the letter from the Board in the Circular.

2. Key terms of the Distribution in Specie and the Cash Alternative

(i) Distribution in Specie

Details of the conditions precedent for the Distribution in Specie are set out in the paragraphs under the sub-heading "Conditions to the Distribution in Specie" in the section headed "C. Proposed Capital Reduction by PYE and Proposed Distribution in Specie by PYE and Proposed Cash Dividend" in the letter from the Board in the Circular.

Shareholders should note that all the Transactions, apart from the Distribution in Specie, are inter-conditional. As disclosed in the letter from the Board, if all resolutions apart from the Distribution in Specie are passed and all the conditions to which the Placing is subject are fulfilled, all the Transactions other than the Distribution in Specie will be implemented. Given that PYI, which owns approximately 61.92% of the voting rights in the Company, is eligible to vote for the resolutions in connection with the Transactions (excluding the Distribution in Specie), Independent Shareholders will not be able to defeat the resolutions approving the Transactions (excluding the Distribution in Specie) if PYI votes in favour. Accordingly, if PYI votes in favour of the resolutions in connection with the Transactions (excluding the Distribution in Specie) and subject to the fulfillment or waiver of the conditions precedent to the Transactions (excluding the Distribution in Specie), the Transactions (excluding the Distribution in Specie) may still take place without the Distribution in Specie becoming effective. On this basis, we concur with the Directors' view that the Distribution in Specie represents an opportunity for the Independent Shareholders either to receive a direct interest in the Existing Businesses or to benefit from the Cash Alternative.

We also note that the Distribution in Specie is conditional upon, among other things, the passing of the resolution(s) to approve the Potential Additional PYE BVI Shares Acquisition at the PYI SGM and the completion of the Placing Agreements. Accordingly, the Distribution in Specie will not be carried out without the Cash Alternative.

(ii) Cash Alternative

As mentioned in the letter from the Board, the Directors recognise that Independent Shareholders may not wish to hold shares in PYE BVI, as PYE BVI is an unlisted company incorporated in the British Virgin Islands and there will be no liquid market for the PYE BVI Shares. Accordingly, 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 not otherwise held by the Company or PYI for an aggregate cash sum of approximately HK$69.34 million, equating to a price of HK$0.30 per PYI BVI Share as the Cash Alternative.

(iii) Excess applications

As mentioned in the letter from the Board, the Company proposes to make arrangements for Eligible Qualifying Shareholders to be given the opportunity to apply to purchase additional PYE BVI Shares. To the extent that Independent Shareholders elect to receive the Cash Alternative, PYE BVI Shares will be available for purchase at a price of HK$0.30 per PYE BVI Share, being the Cash Alternative offered by PYI. Applications for these additional PYE BVI Shares may be made only by Eligible Qualifying Shareholders on the Excess Application Forms.

We concur with the view of the Directors that it is a fair principle to offer the Eligible Qualifying Shareholders an opportunity to increase their direct interests in PYE BVI Shares through the excess applications.

3. Information on the Group and the PYE BVI Group

The Group is an international engineering services group serving China and the international market with 60 years' expertise. As confirmed by the Directors, the Company is an investment holding company and, save for its holding of the entire issued share capital of PYE BVI, the Company conducts no business activities. The Company, through the members of the PYE BVI Group, has three core areas of business, being management contracting, property development management and property investment. As confirmed by the Company, the audited financial performance and financial position of the Group are substantially representative of those of the PYE BVI Group for the three financial years ended 31 March 2011 and up till the Latest Practicable Date.

(i) Historical financial performance of the Group

Set out below is the summary of the financial results of the Group for the three years ended 31 March 2011, details of which are set out in Appendix IV to the Circular:

	For the year ended 31 March		
	2011	**2010**	**2009**
	(audited)	*(audited)*	*(audited)*
	HK$ million	*HK$ million*	*HK$ million*
Turnover	4,333.8	3,644.9	4,427.2
Profit for the year attributable to owners of the Company	30.1	44.7	40.2

The Group has made steady profits during the three financial years ended 31 March 2011.

For the financial year ended 31 March 2010 (the "**FY2010**"), the Group recorded a consolidated turnover of approximately HK$3,644.9 million, which represented a decrease of approximately 17.7% as compared to the turnover of approximately HK$4,427.2 million for the financial year ended 31 March 2009 (the "**FY2009**"). Such decrease in turnover was mainly due to the prudent tendering policy adopted by the Group in view of the high market risk as a result of the global financial tsunami in 2008. Profit attributable to owners of the Company for FY2010, however, increased by approximately 11.2% to approximately HK$44.7 million which was mainly due to the decrease in administrative expenses.

With the abundant global liquidity and low interest rate environment following the quantitative easing policy of the United States, the economic activity in most developing countries rebounded significantly in 2010. Due to the increase in demand for construction and project development services as a result of the continued surge in capital works expenditure by both the private and public sectors in Hong Kong, the Group recorded an increase in consolidated turnover from approximately HK$3,644.9 million for FY2010 to approximately HK$4,333.8 million for the financial year ended 31 March 2011 (the "**FY2011**"), representing an increase of approximately 18.9%. However, profit attributable to owners of the Company for FY2011 decreased by approximately 32.7% to approximately HK$30.1 million which was mainly due to the decrease in interest income and increase in income tax expense.

Management contracting has remained the core business and the major contributor of revenue for the three financial years ended 31 March 2011. Turnover of the management contracting division has contributed over 99% of the Group's total turnover for each of the three years ended 31 March 2011. In FY2011, turnover of the management contracting division amounted to approximately HK$4,312.9 million, representing an increase of about 18.8% from approximately HK$3,629.6 million in FY2010. It reported operating profit of approximately HK$82.9 million for FY2011. As at 31 March 2011, the value of contracts on hand was approximately HK$10,406.8 million, while the value of work remaining had increased by about 8.1% to approximately HK$5,907.5 million as compared to approximately HK$5,465.6 million as at 31 March 2010. During FY2011, the management contracting division secured new construction contracts with an aggregate value of approximately HK$4,669.3 million, representing an increase of approximately 4.2% as compared to the amount of approximately HK$4,480.9 million for FY2010. The property development management division reported a turnover and operating profit of approximately HK$20.9 million (excluding inter-segment sales) and HK$3.6 million respectively for FY2011. As advised by the Company, the property investment division, through its associates, contributed a profit of approximately HK$4.7 million and approximately HK$4.2 million for FY2011 and FY2010 respectively.

(ii) Financial position of the Group

Set out below is the summary of the consolidated assets and liabilities of the Group as at 31 March 2010 and 31 March 2011 respectively, details of which are set out in Appendix IV to the Circular:

	As at 31 March	
	2011	**2010**
	(audited)	*(audited)*
	HK$ million	*HK$ million*
ASSETS		
Total non-current assets	477.9	359.0
Total current assets	2,293.7	2,189.9
Total assets	2,771.6	2,548.9
LIABILITIES AND EQUITY		
Total non-current liabilities	(9.2)	(5.0)
Total current liabilities	(2,158.1)	(1,954.5)
Total liabilities	(2,167.3)	(1,959.5)
Equity attributable to		
– owners of the Company	605.4	574.7
– non-controlling interests	(1.1)	14.7
Total equity	604.3	589.4

The Group has maintained a strong financial position with total assets increasing by around 8.7% from 2010 to approximately HK$2,771.6 million as at 31 March 2011. Current assets of the Group were approximately HK$2,293.7 million, representing approximately 1.1 times the current liabilities. The equity attributable to owners of the Company stood at approximately HK$605.4 million as at 31 March 2011, representing an increase of around 5.3% as compared with the equity attributable to owners of the Company as at 31 March 2010 of approximately HK$574.7 million.

The Cash Alternative of HK$0.30 represents a discount of around 38.8% to the amount 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.

(iii) Future intentions towards the Existing Businesses

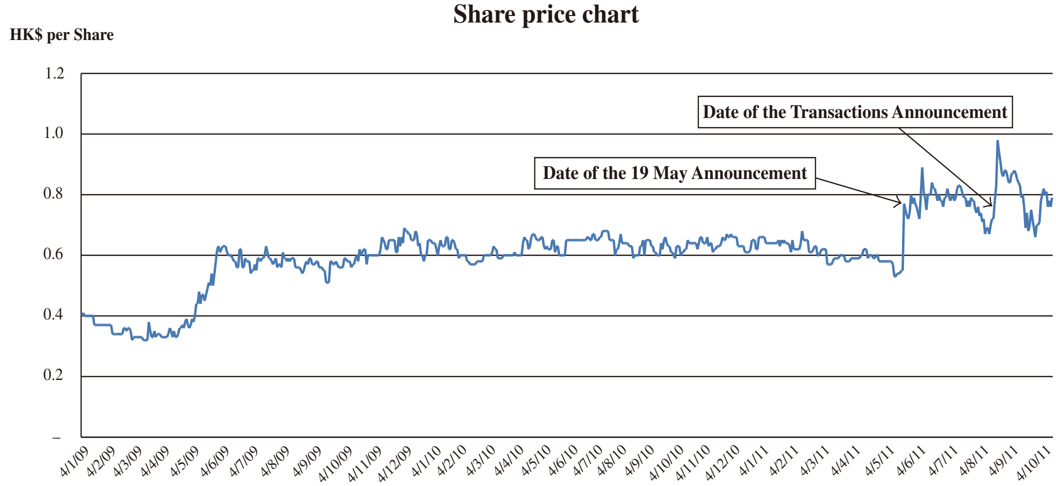
As disclosed in the letter from the Board, the Existing Businesses will continue to be well supported, on the basis that they will continue to be conducted by entities that remain subsidiaries of PYE. It is also stated in the letter from the Board that the Board will maintain the operations of the Existing Businesses as disclosed in its 2011 annual report and the 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.

PYI is currently the ultimate holding company of the Existing Businesses, and will become the second largest shareholder of PYE BVI. As disclosed in the letter from the Board, PYI is entirely familiar with the operations and requirements of the Existing Businesses and will work with PYE to generate sustained further successful results from those businesses.

4. Historical Share price performance and historical discount of market price to net asset value

We have reviewed the Share price performance of the Company for the period from 1 January 2010 up to the Latest Practicable Date (both dates inclusive). The following chart sets out the closing price of the Shares as quoted on the Stock Exchange during such period.

Share price chart



Source: Bloomberg

As shown in the above chart, the closing prices of the Shares had been within the range of HK$0.53 and HK$0.68 per Share, with an average of approximately HK$0.622 per Share during the period from 1 January 2010 to 18 May 2011 (the "**Pre-Announcement Period**"), being the trading date immediately prior to the suspension of trading in Shares and the release of the announcement by the Company on 19 May 2011 disclosing its negotiation on a possible transaction which would constitute a very substantial acquisition and be funded by a placement (the "**19 May Announcement**"). Immediately prior to the suspension of trading in the Shares in the afternoon session and the release of the 19 May Announcement on 19 May 2011, the Share price surged and closed at HK$0.77 in the morning session on 19 May 2011. Since 19 May 2011 up till the Latest Practicable Date (the "**Post-Announcement Period**"), despite the recent volatility of the global stock markets as a result of, inter alia, the Europe's sovereign debt crisis, the closing prices of the Shares stood at price levels above HK$0.70 per Share for the majority of the time, with a range between HK$0.66 and HK$0.98 per Share. During the Post-Announcement Period, the average closing price of the Shares was approximately HK$0.783 per Share, which is approximately 25.9% higher than the average of the closing prices of the Shares of approximately HK$0.622 during the Pre-Announcement Period.

The average daily trading volume of the Shares during the Pre-Announcement Period was generally below 0.15% of the Shares in public hands. During the period from 19 May 2011 up to the Latest Practicable Date, the average daily trading volume increased in general and amounted to over 2.0% of the Shares in public hands in May and June 2011.

We are advised by the Company that the Company is not aware of any reasons, other than the 19 May Announcement, for the significant increase in Share price and liquidity. While the rise in Share price and increase in liquidity are likely to be driven by the Transactions, there is no assurance that the Share price and liquidity will remain at the current levels if the Transactions, including the Distribution in Specie, do not take place or lapse.

In assessing the reasonableness of the discount to the net asset value of PYE BVI Group represented by the Cash Alternative, we have compared the historical closing price of the Shares against the then latest consolidated net asset value attributable to equity holders of the Company, which we have assumed is generally available to the market from the date following the publication of the relevant full year or interim results announcements and that the Share price has reflected such information.

Period	Consolidated net asset value attributable to equity holders per Share#	Highest	Closing price per Share Lowest	Average	Discount to consolidated net asset value attributable to equity holders per Share represented by Highest closing price	Lowest closing price	Average closing price
					Approximate	*Approximate*	*Approximate*
	HK$	*HK$*	*HK$*	*HK$*	*%*	*%*	*%*
13/12/2008* - 17/07/2009	0.851	0.630	0.320	0.432	26.0	62.4	49.2
18/07/2009*- 18/12/2009	0.891	0.690	0.510	0.595	22.6	42.8	33.2
19/12/2009* - 16/07/2010	0.908	0.680	0.570	0.626	25.1	37.2	31.1
17/07/2010* - 26/11/2010	0.948	0.670	0.590	0.632	29.3	37.8	33.3
27/11/2010* - 18/05/2011Ω	0.962	0.680	0.530	0.609	29.3	44.9	36.7
Simple average of the discounts to the consolidated net asset value attributable to equity holders per Share represented by average closing price for the above respective periods (the "**Average Discount**")							36.7

Note:

* the date following the release of the Company's full year or interim results announcement

\# Consolidated net asset values attributable to equity holders per share are calculated based on the consolidated net asset value of the Company, which are extracted from the respective Company's annual reports or interim reports, divided by the total number of issued share capital of the Company as at the relevant year ended/period ended date.

Ω Being the trading day immediately prior to the suspension of trading in the Shares and the release of the 19 May Announcement.

Based on the analysis set out above, we note that the closing prices of the Shares have been consistently at discounts to the then underlying net asset value attributable to equity holders since the date following the release of the 2009 interim results of the Company up to 18 May 2011, being the trading date immediately prior to the suspension of trading in the Shares and the release of the 19 May announcement. We also note that the discount of 38.8% represented by the Cash Alternative to the amount 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 is close to the Average Discount of about 36.7% as shown above.

5. Comparable companies and comparable transactions analysis

(i) Peer comparison

As mentioned above, the PYE BVI Group has three core areas of business: management contracting, property development management and property investment, with over 99% of turnover for each of the recent three financial years being contributed by the management contracting business.

In such circumstances, we have identified the following 8 companies listed (the "**Comparable Companies**") on the Mainboard of the Stock Exchange which are (i) principally engaged in building and civil engineering construction; (ii) have a market capitalization below HK$1,300 million as at the Latest Practicable Date; and (iii) are profit-making for the latest reported financial year.

The table below set out the price earnings ratios (the "**PER**") and the level of premium/discount of share prices to consolidated net asset values attributable to equity holders of each of the Comparable Companies and the PYE BVI Group.

	Closing share price on the Latest Practicable Date	**Market capitalisation as at the Latest Practicable Date**	**Audited consolidated profits attributable to equity holders**	**Audited/ unaudited consolidated net asset value attributable to equity holders**	**PER**	**Premium/ (Discount) of share price to net asset value attributable to equity holders**
	(Note 1)	*(Note 1)*	*(Note 1)*	*(Note 1)*	*(Note 2)*	*Approximate*
	HK$	*HK$ million*	*HK$ million*	*HK$ million*	*Times*	*%*
Wai Kee Holdings Limited (stock code 0610)	1.230	975.5	205.59	4,299.6	4.7	(77.3)
Vantage International (Holdings) Limited (stock code 0015)	0.490	733.4	284.34	898.3	2.6	(18.4)
Hsin Chong Construction Group Limited (stock code 0404)	1.290	874.0	136.35	828.7	6.4	5.5
Hanison Construction Holdings Limited (stock code 0896)	0.860	419.3	156.04	889.7	2.7	(52.9)
Yau Lee Holdings Limited (stock code 0406)	1.010	442.4	71.95	1,387.5	6.1	(68.1)
Deson Development International Holdings Limited (stock code 0262)	0.490	282.7	162.22	685.0	1.7	(58.7)
Chinney Alliance Group Limited (stock code 0385)	0.265	157.6	23.66	481.3	6.7	(67.3)
Build King Holdings Limited (stock code 0240)	0.115	142.8	29.15	244.4	4.9	(41.6)
Mean					**4.5**	**(47.4)**
Max					6.7	5.5
Min					1.7	(77.3)
PYE BVI Group	**0.300**	**371.6**	**30.1**	**605.4**	**12.4**	**(38.6)**
	(Note 3)	*(Note 4)*	*(Note 5)*		*(Note 7)*	*(Note 6)*

Notes:

(1) The closing share price and market capitalisation of the Comparable Companies as at the Latest Practicable Date are sourced from the website of Stock Exchange. The market capitalisation of the Comparable Companies is calculated based on their respective closing share price and number of issued shares as at the Latest Practicable Date. The audited/unaudited consolidated net asset value attributable to equity holders are extracted from the latest annual/interim reports of the Comparable Companies and audited profits attributable to equity holders are extracted from the latest annual reports of the Comparable Companies.

(2) The historical PER of the Comparable Companies are calculated based on their latest audited profits attributable to their respective equity holders and their market capitalisation as at the Latest Practicable Date.

(3) The Cash Alternative of HK$0.30.

(4) We have taken the Cash Alternative and the issued share capital of 1,238,682,291 shares of PYE BVI as at the Latest Practicable Date for the purpose of determining the theoretical market capitalisation of PYE BVI.

(5) As confirmed by the Company, the audited profits attributable to owners of PYE BVI would be approximately the same as that attributable to the owners of the Company.

(6) The discount is calculated based on the market capitalisation represented by the Cash Alternative and the carrying amount of net asset value of PYE BVI Group based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2011.

(7) The historical PER of PYE BVI is calculated based on its market capitalisation represented by the Cash Alternative and PYE's latest audited profits attributable to equity holders for the financial year ended 31 March 2011.

As shown in the table above, the premium/discount of share prices to consolidated net asset values attributable to equity holders of the Comparable Companies ranged from a discount of 77.3% to a premium of 5.5%, with a mean of approximately 47.4% discount. The discount to the consolidated net asset value of PYE BVI Group calculated based on the market capitalisation represented by the Cash Alternative of approximately 38.6% is lower than the average discount to consolidated net asset value of the Comparable Companies.

The PERs of the Comparable Companies ranged from approximately 1.7 times to 6.7 times, with a mean value of approximately 4.5 times. The PER represented by the Cash Alternative of 12.4 times is higher than all the Comparable Companies, and is significantly higher than the average PER of the Comparable Companies.

(ii) Comparable transactions

Set out in the table below are the comparable transactions involving, among other things, distribution in specie of unlisted shares of a subsidiary by companies listed in Hong Kong, followed by voluntary offers to acquire the unlisted shares, which were announced with the issue of the relevant circulars/composite offer and response documents since 1 January 2003 and up to the Latest Practicable Date (the "**Comparable Transactions**"). The table below illustrates the level of discounts to the unaudited pro forma consolidated net asset attributable to holders of the unlisted shares in the Comparable Transactions.

Date of initial announcement	Company	Offer price under the voluntary offer to acquire the unlisted shares *HK$*	Discount of offer price to the unaudited pro forma consolidated net asset value attributable to holders of the unlisted shares *approx. %*
2011			
September	Noble Jewelry Holdings Limited (stock code 0475)	0.5000	31.7
2010			
November	Enterprise Development Holdings Limited (formerly known as Tai-I International Holdings Limited) (stock code 1808)	0.4500	63.4
July	Gemini Investments (Holdings) Limited (formerly known as Kee Shing (Holdings) Limited) (stock code 0174)	0.1920	31.4
2009			
September	China Overseas Grand Oceans Group Limited (formerly known as Shell Electric Mfg. (Holdings) Company Limited) (stock code 0081)	1.8000	50.3
2008			
September	Cinda International Holdings Limited (formerly known as Hantec Investment Holdings Limited) (stock code 0111)	0.3000	18.9
2007			
February	Mexan Limited (stock code 0022)	0.3000	55.9

Date of initial announcement	Company	Offer price under the voluntary offer to acquire the unlisted shares	Discount of offer price to the unaudited pro forma consolidated net asset value attributable to holders of the unlisted shares
		HK$	*approx. %*
2003			
August	China Agri-Products Exchange Limited (formerly known as Rosedale Hotel Group Limited) (stock code 0149)	0.2600	85.0
February	Mexan Limited (formerly known as Asean Resources Holdings Limited) (stock code 0022)	0.1216	87.8
		Mean	**53.1**
		Max	**87.8**
		Min	**18.9**
2011			
September	PYE	0.3000	38.8

Source: Published composite offer and response documents, circulars or announcements relating to the Comparable Transactions.

As seen from the above table, the offer prices in the case of the Comparable Transactions all represented discounts to their respective unaudited pro forma consolidated net asset attributable to holders of unlisted shares. The price offered under the Comparable Transactions ranged from 18.9% to 87.8% discount to the unaudited pro forma consolidated net asset attributable to holders of the unlisted shares, with a mean discount of approximately 53.1%. The approximately 38.8% discount to consolidated net asset value attributable to owners of PYE BVI represented by the Cash Alternative is lower than the mean discount of the Comparable Transactions.

6. The estimated total realisable return to Independent Shareholders following completion of the Transactions

Under the current structure of the Transactions, upon the Distribution in Specie becoming effective, an Independent Shareholder with respect to each existing Share he/she holds would:

(i) hold one New Share;

(ii) hold one PYE BVI Share (assuming no instruction has been served to elect to receive the Cash Alternative), or receive the Cash Alternative of HK$0.30 (assuming instruction has been served to elect to receive the Cash Alternative); and

(iii) receive the Cash Dividend of HK$0.25 per New Share.

On such basis, and by reference to the prospective market valuation of the New Share based on the Placing Price of HK$0.65 per Placing Share which was arrived at after arm's length negotiation with reference to the market price of the Shares in recent months and after factoring in the effect of the Distribution in Specie and Cash Dividend or Scrip Alternative, the estimated aggregate amount attributable to an Independent Shareholder upon the Distribution in Specie becoming effective could amount to about HK$1.20 (the "**Estimated Total Return**") with respect to each existing Share he/she holds, as follows:

		HK$ per share
(i)	Market price of a New Share based on the Placing Price	0.65
(ii)	Cash Alternative	0.30
(iii)	Cash Dividend	0.25
Total		**1.20**

We would like to draw to the attention of the Independent Shareholders that the future market price of the New Shares is subject to many factors such as market sentiment at the time. The above Estimated Total Return is based on, among other things, the Placing Price of HK$0.65 and is included in this letter for reference and analysis purposes only.

As discussed in the section above headed "Historical Share price performance and historical discount of market price to net asset value", the average closing price per Share (1) during the Pre-Announcement Period was approximately HK$0.622; and (2) during the Post-Announcement Period was approximately HK$0.783. The Estimated Total Return of HK$1.20, therefore, represents (i) a premium of approximately 92.9% as compared with the average closing price per Share during the Pre-Announcement Period; and (ii) a premium of approximately 53.3% as compared with the average closing price per Share during the Post-Announcement Period. The Estimated Total Return also represents a premium of approximately 51.9% over the closing price per Share of HK$0.79 as at the Latest Practicable Date.

7. Dilution effects as a result of the completion of the Transactions

The Board has decided to refocus the Company's business activities through the pursuit of the Film Joint Venture which will be funded by a large-scale Placing. The Placing will create a substantial dilution to the existing percentage holdings of the Shareholders in the Company. As illustrated in the section headed "Changes to the Existing Issued Share Capital of PYE as a result of the Placing" in the letter from the Board, the shareholding of the existing Independent Shareholders will be diluted from approximately 38.08% to (i) approximately 6.23% upon the completion of the Placing (with no exercise of the Upsize Options); or (ii) approximately 5.50% upon the completion of the Placing (with the exercise in full of the Upsize Options). The Distribution in Specie, which will allow the Independent Shareholders to hold direct interests in the Existing Businesses through holding the PYE BVI Shares, will have the effect of mitigating the dilution of Independent Shareholders' interests in the Existing Businesses as a result of the Placing.

As disclosed in Appendix VIII to the Circular, the pro forma consolidated net asset value attributable to owners of the Company would be approximately HK$2,042 million assuming the completion of the Transactions (including the Distribution in Specie). Based on the total number of issued New Shares upon the completion of the Placing (assuming no exercise of the Upsize Options), the pro forma consolidated net asset value attributable to owners of the Company per New Share would be diluted to approximately HK$0.55 per New Share upon completion of all the Transactions. Given the amount 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, the total underlying book value represented by one New Share plus one PYE BVI Share that an Independent Shareholder is entitled to with respect to each existing Share he/she holds would be approximately HK$1.04, representing a enhancement of approximately 4.3% as compared with the consolidated net asset value attributable to owners of the Company of approximately HK$0.997 per Share as at 31 March 2011.

As mentioned above, the Transactions, apart from the Distribution in Specie, are inter-conditional and are not conditional upon the Distribution in Specie. Assuming that the Distribution in Specie was not approved by the Independent Shareholders at the PYE SGM, there is still the possibility that the Placing and formation of the Film Joint Venture will be completed and the Cash Dividend will be paid. In such circumstances, upon the completion of the Transactions apart from the Distribution in Specie, an Independent Shareholder with respect to each existing Share he/she holds would hold one New Share and receive the Cash Dividend of HK$0.25 per New Share. As disclosed in Appendix VIII to the Circular, the pro forma consolidated net asset value attributable to owners of the Company would be approximately HK$2,339 million, assuming the completion of the Transactions except for the Distribution in Specie. Based on the total number of issued New Shares upon the completion of the Placing (assuming no exercise of the Upsize Options) and assuming the completion of the Transactions except for the Distribution in Specie, the pro forma consolidated net asset value attributable to owners of the Company would be diluted to approximately HK$0.63 per New Share, representing a reduction of around 36.8% as compared with the consolidated net asset value attributable to owners of the Company of approximately HK$0.997 per Share as at 31 March 2011.

8. Conclusions and recommendation

In reaching our conclusions and recommendation, we have considered the above principal factors and reasons, in particular:

Substantial uplift of value of Independent Shareholders' interests

During the Pre-Announcement Period, Independent Shareholders had a Share with a closing price of around HK$0.622 on average with little liquidity. As discussed in the section headed "The estimated total realisable return to Independent Shareholders following completion of the Transactions" above, by the operation of the Transactions, the Estimated Total Return to an Independent Shareholder with respect to each existing Share he/she holds upon the Distribution in Specie becoming effective could amount to about HK$1.20, representing a substantial uplift over the historical closing prices of the Shares since 1 January 2010.

Also as discussed in the section headed "Dilution effects as a result of the completion of the Transactions" above, it is expected that if the Transactions, including the Distribution in Specie, are completed, there will be enhancement in the total underlying book value represented by one New Share plus one PYE BVI Share that an Independent Shareholder is entitled to, compared to each existing Share he/she currently holds.

Fairness and reasonableness of the HK$0.30 Cash Alternative

As discussed in various sections above, we consider the Cash Alternative is fair and reasonable taking into account, in particular, that:

– the discount of approximately 38.8% represented by the Cash Alternative of HK$0.30 to the amount 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 is generally in line with the Average Discount represented by the historical closing price of the Shares against the then latest consolidated net asset value attributable to equity holders of the Company in recent years;

– the discount to the consolidated net asset value of PYE BVI Group calculated based on the market capitalisation represented by the Cash Alternative of around 38.6% is lower than the mean discount of the Comparable Companies of around 47.4%. The PER represented by the Cash Alternative of around 12.4 times is higher than all the Comparable Companies, which is considered favourable as compared with the Comparable Companies; and

– the discount of approximately 38.8% represented by the Cash Alternative of HK$0.30 to the amount 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 is lower than the mean discount of the Comparable Transactions of around 53.1%.

Dilution impact mitigated by receiving the Distribution in Specie or certainty offered by accepting the Cash Alternative

Independent Shareholders who are positive on the future business growth and development of the Existing Businesses may elect to receive the Distribution in Specie. This will mitigate the dilution effect on their interests in the Existing Businesses. They may possibly increase their interests by acquiring additional PYE BVI Shares through the excess applications. On the other hand, Independent Shareholders who are concerned about the illiquidity of the PYE BVI Shares and/or less minority protection being available under the Proposed Memorandum and Articles of PYE BVI (as further discussed below) should consider accepting the Cash Alternative. It provides the certainty to the Independent Shareholders of realising (in whole or in part) their investment at the amount of HK$0.30 per PYE BVI Share, an amount which we consider fair and reasonable.

Protection for Independent Shareholders as regards their interests in PYE BVI

Attention of Shareholders is drawn to Appendix IX to the Circular for further information relevant to the holding of an interest in PYE BVI. Shareholders should note that, upon the Distribution in Specie becoming effective, PYE BVI, as an unlisted company, will not be governed by the Listing Rules and therefore will not be subject to the same degree of corporate governance and minority protection requirements as set out in the Listing Rules. In addition, the market misconduct provisions and the provisions concerning offences relating to dealings in securities, as provided for in Parts XIII and XIV of the SFO, will not apply in relation to shares in PYE BVI. These would include activities such as insider dealing, false trading, price rigging and stock market manipulation and would not be applicable given the unlisted status of the PYE BVI Shares. However, were PYE BVI minded ever to raise additional funds by means of an allotment of new securities to the public in Hong Kong (which includes any class of that public, and may include the holders of the PYE BVI shares from time to time) the provisions relating to offers of investments, as contained in Part IV of the SFO (including all potentially relevant exemptions provided for therein), would apply to PYE BVI.

Following the Distribution in Specie becoming effective, if PYE were to have 50 or more members and many or most of them are based in Hong Kong, PYE BVI will be considered a public company in Hong Kong and will accordingly be subject to the Takeovers Code for as long as it remains a public company. However, even in the case that PYE BVI eventually ceased to be a public company due to having less than 50 members and therefore PYE BVI was no longer subject to the Takeovers Code, the interests of PYE BVI shareholders will still be safeguarded, though to a lesser extent, by the Proposed Memorandum and Articles of PYE BVI and various provisions regarding minority shareholders' interest protection under the BVI Companies Act, summaries of which are set out in Appendix IX to the Circular.

Despite less protection being available under the Proposed Memorandum and Articles of PYE BVI, after taking into account in totality all the above-mentioned principal factors and reasons, in particular, the substantial uplift of value of Independent Shareholders' interest and the availability of the Cash Alternative, we are of the view that the Distribution in Specie is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned. Independent Shareholders who are concerned about the illiquidity of the PYE BVI Shares and/or less minority protection being available under the Proposed Memorandum and Articles of PYE BVI, should consider accepting the Cash Alternative.

According to the proposed timetable as set out in page vii of the Circular, the first day for dealing in the New Shares ex-entitlement to the Distribution in Specie, the Cash Alternative and the Cash Dividend will be on 22 November 2011, the Record Date for which is scheduled on 25 November 2011. However, Shareholders and potential investors should note that the New Shares will most probably be traded on the ex-entitlement basis before the Placing Agreements are completed. Under the terms of the Placing Agreements, the long stop date for the completion of the Placing is 31 December 2011. If owing to volatile market conditions or for any other reason, the Placing of 3,100 million Placing Shares at the fixed Placing Price of HK$0.65 per Placing Share cannot be achieved, the Distribution in Specie, with the Cash Alternative, and the Cash Dividend will not be made. In that case, PYE will remain in its present form and, other things being equal, is likely to trade on the same basis as it did before the Transactions Announcement. Consequently, Shareholders and potential investors should exercise caution when dealing in the Shares/New Shares.

RECOMMENDATION

Based on the above principal factors and reasons, we consider the Distribution in Specie and the Cash Alternative are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the PYE SGM in relation to the Distribution in Specie.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M.N. Sabine
Chairman

A. FILM INDUSTRY OVERVIEW

The film industry is comprised of three inter-related components (each more fully described below). The first is film development and production, including principal photography and post-production. The second is financing, including raising capital, often from studios, lenders or private investors, to cover the cost of production of the picture. The third includes the marketing and selling of a motion picture via domestic and international channels including (a) theatrical exhibition; (b) non-theatrical exhibition; (c) home video; (d) television; (e) digital distribution; and (f) exploiting the other rights in the picture and underlying property through ancillary channels such as books, merchandising and soundtrack albums.

The development, financing, production and distribution of films

Development

Typically in the development stage, a producer will acquire the motion picture rights, or an option on such rights, to a literary property or other intellectual property. If that property is not in script form, the producer will engage a writer to draft a screenplay to present to directors and actors. Once a script has been finalised and approved, the producer of the film will solicit directors and principal cast members to become attached to the project. Typically, the budget of a film will be modified to reflect the prior commercial success of the director and the bankability of the principal cast members who are successfully attached.

Financing

If a director and cast are attached to a particular film that is consistent with and supports a film's budget, a producer then must secure financing for the film. Sources of financing include the studios, private investors, publicly or privately raised pools of film investment capital, loans, pre-sales of ancillary rights, as well as advances and, or, guarantees for territorial distribution rights. Traditionally, most feature length motion pictures have been financed by the major motion picture production or distribution companies or a combination of both of the two. Pre-selling distribution rights enables the financier of a picture to mitigate its risk by selling off distribution and other exploitation rights to a film prior to the completion of the film.

In addition, a portion of the budget of many recent films has been paid for by numerous state and foreign tax incentives that have been put in place to encourage film production in such state or country. These tax credits and, or, rebates can be used to facilitate the recoupment of a financier's investment and they may be used as collateral for debt financing to fund the production costs of the film.

Pre-production Once the financing for a film has been obtained, the pre-production phase will commence. Activities during this phase may include hiring additional key personnel, including the director, if not previously attached, additional principal members of the cast, and production staff, determining production locations, finalising shooting and post production schedules, creating a "storyboard" for the screenplay, revising the screenplay, creating sets and costumes, and developing a detailed budget based on the particulars of the locations and schedules.

Principal photography Principal photography is the term used to describe the period of time during which the film is physically shot.

Post-production During the post-production stage, the film is edited, music and sound effects are synchronised with the film, special effects are added, and the film is brought to a completed form known as an "answer print."

Distribution Broadly, distribution of a motion picture involves U.S. and international licensing of the picture for theatrical exhibition; non-theatrical exhibition, which includes airlines, hotels and armed forces facilities; home video; television, including pay-per-view, pay cable, network, syndication or basic cable; digital and wireless distribution, including distribution through the internet and mobile communication devices; and marketing of the other rights in the picture and underlying literary property, which may include books, merchandising, and soundtrack albums. This phase will also involve the incurrence of substantial additional expense to advertise and market the film along its various stages of distribution.

The primary participants in the distribution of films in the U.S. are:

Majors The U.S. film industry is dominated by a handful of large motion picture studios, or "majors", including Paramount, Disney, Universal, Sony, Fox, and Warner Bros. The majors are large, diversified entertainment companies or subsidiaries of diversified corporations which have strong relationships with creative talent, exhibitors, and others involved in the entertainment industry, and whose non-motion picture operations provide stable sources of earnings that may offset variations in the financial performance of their motion picture operations.

Specialty divisions

As a result of the high profitability of independent films in the 1990's, many of the majors created or acquired "classics" or "independent film" divisions from 1995 to 2005. These studios include Fox Searchlight Pictures, Screen Gems, Focus Features and Sony Pictures Classics. Recently, Warner Bros subsequently has shut down its two specialty divisions (Picturehouse and Warner Independent Pictures), and Paramount merged its independent division Paramount Vantage with its main studio.

Independents

In addition, the motion picture industry is populated by several production entities with their own distribution that are not affiliated with major studios, although they may have distribution arrangements with the major studios. These companies, commonly referred to as "independents" or "mini majors", include Summit Entertainment LLC, The Weinstein Company, Lionsgate, MGM Studios, and DreamWorks.

Table 1 – Market shares of major studios of U.S. box office receipts

(%)	**2007**	**2008**	**2009**	**2010**
Major Studios				
Warner Bros	14.7	18.4	19.8	18.2
Fox	10.5	10.5	13.1	14.0
Paramount	15.5	16.4	13.9	16.2
Sony/Columbia	12.9	13.2	13.7	12.1
Buena Vista	14.0	10.5	11.6	13.8
Universal	11.4	11.0	8.4	8.3
Major Studios Total	**79.0**	**80.0**	**80.5**	**82.6**
Non-Major Studios	**21.0**	**20.0**	**19.5**	**17.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Derived from Box Office Mojo

Sources and timing of revenue

The total revenue and expense of a film over the first 10 years of its life is generally referred to as a film's "ultimate". The ultimate is subject to release windows which determine the timing of revenue and expenses over the ultimate period.

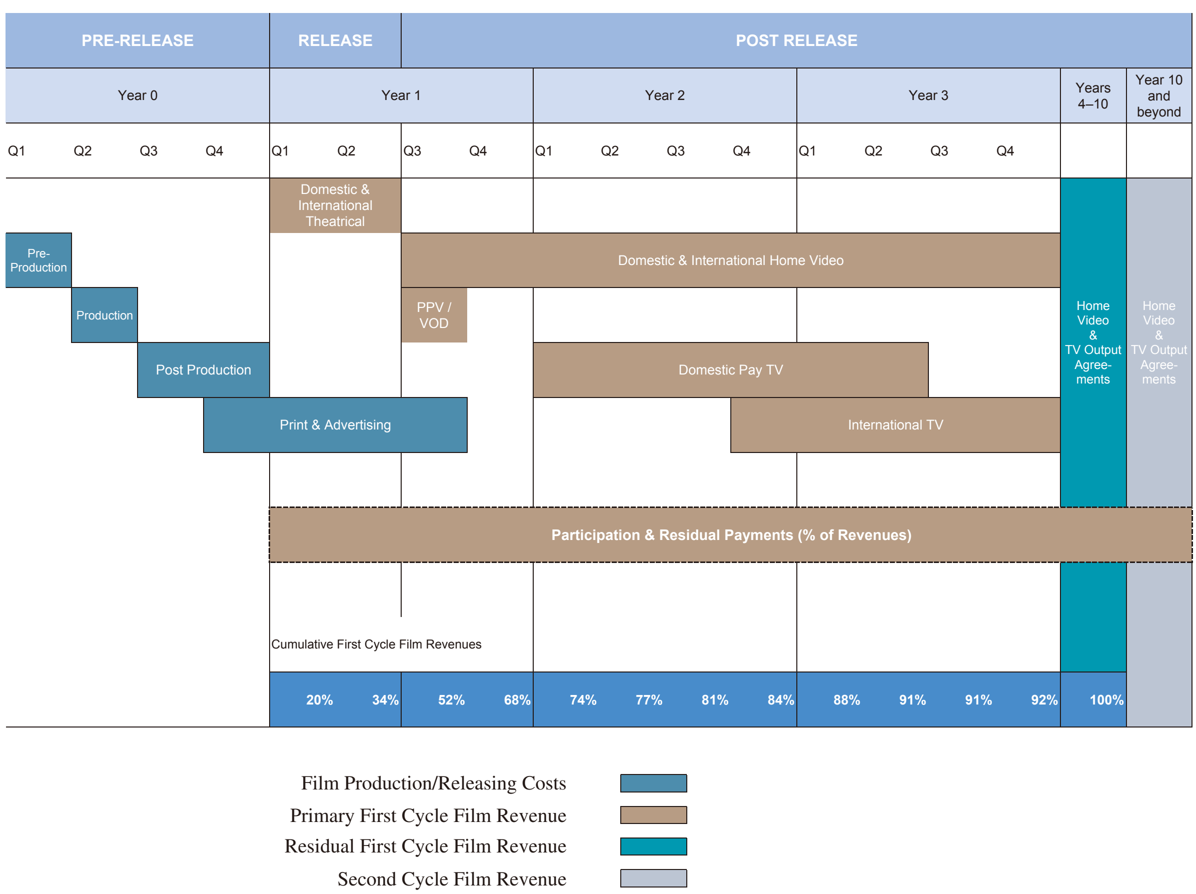
Costs are primarily incurred upfront in the period of time leading up to a film's release, and include production related costs and print & advertising and other distribution expenses, being referred collectively as the cost of marketing the film. The first few weeks, and often the first weekend, of a film's theatrical release are critical indicators of its future success, although motion pictures may continue to play in theatres for a substantial period of time following their initial release. Concurrently with their release in the U.S., motion pictures are generally released in Canada and often one or more other international markets.

A substantial portion of a film's ultimate revenues is generated in a film's initial distribution cycle; that is five to ten years after the initial U.S. theatrical release. Once a film has completed its theatrical window, value will be exploited in future markets including home video and television.

Illustrative window structure/cash flow timing profile

For purposes of example only, the following is an illustrative profile of the typical release windows for a film and timing of cash flows, although these windows and timing do not reflect the continuing evolution of digital distribution models and can vary significantly from film to film.

Table 2 – Illustrative window structure – U.S. and International



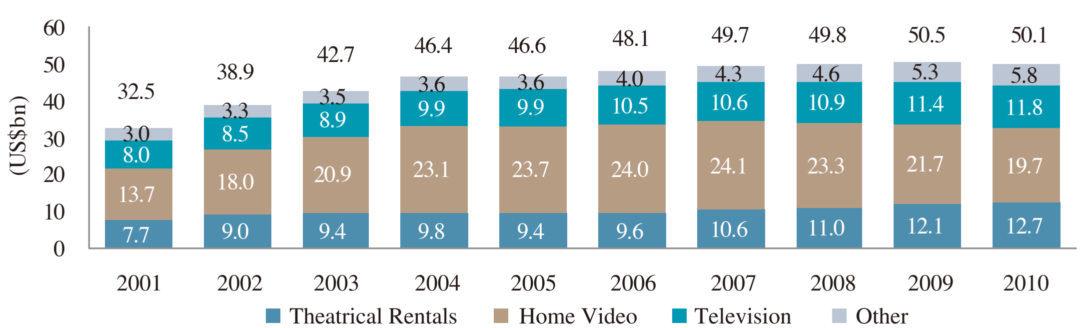
Distribution and revenue sources

The US theatrical release of a film is typically the first window of distribution and of revenue and is a key driver of the revenue windows to follow. The international theatrical release generally occurs simultaneously with the US release or within a short period of time after that. Typically, the vast majority of film revenues in their first cycle are received within the first eighteen months of release. For the home video market including VOD and PPV, revenues typically begin about three to six months after the theatrical release of the film. The initial television window typically begins approximately twelve to eighteen months after the U.S. theatrical release and lasts about six months, with all cash revenue from this market occurring in that time period. The network television market, if any, follows the pay television market. Inflows from network television, if any, typically last from the twenty-fifth month to the sixtieth month for theatrical release. Traditionally, the final market to be exploited is worldwide television syndication.

Global motion picture revenue by distribution channel

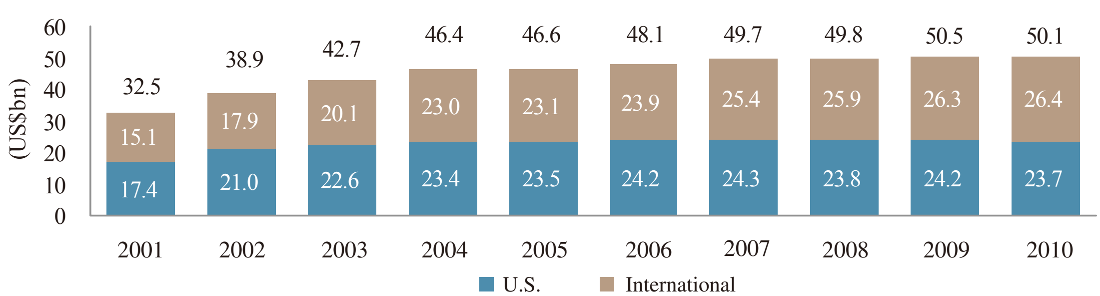
According to SNL Kagan, an independent third party research house in the U.S., total worldwide revenue related to the production, distribution, and exploitation of motion pictures was approximately US$50.1 billion in 2010. This represented a CAGR of 4.9% from US$32.5 billion in 2001. While total industry revenue has been relatively flat over the past four years, growth in the areas of theatrical rentals, television, and other including digital, has offset declines in the home video market. It is expected that this trend will continue.

Table 3 – Breakdown of total worldwide revenue of motion pictures by source



Source: Derived from SNL Kagan, 2011

Table 4 – Geographic breakdown of total worldwide revenue of motion pictures



Source: Derived from SNL Kagan, 2011

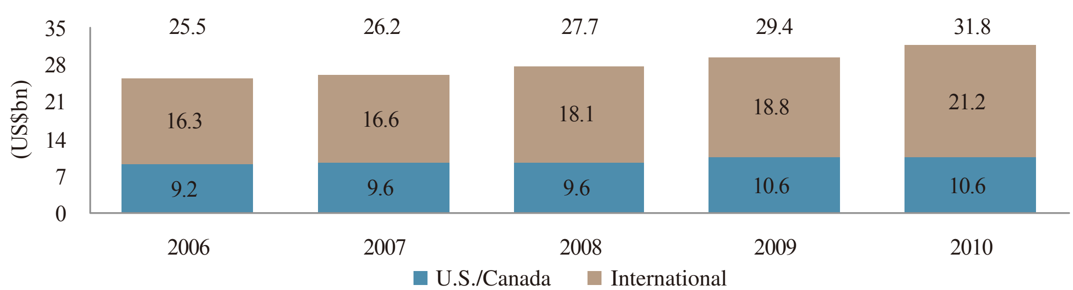
Individual revenue sources

(i) Theatrical distribution

The box office performance of a picture is often critical to its value and success in all other future markets. Theatrical distribution and marketing of motion pictures involves licensing the right to exhibit motion pictures on a rental basis to theatres, the creation and dissemination of advertising and publicity, accounting, billing, credit and collection, the manufacture, inspection and dissemination of prints used in exhibition, and the maintenance, delivery, storage, inspection and repair of such prints. Broadband delivery of digital copies of films is growing rapidly. Generally, distributors and exhibitors, (being theatre owners) will enter into agreements whereby the exhibitor retains a portion of the "gross box office receipts," which are the admissions paid at the box office. The balance, often referred to as "film rentals" or "theatrical rentals", is remitted to the distributor.

According to the Motion Picture Association of America's U.S. Theatrical Market Statistics 2010, domestic box office, which includes the U.S. and Canada, repeated its peak 2009 performance, reaching US$10.6 billion in 2010, up 15% over the past five years. As in 2009, the 3-D market was again a key growth driver, 21% of 2010 domestic box office, or US$2.2 billion, came from 3-D showings, nearly double the 2009 total. Worldwide box office also reached an all time high of approximately US$31.8 billion in 2010, compared to approximately US$29.4 billion in 2009, an 8% increase.

Table 5 – Worldwide box office



Source: Derived from MPAA, Theatrical Market Statistics 2010

(US$bn)	2006	2007	2008	2009	2010	% Change 10 vs. 09	% Change 10 vs. 06
U.S./Canada [1]	9.2	9.6	9.6	10.6	10.6	–	15%
International [2]	16.3	16.6	18.1	18.8	21.2	13%	30%
Total	**25.5**	**26.2**	**27.7**	**29.4**	**31.8**	**8%**	**25%**

Source: Derived from MPAA, Theatrical Market Statistics 2010

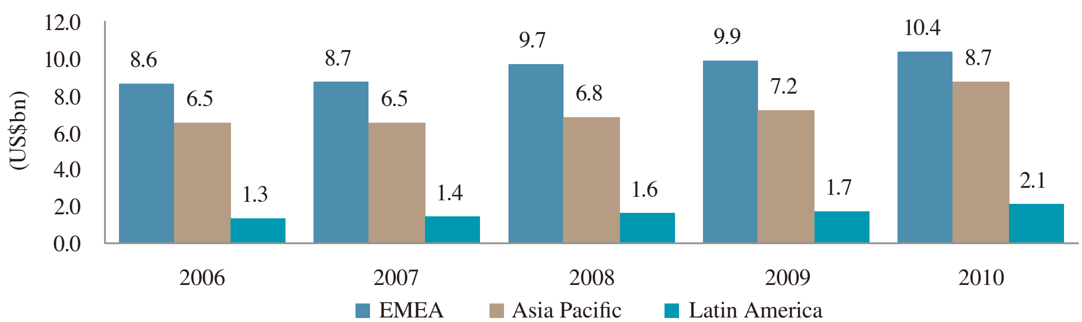
Notes:

1 Rentrak Corporation—Box Office Essentials. Includes box office generated during the calendar year from 1 January 2010 to 31 December 2010

2 MPAA calculates international box office country-by-country based on a variety of data sources, including Rentrak Corporation, local sources, Screen Digest, and others. 2009 international box office was revised due to a change by a source

International box office (US$21.2 billion) contributed 67% of the 2010 worldwide total, while U.S. box office (US$10.6 billion) contributed 33% of the 2010 worldwide total, a proportion consistent with the last several years. As a result of significant growth in Asia Pacific (21%), in 2010, for the first time, Europe, the Middle East and Africa represented less than half (49%) of total international box office value.

Table 6 – International box office by region



(US$bn)	2006	2007	2008	2009	2010	% Change 10 vs. 09	% Change 10 vs. 06
EMEA	8.6	8.7	9.7	9.9	10.4	5%	21%
Asia Pacific	6.5	6.5	6.8	7.2	8.7	21%	34%
Latin America	1.3	1.4	1.6	1.7	2.1	24%	62%
Total	**16.3**	**16.6**	**18.1**	**18.8**	**21.2**	**13%**	**30%**

Source: Derived from MPAA, Theatrical Market Statistics 2010

(ii) Digital and 3D

While total worldwide cinema screens have remained constant at just under 150,000 screens over the past five years according to the MPAA, digital screens have increased dramatically. More than 36,000 screens, nearly one-quarter of the total, are now digital, and over 60% of digital screens are now 3D-capable. In 2010, the number of digital screens globally increased by 122%; growth was generally consistent across all regions – as each region more than doubled its digital screen count. The fastest growing sector of digital screens is 3D. The number of digital 3D screens worldwide more than doubled in 2010, reaching 21,936, or about 15% of screens in the world. The proliferation of 3D screens is expected to contribute to the growth in overall box office as the occurrence of multiple 3D releases in a single week becomes more common.

Table 7 – Number of worldwide digital 3D screens

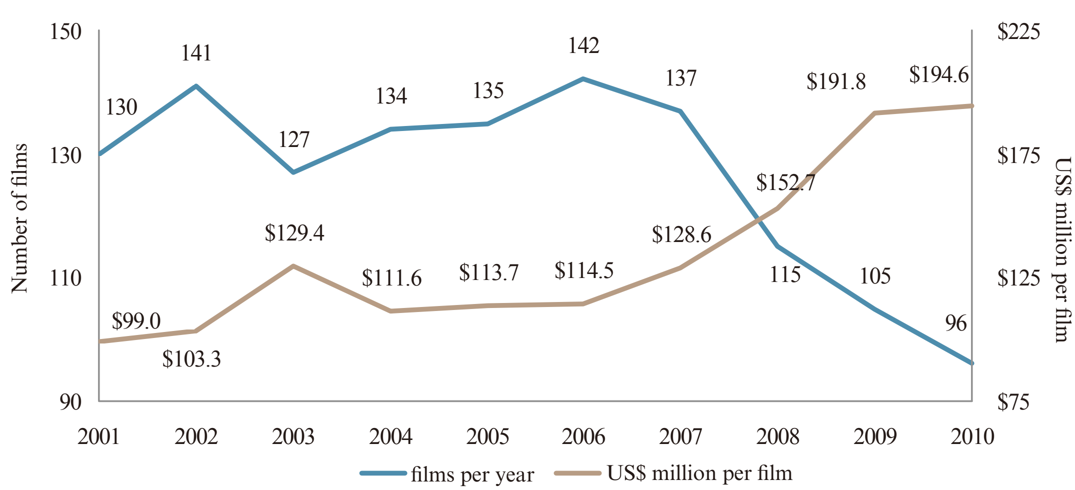
	2006	2007	2008	2009	2010	% of Digital screens
U.S./Canada	206	994	1,514	3,548	8,459	51%
EMEA	12	211	594	3,485	7,909	76%
Asia Pacific	35	80	344	1,584	4,498	56%
Latin America	5	14	91	362	1,070	91%
Total	**258**	**1,299**	**2,543**	**8,979**	**21,936**	**61%**
% Change vs. Previous Year	**207%**	**403%**	**96%**	**253%**	**144%**	**–**

Source: Derived from MPAA, IHS Screen Digest

Tent pole pictures are driving revenue for major studios[1]

According to SNL Kagan data, worldwide box office per film has been steadily increasing for films produced by major studios. While film budgets, as shown by negative costs, have increased from US$41.6 million per film in 2001 to US$72.3 million per film in 2010, worldwide box office per film has increased by 97% to US$194.6 million per film in 2010 from US$99.0 million per film in 2001. Over that same period of time, total worldwide revenue for films produced by major studios, including home video and television, has increased from US$166.7 million per film to US$262.1 million per film, an increase of 57%.

Table 8 – Major studios worldwide box office per film[1] (US$ million)



Source: Derived from SNL Kagan

Note:

1 Major studios in this analysis include Dreamworks, Disney, Paramount, Warner Bros, Sony, Fox, MGM and Universal.

(iii) Home video

Home entertainment distribution involves the marketing, promotion and sale and, or, lease of DVDs and blu-ray discs to wholesalers and retailers who then sell or rent the DVDs and blu-ray discs to consumers for private viewing, and increasingly through a broad range of various digital media platforms. The table below provides a description of historical and projected home video trends. Major feature films are usually scheduled for release in the domestic home video market within three to six months after domestic theatrical release to capitalize on the theatrical advertising and publicity for the film. Internationally, the release date can vary significantly, but is generally within four to twelve months following domestic theatrical release.

Table 9 – Home video revenue streams

(US$ million)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR (%)
Domestic Home Video	8,270	10,792	12,060	12,410	12,298	12,515	12,056	11,385	10,387	9,275	1.3
International Home Video	5,459	7,226	8,840	10,706	11,380	11,505	12,092	11,903	11,280	10,467	7.5
Total	**13,729**	**18,018**	**20,900**	**23,116**	**23,678**	**24,020**	**24,148**	**23,288**	**21,667**	**19,742**	**4.1**

Source: Derived from SNL Kagan, 2011

(iv) VOD and digital distribution

VOD allows consumers to view a film or television programme whenever they choose, or "on demand". Unlike PPV, VOD offers viewers the ability to pause, rewind and fast-forward programmes that they rent for a period of up to 24 hours. It is reasonable to expect VOD to continue to grow, as pay TV VOD options continue to develop and gain popularity with consumers.

Digital distribution typically involves delivering content by streaming or downloading to consumer devices such as televisions, personal computers and mobile devices. Digital media is beginning to gain scale as consumers are watching less traditional television and, instead, are watching content on personal computers and mobile devices, and hooking devices to their televisions and streaming video directly to their television. Digital distribution is expected to grow, as the majors become more comfortable with the digital downloading and streaming of their films over the internet through websites such as Hulu, Netflix, and iTunes.

(v) Television

In general, films are distributed in television markets throughout the world either through output agreements or on a film-by-film basis. Output agreements generally involve a film studio and a pay cable or satellite network operator agreeing that all eligible films produced by the film studio will be licensed to the network for exhibition a certain number of times during the licence period. In addition, television networks, independent television networks, television stations and basic cable system operators generally license television series, individual films and film packages, consisting of theatrically released feature films and made-for-television movies, pursuant to agreements with distributors or syndicators that allow broadcasting over a prescribed period of time for a specified cash licence fee and, or, for barter of advertising time. The licence fees vary based on factors including the theatrical performance of a film, subscriber counts of pay cable services and, or, local theatrical admissions in territories outside the U.S.

PPV – PPV television allows cable and satellite television subscribers to purchase individual programmes, including recently released films and live sporting, music or other events, on a "per use" basis. Subscriber fees are typically divided among the programme distributor, the PPV operator and the cable or satellite system operator.

U.S. pay television – U.S. pay television allows subscribers to view premium channels such as Home Box Office ("HBO"), Cinemax, Showtime, The Movie Channel and StarzEncore Group that are offered by cable and satellite network operators for a monthly subscription fee. The pay television networks acquire a substantial amount of their programming from the major studios. Most film studios have negotiated output agreements with the major subscription pay services whereby the service provider licenses for distribution all eligible films from the studio for a guaranteed fee typically dependent on domestic theatrical performance.

International pay television – Pay television is offered internationally to over 150 countries worldwide and is generally distributed via cable and, or, satellite for a monthly subscription fee, as it is in the U.S. Although these international pay television services acquire locally produced motion pictures, the viability of their movie channels is dependent to varying degrees upon access to Hollywood films. Virtually all of the major international pay television services have licensing arrangements, either on an output, volume or package basis, with multiple, if not all, major U.S. motion picture studios. In the major European Union countries, licence fees are based on local theatrical admissions. The majority of pay television licence agreements throughout the rest of the world tend to be based on U.S. theatrical performance. In those regions of the world comprised of smaller countries, such as Latin America, the Middle East and Southeast Asia, pay television services are generally offered on a pan-regional basis by two competing services per region.

U.S. broadcast and basic cable television – U.S. broadcast television allows viewers to receive, without charge, programming broadcast over the air by affiliates of the major networks, being Amercian Broadcasting Company ("**ABC**"), Broadcasting Inc. ("**CBS**"), National Broadcasting Company ("**NBC**") and Fox, other networks such as the CW Television Network, independent television stations and cable and satellite networks and stations. In certain areas, viewers may receive the same programming via cable transmission for which they pay a basic cable television fee. Broadcasters or cable system operators pay fees to studios for the right to air programming. Unlike PPV and pay television, broadcast and basic cable networks typically acquire motion pictures more selectively, licensing individual films or small packages of films rather than negotiating more expansive output agreements.

(vi) Non-theatrical rights

In addition to the distribution media and markets described above, the owner of a film usually licenses the right to non-theatrical uses to distributors who in turn make the film available to airlines, hotels, schools, oil rigs, public libraries, prisons, community groups, the armed forces, ships at sea and others, which generally constitute small portion of the revenue.

(vii) Ancillary rights

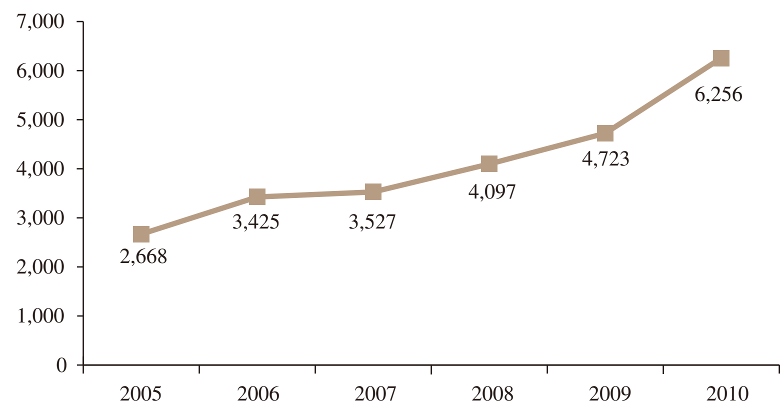
Ancillary rights to a motion picture can be exploited as well to increase revenues derived from a film. Usually the copyright to the score of the picture is retained by the financier, which generates public performance income from the distribution of the film on television in the U.S. and from the theatrical and television exploitation of the film internationally. Furthermore, rights may be licensed to merchandisers for the manufacture of products such as video games, toys, t-shirts, posters and other merchandise based on the film. Rights may also be licensed for novelisation of the screenplay and other related book publications.

B. CHINA FILM INDUSTRY OVERVIEW

Overall market

For the year ended 2010, box office in the PRC recorded a historical high of over RMB10.2 billion, representing a 64% year-on-year ("**YoY**") growth. Total number of screens in 2010 also increased by more than 32% to 6,256. A total of 313 new movie theatres were built in 2010 accounting for an additional 1,533 new screens, an average of 4.2 new screens per day.

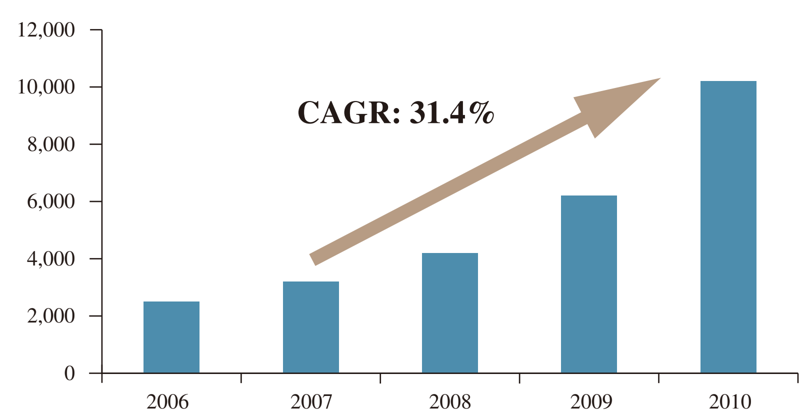
Table 1 – Urban movie screens growth 2005-2010 (number of screens)



(Source: Derived from China Film Association: 2010 Chinese Film Market Review)

It is estimated that annual box office revenue in the PRC will reach RMB31 billion, equivalent to approximately US$4.87 billion in 2015 representing an industry CAGR of 26.6% from 2010. Historically, box office revenue has grown at a CAGR of 31.4% from RMB2.6 billion in 2006 to RMB10.2 billion in 2010.

Table 2 – Box office revenue in the PRC (RMB million)



(Source: Derived from China Film Association: 2010 Chinese Film Market Review)

It is expected that this growth in the PRC film industry will be driven by the opening of more cinemas to meet increasing demand. 8,000 new screens are expected to be added from 2010 to 2015. Even with this tremendous growth in screens, it is estimated that admissions per person in the PRC in 2015 will only be 0.43 versus the U.S. (4.3), Japan (1.4), Hong Kong (3.2), Taiwan (1.2) and India (2.6) signifying tremendous capacity for continued box office growth.

It is expected that this proliferation of screens will continue to contribute to setting new records for box office in the PRC and the number of blockbusters with a box office over RMB1 billion will increase. Given this expectation, the production budget for Chinese domestic movies which currently averages at around RMB5 million per film, is growing to an average of RMB30 million per film and even to as much as RMB100 million per film. This increased profitability from films is expected to benefit producers the most as they will be able to take advantage of an increasingly sophisticated market chain of cinemas, television, mobile, theme parks, toys, games and other forms of distribution mechanism.

Table 3 – Top 10 films in the PRC by box office (2010)

Title	Box office (RMB million)	Production Companies
Avatar	1,382	Fox, Lightstorm Entertainment, in association with Dune Entertainment and Ingenious Film Partners
Aftershock	673	Tangshan City Government, China Film Group, Huayi Brothers, in association with Shanghai Film Group, Zhejiang Television, Media Asia Films and Emperor Motion Pictures
Inception	460	Warner Brothers Pictures, Syncopy, in association with Legendary
Let the Bullets Fly	480	Beijing Bu Yi Le Hu Film Company, China Film Group, Emperor Motion Pictures
If You Are The One 2	335	Beijing Fengxiaogang Film & Culture Studio, China Film Group Corporation, China Film Group, Universal Hot Bros. Film & Music Co., Emperor Motion Pictures, Huayi, Zhejiang Film & Video Corp
Detective Dee and the Mystery of the Phantom Flame	292	China Film Co-Production Corporation, Huayi, Huayi Brothers
Ip Man 2	234	Henan Film & TV Production Group, Henan Film Studio, Mandarin Films Distribution Co., Beijing ShengShi HuaRei Film Investment & Management Co., Foshan Pearl River Media Group, Desen International Media, Star Union Skykee Film Investment Co, Teng Yuan Film & TV Media, Beijing Baron Stars Culture Media, Shenzhen Haiguchi Investment, Beijing Xinyinglian Cinema Circuit
Alice in Wonderland	234	Walt Disney Pictures, Roth Films, Team Todd, The Zanuck Company
The Expendables	219	Millennium Films, Nu Image, Rogue Marble
Harry Potter and the Deathly Hallows: Part I	213	Warner Bros, Heyday Films

(Source: Derived from China Film Association: 2010 Chinese Film Market Review)

Imported films

In general, only about 20 foreign movies are allowed into the PRC on a revenue-sharing basis each year through only authorised distributors, namely China Film Group Corporation and Huaxia Film Distribution Co., Ltd. (the "Quota system"). For a movie imported on revenue-sharing basis, the foreign producer usually shares about 13% of the box office. China also imports foreign films on a flat-rate basis each year, under which film owners will sell the China distribution right to authorised distributors at a flat rate (the "Flat-rate system"). Foreign films under both the Quota system and the Flat-rate system have to pass a censorship review.

Despite import restrictions, the PRC is fast becoming a major overseas market for Hollywood filmmakers. For instance, revenues from the PRC exceeded that for Japan and accounted for US$204 million of the US$2.8 billion global box office revenue for James Cameron's recent hit, the 3D sci-fi epic "*Avatar*". Amongst the top 10 foreign films by box office in 2010, all films were imported under the Quota system, with the exception of "*The Expendables*", which was imported under the Flat-rate system.

Table 4 – Top 10 foreign films in the PRC by box office (2010)

Title	Box office (RMB million)	Production Companies
Avatar	1,382	Fox, Lightstorm Entertainment, in association with Dune Entertainment and Ingenious Film Partners
Inception	460	Warner Brothers Pictures, Syncopy, in association with Legendary
Alice in Wonderland	234	Walt Disney Pictures, Roth Films, Team Todd, The Zanuck Company
The Expendables	219	Millennium Films, Nu Image, Rogue Marble
Harry Potter and the Deathly Hallows: Part I	213	Warner Bros, Heyday Films
Iron Man 2	179	Paramount, Marvel Entertainment, Marvel Studios, in association with Fairview Entertainment
Clash of the Titans	176	Warner Bros, Thunder Road Pictures, The Zanuck Company, in association with Legendary
Prince of Persia: The Sands of Time	163	Walt Disney Pictures, Jerry Bruckheimer Films
Resident Evil: Afterlife	138	Constantin Film Produktion, Davis-Films, Impact Pictures
Toy Story 3	120	Pixar Animation Studios, Walt Disney Pictures

(Source: Derived from China Film Association: 2010 Chinese Film Market Review)

Apart from imported movies, foreign producers may also co-produce with local producers in the PRC. Such co-production is not subject to the import quota if they qualify as co-production projects under the relevant regulations. These movies capture the creativity and expertise of both the local and foreign producers. Local production including co-production movies accounted for 55% of 2010 total box office.

Sino-foreign co-production

A Sino-foreign co-production is a contractual arrangement between a foreign party and a Chinese party to conduct filming in the PRC. There may be multiple parties on each side, provided that the lead Chinese party or parties must be a production entity or entities that have obtained the applicable Film Production Licences from SARFT. For the purposes of Sino-foreign co-production, investors or producers from Hong Kong and Macau and the territory of Taiwan are considered as overseas parties. The economic split between distributor and producer for Sino-foreign co-productions is on a negotiated basis and generally this split gives foreign producers a larger share than movies imported under the quota system. The following table illustrates the top 10 local films by box office and highlights those that are co-productions.

Table 5 – Top 10 local films in the PRC by box office (2010)

Title	Box office (RMB million)	Production
Aftershock	673	Co-production (Huayi Group)
Let the Bullets Fly	480	Co-production
If You Are The One 2	335	Co-production (Huayi Group)
Detective Dee and the Mystery of the Phantom Flame	292	Domestic (Huayi Group)
Ip Man 2	234	Co-production
Sacrifice	188	Domestic
Little Big Soldier	162	Co-production
Just Call Me Nobody	154	Domestic
Hot Summer Days	147	Co-production
14 Blades	145	Co-production

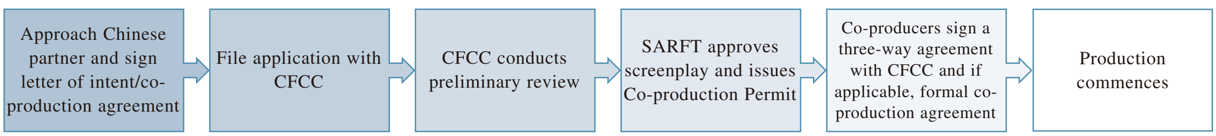
(Source: Derived from China Film Association: 2010 Chinese Film Market Review)

C. REGULATIONS FOR FILM INDUSTRY IN THE PRC

Regulations on co-production

Procedures for approval of a co-production project

A Sino-foreign co-production film project may only formally commence upon obtaining SARFT's approval, which is in the form of issuance of the Permit for Chinese-foreign Co-Production of Film (a "**Co-Production Permit**"). The process is as follows:



Procedures for censorship review of the completed film

Once post-production is completed, the completed film must be submitted to SARFT for censorship review. Films that pass censorship review may be released within and, or, outside of the PRC. However, if the completed film fails to pass censorship review, such film cannot be released anywhere in the world.

Procedures for conducting post-production overseas

If the post-production and print development for a co-produced film needs to be conducted outside the PRC, the parties must apply in advance for approval.

Procedures for participating in film festivals

A joint production, if it passes censorship review can participate in any overseas film festivals provided that the plan to participate in any overseas film festival is reported to SARFT 20 days in advance for filing purposes.

Qualification

Regardless of the type of co-production, the key to structuring a Sino-foreign co-production is the participation of one or more qualified PRC production entities accredited by SARFT, such as Huayi Brothers.

Mode of co-production

Under the current regulatory regime, there are three modes of co-production which are joint production, assisted production and commissioned production. Joint production and assisted production are the two more common modes of co-production:

Joint production	This is where the PRC and foreign parties jointly invest in and produce the film, and share the copyright subsisting in the film and risks and profits from the project. Joint production is by far the most popular mode of co-production and Chinese elements usually feature prominently in the film. In fact, it is a requirement that Chinese cast constitute at least one-third of the main cast members. Joint productions are regarded as domestic films and can be directly released in the PRC after they are completed and passes censorship review. Joint productions can also enter into the Huabiao Awards (Chinese governmental awards) for the 'best co-production film' prize.
Assisted production	This is where the foreign party provides the capital and the PRC party provides assistance in regard to matters such as equipment, facilities, location and labour in return for a fee. The product of an assisted production is owned by the foreign party and the film cannot be released in the PRC unless it is imported by an authorised import agent such as China Film Group Film Import & Export Corporation, a subsidiary of China Film Group Corporation.

Regulations on film industry

A company's operations in the film industry are mainly regulated by the Film Administrative Regulations, or the Film Regulations, effective on 1 February 2002, the Interim Provisions on the Qualifications for a Film Enterprise's Access to Commencement of Operation, or the Film Enterprise Qualification Provisions, effective on 10 November 2004, the Provisions on the Filing of Film Scripts (Abstracts) and the Administration of Films, or the Film Filing Provisions, effective on 22 June 2006, if such company ever engages in co-production with foreign co-producers, the Regulations on the Sino-foreign Cooperation in Film Production, or the Sino-foreign Co-Production Regulations, effective on 10 August 2004, and other rules and regulations issued based on the foregoing regulations. Pursuant to those regulations, production, distribution, exhibition and import of films are subject to special licenses or permits issued by the SARFT and, or, its local counterparts as follows: (a) Film Production License or Film Production License (Single Film), as applicable, for production of films in the PRC; (b) Co-Production Permit for joint production of films by PRC and foreign entities (an approval document will be granted for the other modes of Sino-foreign co-production of films); (c) Film Distribution License for distribution of films; (d) Film Exhibition License for exhibition of films; and (e) Permit for Film Public Screening for any film exhibited in, imported into or exported out of the PRC. The issuance of the licences and permits represents SARFT's approval of the content following its censorship review of the applicable film.

Regulations on film production and intellectual property rights of films produced in the PRC

Pursuant to the Film Regulations and the Film Enterprise Qualification Provisions, production of films in the PRC requires either a Film Production License or a Film Production License (Single Film). The Film Production License (Single Film) is granted on a film-by-film basis and needs to be returned to SARFT when a Permit for Film Public Screening is issued. A company will not be qualified for a Film Production License unless it has produced two or more films under Film Production Licenses (Single Film). A Film Production License is subject to inspection by SARFT every two years. In practice, SARFT issues Film Production Licenses with an effective term of two years and application for extension of the term must be made to SARFT before expiration of the term. A duly approved film producer may produce film(s), make copies of, distribute within the PRC and export film(s) produced by it subject to relevant laws and regulations. In accordance with the PRC Copyright Law, effective on 1 June 1991 and last amended on 26 February 2010, film producers own the copyright to the films produced by them, while playwrights, directors, cinematographers, lyricists, composers and other authors enjoy the right of authorship and are entitled to receive remuneration pursuant to the contract concluded with the producers. Authors of film scripts, musical works and other works that are included in a film and that can be separately exploited are entitled to exercise their copyright to such works independently.

Under the Film Regulations and the Sino-foreign Co-Production Regulation, no organisations or individuals from abroad may independently make films within the PRC and cooperation between any PRC entity and any foreign entity in film production inside the PRC is subject to the approval of SARFT on a film-by-film basis. Only PRC producers with a Film Production License or a Film Production License (Single Film) may cooperate with foreign producers in a film production. Approval by SARFT will be evidenced by a Co-Production Permit for a joint production project or an approval certificate for the other two forms of co-production. A Co-Production Permit has an effective term of two years.

Regulations on film distribution

Pursuant to the Film Regulations and the Film Enterprise Qualification Provisions, distribution of films in two or more provinces, autonomous regions, and, or, municipalities directly under the central government requires a Film Distribution Licence issued by SARFT and distribution of films within one province, autonomous region, and, or, municipality directly under the central government may be approved by the local counterpart of SARFT in such region at the provincial level. Film Distribution Licences issued by SARFT are subject to inspection by SARFT every two years and those issued by the local counterparts of SARFT at the provincial level are subject to inspection annually. In practice, Film Distribution Licenses issued by SARFT will generally have an effective term of two years and application for extension of the term must be made to SARFT before expiration of the term. Distribution of foreign films is subject to special approval by SARFT. Currently China Film Group Corporation and Huaxia Film Distribution Co., Ltd. are the only two enterprises which are licensed to distribute foreign films in the PRC.

Film distributors may not distribute any film that has not received a License for Film Public Screening. Under current PRC regulations, film distributors must distribute films to theatre circuits instead of individual movie theatres.

D. BUSINESS PLAN

1. Introduction

Legendary East is to be a joint venture between affiliates of Legendary, a leading film production and finance company based in Burbank, California U.S. and Huayi, a subsidiary of Huayi Brothers, a leading Chinese motion picture production and distribution company based in Beijing, China. It has been formed to develop and produce films based on Chinese history, mythology and, or, culture intended to be distributed worldwide to a global audience. Legendary East will focus on developing and producing world-class English-language films aimed at mainstream audiences with a targeted focus on the "fanboy" demographic. The fanboy audience is treated as comprising high frequency movie-goers who often see films multiple times in the theatre and purchase related merchandise (such as DVDs, video games, social media usage and other merchandise). Legendary is a leading content company primarily engaged in the development, production and financing of feature films. Legendary focuses on franchise building, tentpole films. Legendary was founded in 2004, and since then it has co-produced and co-financed 22 films that have generated approximately US$5.9 billion in worldwide box office receipts. Legendary owns in perpetuity, together with Warner Bros, a film library featuring several of the most recognised films in mass market entertainment, including *Batman Begins* and *The Dark Knight, Superman Returns, The Hangover Parts I and II*, *300, Clash of the Titans* and *Inception*.

Legendary East combines Legendary's experience in producing and financing large-budget "tentpole" motion pictures, its proven broad relationships throughout the Hollywood creative community, and its ability to select and develop mythology-related content with Huayi Group's physical production and extensive distribution capabilities in China. Legendary East's goal is to become the leading producer of motion pictures based upon Chinese cultural content for exploitation throughout the world. It is anticipated that Legendary East will be headquartered in Hong Kong.

Legendary East is initially planning to produce one to two films annually beginning in 2013. Depending upon available funding (which will likely depend upon, among other things, the performance of Legendary East's films) and the availability of appropriate projects to make into films, Legendary East anticipates that it may produce up to three films annually beginning in 2018. Production budgets per film are expected to be approximately US$50-$150 million, filmed predominantly in the English language and based upon the unique history, mythology and, or, culture of China. The films produced by Legendary East are intended to be structured so as to qualify as "Joint Productions" under applicable Chinese government regulations and, as a result, will not be subject to the annual quota imposed by the Chinese regulatory authorities that restricts the total number of imported non-Chinese produced films to only twenty per year and will be able to obtain more favorable economics than many foreign film companies. Pursuant to market distribution agreements, all films will be distributed by the Huayi Group in China and a top U.S. studio, expected to be Warner Bros in the U.S. and the rest of the world outside of China.

Huayi Group, a leading Chinese film conglomerate, has produced movies successfully in China and will be Legendary East's local co-production and distribution partner within China, as well as its strategic shareholder. In 2010, films produced by the Huayi Group received box-office sales of over RMB1.5 billion, or approximately 30% of box office sales from locally produced films in the PRC.

Legendary East has identified its first three films that are anticipated to be produced or co-financed. The first film that is in development and anticipated to be produced is *The Great Wall*. In addition, it is anticipated that Legendary East will be given the opportunity to invest and participate in a 25% stake in two upcoming Legendary productions, namely *Paradise Lost*, which is expected to start its principal photography in January 2012 and be released in 2013, and *Seventh Son*, which is expected to start its principal photography in March 2012 and be released in 2013. Both pictures are currently in pre-production stage, including but not limited to, casting, location scouting, visual effects preparation and set design.

Legendary East is the vision of Thomas Tull, Legendary's chairman and chief executive officer, who along with Hong Kong media and finance entrepreneur Mr. Wu, created the venture. Upon completion of the Transactions, Legendary East will be jointly held by Legendary and the JV Management Members (40.1%), PYE (50%) and Huayi (9.9%). AID Capital, through its investment vehicles, has entered into a subscription agreement to invest up to US$35 million in PYE, and will become a significant shareholder of PYE upon completion of the Placing.

2. Background on Legendary

Legendary is a leading content company primarily engaged in the development, production and financing of feature films. Legendary focuses on franchise building, tentpole films.

Legendary's films span multiple genres, including science fiction, action, comedy and animation, with a strong strategic focus on the "fanboy" demographic. Legendary's library titles have received 19 Academy Award nominations and 6 Academy Awards, as well as 2 Golden Globes. Legendary's films have all been produced and, or, distributed in partnership with Warner Bros since 2005, with whom Legendary has a multi-year production, financing and distribution agreement.

Management profiles of Legendary

- **Thomas Tull**, aged 41, is the founder, chairman and chief executive officer of Legendary. Mr. Tull has extensive experience in media, entertainment, and finance. He was president and a director of The Convex Group, an Atlanta – based investment company and venture fund from 2000 to 2003. He was also formerly the principal of Southeast Interactive Technology Funds.

- **Larry Clark**, aged 52, is the chief operating officer and chief financial officer of Legendary. Mr. Clark was formerly the chief financial officer of Creative Artist Agency, a major worldwide talent agency, from 2000 to 2003, senior vice president of corporate development department of Sony, a major studio in the U.S., from 1997 to 2000, and director of the Carlyle Group. Mr. Clark began his corporate finance career in Goldman Sachs Group Inc. and Salomon Brothers.

- **Jon Jashni**, aged 48, is the president and chief creative officer of Legendary. Mr. Jashni has producer and executive producer credits on films that include *Shopgirl*, *Sweet Home Alabama, Anna and The King* and *The Hurricane*. Mr. Jashni was formerly the president of Hyde Park Entertainment, a film production and financing company, from 2002 to 2005, and a senior production executive at Fox, a major studio in the U.S., from 1995 to 1998.

- **Marlin Prager**, aged 39, is the senior vice president of the finance department of Legendary. Mr. Prager was formerly a partner in W-2 Films and an investment banker at Houlihan Lokey Howard & Zukin. Mr. Prager began his career as an accountant at the entertainment group of Price Waterhouse Coopers.

- **Matthieu Coppet**, aged 40, is the executive vice president of corporate strategy department of Legendary. Mr. Coppet was formerly a global media strategist and equity research analyst at UBS AG's Latin American media and cable team. Matthieu's research was ranked number one in the media sector by Institutional Investor magazine in 2004.

Selected performance of Legendary's films

The Hangover Part II:
- opening weekend (domestic): 3,615 theaters/US$86 million (3-day)/ US$135 million (5-day)
- US$581 million box office (US$254 million domestic/US$327 million international) (highest grossing R-rated domestic of all-time)

Inception:
- opening weekend (domestic): 3,792 theaters/US$63 million
- US$826 million box office (US$293 million domestic/US$533 million international)

Clash of the Titans:
- opening weekend (domestic): 3,777 theaters/US$61 million
- US$493 million box office (US$163 million domestic/US$330 million international)

The Hangover:
- opening weekend (domestic): 3,269 theaters/US$45 million
- US$467 million box office (US$277 million domestic/US$190 million international)

Batman – The Dark Knight:
- opening weekend (domestic): 4,366 theaters/US$158 million
- US$1,002 million box office (US$533 million domestic/US$469 million international)

300:
- opening weekend (domestic): 3,103 theaters/US$71 million
- US$456 million box office (US$211 million domestic/US$245 million international)

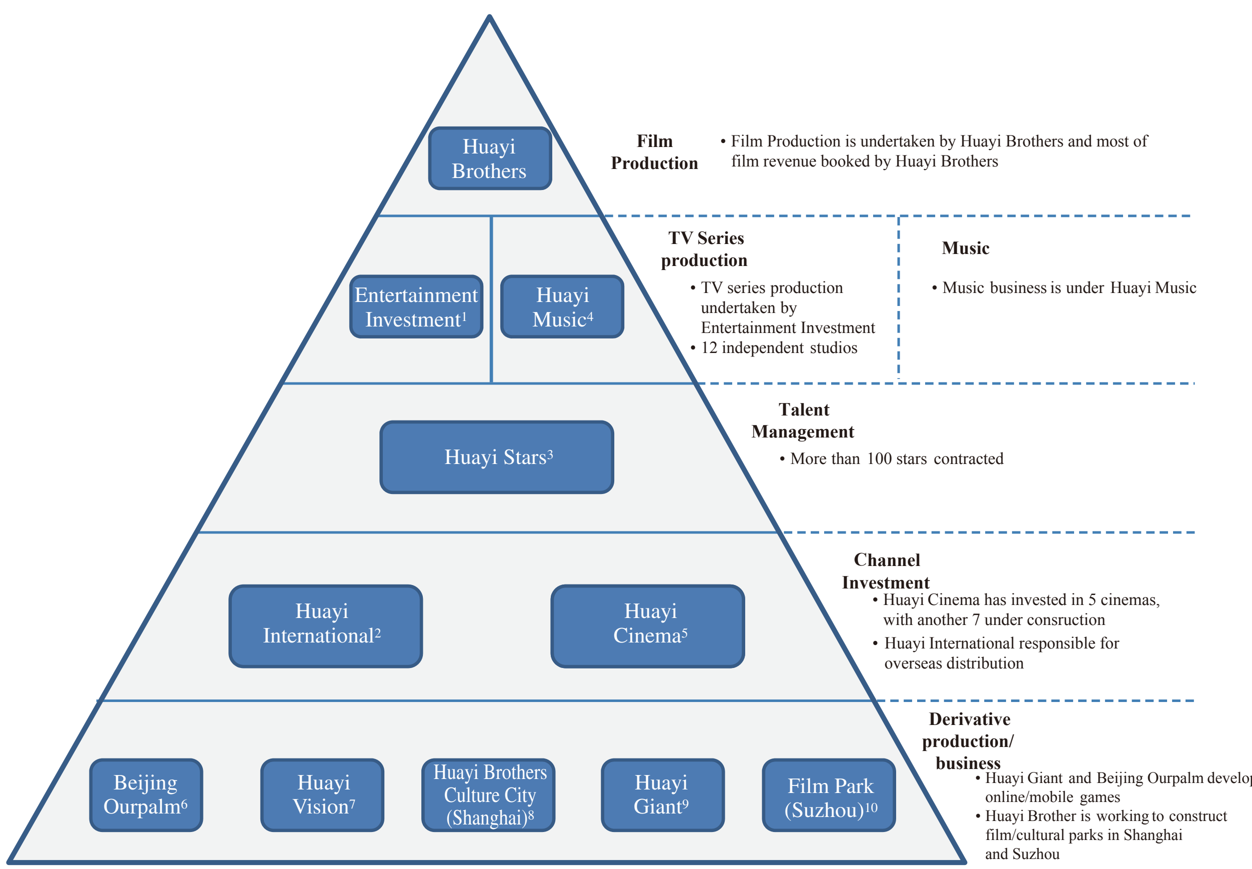
Superman Returns:
- opening weekend (domestic): 4,065 theaters/US$53 million
- US$391 million box office (US$200 million domestic/US$191 million international)

Note: In the above table, "domestic" includes both U.S. and Canada.

3. Background on the Huayi Group

Wang Zhongjun, Dennis and Wang Zhonglei, James are two of the founders of Huayi Group which has become one of the few entertainment groups in China that has a significant presence across all segments of the entertainment value chain (ie. content production, distribution channels and derivative products). This comprehensive coverage has allowed the Huayi Group to gain in excess of 10% market share of PRC's total box office in 2010. Huayi Brothers is the first media company listed on ChiNext of the Shenzhen Stock Exchange, China's growth enterprise market, on 31 October 2009 under the ticker 300027.SZ.

The Huayi Group's business structure



1. Beijing Huayi Brothers Entertainment Investment Co., Ltd.
2. Huayi Brothers International Co., Ltd.
3. Beijing Huayi Brothers Time Culture Broker Co., Ltd.
4. Beijing Huayi Brothers Music Co.,Ltd.
5. Huayi Brothers Cinema Investment Co., Ltd.
6. Beijing Ourpalm Science and Technology Co., Ltd.
7. Beijing Huayi Vision Media Advertising Co., Ltd.
8. Shanghai Jiahua Film and TV Culture Industry Development Co., Ltd.
9. Beijing Huayi Giant Information Technology Co., Ltd.
10. Huayi Brothers (Suzhou) Film Theme Park Co., Ltd.

Management profiles of Huayi Group

- **Wang Zhongjun, Dennis**, aged 51, is chairman of Huayi Brothers, director and general manager of 北京兄弟聯合投資有限公司 (Beijing Brothers United Investment Limited). Mr. Wang was one of the founders of Huayi Brothers. Mr. Wang was formerly a press photographer at 國家物資總局物資出版社 (Materials Press of the Administrative of State Materials), advertising manager of 中國永樂文化發展總公司 (China Paradise Culture Development Corporation) and was the chairman of 北京華誼兄弟影業投資有限公司 (Beijing Huayi Brothers Film Investment Co. Ltd.). Mr. Wang holds a master degree in mass media at the State University of New York. In addition, Mr. Wang was the producer of a number of films invested and produced by Huayi Brothers, including but not limited to, *《集結號》 (Assembly), 《唐山大地震》 (Aftershock), 《非誠勿擾》 (If You Are The One), 《狄仁傑之通天帝國》 (Detective Dee and the Mystery of the Phantom Flame)* and *《全球熱戀》 (Love in Space)*.

- **Wang Zhonglei, James**, aged 41, is a director of Huayi Brothers. Mr. Wang was also one of the founders of Huayi Brothers. Mr. Wang was the producer (制作人), planner (策劃人) and supervisor (監制) in many of the films produced and financed by Huayi Brothers, including but not limited to, *《夜宴》(The Banquet), 《天下無賊》(A World Without Thieves), 《功夫之王》(The Forbidden Kingdom) and《非誠勿擾》(If You Are The One)* since Huayi Brothers invested in its filmmaking business. Mr. Wang is currently the vice chairman of 首都廣播電視節目製作業協會(Capital Radio and TV Program Producers Association), and the vice chairman of 中國電影發行放映協會 (Distribution and Public Screening of Chinese Pictures Association).

- **Hu Ming, Brenda**, aged 40, is a director and secretary to the board of directors of Huayi Brothers. Ms. Hu was formerly the project manager of China TC group, financial manager of Beijing Price Smart, financial manager of Motorola (China) and financial manager of Linklaters (Beijing representative office).

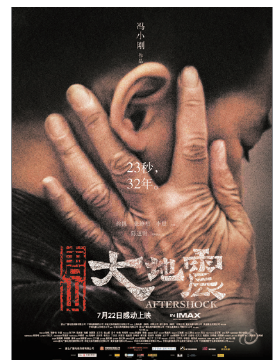
Film production

Huayi Brothers has produced a balance of art and commercial content making it one of the most successful domestic film production companies in China. At least one of the Huayi Group's movies has ranked among the top 10 box office movies in the PRC in recent years. In 2010, three of its movies were ranked in the top 10, altogether taking at least 10% of total box office market share. Based on domestic films with box office over RMB100 million over the past five years, at least 7 films were produced by Huayi Group. The Huayi Group produced six films including *Big Shot's Funeral, Cell Phone* and *Kung Fu Hustle* in cooperation with Columbia Pictures (Sony) from 2000-2004.

The Banquet
- Release date: 14 September 2006
- PRC box office: RMB130 million

If You Are The One
- Release date: 18 December 2008
- PRC box office: RMB325.3 million

The Message
- Release date: 29 September 2009
- PRC box office: RMB224.1 million



Aftershock
- Release date: 22 July 2010
- PRC box office: RMB673.3 million

2008-2011 Huayi Group's film track record

Title	Release Date	Box Office (RMB million)
集結號 *(Assembly)*	20 December 2007	249.8
功夫之王 *(The Forbidden Kingdom)*	22 April 2008	171.2
李米的猜想 *(The Equation of Love & Death)*	18 September 2008	11.0
非誠勿擾 *(If You Are The One)*	18 December 2008	325.3
游龍戲鳳 *(Look For A Star)*	26 January 2009	113.6
拉貝日記 *(John Rabe)*	29 April 2009	9.4
追影 *(Tracing Shadow)*	24 July 2009	13.6
風聲 *(The Message)*	29 September 2009	224.1
全城熱戀 *(Hot Summer Day)*	11 February 2010	132.9
諜海風雲 *(Shanghai)*	19 June 2010	46.5
唐山大地震 *(Aftershock)*	22 July 2010	673.3
綫人 *(The Stool Pigeon)*	24 August 2010	53.7
狄仁傑之通天帝國 *(Detective Dee and the Mystery of the Phantom Flame)*	29 September 2010	292.3
西風烈 *(Wind Blast)*	28 October 2010	69.8
非誠勿擾II *(If You Are The One II)*	22 December 2010	478.8
新少林寺 *(Shaolin)*	19 January 2011	208.4

Source: Huayi Brothers' records

The Huayi Group currently has 11 movies in the pipeline for release between 2011 and 2012

Title	Release date
全球熱戀 (Love in Space)	2011
開心魔法 (Kai Xin Mo Fa)	2011
星空 (Starry Starry Night)	2011
畫皮2 (Painted Skin II)	2012
LOVE	2012
太極拳 (Tai Chi)	2012
溫故1942 (Wen Gu 1942)	2012
十二生肖 (Chinese Zodiac)	2012
楊家將 (Saving General Yang)	2012
Unnamed Title A	2012
Unnamed Title B	2012

(Source: Huayi Brothers' records)

TV series production

Another major business of the Huayi Group is its operation in the TV entertainment industry. In 2011, the Huayi Group plans to distribute over 400 episodes. The Huayi Group uses 12 TV series production studios, each independent in their planning production and distribution functions giving the company a fast expansion capability and broad coverage in the TV industry.

Huayi Music

Huayi Music was established in 2004. Huayi Music has repositioned itself from traditional album business to live concerts and entertainment marketing. Huayi Music has entered into broker agreements with various Chinese artists. In addition, Huayi Music also provides theme music for Huayi films and TV series.

Talent management agency

Now, Huayi Group is one of the largest talent management agency in the PRC with over 100 artists under contract. The Huayi Group's abundant film and TV resources gives a significant advantage in offering artists opportunities and thus attracting more aspiring artists.

Film distribution

The Huayi Group distributes films domestically through its headquarters and internationally through its Hong Kong based subsidiary Huayi in relation to films that Huayi Brothers has international distribution rights.

Currently, the Huayi Group is a leading private film distribution company in the PRC.

4. Overview of the business model of Legendary East

Legendary East will develop, finance and produce motion pictures based on Chinese history, mythology and, or, culture, intended for a large scale audience and in the English language. Through a robust distribution and marketing infrastructure, to be provided by the Huayi Group and a major U.S. studio, expected to be Warner Bros, Legendary East expects to earn its revenue through the worldwide distribution and exploitation of Qualifying Films and Approved Co-financed Pictures pursuant to distribution agreements with the U.S. studio distributor and Huayi Group as well as other distribution mechanisms that may be determined to be appropriate in the future. Legendary East intends to distribute and exploit Qualifying Films through all customary channels of distribution and exploitation, including theatrical exhibition, non-theatrical exhibition, home video, pay-TV, broadcast television, digital distribution, and exploitation of ancillary rights through ancillary channels such as books, merchandising and soundtrack albums. All marketing and release costs are expected to be covered by the distribution partners, allowing Legendary East to produce and develop major studio films while operating with lower overhead costs.

Legendary East intends to draw upon the experience of Legendary, Huayi Group and its management in an effort to create or invest in high quality, commercially-viable pictures that are comparable in quality to typical, large scale, motion pictures that are exploited on a worldwide basis. Legendary East intends to develop a quality control system with respect to the production of Qualifying Films to ensure the quality of its Qualifying Films. In respect of the Approved Co-Financed Pictures, Legendary East will be a passive investor and will be relying upon others to control the quality of such Approved Co-Financed Pictures.

Legendary East is not required to obtain any material permits, approvals or licenses for the distribution of films produced by Legendary East as Legendary East will not act as distribution of its films.

Legendary East, as an offshore entity without business operation in the PRC, is not required to obtain any permits or licenses to prove its competency of PRC. Under the relevant PRC laws and regulations, the lead Chinese production party (i.e. Huayi Brothers or its subsidiaries) must obtain all requisite film production licences, as disclosed under the sections headed "Sino-foreign co-production" and "Regulations on film production and intellectual property rights of films produced in the PRC" as set out on pages 90 and 93 of this circular, respectively. Co-production permits are issued on a film-by-film basis and applications for each project would be made by the Huayi Group on behalf of Legendary East and itself, as disclosed under the sub-section headed "Co-production approval" as set out on page 103 of this circular.

Material duplication of production roles are not expected. Huayi Group will provide customary production services in the PRC, Legendary East will provide the same outside of the PRC and Legendary will provide production support on an overall basis. The scope of the services provided by each will be determined on a picture-by-picture basis with the goal of maximizing production quality and efficiency.

The extent of competition between Legendary East, Legendary and Huayi Group will be managed via the Legendary East Shareholders' Agreement. Legendary, Huayi Group and PYE are legally obligated, subject to certain exceptions, to conduct their business activities with respect to High Budget Chinese Co-Productions through Legendary East. Your attention is drawn to pages 28 and 29 of this circular for detailed information regarding "Exclusivity".

In addition, under the form of distribution agreement proposed to be entered into between Huayi Group and the relevant Legendary East production services company in respect of the distribution of each co-produced picture in the designated Huayi Territory, Huayi Group will undertake that it will not commence the theatrical release of any other Huayi Group's own motion pictures during the two weeks period prior to the initial theatrical release date of the Legendary East film in the PRC and continuing for two weeks thereafter.

It is intended that the combination of premium Chinese-themed intellectual property, and leading Western talent will be the foundation of Legendary East's success. Legendary East will look to extend Legendary's success in producing films in the mythology and hero genres to Chinese history and mythology, which offers over 5,000 years of distinctive history to draw from and which is expected to foster continued global interest in Chinese culture.

It is hoped the strength of Legendary's relationships within the U.S. creative community will provide access to top Western talent, which will be an important factor in achieving global commercial appeal. Similarly, the Huayi Group's reputation as a prolific Asian television and film studio, as well as its business relationships within the Chinese entertainment and media industry, will be a conduit for access to top Chinese talent.

A key aspect of Legendary East's proposed distribution arrangements will be the worldwide distribution capability expected to be afforded to Legendary East via Legendary's relationship with a major U.S. studio. The major U.S. studio maintains key relationships and equity interests in a number of domestic and international pay and cable network television channels, and the distribution services provided by the studio should allow Legendary East to benefit from favorable contractual agreements with exhibitors, channels, marketing service providers and retailers worldwide.

The model for films developed and produced by Legendary East is represented by the chart below:

Development

- Legendary East develops content internally
- Legendary East focuses on genre-specific films

Greenlight

- Legendary East independently evaluates each project and performs a risk/return analyses
- All projects greenlit by Legendary East will be co-produced by Legendary East and Huayi Group, other than selected third-party pictures approved for co-financing

Co-production approval

- the Huayi Group, on behalf of Legendary East and itself, submits co-production project to CFCC
- SARFT decides whether or not to approve the screenplay and issue a Co-Production Permit for the film
- Legendary East and the Huayi Group sign formal co-production agreement
- Legendary East and the Huayi Group enter into a three-way agreement with CFCC following receipt of the Co-Production Permit

Production	• Legendary East controls all aspects of production together with the Huayi Group • the Huayi Group provides production services in the PRC and Legendary East provides production services outside of the PRC • Legendary East and the Huayi Group co-finance production costs
Censorship review	• the Huayi Group, on behalf of Legendary East and itself, submits the completed film through CFCC to SARFT for review • SARFT decides whether or not to grant a Permit for Film Public Screening for the completed film, upon receipt of which, the completed film can be publicly exhibited and distributed in and outside the PRC
Release and marketing	• U.S. studio distributor and the Huayi Group finance all marketing expenditures in their respective territories • Legendary East has input on marketing and release issues • U.S. studio distributor and the Huayi Group manage exhibitor relationships
Distribution	• U.S. studio distributor and the Huayi Group distribute on a worldwide basis and receive a distribution fee • Legendary East benefits from the U.S. studio distribution output agreements such as the pay-TV output agreement • Legendary East and the Huayi Group receive their respective pro rata share of net worldwide proceeds

5. Development process

As a standalone entertainment company, Legendary East will be dedicated to creating feature film and related content for a worldwide audience. It is intended that the films will be distributed in all major markets, including China, Europe, Japan and the U.S., and will target expansion into all ancillary revenue streams, such as licensing and merchandising (where appropriate). Each film produced by Legendary East and its co-production partner will be required to satisfy the following criteria in order to be deemed as a "Qualifying Film" (unless otherwise approved by the greenlight committee):

- based on Chinese history, mythology and, or, culture;
- filmed predominantly in the English language;
- produced with a budget of not greater than US$150 million;
- is intended for wide theatrical release on a worldwide basis;
- has an anticipated runtime of at least seventy minutes (inclusive of main and end titles);
- distributed in accordance with distribution agreements with the Huayi Group and the major U.S. studio distributor, intended to be Warner Bros; and
- approved to qualify as a Joint Production.

Development projects

A key advantage of Legendary East's strategic relationship with Legendary is the access to world class talent and intellectual property. Legendary East aims to make movies that are comparable in quality, scope and global commercial attractiveness to their Legendary counterparts.

Films in development

Legendary East intends to co-finance and participate in a 25% equity stake in two Legendary films anticipated to be released in 2013 and currently has additional Legendary East pictures in development anticipated to be released in 2013 and beyond, including the following:

Title	Expected Release Date	Key Talent
The Great Wall	2013	Ed Zwick (writer/director), Marshall Herskovitz (writer)
Paradise Lost*	2013	Bradley Cooper, Ben Walker, Djimon Honsou, Alex Proyas (director)
Seventh Son*	2013	Jeff Bridges, Julianne Moore, Ben Barnes, Alicia Vikander, Sergei Bodrov (director)

* *Produced by Legendary*

THE GREAT WALL**:** Legendary East will finance and produce the picture. The script will be based on a story about the mystery behind China's greatest man-made structure. *The Great Wall* exemplifies the type of globally-appealing, commercial movie for which Legendary East aspires to become known. The film is anticipated to be directed by Ed Zwick and written by Mr. Zwick and Marshall Herskovitz. *The Great Wall* is anticipated to be produced by Thomas Tull and Jon Jashni as well as Atlas Entertainment's Alex Gartner and Chuck Roven who is a frequent producer on Legendary/Warner Bros films (currently in production on *The Dark Knight Rises* and *Man Of Steel*), and Zwick and Herskovitz.

Mr. Zwick directed, and Mr. Herskovitz and Mr. Zwick wrote and produced, *The Last Samurai*, a blockbuster hit that was nominated for four Academy Awards® and grossed US$435 million worldwide. Mr. Zwick also directed *Love And Other Drugs* as well as *Blood Diamond*, which was nominated for five Oscars®, and *Defiance* starring Daniel Craig. Mr. Zwick and Mr. Herskovitz were nominated for an Oscar for producing the hit film *Traffic*.

The budget of *The Great Wall* has not at this stage been finalised. *The Great Wall* is in development and has not gone through the greenlight process yet.

PARADISE LOST**:** *Paradise Lost* is anticipated to be a sprawling, action-heavy fantasy, based on the epic poem by John Milton, which centers on the war in heaven between archangels Michael and Lucifer. After being cast out of Heaven, Lucifer mounts an army that battles the forces of good. It is an adventure about the origins of good and evil after Lucifer's rebellion gets him cast out of Heaven and leads to a struggle with his brother archangel over the soul of mankind, starting with Adam and Eve. That is the scope of the narrative, and the film is expected to stay as faithful as possible to Milton's text, particularly its focus on Lucifer's evolution and the birth of evil. It is planned to be a family saga, about a group of brothers, two in particular, who are on divergent paths, and Lucifer's feelings of betrayal by his father and family that forge his descent into evil.

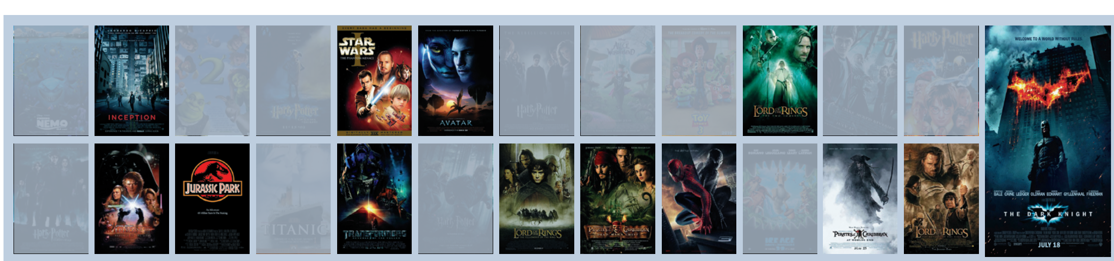
***SEVENTH SON*: *Seventh Son* is anticipated to be a dramatic fantasy adventure based on Joseph Delaney's young-adult novel *The Spook's Apprentice*, from his series *The Wardstone Chronicles*. The film tells the story of Thomas Ward, who is the seventh son of a seventh son and has been apprenticed to the local Spook. The job is hard, the Spook is distant and many apprentices have failed before. Somehow Tom must learn how to balance containing witches, binding boggarts, and falling in love. But when Mother Malkin, the most evil witch in the county returns, the Spook and Tom must battle against the dark in order to save the world as they know it.

The gross budgets for *Seventh Son* and *Paradise Lost* are currently expected to be approximately US$130 million and US$210 million, respectively. Such budgets have not been definitely determined and are subject to change.

Focus on the fanboy audience

As described above, Legendary East intends to focus on a specific demographic known as the fanboy audience to leverage the success and expertise of Legendary. Legendary's historical effectiveness in targeting this segment is demonstrated by the success of such films as *Inception, 300, Batman Begins, Clash of the Titans, The Dark Knight, The Hangover* and *The Hangover Part II*, which had wide audience acceptance and were also successful in appealing to fanboys.

Of the top 25 highest grossing films of all time[1] Legendary East perceives that approximately 12 of them (or approximately 48%) would be considered to fall into genres appealing to the fanboy demographic:



[1] *Source: Box Office Mojo*

Legendary East's targeted slate of films centre on leveraging the brand awareness of Legendary and the historic loyalty of the fanboy demographic. Further, this awareness and loyalty are factors which Legendary East believes contribute towards attracting top-tier talent, including actors, producers and directors.

Budgeting process for Qualifying Films

The budgets for Qualifying Films will be finalised once they are formally greenlit.

Development subsidiaries

Legendary East will have one or more subsidiaries, the "development subsidiaries", which will become signatories to the Writers Guild of America and any other applicable unions. These subsidiaries will enter into applicable writer agreements, rights acquisition and, or, option agreements and other development agreements and conduct other customary development activities with respect to projects intended to become Qualifying Films.

Development committee

The development committee established by Legendary East will be responsible for making all material development decisions, such as whether or not to:

– pursue a particular project for development;
– abandon development of a property; and, or,
– transfer or sell an abandoned property to an unaffiliated third party.

The development committee will have five members, three of which will be selected by Legendary, one by Huayi and one by PYE. All decisions of the development committee will be made by majority vote.

Ownership of development properties

Legendary East, or any of its subsidiaries, will own and control each development property until the property receives a "greenlight" by the greenlight committee or is otherwise sold or transferred by Legendary East.

Day-to-day operating process

Legendary East is anticipated to operate with an annual development budget of US$2.5 million (anticipated to cover the development costs of projects sufficient to result in one to three "greenlit" films per year). The development committee of Legendary East will have several functions, including:

- sourcing properties and material
- making talent and development recommendations including, the hiring of writers and engaging talent
- developing properties towards the greenlighting process
- optimizing the commercial aspects of each picture

During the development process, Legendary East as necessary in conjunction with the Huayi Group will:

- assess the Chinese-themed nature of a property;
- discuss with the principal creative personnel in China; and
- devise and navigate a roadmap for co-production with a view to cultural sensitivities.

Greenlight committee

Legendary East will establish a "greenlight committee", which will be responsible for, amongst other things, evaluating each project developed by Legendary East to:

- determine whether such project is or will be a Qualifying Film; and
- make the final determination as to whether such project should be green-lit for production.

Legendary East will have a disciplined approach to executing its business plan. Prior to the "greenlighting" of a film for production, Legendary East will evaluate a film's risk/return profile, including expected production and marketing budgets and the franchise potential of any individual title. Legendary East will then match that financial profile to its strategic and creative vision before proceeding to production.

Greenlit films will then be co-produced by Legendary East and the Huayi Group, both of which will fund an agreed-upon portion of the production budget and be entitled to a corresponding percentage of worldwide profits.

Legendary East will perform rigorous analysis associated with the greenlight process. In order for a film to be greenlit, it must pass several qualitative and quantitative considerations, including product, competition, revenue, cost, financial analysis and risk/reward.

The greenlight committee will have five members. Legendary will appoint three of the members while each of Huayi and PYE will appoint one.

The greenlight committee will strive to achieve unanimity when deciding to greenlight a project for production. In cases where there is no unanimity, a simple majority of the members of the greenlight committee will prevail. However, in those instances where a project does not meet the requirements of a Qualifying Film, the unanimous vote of the greenlight committee will be required to greenlight it. Should the picture then receive greenlight, it will receive Qualifying Film status.

Risk mitigating greenlight process	
Product considerations	■ target audience in terms of size, clarity and appeal ■ director's track record ■ talent's track record, appropriateness to roles, appeal to target audience ■ writer's track record ■ quality of script ■ genre and demographic filters
Competitive considerations	■ competitive assessment ■ release window attractiveness in both U.S. and China ■ demand versus. saturation in market for material
Financial analysis	■ line-by-line financial projections, quarterly for 30+ years ■ 5 cases developed, analysed and sensitised ■ extensive comparables analysis ■ library valuation ■ metrics focus: cash-on-cash; return on investment and internal rate of return ■ market size (i.e. U.S. domestic box office)
Revenue considerations	■ U.S. domestic box office potential ■ international box office potential ■ DVD potential ■ rating (G, PG, PG-13, R) ■ "evergreen" potential ■ ancillary revenue potential ■ sequel potential
Cost considerations	■ size of budget ■ appropriateness of budget to material ■ risk of over-budget ■ print and advertising requirements ■ tax advantages /soft-money ■ level of back-end participation
Risk/reward considerations	■ risk itemisation and evaluation ■ upside potential ■ overall risk to return ■ sensitivities ■ monte carlo analysis

Production and post-production process

The production process is expected to be collaborative in nature. Based on the proposed master co-production agreement and the Legendary producer agreement as described on pages 114 and 115 of this circular, Legendary East (through its applicable production services subsidiary), Legendary and Huayi Group (through its applicable production services subsidiary) will provide production services for each Qualifying Film. The allocation of production services among the parties will be determined on a picture-by-picture basis, based upon whatever division of services is most efficient and makes the most economic sense for Legendary East.

Production and post-production of Qualifying Films are expected to be conducted in various locations throughout the world including, but not limited to, the PRC and Hong Kong. Such locations will be determined on a picture-by-picture basis. It is expected that the production of the initial picture, *The Great Wall,* will be primarily completed in China and the UK.

The most significant costs incurred in connection with the operation of Legendary East are expected to be the production costs of Qualifying Films and the investment costs associated with Approved Co-Financed Pictures. Legendary East will also incur costs developing film projects that it believes will eventually be made into Qualifying Films, as well as general overhead and administrative costs.

Legendary East and Huayi will finance the production cost of the films, and will seek to obtain a completion bond to limit exposure to production overages.

Physical production organization within each film

Legendary East will seek to assemble an appropriate mix of local and non-local key production staff to appeal to non-Chinese audience, being its other key audience. The Huayi Group will provide production services and will assist in overseeing the production of each picture. However, it is customary that the director or the producer(s) on a film have a strong influence on selecting the team working on a production and its organisation. In some instances, Legendary East may decide to combine both Eastern and Western expertise through the recruitment of both local and non-local staff. The Huayi Group is expected to drive the recruitment and use of local talent. Overall, at the beginning, it is expected that Legendary East will employ a substantial number of non-local department heads and other important positions.

Picture co-production agreement

For each film to be co-produced, the applicable production services company ("**ProdCo**"), a direct or indirect subsidiary of Legendary East, and the applicable Huayi production company will enter into a picture co-production agreement, pursuant to which, ProdCo and the Huayi Group will co-finance and co-produce such co-produced film. The Huayi Group will be responsible for providing all usual production services, personnel and facilities in the PRC necessary for the production, completion and delivery of the co-produced film and contracting with all third-party service providers within the PRC, in each case subject to the approval rights of ProdCo. ProdCo will be responsible for providing all customary production services, personnel and facilities outside of the PRC necessary for the production, completion and delivery of the co-produced film and contracting with all third-party service providers outside of the PRC.

Cost control and cost optimization in the PRC

Legendary East's current film model does not factor in any savings related to operating in the PRC. In future years, it is anticipated that Legendary East will be able to reduce costs by moving more of the direct production operations into the PRC. In particular, labour savings could be material, and post production may also benefit from favorable arrangements with visual effects providers.

Legendary East will establish for each film a global accounting team with local production executive support focusing on cost savings and efficiencies.

Produce films that qualify as Joint Productions in accordance with the Sino-foreign Co-Production Regulation as established by SARFT

Legendary East will seek to produce films structured as Joint Productions and approved by the applicable regulatory authorities, which films as a consequence will not be subject to the annual import quota of a total of 20 foreign movies per year that may be distributed in the PRC on a revenue-sharing basis. In addition, by distributing its films to Chinese exhibitors through the Huayi Group, Legendary East is expected to be able to obtain more favorable economics in the PRC than many foreign film companies can presently.

Capital investments and production

Legendary East currently does not anticipate any major capital investment will be required, apart from the film development and production costs, as previously discussed. Each film will have a separate budget for the rental and use of equipment including cameras, lighting, sound, editing and other equipment or supplies needed for the production of a film.

Create and monetise franchise opportunities

Legendary East intends to produce franchise titles with a wide global appeal. Legendary East hopes to take advantage of the ownership rights and the broad marketability of its films to create franchises that can generate prequels, sequels and other derivative works and licensing opportunities in different markets. Once a franchise is created, box office and other ancillary revenue streams usually become more predictable.

Post-production

Consistent with films produced by Legendary, visual effects will be a primary factor in the post-production process for the Legendary East's films and thus are anticipated to represent a material portion of the overall production cost. The opportunity for large visual effects companies in the U.S. and Europe to enter the Chinese market on major film projects by partnering with Legendary East could translate into potential pricing flexibility allowing Legendary East to realise incremental cost savings.

6. Distribution process and marketing

The combination of the distribution infrastructures of the Huayi Group and the major U.S. studio, intended to be Warner Bros, will create an expansive platform for Legendary East to distribute its films in China and globally. The breadth of the U.S. studio's distribution network will provide Legendary East's films with a commercial exposure on a global basis. In the PRC market, the Huayi Group will be the exclusive distributor of Legendary East's film product, ensuring exploitation of the films across all primary film distribution channels.

Distribution in the PRC and potentially certain other Asian territories

It is expected that the Huayi Group will distribute Legendary East films throughout the PRC and will be entitled to retain a market distribution fee on all gross receipts received by the Huayi Group. The distribution fee which Huayi Group will receive pursuant to the form of distribution agreement to be entered into between Huayi Group and the relevant production subsidiary of Legendary East in respect of the distribution of each co-produced picture will be determined based on arm's length negotiations between Legendary East and Huayi Group. The Huayi Group will be licensed all rights to exploit the linear version of each film in all media, including theatrical, home video, television, internet and mobile, for a licence term of 10 years from theatrical release.

Legendary East will retain merchandising, licensing and all other rights in the PRC that are not licensed to the Huayi Group. Importantly, Legendary East will retain derivative production rights, which will include the right to procure a sequel, prequel or remake, serials or serialisation made for television, video games and other derivative products.

Under the proposed form of distribution arrangement, the Huayi Group will be contractually obliged to distribute each Legendary East film on a "first priority" and non-discriminatory basis as compared to its own motion pictures. The Huayi Group and Legendary East will also consult meaningfully, fully and in good faith with an intention to reach agreement with respect to all key aspects of the marketing and distribution of each Legendary East film. Following such consultation, the Huayi Group's good faith decisions shall prevail, provided that Legendary East will retain mutual approval over the initial theatrical and home video release dates and theatrical distribution expenditures in the PRC.

Huayi may also be licenced for the theatrical rights in some or all of Hong Kong, Macau, Taiwan, Malaysia and, or Singapore, provided that the Legendary East and the U.S. studio are satisfied that the Huayi Group has "first class" direct theatrical distribution capabilities in such applicable additional territories for pictures of a comparable calibre and genre.

Sino-foreign co-production structure should allow for attractive economics in the PRC

Legendary East intends to structure and produce its films so that the films qualify as joint productions in accordance with the Sino-foreign Co-Production Regulation as established by SARFT. Films structured in this manner and approved as such by the applicable regulatory authorities will not be subject to the annual import quota of a total of 20 foreign movies per year that may be distributed in the PRC on a revenue-sharing basis.

In compliance with the Sino-foreign Co-Production Regulation, the Huayi Group will act as a co-financing party and a co-producer with Legendary East or one of its subsidiaries and is anticipated to contribute 5% of the total production budget for each individual film.

As discussed above, by distributing its films to the Chinese exhibitors through the Huayi Group, Legendary East should be able to obtain more favorable economics than many foreign film companies are able currently to secure, since foreign films that do not qualify as joint productions can presently only be locally distributed through the China Film Group Corporation or Huaxia Film Distribution Co., Ltd., the two government-authorized distribution companies in the PRC for foreign films. These distributors typically charge significant fees, such that the net profit potential available that such foreign film companies can realize on films in the Chinese market is understood to be in the order of 15%-21% of the gross Chinese Box Office - (Source: EntGroup)

Distribution outside of the PRC

For all territories not licensed to the Huayi Group, the distribution of Legendary East films will be performed by a major U.S. studio intended to be Warner Bros. The studio will earn a market distribution fee and will advance and recoup all distribution expenses for each film. The distribution fee for distribution services to be performed by the U.S. studio distributor will be determined based on arms' length negotiations between Legendary East, on the one hand, and the U.S. studio distributor, on the other hand. Legendary East will have certain approval and consultation rights over distribution of each film by the U.S. studio. Legendary East does not currently plan to pre-sell to territories to finance production and hence has the potential to benefit fully from the worldwide distribution of its films.

Studio distribution agreement

It is anticipated that Legendary East will license to a major U.S. studio, anticipated to be Warner Bros, exclusive distribution rights to Legendary East's films for distribution throughout the world, outside of the PRC, in exchange for a market distribution fee.

Promptly after Legendary East elects to set a film production, it is expected that Legendary East and the studio will agree on the primary release elements for such film, including the theatrical release date for the U.S. and Canada, the minimum and maximum amounts that the studio will spend in connection with prints and advertising for film, and the minimum number of screens on which the studio will release such film in the U.S. and Canada.

Gross receipts will be allocated on a single film basis with no cross-collateralisation among films. After the studio retains its applicable distribution fee and recoups its distribution expenses, all gross receipts attributable to a film are expected to be paid to Legendary East until it has recouped its production investment, along with interest and a specified return. 75% of subsequent proceeds are expected to then be retained by the studio until the studio has recouped any prints and advertising overages, with the other 25% being paid to Legendary East. Legendary East will then be entitled to 100% of the remaining proceeds thereafter.

Terms of the studio distribution agreement have not yet been finalised and are subject to change.

Print, advertising and marketing

It is anticipated that the Huayi Group and the U.S. studio will advance 100% of the required print and advertising costs to distribute the films in their respective territories, which is intended to allow Legendary East to expend its capital for additional development and production of film.

Legendary East will consult with the Huayi Group and the U.S. studio in their respective territories on key aspects of marketing and distribution, which may include the level of print and advertising expenditure, marketing and release plans, and all creative materials, such as trailers, one-sheets, and video packaging.

7. Corporate structure and related party agreements

Legendary East is expected to be composed of the following companies and subsidiaries:

- Legendary East;
- Legendary East Productions, a wholly owned subsidiary;
- development subsidiaries – will be parties to the development agreements with talent, screenwriters, intellectual property owners and Legendary;
- master production company together with its subsidiaries – will be parties to the co-production agreements with the Huayi Group and Legendary producer agreement;
- library companies-that will own the non-PRC distribution rights and will be parties to the distribution agreements with the U.S. studio distributor; and
- other subsidiaries-that will engage in the production and distribution of pictures and other business purposes.

The form of entity and jurisdiction of Legendary East and its other entities described above are subject to continuing tax, regulatory and other considerations, including withholding tax considerations, which may have a material impact on the structure and financial projections described herein.

The master production company will enter into the master co-production agreement with the Huayi Group and the Legendary producer agreement with Legendary. The U.S. library company will hold the distribution rights to each Qualifying Film in the U.S. and Canada. The Cayman library company will hold all the other distribution rights outside the U.S. and Canada not held by the Huayi Group.

Master co-production agreement

The master co-production agreement will set out the principal elements of how a film will be co-produced between Legendary East and the Huayi Group following such film being developed by Legendary East and provides for the necessary agreements that Legendary East and the Huayi Group need to produce, distribute and exploit each co-produced film.

Upon greenlight of a development project, Legendary East will transfer certain rights to such development project to the applicable production services company and the Huayi Group by means of a single picture license, following which, the applicable ProdCo and the Huayi Group will enter into a letter of intent for the co-production of such co-produced film and prepare a project application package to be submitted to the CFCC in order to obtain a co-production permit from SARFT for such film.

For each film that has been granted a co-production permit, the Huayi Group and the applicable ProdCo will co-finance the direct negative costs of each co-produced film with Huayi being anticipated to fund 5% of such direct negative costs and the applicable ProdCo anticipated to fund 95% or such other percentage ratio as may be required by CFCC. Each of the Huayi Group and the applicable ProdCo will own a corresponding undivided interest in accordance with their respective percentage share of the copyright of a co-produced film.

Upon the completion of a co-produced film, the Huayi Group will submit the completed co-produced film through CFCC to SARFT for its review and examination for the purpose of securing a permit for film public screening for such co-produced film. If SARFT refuses to issue a permit for film public screening for a completed co-produced film, the applicable ProdCo may elect to either make all necessary changes to such co-produced film as may be required by SARFT in order to obtain an exhibition permit.

Legendary producer agreement

It is anticipated that Legendary East will engage Legendary to render customary production services to Legendary East in connection with Legendary East films. For each Legendary East film on which Legendary renders services, Legendary will be paid a producer fee of US$3 million out of the budget of such film. In addition, Legendary will be entitled to contingent compensation equal to 3% of the worldwide adjusted gross receipts of each such film. The fixed US$3 million producer fee and the 3% contingent participation in the worldwide adjusted gross receipts to be paid to Legendary were determined pursuant to arms' length negotiation between Legendary, PYE and Huayi Group, based on the services to be provided by Legendary pursuant to the producer agreement. It is expected that the services to be provided by Legendary with respect to the Qualifying Films will be customary production services rendered by producers in the U.S. motion picture industry, including, but not limited to, interfacing with talent such as the directors, actors and writers.

Corporate structure and approval of qualifying films

In connection with the greenlight of each applicable development project, the project and all required materials relating thereto will be submitted by the Huayi Group, as the PRC co-production partner and on behalf of the co-producers, to CFCC for approval as a joint production and issuance of a co-production permit.

If a co-production permit is obtained and the greenlight committee make a final decision to greenlight the project, the single picture license for such project will become effective, and master production company or one of its subsidiaries together with the Huayi Group, will enter into both a formal contract with CFCC based on the approved terms for the project, as well as a separate co-production agreement.

It is anticipated that Legendary East will be responsible for funding 95% of the total production budget and the Huayi Group will be responsible for funding the remaining 5%, or such other percentage ratios as may be required by CFCC. Each co-production party will then be entitled to a corresponding percentage share of worldwide proceeds.

The Huayi Group and Legendary East will oversee the local production of each film in accordance with the applicable single picture co-production agreement. The production teams will be staffed so as to include the appropriate mix of Western and local key production heads, to ensure the film appeals to both a Chinese and non-Chinese audience.

Upon completion of production, each co-produced film will then be submitted through CFCC to the Film Examination Committee under SARFT for examination. Only following SARFT's issuance of a Permit for Film Public Screening can a co-produced film be screened and distributed within and outside of the PRC.

Utilise debt financing to enhance equity returns

Legendary East plans to put in place a credit facility that will allow Legendary East to borrow against future anticipated earnings of released films. This financing, which is typical in the film industry, combined with the equity investment, is expected to allow Legendary East to produce the run rate target of one to two films per year. As films are produced and library value is created, additional debt capacity will likely be generated by Legendary East. In addition, the initial investments in two co-financed Legendary films may provide earlier access to such credit facilities. The financing described above is not a condition to the equity financing of Legendary East and there is no assurance that such financing will be available to Legendary East at all, or if available on acceptable commercial terms.

8. Properties and facilities

Legendary East is anticipated to be headquartered in Hong Kong but has not yet leased any office space or other properties or facilities. The Hong Kong office is expected to be opened within approximately three months upon completion of the Transactions. Other offices and other employees (save for the senior management as disclosed in this circular) may be setup and hired from time to time as Legendary East deems necessary for the conduct of its business.

9. Competition

Motion picture production is a highly competitive business. As the Qualifying Films are intended to be in English and distributed on a worldwide basis, Legendary East will compete with a number of production companies, including all the major studios such as Warner Bros, Fox, Paramount, Sony, Disney, and Universal and certain independent studios. Legendary East films will also generally compete with all forms of entertainment and other consumer leisure activities, such as travel, sporting events, outdoor recreation, video games, the internet and other cultural and computer-related activities. In the theatrical market, Legendary East will primarily compete with other films that are targeted at similar audiences and released at or near the same time as its films. Nevertheless, global distribution for Legendary East is anticipated to be undertaken by Warner Bros which has been ranked number one distributor globally in terms of box office for the last three calendar years.

Legendary East's performance is dependent in part on the popularity of its films relative to other films in the market at the time of Legendary East's releases. As a result, in seeking to optimise audience acceptance and the number of motion picture screens on which Legendary East films are exhibited, Legendary East will pay particular attention to the expected release date of other films targeting similar audiences. Competition may also be affected by the technological medium of the release, with digital and 3D formats gaining competitive strength.

In the home video and television markets, Legendary East films compete not only with direct-to-video and television series titles but also other forms of home entertainment, such as internet-based programming or video games. In addition, once its films are released in the home video and television markets, they may also compete with other films that are in their initial theatrical release or in their subsequent theatrical re-release cycles. Over the past several years, there has been an increase in the number of films available in the home video and television markets at any given period and a rapid expansion of on-line content. Additionally, the increased number of films in the home video markets has increased the competition for shelf space given by retailers for any specific film.

Legendary East competes with production companies for the acquisition of literary and film properties, the services of performing artists, directors, producers, and other creative and technical personnel and production financing, all of which are essential to the success of its business. As a result, the success of any of Legendary East's films is dependent not only on the quality and acceptance of a particular film, but also on the quality and acceptance of other competing films released into the marketplace at or near the same time.

10. Intellectual property

Copyrights

With respect to each picture co-produced by Legendary East and the Huayi Group, Legendary East and the Huayi Group will co-own the underlying copyright thereto, subject to co-financing and tax incentive arrangements, with the U.S. studio and the Huayi Group having a licence to the distribution rights in their respective licensed territories.

Trademarks

Legendary East considers its trademarks to be valuable assets to its business, and will endeavor to register its major trademarks in territories where it believes the protection of its trademarks is important to its business. It will monitor and protect against activities that might infringe, dilute or otherwise harm its trademarks.

11. Litigation

As at the Latest Practicable Date, Legendary East is not aware of any litigation involving Legendary East or its subsidiaries.

12. Insurance

Legendary East is a newly formed company and anticipates obtaining appropriate insurance as it deems necessary for the conduct of its business.

E. FUTURE PROSPECTS AND USE OF PROCEEDS

Future prospects

As stated in the section above under the paragraphs headed "Development process", Legendary East intends to invest and participate in 25% of two Legendary films, which are anticipated to be released in 2013, and currently has additional Legendary East pictures in development, which are anticipated to be released in 2013 and beyond.

Projects transferred at closing to Legendary East by Legendary

Legendary will be reimbursed at the closing by Legendary East for its hard costs incurred in connection with the development of intellectual property rights and other development properties, based on the actual out-of-pocket third-party development costs, (i.e. payments to writers, directors and other talent working on the development of the properties), which costs, as at the Latest Practicable Date, are approximately US$1 million. Upon completion of the Transactions, Legendary will transfer all of its right, title and interest of every kind and nature in and to *The Great Wall* and two currently untitled development projects to Legendary East. The Huayi Group has similar rights to reimbursement. But at present, there are no existing development properties identified for transfer from the Huayi Group.

Use of proceeds

Upon completion of the Transactions, Legendary East will receive approximately US$220.5 million, of which (a) approximately US$76.5 million is expected to be used to invest in the two Legendary films mentioned above and (b) approximately US$1 million will be used to reimburse Legendary for its hard costs in connection with the development of existing developmental properties (including *The Great Wall*), which developmental properties Legendary will have transferred to Legendary East at closing. The balance will be used (a) to reimburse Legendary or otherwise pay for organisational costs and fees and expenses, including legal, accounting and advisory fees, in connection with the formation and financing of Legendary East and (b) for future development and financing of films and general working capital.

F. DIRECTORS, SENIOR MANAGEMENT AND STAFF

Board of directors

The board of directors of Legendary East will initially consist of five members, of which:

- two members will be appointed by Legendary;
- one member will be appointed by Huayi; and
- two members will be appointed by PYE.

All decisions of the board of directors will be made by a majority vote including, for some matters, at least one of the directors appointed by Legendary and for some matters at least one of the members designated by PYE.

Legendary's designees will be Thomas Tull and Jon Jashni. Your attention is drawn to page 96 of this circular for their detailed background information.

Huayi's designee will be Wang Zhonglei, James. Your attention is drawn to page 99 of this circular for his detailed background information.

PYE's designees will be Mr. Wu and Mr. Chang. Your attention is drawn to pages 49 to 52 of this circular for their detailed background information.

Senior Management

- Thomas Tull, executive chairman;
- Mr. Wu, chief executive officer; and
- Mr. Chang, chief financial officer.

Mr. Tull has extensive experience in media, entertainment and finance. At Legendary, Mr. Tull has brought to the film business a disciplined private-equity financial approach which has contributed to the successes at Legendary. Mr. Tull spearheaded the creation of a global brand that is now recognized in the marketplace for cutting edge, high quality films. Mr. Wu and Mr. Chang held senior executive postions at Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK stock code: 1132) from 2009 to 2011 and have over 15 years of experience in the financial and investment industry.

The management team of Legendary East should demonstrate vision and in-depth industry knowledge and experience to continue to take advantage of market opportunities and formulate effective business strategies for future business growth.

Your attention is drawn to page 96 and pages 49 to 52 of this circular for detailed background information of Thomas Tull, Mr. Wu and Mr. Chang, respectively.

Other employees

Other employees of Legendary East will be hired from time to time as the company deems necessary for the conduct of its business.

G. RISK FACTORS

Business risk factors

Dependence on key personnel

Legendary East's success will greatly depend on its employees. In particular, Legendary East is dependent upon the services of its chairman, Thomas Tull, its chief executive officer, Mr. Wu, and its chief financial officer, Joel Chang, as well as its other officers. By closing, Legendary East plans to have entered into employment agreements with Mr. Wu and Mr. Chang. It is not currently intended that Mr. Tull, Legendary East's chairman, will have an employment agreement because he will be the chairman (and not an employee) of Legendary East. Although it is standard in the film industry to rely on employment agreements as a method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The loss of the services of Mr. Tull, Mr. Wu, Mr. Chang or a substantial group of key employees could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects.

Legendary East is a newly formed entity without a track record

Legendary East is a newly-established company incorporated for the specific purpose of the Film Joint Venture. Legendary East does not have any operating history, historical financial statements or other meaningful operating or financial data that may be used to evaluate it or to predict its future performance. Furthermore, Legendary East has a unique business plan that has not been replicated previously and which involves operating in the highly regulated Chinese film industry. Although two of the investors in Legendary East, Legendary and Huayi Brothers, have significant experience in developing and producing films, Legendary East has not itself ever developed or produced a film. In addition, neither Legendary nor Huayi Brothers have ever developed or produced Qualifying Films in the manner in which it is contemplated that Legendary East will develop and produce such films. Accordingly, Legendary East should be viewed as a new and highly speculative venture that is subject to all of the risks that are associated with any new business, including the risk that Legendary East will not achieve its business, operational or financial objectives.

Revenues and results of operation may fluctuate significantly

Legendary East expects significant fluctuations in its future quarterly and annual operating results because of a variety of factors, including the following:

- the potential varying levels of success of its feature films;
- the timing of the U.S. domestic and international theatrical releases and home entertainment release of its feature films;
- the impact of exchange rate fluctuations on revenues and operating margins as a result of revenues earned outside of Hong Kong or productions being filmed outside of Hong Kong; and

- the ability to obtain additional revenue from licensed products, which is generally dependent on the success of feature films, the ability to adapt the licensed material to other products, and the market in which the licensed product competes.

Additionally, Legendary East's accounting practices, which are standard for the industry, may accentuate fluctuations in its operating results. In accordance with generally accepted accounting principles and industry practice, Legendary East amortises production costs using the "individual-film-forecast" method. Under this accounting method, Legendary East amortises production costs for each film based on the following ratio:

$$\frac{\text{Revenue earned by title in the current period}}{\text{Estimated total revenues by title}}$$

Legendary East will regularly review, and revise when it deems necessary, its total revenue estimates on a title-by-title basis. If such reviews reveal that estimated remaining revenue with respect to a film is not sufficient to recover the unamortised film production costs, the unamortised film production costs will be written down to fair value. In any given quarter, if Legendary East lowers its previous forecast with respect to total anticipated revenue from any individual feature film, it would be required to accelerate amortisation of related film costs. Such a write down and accelerated amortisation would materially and adversely affect Legendary East's business, operations, results of operations and financial condition.

Legendary East may not have sufficient funding to finance its operations

Legendary East will initially be capitalised by an equity investment of US$220.5 million from PYE. In addition, Legendary East plans to seek a debt facility to finance its operations. While Legendary East anticipates that this initial equity investment will be sufficient to finance its operations until it is able to arrange an appropriate debt facility and, or, until it receives revenues from its initial films, there can be no assurance that this initial equity funding will be sufficient for such purpose. In addition, there can be no assurance that Legendary East will be able to arrange a debt facility on appropriate terms or that Legendary East's initial films will produce sufficient revenues for Legendary East to fund its future operations. Accordingly, Legendary East may not have sufficient funding to finance its operations and this could have a material adverse effect on Legendary East's business, results of operations, financial condition or prospects.

Dependence on a small number of qualifying films and, or, approved co-financed pictures being released each year

Legendary East's current business plan is generally to release one to two feature films per year beginning in 2013. The commercial failure or the unexpected delay in release of any of these films could have a significant adverse impact on Legendary East's results of operations in both the year of release and in the future. Historically, feature films that were successful in the U.S. domestic market during their theatrical showing were generally also successful in the international theatrical market and the home entertainment and television markets, although all films are different and there was, and is currently, no way to guarantee such results. If Legendary East's films fail to achieve U.S. domestic box office success, their international box office and home entertainment success and Legendary East's business, operations, results of operations, financial condition and prospects could be adversely affected. In addition, there can be no assurance that the historical correlation between U.S. domestic box office results and international box office and home entertainment results will continue in the future. The limited number of films that Legendary East will release each year is likely to magnify fluctuations in its earnings. Legendary East's results for quarterly and annual periods may also be skewed based on the release dates of its films. Furthermore, there can be no assurance that revenues from non-theatrical sources will be maintained at current levels due to marketplace or other factors, and fluctuations in prices may adversely impact Legendary East's business, operations, results of operations, financial condition or prospects. See "Rapid Changes in Technology and Consumer Tastes Within the Industry" below.

Dependence on film producers, film directors, distributors and other sub-contractors

Legendary East's success will also depend to a significant extent on its ability to identify, attract, hire, train and retain qualified creative, technical and managerial personnel. There is significant competition for the calibre of talent required to make Legendary East's films, particularly for film directors, producers, actors, writers, creative and technology personnel. The major studios have more resources with which to compete for not only ideas, storylines and scripts created by third parties, but also for actors, directors and other personnel required for production. There can be no assurance that Legendary East will be successful in identifying, attracting, hiring, training and retaining such qualified personnel in the future and if Legendary East is unable to hire and retain qualified personnel in the future, the production of Legendary East's films could be delayed or the success of its films could be adversely affected. Furthermore, there can be no assurance that the creative, technical and managerial personnel that Legendary East hires will perform according to their contracts with Legendary East. The failure of these contracted counterparties to perform in accordance with their contracts. could delay or otherwise impair the commercial success of Legendary East's films which could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects. In addition, Legendary East will be dependent upon those counterparties that distribute Legendary East's films and those counterparties that are under contract to perform other tasks for Legendary East. The failure of these contracted counterparties to perform in accordance with their contracts could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects. See also "Unexpected delays in the production and distribution of Legendary East's films" and "Dependence on distributor to distribute Qualifying Films" below.

Success depends on the commercial success of Legendary East's qualifying films and approved co-financed pictures

The economic performance of Legendary East's Qualifying Films and Approved Co-Financed Pictures cannot be assured because the revenue derived from the distribution of a film, which does not necessarily bear any correlation to the production or distribution costs incurred, depends primarily upon its acceptance by the public, which cannot be accurately predicted. The economic performance of a film also depends upon the public's acceptance of competing films, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty.

In general, the economic performance of a film is dependent on its U.S. domestic theatrical performance, which is a key factor in predicting revenue from other distribution channels and is determined by many factors, including the ability to produce content and develop stories and characters that appeal to a broad audience and the effective marketing of the film.

The receipts payable to Legendary East are, therefore, highly uncertain and speculative, and Legendary East's predominant source of revenue is expected to be derived from the distribution of its films. There can be no assurance that the receipts received by Legendary East will be sufficient to meet its consolidated operating expenses and debt obligations, or that after the payment of such amounts, Legendary East will be able to distribute amounts to its investors. The ability of the investors in Legendary East to recover all or any portion of their investment will, accordingly, depend largely on the amount of receipts realised and received by Legendary East from the exploitation of its films and the amount of Legendary East's costs and expenses to be satisfied therefrom. Accordingly, there can be no assurance that investors in Legendary East will realise a return on their investment due to the uncertainty of the revenues to be received from the exploitation of Legendary East's films.

Unexpected delays in the production and distribution of Legendary East's films

The production, completion and distribution of films is subject to uncertainties that can cause delays, including differences among key cast members and other key creative personnel, technical difficulties, talent and equipment availability, accidents, natural disasters, death or disability of key cast members, strikes by one or more unions that provide personnel essential to Legendary East's film production, damage to film negatives, master tapes and recordings, adverse weather conditions or other disruptions or events beyond Legendary East's control. Because of these uncertainties, delays in production may result in a Qualifying Film or Approved Co-Financed Picture not being ready for release at the intended time and postponement to a potentially less favorable time, which could delay or impair the film's commercial success. In extreme cases, a film in production may be abandoned or significantly modified, including as a result of creative changes, after substantial amounts have been spent, which could cause the write-off of expenses incurred with respect to the film.

Dependence on distributor to distribute Qualifying Films

Legendary East will enter into contractual arrangements to provide for the distribution of its Qualifying Films. These distribution agreements are anticipated to include processes for determining, for each film, the theatrical release date for the U.S. and Canada, the minimum and maximum amounts that will be spent in connection with prints and advertising for the film, and the minimum number of screens on which the film will be released in the U.S. and Canada. If the distributor fails to adhere to its contractual obligations, this could adversely affect film performance and have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects.

Additionally, in the event that a distributor of Legendary East's films were to experience financial difficulty or file for bankruptcy, this could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects.

Failure to protect intellectual property rights and costs and other risks related to protection of intellectual property rights

Legendary East hopes that its films will be valuable intellectual property and will strive to protect its existing and future intellectual property, including its brand, copyrights and trademarks. The success of Legendary East will depend, in part, upon its ability to use and exploit its existing and future intellectual property. Litigation may be necessary in the future to enforce Legendary East's intellectual property rights or to determine the validity and scope of the intellectual property rights of others. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects. Moreover, such litigation may not ultimately result in the successful protection of Legendary East's intellectual property rights. Unauthorized copying and piracy are prevalent in territories outside of the U.S., Canada and Western Europe and, in such territories, Legendary East is likely to have particular difficulty enforcing its intellectual property rights. Any failure by Legendary East to protect its intellectual property rights could have a material adverse effect on its business, operations, results of operations, financial condition or prospects. See also "Piracy of films, including digital and internet piracy, may reduce the gross receipts from the exploitation of Legendary East's films" below.

Rapid changes in technology and consumer tastes within the industry

The entertainment industry in general, and the film industry in particular, continue to undergo significant changes, primarily due to technological developments and shifting consumer tastes. Due to rapid changes in technology and shifting consumer tastes, it is impossible to accurately predict the overall effect that technological growth or the availability of alternative forms of entertainment may have on the profitability of its films. In addition, certain outlets for the distribution of films may not obtain the expected level of public acceptance. If Legendary East is unable to successfully exploit new distribution channels or if such new distribution channels prove to be less profitable than existing channels, Legendary East's business, operations, results of operations, financial condition or prospects could be materially adversely affected. Additionally, the technologies Legendary East chooses to invest in could prove to be less successful than expected.

In recent years, the film industry has experienced a decline in overall home entertainment consumer spending including a significant drop-off in DVD sales. There is speculation that this indicates a permanent decline in what had been, in previous years, robust growth rates in the home video market. Such reduction may be caused by changing consumer behavior driven by technological advances such as the increasing popularity of VOD and digital distribution models. This reduction in home entertainment spending, in particular, the decline in home video sales, could have a material adverse effect on Legendary East's revenues that may be derived from the exploitation of its films.

Scale of operations of Legendary East compared with many of its competitors

Legendary East will initially operate on a much smaller scale than many of its competitors. For example, unlike Legendary East, the major studios have significant capital and other resources and are part of diversified corporate groups with a variety of other operations that generally provide more stable earnings and cash flows that offset fluctuations in the financial performance of their feature films. The superior resources of the major studios may also give them an advantage in acquiring other businesses or assets, including rights to specific characters or stories or to film libraries, that Legendary East might also be interested in acquiring. If Legendary East is unable to compete successfully with its competitors due to the smaller scale of its operations, this could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects. See also "Competition in the film industry" below.

International market risk

Legendary East expects to derive revenue from global sources and will therefore be subject to risks inherent in the international distribution of films and other entertainment content, all of which are beyond Legendary East's control. These risks include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- differing cultural tastes and attitudes, including varied censorship laws;
- differing degrees of protection for intellectual property;
- financial instability and increased market concentration of buyers in foreign television markets, including in European pay television markets;
- the instability of foreign economies and governments;
- fluctuating foreign exchange rates; and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect gross receipts, which could have a material adverse effect on Legendary East's consolidated revenues and existing and future distribution agreements and arrangements with international exhibitors, and therefore on Legendary East's business, financial condition and results of operations.

Piracy of films, including digital and internet piracy, may reduce the gross receipts from the exploitation of Legendary East's films

Piracy of films and other media products, including digital and internet piracy, may decrease revenue received from the exploitation of Legendary East's products. Entertainment content piracy is extensive in many parts of the world and is made easier by technological advances and the conversion of films into digital formats, which facilitates the creation, transmission and sharing of high-quality unauthorised copies of media products on DVDs, from PPV through set-top boxes and other devices and through unlicensed broadcasts on free TV and the internet. The proliferation of unauthorised copies and piracy of these products will have an adverse effect on Legendary East's business because these unauthorised products reduce the revenue Legendary East receives from its legitimate products. Even when preventative measures and technologies are applied, there can be no assurance that the highest levels of security and anti-piracy measures will prevent piracy.

Others may lodge intellectual property infringement claims against Legendary East

One of the risks of the film production business is the possibility that others may claim that Legendary East's films or productions and production techniques misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed films, stories, characters, other entertainment or intellectual property. Legendary East may receive in the future claims of infringement or misappropriation of other parties' proprietary rights. Such claims may materially adversely affect Legendary East's business, operations, results of operations, financial condition or prospects. Irrespective of the validity of such claims, Legendary East could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on its business, operations, results of operations, financial condition or prospects. If any claim is asserted against Legendary East, it may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. There can be no assurance, however, that under such circumstances a license, or any other form of settlement, would be available on reasonable terms or at all. Any of these occurrences could have a material adverse effect on Legendary East's revenues and therefore on its business, operations, results of operations, financial condition or prospects.

The film industry is regulated extensively in the PRC, and Legendary East's production of films is subject to various PRC laws, rules and regulations

The film industry is regulated extensively in the PRC. The success of Legendary East's business plan depends upon its ability to make commercially viable films in compliance with such regulations. If Legendary East is unable to comply with such regulations, it may be unable to make and, or, release its films, even outside of the PRC. In addition, Legendary East or its PRC partners, such as Huayi Brothers, could be subject to fines and, or, other penalties or sanctions from the PRC regulators. It is not possible for Legendary East accurately to anticipate the time and resources that it will have to devote to addressing compliance with PRC laws, rules and regulations in order to make and, or, release its films. The commitment may be extensive, particularly in the event that significant issues arise that need to be resolved with Chinese regulators, such as SARFT. If Legendary East is unable to make and release its films in compliance with PRC regulations or is unable to work productively with PRC regulators, this could have a material adverse effect on its business, operations, results of operations, financial condition or prospects. For instance, if a completed film produced by Legendary East fails to pass the censorship review by SARFT, such film cannot be released anywhere in the world. Therefore, Legendary East intends to clear the screenplay of each film with SARFT prior to any film production, to produce such film in accordance with such approved screenplay and work with SARFT throughout the production process to pass its censorship review. See "Regulations for film industry in the PRC" as set out on pages 91 to 93 above.

Industry risk factors

Competition in the film industry

Feature film production is a highly competitive business. For example, the commercial success of a film depends upon the quality and acceptance of other competing films released into the marketplace at or near the same time, which can change and cannot be predicted with certainty. Legendary East will compete with a variety of companies for access to theatrical outlets for films, acquisition of characters, storylines, ideas and treatments with which to build its library, the recruitment and retention of talented personnel, and the licensing and distribution of its proprietary products. Some of Legendary East's competitors, particularly the major studios, have longer operating histories, greater name recognition, and greater financial, technical, marketing and other resources, while other independent production companies may have less overhead than Legendary East. If Legendary East is unable to compete successfully with its competitors, this could have a material adverse effect on Legendary East's business, operations, results of operations, financial condition or prospects. See "Competition" above, as well as "Scale of operations of Legendary East compared with many of its competitors."

Substantial capital investment required to produce and market new feature films

The costs to develop, produce and market a film are substantial, and the costs of producing and marketing feature theatrical films have generally increased in recent years. These costs may continue to increase in the future, which may make it more difficult for Legendary East's films to generate a profit or compete against other films. If film production and marketing costs rise at a rate faster than increases in either admissions to theatres or admission ticket prices, this would leave Legendary East more dependent on other media for the exploitation of its films, such as home video, television and new media and other lines of business for revenue, which could have a material adverse effect on Legendary East's overall revenues. Additionally, a significant amount of time may elapse between Legendary East's expenditure of funds and the receipt of revenues. This time lapse will require Legendary East to fund a significant portion of its capital requirements from its existing capital, particularly in the early stages of the Film Joint Venture when it will not have received any film revenues. If, in the future, Legendary East increases its production slate or its production budgets, it may be required to increase overhead, in addition to the increased capital required to make its films.

Legendary East's films might turn out to be more expensive to make than it anticipates because of a range of factors such as an escalation in compensation rates of talent and crews working on the films or in the number of personnel required to work on films, or because of creative problems or difficulties with technology, special effects and equipment. For example, if Legendary East makes a successful film with sequel potential, the cost of making the sequel may be increased due to increased compensation demands from talent. Risks such as death or disability of star performers, technical complications with special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and recordings or adverse weather conditions may cause cost overruns and delay or frustrate completion of a production. In addition, other unexpected circumstances sometimes cause film productions to exceed budget. There can be no assurance that Legendary East will have, or be able to obtain, at the applicable time additional monies to fund budget overages. If Legendary East does not have the requisite capital to make commercially viable films or if it fails to finance a film to completion, this could have a material adverse effect on Legendary East's business, results of operations, financial condition or prospects.

The following is the text of an independent valuation report in connection with the fair market value of 100% equity of Legendary East Ltd. received from the independent professional valuer, KPMG Transaction Advisory Services Limited for incorporation in this circular.

KPMG

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The Board of Directors
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19 September 2011

Dear Sirs

Independent valuation in connection with the fair market value of 100% equity of Legendary East Ltd ("Legendary East")

1. INTRODUCTION

In accordance with the terms of engagement letters between Paul Y. Engineering Group Ltd ("Paul Y.") and KPMG Transaction Advisory Services Limited ("KPMG TAS"), we set out our valuation report on the fair market value of 100% of the equity of Legendary East as at 6 September 2011 (the "Valuation Date").

1.1 Definition of fair market value

For the purpose of this report, we have adopted the fair market value basis of valuation. Fair market value is defined as the highest price available in an open and unrestricted market between informed, prudent parties acting at arm's length and under no compulsion to act, expressed in terms of money or money's worth.

The concept of fair market value is hypothetical and therefore fair market value does not necessarily represent the price that a purchaser would ultimately pay for a business or an asset, which can be affected by circumstances unique to the purchaser and the vendor.

In addition, fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser, such as synergies. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realize from the acquisition to the seller.

1.2 Limitations and reliance on information

In preparing this report and arriving at our valuation conclusion, we have considered the information outlined in Appendix B of this report. This information was publicly available or provided by or on behalf of Paul Y., Legendary East and Legendary management. KPMG TAS has assumed and relied upon the accuracy and completeness of this information. KPMG TAS was not engaged to independently verify and did not assume any responsibility to verify, and it did not verify, any such information. Nothing in this report should be taken to imply that KPMG TAS has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Paul Y. or Legendary East.

We note that an important part of the information base used in forming our valuation conclusion comprises the opinions and judgments of management of Paul Y., Legendary East and Legendary.

We have had discussions with management of Legendary East (the "Management") in relation to the nature of Legendary East's intended business operations, its specific risks and opportunities and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical.

KPMG TAS has assumed that neither Paul Y., Legendary East or Legendary management was aware of any information available to Paul Y., Legendary East or Legendary management, or their respective advisors that might be material to KPMG TAS's analysis that has not been provided to KPMG TAS. We do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and analyses included in this report are given in good faith, and in the belief that such statements and analyses are not false or misleading.

The information provided to KPMG TAS included forecasts/projections and other statements and assumptions about future matters prepared by management of Paul Y., Legendary East and Legendary. KPMG TAS has relied upon the aforementioned information in preparing this report, and has assumed that the aforementioned information was reasonably prepared on bases reflecting the best available estimates and good faith judgments of the management of each of Paul Y., Legendary East and Legendary, as to the future performance of Legendary East. KPMG TAS has relied on such information in preparing our valuation conclusion, and Paul Y., Legendary East and Legendary remain responsible for all aspects of the information provided to us.

KPMG TAS has assumed that the Transaction will be consummated in accordance with the terms and conditions of the draft documents provided to KPMG TAS without any amendment thereto and without waiver by any party of any of the conditions to their respective obligations thereunder.

KPMG TAS has assumed that in all respects material to our valuation conclusion, the representations and warranties contained in the draft documents provided to KPMG TAS are true and correct and that each party will perform all of the covenants and agreements required to be performed by it thereunder.

KPMG TAS has assumed that all material corporate, governmental, regulatory or other consents and approvals required to consummate the Transaction have been or will be obtained without the need for any divestitures.

Achievement of forecast/projected results is not warranted or guaranteed by KPMG TAS. Forecast/projected financial information is by its nature uncertain and is dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly from the forecasts/projections relied on by KPMG TAS. Any variations from forecasts/projections may affect our valuation conclusion. The valuation conclusion of KPMG TAS is based on prevailing financial, market, economic and other conditions at the Valuation Date. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our valuation conclusion. We note that we have not undertaken to update our report for events or circumstances arising after the Valuation Date.

2. DESCRIPTION OF LEGENDARY EAST

Legendary East will be a joint venture ("JV") set up by Legend Pictures, LLC ("Legendary"), Huayi Brothers International Limited ("Huayi"), a subsidiary of Huayi Brothers Media Corporation ("Huayi Brothers"), and Paul Y.. Its major operation will be to produce and distribute wide theatrical English motion pictures that are based in Chinese history, mythology and, or, culture ("Chinese-themed Pictures").

The joint venture partners Legendary and Huayi are both engaged in the film industry:

- Legendary is a private company based in the United States. The principal business of Legendary is the co-financing and production of theatrical motion pictures.
- Huayi Brothers is listed on the Shenzhen Stock Exchange (Stock code: 300027) and engaged in film production and distribution in China. Huayi is a subsidiary of Huayi Brothers, and is incorporated in Hong Kong.

As capital contribution to Legendary East, Legendary and Huayi will transfer certain existing development properties and related intellectual property rights for Chinese-themed Pictures to Legendary East.

Pursuant to the draft equity term sheet to be entered between Legendary, Huayi and Paul Y. (the "Term Sheet"), Legendary East will

- produce and distribute Chinese-themed Pictures. The films produced by Legendary East would have a budgeted gross production fee of not greater than United States Dollars ("USD") 150 million. The first film produced by Legendary East is expected to be released in 2013, and two films are expected to be released in each year from 2014 to 2017 and three films are expected to be released in each year from 2018 onwards. Each movie will be co-produced by Legendary East and Huayi.
- co-finance two films to be produced or co–produced by Legendary (or its affiliates) ("Co-financed Pictures").

Legendary East's films will be distributed internationally by a renowned worldwide distributor based in the United States with breadth of distribution network (the "Worldwide Distributor"), and Huayi will be exclusively responsible for distribution in the People's Republic of China ("PRC"). The Co-financed Pictures will also be distributed by the Worldwide Distributor.

According to the Term Sheet, neither Legendary nor Huayi will be permitted to engage outside of Legendary East in the financing or production of any English-language Chinese-themed Pictures with a direct-cost budget equal to or greater than USD50 million.

According to the Term Sheet, Huayi will have to produce and distribute the films co-produced by Legendary East and Huayi on a first priority basis relative to other films that are not for Legendary East.

According to the Term Sheet, Paul Y. and JV Management Members will not be permitted to invest in any entity whose primary business is to produce and, or, finance English-language Chinese-themed movies with a direct-cost budget equal to or greater than USD50 million for a period of three years following the closing of the joint venture.

Based on our understanding from the Management, the films will be structured to qualify as “joint productions” according to the “Sino-foreign Co-Production Regulation” as established by the State Administration of Radio, Film and Television (“SARFT”), and will not be subject to the annual import quota of 20 foreign movies per year currently observed in the PRC market.

3. MARKET OVERVIEW

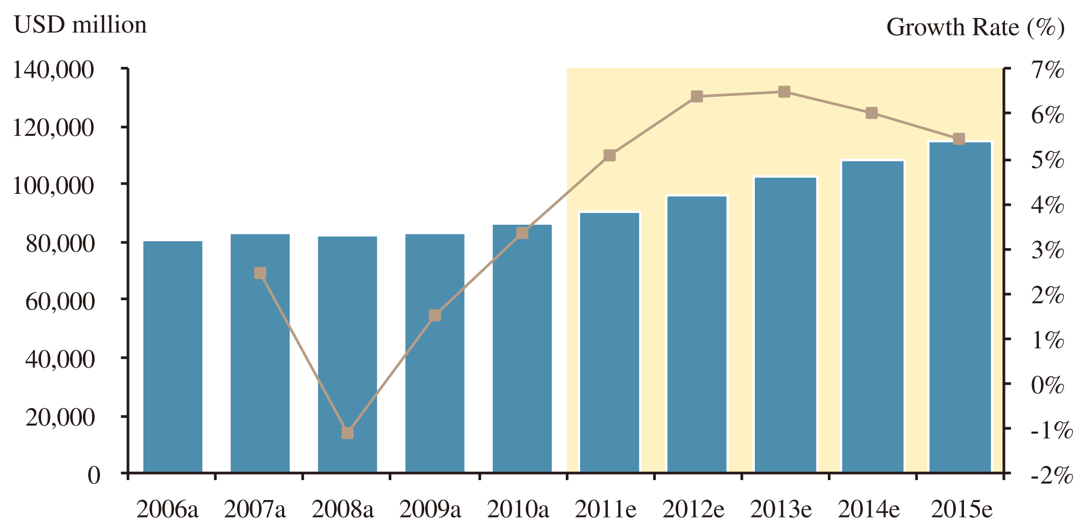
3.1 The international filmed entertainment market

The total revenue of the global filmed entertainment market (excluding pay-per-view ("PPV") and video-on-demand ("VOD") segments) reached USD86.2 billion in 2010, and is estimated at USD114.8 billion in 2015.[1]

For the past few years, the industry has experienced modest growth or static. The outlook of the industry varies. Some studies estimate that the industry will grow at a compound annual growth rate ("CAGR") of 5.9% for the period from 2010 to 2015.[1] Other studies expect the market to shrink at a compound annual rate of 0.3% during the same period.[2]

The following table summarizes market value and growth rate of the filmed entertainment market over 2006 to 2015.

Filmed Entertainment Market Value and Growth Rate



(Source: The graph is prepared based on data sourced from the report "PwC, Filmed Entertainment, 2011". The market value in the graph represents the aggregate spending related to filmed entertainment through various channels, including box office, cinema advertising, physical sell-through of home video, in-store rentals of home video and electronic distribution of home video.)

1 PwC, Filmed entertainment, June 2011
2 Datamonitor, Global Movies & Entertainment, May 2011

3.1.1 Key segments

The filmed entertainment market consists of a number of segments, including box office, cinema advertising, physical sell-through, in-store rental, online rental and digital downloads.

3.1.2 Box office

Box office gross represents the total ticket sales at cinemas. In 2010, box office gross accounted for approximately 38% of the total industry revenue.[3]

Whilst the total performance of the industry is static (or subject to modest growth), total box office gross has increased from USD26 billion in 2006 to USD33 billion in 2010.[1]

According to the market information, global box office gross is expected to be on an upward trend.

- *"Global box office spending will increase... to USD48.7 billion in 2015... Rising prices will be the principal drivers of box office spending, enhanced by modest growth in admissions."* [1]

- *"Global box office spending will increase... an 8.1 percent compound annual increase (for the five-year period during 2010 to 2015)."* [1]

- *"Box office spending will expand at a projected 6.0 percent compound annual rate (for the five-year period during 2010 to 2015) in the United States..."* [1]

The 3D format has been one of the major drivers for increased box office gross. However, the screening of 3D movies is sometimes restricted by the availability of 3D screens.

According to various market research, the increase in the popularity of digital screen reduces distribution time and costs:

- *"Digital recording of movies, rather than using actual film, can cut production and distribution costs over the long run..."* [4]

- *"Studios are contributing to the funding of digital screens in return for virtual print distribution, which will enable theaters to obtain digital prints, thereby saving the cost of making and distributing physical prints."* [1]

- *"...if all cinemas were to operate with digital projectors tomorrow, actual movie prints (costing about USD2,000 each) would become obsolete. Studios would save about USD4 million for the average movie in its U.S. release alone, and a multiple of that in foreign territories."* [5]

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[3] Calculated based on source: PwC, Filmed entertainment, June 2011; Box office: USD33,033 million, Physical sell-through: USD30,434 million, Total: USD86,222 million

[4] First Research, Motion Picture Production and Distribution, 9 May 2011

[5] Marketing Science, The Motion Picture Industry, November 2006

3.1.3 Sell-through

Sell-through represents the sales of home video products through retail outlets and online stores. In 2010, sell-through revenues accounted for approximately 35%[1] of the total industry revenue.

Historically, the sell-through market was the most lucrative market, peaking in 2005 at USD37 billion in revenue.[6] However, with more sophisticated visual and sound effects (including 3D movies), people are returning to cinemas rather than buying DVDs to view at home. In addition, with the recent economic climate, consumers have been choosing to rent rather than to buy DVDs.

In the near short term, the sell-through market is also expected to be adversely affected by the increase in the popularity of the VOD. However, with the rise in the popularity of high definition television and Blu-ray disc, the sell-through market is expected to pick up with an expected CAGR of 3.5% for period from 2010 to 2015.[1]

3.1.4 Release Windows

Traditionally, the movie goes from box office to sell through channels after four months of domestic theoretical release, and four to ten months to PPV or VOD, then to Pay TV and Free TV eventually.

Release windows

Months	Domestic theatrical	Foreign theatrical	Worldwide Home Video	PPV/VOD	Pay TV	Free TV
Current windows	0 – 4.5	1 – 13	4 and beyond	4.5 – 10	10 – 28	28 – 40

(Source: Morgan Stanley, Dinner and a Movie, 22 September 2010)

Based on industry news, this cycle has been shortened recently, and accordingly, the cash receipt cycle of movies is accelerated:

- *"...films are now entering the video market within 13 weeks following their box office releases, instead of 16 weeks, which had been the industry average. A decade ago, the average window was more than 20 weeks."* [6]

- *"Disney released Alice in Wonderland in home video only 12 weeks after the film's theatrical opening..."* [1]

This effort is expected to benefit sell-through.

- *"...the shortening of release windows between theatrical exhibition and home video will benefit sell-through."* [6]

[6] PwC, Filmed entertainment, June 2010

- *"Shorter release windows are leading to pricing disputes between exhibitors and studios. We expect exhibitors to demand a larger share of the box office in return for a quicker home video release."* [6]

Meanwhile, films are also reaching the VOD market faster than in the past.

- *"Films are also reaching the video-on-demand market faster than in the past—in some cases, concurrent with, or even prior to, their home video release."* [6]

- *"Warner Bros, Fox, Sony and Universal are all on board... four Hollywood studios and DirecTV will launch a pricey premium VOD service at the end of April... Consumers will be able to see a movie 60 days after its release in theaters."* [7]

- *"Video-on-demand is now viewed as a complement to the sell-through market."* [6]

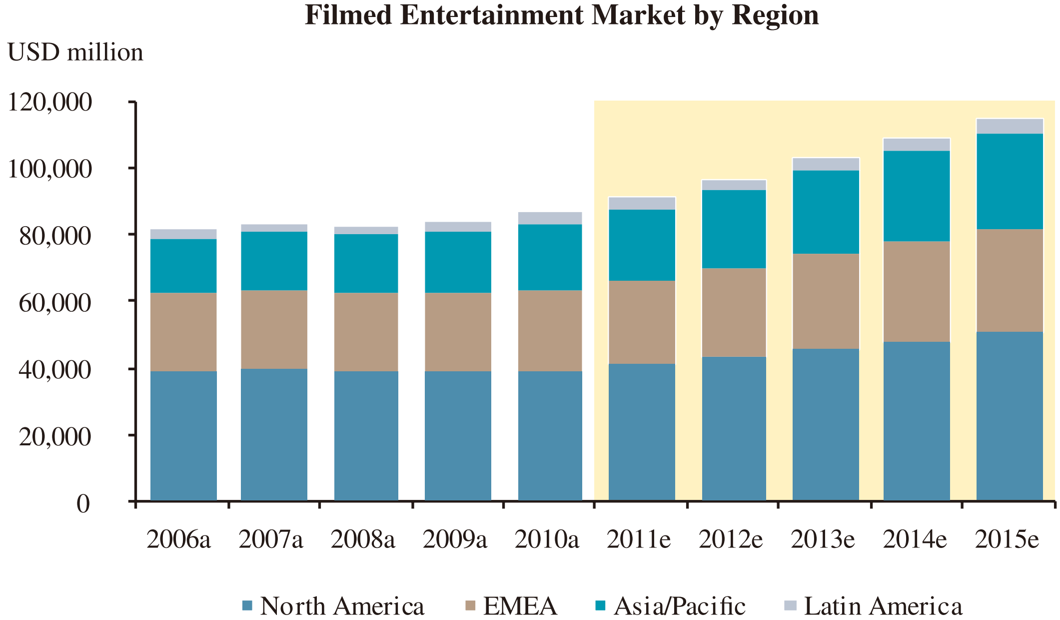
- *"The earlier release enables films to benefit from the initial marketing effort."* [6]

3.1.5 Geographic Market

Despite the divergence views on the outlook of the global market, the majority of the studies believe that the markets in Asia Pacific, especially China and India, are expected to be the fastest growing market in the near future.

The following table summarizes the filmed entertainment market size in each region:

Filmed Entertainment Market by Region



(Source: PwC, Filmed entertainment, 2011)

[7] The Hollywood Reporter, DirecTV to Launch Premium VOD in April, March 2011

Certain studies indicate that the CAGR for the period from 2010 to 2015 for the filmed entertainment market in China and India would be 26% and 10.8%, respectively.[1]

The total revenue for the Asia Pacific market is expected to rise

- *"Asia Pacific will be the fastest-growing region, increasing by 8.0 percent compounded annually to USD29.0 billion in 2015 compared with USD19.8 billion in 2010."* [1]

- *"New multiplexes and growth in 3-D screens will fuel box office spending... High-definition videos will boost physical sell-through, while competition from electronic delivery will cut into in-store rentals."* [1]

3.2 The Chinese filmed entertainment market

Chinese film market is one of the fastest growing film markets in the world. According to Datamonitor, China accounts for approximately 8.5% of the Asia Pacific movies and entertainment market.[8] According to the PwC market study, total revenue of the Chinese film market is expected to reach USD6.3 billion by the end of 2015.[1]

SARFT of China has indicated that the total revenue for movie theatres totaled USD1.5 billion in 2010 which ranks the Chinese market as the fourth largest globally. Researches indicate a consensus of growth in China box office.

Based on our industry research, the number of screens in China is expected to trend upward

- *"And over the next three to four years, the number of cinema screens across the country is likely to increase to 13,000 from 8,000 at present..."* [9]

Even at that growth rate, the total number of screens as a percentage of the population is considered low when compared with developed countries.

3.2.1 Co-production between foreign and Chinese film producers

China has a yearly quota on the theatrical release of foreign films, therefore limiting the release of films produced by non-Chinese film producers. However, the quota system does not extend to films co-produced between foreign and Chinese film producers.

- *"...Another reason for the surge in co-production interest is that China allows only 20 foreign films a year to be brought in for theatrical release. But co-produced films are treated as domestic, with no limit to the number that can be shown."* [9]

- *"To qualify for co-production, the film has to have substantial financial investments from both sides, the copyright has to be shared and a third of the leading actors have to come from China."* [9]

8 Datamonitor, Industry Profile of Movies and Entertainment in China, May 2011

9 China Daily, Co-production the trend in China's movie sector, February 2011

Accordingly, the number of co-production movies has increased over the past few years. This is partly due to the by-pass of the quota system and partly due to the continuous advancement of the movie production related industries (for example: sound stage, post-production support).

- *"the number of films co-produced by China and other countries has increased over the past few years as the development of Chinese film market is low cost and becomes appealing to overseas filmmakers."* [9]

In recent years, most top grossing films in China are co-produced movies. Co-production movies also provide international opportunities for local producers.

- *"In 2009, eight of top 10 box office films were co-produced and this year (2010), 12 out of the top 15 box office hits were co-produced."* [9]

- *"In 2009, among 49 films Chinese films that were shown overseas, 38 were co-produced."* [9]

4. VALUATION METHODOLOGY

For the purpose of the valuation, the Discounted Cash Flow ("DCF") or income approach is selected as the primary methodology to value 100% of the equity in Legendary East.

The DCF approach is considered appropriate due to the close relationship between the value of Legendary East and its ability to generate future cash flows.

Under the DCF valuation method, the value of a business enterprise depends on the present worth of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of Legendary East less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Free cash flow is determined by the formula below:

FCFF = EBIAT + DEPR – CAPEX – NWC

Where:

FCFF	=	Free cash flow to firm – projected free cash flow available to equity and debt holders
EBIAT	=	earnings before interest after tax
DEPR	=	depreciation and amortization expenses
CAPEX	=	capital expenditures
NWC	=	changes in net working capital (current assets net of current liabilities)

The Benchmark Multiples valuation method values equity interest in a company by applying a benchmark multiple to a certain financial measure of the company, such as sales or EBITDA. The benchmark multiple used is generally based on data from listed companies and transactions in a comparable sector, but with consideration given to the specific characteristics of the company being valued. The resultant equity value is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF method.

For the purpose of this engagement, EBIT multiples implied by the DCF analysis are compared with those of the selected companies ("SecCos") for cross checking purposes.

When selecting the SecCos, we considered companies worldwide that primarily engages in the media and entertainment industry and have identified 17 listed companies in the industry, including DreamWorks Animation SKG Inc., Lions Gate Entertainment Corporation, Huayi Brothers Media Group, Bona Film Group Limited, CBS Corporation, Walt Disney Co., News Corporation, Time Warner Inc., Viacom, Inc., Discovery Communications, Inc., Scripps Networks Interactive, Inc., eSun Holdings Ltd., China 3D Digital Entertainment Limited, National Arts Holdings Limited, Orange Sky Golden Harvest Entertainment Holdings Limited, Imagi international holdings Ltd. and See Corporation Limited.

5. FINANCIAL PROJECTIONS AND ASSUMPTIONS

Management has prepared a 17-year financial forecast ("Forecasts") for Legendary East for the period between Valuation Date and the end of 2027. Management has provided assumptions in relation to the assessment of free cash flows during the forecast period including working capital, capital expenditures and film production cost.

For valuation purposes, we have relied primarily on the Forecasts which are based on assumptions prepared by Management. The Forecast is prepared on a nominal basis, i.e. inflation over the projection period has been considered in the Forecasts.

The key assumptions of the Forecasts are summarised as below.

5.1 Co-financed Pictures

Legendary East will invest and participate in two Co-financed Pictures, namely Seventh Son and Paradise Lost, which will be released in 2013.

The revenue and cost of the two Co-financed Pictures are projected based on Legendary's database for comparable titles for these movies. It is assumed that the Co-financed Pictures will be distributed by the Worldwide Distributor and will not have box office in China.

As a co-financer, Legendary East will share 25% net receipts from these movies.

5.2 Movie production

The first film produced by Legendary East is expected to be released in 2013, and two films are expected to be released in each year from 2014 to 2017. From 2018 onwards, Legendary East is expected to produce three movies a year.

It is assumed that all of the production cost of USD100 million for each film will be incurred one year before theatrical release of the film. Only a minimal amount will be incurred in the early planning stages before that period.

Legendary East will be responsible for funding 95% of the total production budget and Huayi will be responsible for funding the remaining 5%.

5.3 Revenue for own productions

Legendary East's revenue streams can be generally classified into two types: theatrical and home entertainment income. These key drivers of all of the revenue items are the expected box office sales of each of the films released.

5.3.1 Box office sales

The box office sales in the US and International (excluding China and the US) are forecast by Management based on a review of Legendary's internal film database and consideration of the box office performance of films considered to be of comparable genre, production budget size (i.e. over USD100 million), talent and director, considered in conjunction with other gathered market information. The forecast box office for the US and International (excluding China and the US) markets for the first Legendary East produced film, which is set to be released in 2013, are USD160 million and USD223 million respectively. The US and International box office markets are assumed to have no growth over the projection period.

The China box office sales of the first film is forecast at USD42 million in 2013, which translates to 19% of International box office. China box office sales were forecast using the methodology outlined above together with Management's review of industry estimates of China box office growth and forecasts of the ranking of the film's box office relative to total China box office. China box office revenue is assumed to grow at 20% per year in 2014 and 2015, and 11% per year afterwards. Based on market information, the market demonstrates a consensus of growth in the PRC box office, albeit the expected growth rates differ. The projected growth rate ranges from 4% to 37%. Management made reference to the projected rates based on their expectation of the market growth which is within the market anticipated growth range.

5.3.2 Theatrical revenues

According to Management, in general, the average theatrical revenue as a percentage of the box office is around 50%.

China theatrical revenue is assumed to be 43.8% of China box office, after deducting business tax and box office sharing with other stakeholders such as distributors and producers.

US theatrical revenue is assumed to be 53.6% of US box office, while International theatrical revenue is assumed to be 42.7% of International box office. The percentages are derived from review of historical figures regarding the correlation between box office and theatrical revenue.

5.3.3 Home entertainment revenues

Home entertainment revenues include income generated from home video, pay-per-view, pay TV, free TV and licensing and merchandising.

Given the piracy problem in China, Management forecasts that the only income in this category in China would come from the internet pay-per-view market which is assumed to be 2% of China box office.

For the US market, home entertainment revenue is assumed to be 100% of US Box Office collectively, while International home entertainment revenue is assumed to be 69.4% of international box office collectively. The percentages are forecast by Management based upon a review of Legendary's database and other gathered market information.

5.4 Film-related expense for own productions

5.4.1 Distribution cost

It is expected that Huayi will be the distributor for China market, while the Worldwide Distributor will distribute for the rest of the world.

It is assumed that the distribution fee will be 11% of theatrical revenue for Huayi, and 11% of both theatrical and home entertainment revenue for the Worldwide Distributor.

5.4.2 Producer fee

Legendary is assumed to be entitled to a producer fee per film in the amount of USD3 million plus 3% of gross receipt and Huayi will be entitled to a producer fee of USD0.5 million per film.

5.4.3 Participations expense

A fixed amount of USD30 million per film is assumed to be the share of box office revenue entitled to directors or actors.

5.4.4 Other Expenses

All the expenses are forecast by Management after review of historical figures of Legendary, except the China Prints and Advertising expense which is assumed to be 10% of International Prints and Advertising expense. Prints and Advertising expenses for the US market and International market are assumed to be 35% to 40% of US box office and 20% to 30% of International box office respectively.

5.5 Timing in recognizing film-related revenues and expenses (except production cost)

Theatrical revenue is assumed to be received within one year. If the film is released in the first half of the year, full revenue would be recognized in that year. If the film is released in the second half of the year, 35% of the income will be recognized in the first year, the remaining 65% of the income will be recognized in the second year.

Regarding home entertainment revenue, 25% of the amount is assumed to be recognized in the first year of release, another 30% in the second year, 15% in the third year, 7.5% in the fourth year, and the remaining amount will be recognized evenly throughout the fifth to tenth years.

Related expenses are assumed to be recognized in proportion of the corresponding revenue.

5.6 Film cost amortization

The production cost of USD100 million per film is assumed to be incurred and is paid one year prior to the theatrical release of the movies, while revenue is earned after the release. To satisfy accounting requirements, instead of booking production expenses prior to theatrical release, these expenses are amortised over a 10 year period after theatrical release.

Most production costs are assumed to be amortised in the first three years. There is minimal amortisation thereafter.

5.7 Expense related to the JV

5.7.1 Capital expenditure

Capital expenditure is assumed to be immaterial as film production involves using the facilities of the studios on a "rental" basis, and the corresponding expense is covered in the production cost already.

The capital expenditure in the projections refers to payment for office equipment or related items for Legendary East only.

5.7.2 Selling, General & Administrative Expenses

Selling, general & administrative expenses mainly comprise salary, travel, accounting, insurance and legal expenses, which are estimated based on forecast needs of Legendary East.

These expenses are projected to increase by 5% annually from 2013 to 2027.

5.7.3 Tax

It is assumed that Legendary East would be subject to a corporate income tax rate of 25% over the projection period, based on tax advice Legendary East has sought in respect of Legendary East's intended operations.

We note that the historical effective tax rate for selected companies in the industry ranged from 5% to 17% in the latest financial year.

5.8 Working capital

The only working capital assumed in the forecast is accounts receivable. The level of the accounts receivable is based on 90 day turnover relative to revenue.

5.9 Financing facilities

It is expected that the first two films will be funded by equity. Afterwards, the asset-backed bank facilities are expected to be the primary source of funding.

6 VALUATION PARAMETERS

6.1 Discount rate

In order to estimate the fair market value of a company, it is common to capitalise pre-interest and tax cash flows using rates derived from the weighted average cost of capital ("WACC") formula. The WACC represents a weighted average of a company's cost of debt and cost of equity, and the weighting is based on the appropriate long-run capital structure of the company, measured on a market basis. An investment that is expected to generate a return equal to the WACC would be capable of covering interest costs to debt-holders and providing an acceptable rate of return to equity-holders. The WACC therefore is the overall return on investment required by the investors.

The formula for calculating WACC is shown below:

$$WACC = Ke * (Eq/IC) + Kd * (D/IC)$$

Where:

Ke	=	Cost of equity
Eq	=	Equity
IC	=	Invested capital (equity plus all interest bearing debt)
Kd	=	Tax adjusted cost of debt
D	=	Debt

After discounting pre-interest and tax cash flows with the appropriate WACC, the resulting calculation represents the fair market value of a company's working capital, tangible assets and intangible assets (referred to as enterprise value or "EV"). The fair market value of the equity is then determined by adjusting for any non-operating assets/liabilities and subtracting the fair market value of outstanding debt, if any, from the EV.

The calculation of WACC in respect of Legendary East is set out in Section 6.1.4.

6.1.1 Levered cost of Equity

One of the primary constituents of the calculation of WACC is the "levered cost of equity". This represents the after-tax rate of return on equity required after considering both the operating and financial risk of the company, in particular its debt structure.

The model most frequently used to determine the required rate of return the investor would expect to earn on equity investments of equivalent risk is the Capital Asset Pricing Model ("CAPM"), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM states that the cost of equity is the risk free rate plus a linear function of a measure of systematic risk ("Beta") times equity market premium in general. The guideline companies used in deriving the discount rate are companies engaged in similar business.

Using the CAPM model, the levered cost of equity is calculated as follows:

CAPM Equation

k_e	=	$r_f + ß\ r_m + {}_C$ or
Levered cost of Equity	=	Risk Free Rate + ß x (Expected Market Return – Risk Free Rate) + company specific risks

Where

r_f	=	the risk free rate of return
r_m	=	the additional return expected from a stock market portfolio to compensate for risk or MRP
ß	=	the beta factor which measures the risk of the investment relative to that of the market portfolio
c	=	Company specific risks

Underlying the CAPM is the notion that the capital market is populated by rational risk-averse investors who, because they are risk-averse, require extra return on investments that carry risk. In practice, however, all investments in companies carry some risk.

Risk free rate

The risk free rate generally used is the rate available on instruments considered to have virtually no possibility of default, such as government bonds issued in the country in which the company operates. Such instruments compensate the holders for renting out their money and for the expected loss of purchasing power (inflation) during the holding period. Accordingly, the long-term government bond rate should be used as the risk free rate (including inflation).

Legendary East generates its revenue from worldwide with a significant portion from the US. Taking this into regard, we have used the current yield to maturity on 30-year US Treasury Bonds as a proxy for the long-term risk free rate, which as at Valuation Date was in the order of 3.2%. *(Source: Capital IQ)*.

Equity risk premium ("ERP")

The ERP used in the CAPM is the expected additional return that equity investors require (on a representative portfolio of equities) over a risk free investment to compensate for the additional risk associated with investing in equities relative to the risk free investment.

As a significant amount of revenue and expense is generated or incurred in the US, we have estimated the ERP by referencing to the ERP for the US.

Numerous studies and views have put the range of US ERP between 4% and 10%, with the majority of recent estimates in the 5% to 7% range, depending on the type of average used to compute the estimate. For the purpose of our valuation, we have adopted an ERP of 6%.

Beta

The beta coefficient measures the relative volatility of a specific investment against the general performance of the market; that is, it measures the relative risk for an investment against the overall market. It refers to non-diversifiable risk, that is to say, those risks that arise principally within the economy and that cannot be removed by diversification within a portfolio of investments. When applied to CAPM, it adjusts the market premium for the degree of risk associated with that investment.

Observed betas in the market reflect actual financing structures. For the purpose of this report, we have un-levered the beta observed in the market for the impact of financing structures and then re-levered this asset beta based on the adjusted average debt-to-equity ratio of SecCos as a proxy for the long-term optimal capital structure of Legendary East.

Using the method described, the relevant beta is 1.07.

Size and Company-specific Risk Premiums

An additional premium of 4.1% is added in determining the cost of equity as Legendary East is small in size (measured in total assets, revenues and profits) compared with that of the SecCos. An investor would normally require an additional return for investing in a company of a smaller size. Market studies, such as those conducted by Ibbotson Associates[10] in 2011, indicate the average size premium for small companies listed on the New York Stock Exchange/American Stock Exchange/NASDAQ National Market is 4.1% (based on data from 1926 to 2010 for companies of Micro-Capitalisation).

We have also considered the circumstances and risk factors of Legendary East. Given the status of the operation, a specific risk premium of 7% is added to reflect the uncertainty of the cash flows in the financial projections.

Conclusion on levered cost of equity

Using the above estimates, the levered cost of equity is calculated as follows:

Components	**Percentage**
Risk free rate	3.2%
plus: Equity market risk premium	6.0%
times: Equity beta	1.07
plus: Size Risk Premium	4.1%
plus: Company-specific risk	7.0%
Levered cost of equity	20.7%

[10] Ibbotson Associates issues an annual valuation yearbook. The size premium stated makes reference to the size premium stated in the book, 2011 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook.

6.1.2 Cost of Debt

A cost of debt of 5% is adopted for the purpose of the valuation by making reference to the expected borrowing cost of Legendary East.

This rate represents the pre-tax cost of debt that Legendary East would incur should they require financing. In arriving at the cost of debt, it should be noted that the debt financed is able to generate a tax benefit due to the payment of interest. As such, a post-tax cost of debt should be used for the calculation of WACC. The post-tax cost of debt would be about 3.8% for Legendary East, based on the tax rate applicable to Legendary East of 25%.

6.1.3 Financial Leverage

A rational investor would optimize the capital structure of Legendary East by using an appropriate level of debt. This capital structure derived from SecCos average is considered an appropriate proxy of the long term optimal capital structure of Legendary East.

For the SecCos, the adjusted average Debt-to-Equity ratio is 22.0%, or a debt amount of 18.0%. This is used for determining the WACC.

6.1.4 Final WACC Calculation

Using the above information and the formula shown on 6.1, the final WACC is determined to be 17.5% as shown below:

WACC = Ke * (Eq/IC) + Kd * (D/IC)

WACC = 20.7% * 82.0% + 3.8% * 18.0%
= 17.5% (rounded)

6.2 Terminal Value

Legendary East is expected to operate on a perpetual basis. Accordingly, we have calculated a terminal value of Legendary East at the end of the explicit forecast period to reflect the value of Legendary East beyond the explicit forecast period.

In deriving the terminal value, we have adopted the constant growth model which assumes the business to grow at a constant rate into perpetuity. The terminal growth rate is assumed to be 2%. Which makes reference to Economist Intelligence Unit’s forecast long term inflation rate.

6.3 Marketability discount

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

There have been a number of marketability discount studies in the United States that have focused on the differences between transactions in common stock and restricted stock of the same publicly traded companies. The results of these studies have indicated a marketability discount for privately held companies in the range of 20% to 43%.

In determining the level of marketability discount of Legendary East, we have considered a number of factors, including the stage of the company, size of company, size of the transaction, market environment of the film entertainment industry, etc. We have adopted a marketability discount of 20% which is at the low end of the range, to reflect the level of investors' interest in the film production industry in particular in China, the fact that both Huayi and Legendary are major players in the industry, and the relatively large size of the transaction.

6.4 Net debt

According to the Management, Legendary East was debt-free as at the Valuation Date, and therefore no adjustment was made to the equity value calculation.

7. GENERAL ASSUMPTIONS AND LIMITATIONS

General assumptions

- For valuation purposes, we have primarily relied on the financial forecast of Legendary East which are based on assumptions prepared by the Management.
- Laws and regulations related to Legendary East's business environment will remain unchanged in the future.
- Legendary East does not have significant contingent liabilities, unusual contractual obligations or substantial commitments as at the Valuation Date.
- Legendary East has no significant pending or threatened litigation as at the Valuation Date.
- There are no violations of any regulations or laws by Legendary East.
- Legendary East will maintain its operation on a going concern basis.
- There were no redundant assets as at the Valuation Date.

- It is assumed that Legendary East will be able to achieve its business plan to release the first film in 2013, and to release two films each year between 2014 and 2017, and three films from 2018 onwards such that the forecast sales growth and margins can be achieved during the projection period.

8. SUMMARY OF VALUATION

Based on the financial projections provided by the Management, the 100% equity value of Legendary East is estimated to be USD229.6 million, as at the Valuation Date, excluding the equity drawdown, on a non-marketable basis.

Value summary in USD million

Total present value of FCFF in the projection period		134.6
Terminal value		153.4
Enterprise value		288.0
Less: Net debt		–
Less: reimbursement of development cost		(1.0)
Indicative 100% equity value on a marketable basis		287.0
Marketability discount	20.0%	(57.4)
Indicative 100% equity value before equity injection		229.6

In computing the fair market value of the value of the 100% equity interest of Legendary East, we have utilised the following assumptions:

- discount rate of 17.5%;
- terminal growth rate of 2%; and
- marketability discount of 20%

9. SENSITIVITY ANALYSIS

In undertaking the valuation, we note that the equity value of Legendary East is sensitive to the discount rate and terminal growth rate. In addition, among the key value drivers, we also note that the equity value of Legendary East is very sensitive to the timing of the release of movie production and the profitability of the movies.

The following table sets out the sensitivity analysis on discount rate and terminal growth rate:

Sensitivity analysis

		Discount rate										
in USD million		**12.5%**	**13.5%**	**14.5%**	**15.5%**	**16.5%**	**17.5%**	**18.5%**	**19.5%**	**20.5%**	**21.5%**	**22.5%**
Terminal growth rate	**1.0%**	598.7	492.3	405.1	332.9	272.5	221.7	178.6	141.8	110.2	83.0	59.5
	2.0%	631.4	516.2	422.9	346.3	282.8	**229.6**	184.7	146.6	114.0	86.0	61.9
	3.0%	670.9	544.7	443.8	361.9	294.5	238.6	191.7	152.0	118.3	89.4	64.5
	4.0%	719.7	579.1	468.6	380.1	308.2	248.9	199.5	158.1	123.0	93.1	67.5
	5.0%	781.5	621.7	498.8	401.9	324.2	260.9	208.6	165.0	128.4	97.3	70.8

We note that the equity value is very sensitive to the change in discount rate. If the discount rate is increased by 1% from 17.5% to 18.5%, the equity value will decrease by 20%.

The equity value is less sensitive to the change in terminal growth rate. If the terminal growth rate is decreased by 1% from 2% to 1%, the equity value will decrease by approximately 3%.

We also performed sensitivity analysis on marketability discount. The following table sets out the sensitivity analysis:

Sensitivity analysis

	Marketability discount				
in USD million	**20.0%**	**25.0%**	**30.0%**	**35.0%**	**43.0%**
Equity value	**229.6**	215.3	200.9	186.6	163.6

If the marketability discount is 25% instead of 20%, the equity value will decrease by 6%.

Yours faithfully
For and on behalf of
KPMG Transaction Advisory Services Ltd.

Janet Cheung
Director

A. DISCLAIMERS AND OTHER DISCLOSURES

Disclaimers

This report has been prepared solely for the purpose set out in Section 1 of this report. It is not intended that this report should be used or relied upon for any purpose. KPMG TAS expressly disclaims any liability to any party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG TAS nor its affiliates have been involved in the preparation of the Circular. Accordingly, we take no responsibility for the content of the Circular.

Consent

KPMG TAS consents to the inclusion of this report in the form and context in which it is included with the Circular to be issued to the shareholders of Paul Y.. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG TAS as to the form and context in which it appears.

Indemnity

Paul Y. has agreed to indemnify and hold harmless KPMG TAS, the KPMG Partnership and, or, KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG TAS, the KPMG Partnership and, or, KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by Paul Y. of its obligations.

Paul Y. has also agreed that KPMG TAS, the KPMG Partnership and, or, KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by Paul Y. or any of its representatives, which is false, misleading or incomplete. Paul Y. has agreed to indemnify and hold harmless KPMG TAS, the KPMG Partnership and, or, KPMG entities related to the KPMG Partnership from any such liabilities we may have to Paul Y. or any third party as a result of reliance by KPMG TAS, the KPMG Partnership and, or, KPMG entities related to the KPMG Partnership on any information provided by Paul Y. or any of its representatives, which is false, misleading or incomplete.

B. SOURCE OF INFORMATION

In preparing this report we have considered information provided by Management and other sources, as follows:

- Draft equity term sheet to be entered between Legendary, Huayi Brothers and Paul Y.
- Legendary East's financial projections for the period from 2011 to 2027, and the underlying assumptions and their supporting documents
- Data providers including Capital IQ and Bloomberg
- industry reports and news, including:
  - PwC, Filmed entertainment, June 2010
  - PwC, Filmed entertainment, June 2011
  - Datamonitor, Global Movies & Entertainment, May 2011
  - First Research, Motion Picture Production and Distribution, 9 May 2011
  - Morgan Stanley, Dinner and a Movie, 22 September 2010
  - Marketing Science, The motion picture industry: Critical issues in practice, current research, and new research directors, 2006
  - The Hollywood Reporter, DirecTV to Launch Premium VOD in April, March 2011
  - China Daily, Co-production the trend in China's movie sector, 10 February 2011
  - Datamonitor, Industry Profile of Movies and Entertainment in China, May 2011

In addition, we have had discussions with Paul Y, Legendary East and Legendary.

C. GLOSSARY

Transaction Parties

Huayi	Huayi Brothers International Limited
Huayi Brothers	Huayi Brothers Media Corporation
Legendary	Legend Pictures, LLC
Legendary East	Legendary East Ltd
Paul Y.	Paul Y. Engineering Group Ltd

Other Parties

KPMG TAS	KPMG Transaction Advisory Services Limited
Management	Management of Legendary East
Warner Bros	Warner Bros. Entertainment, Inc.
Worldwide Distributor	A renowned worldwide distributor based in the United States with breadth of distribution network

Valuation Terms

CAPM	Capital Asset Pricing Model
SecCos	Selected companies
DCF	Discounted cash flow
EBIAT	Earnings before interest after taxes
ERP	Equity risk premium
EV	Enterprise value
FCFF	Free cash flow to firm
Ke	Cost of equity
rf	Return generated from risk free investments
Valuation Date	6 September 2011
WACC	Weighted average cost of capital

Other Terms

CAGR	Compound annual growth rate
Chinese-Themed Pictures	Wide theatrical English motion pictures that are based in Chinese history, mythology and, or, culture
Co-financed Pictures	The two films to be produced or co-produced by Legendary (or its affiliates)
Forecasts	Legendary East's financial projections for the period from 2011 to 2027, which is prepared, and provided by Management
JV	Joint venture
PRC	People's Republic of China
PPV	Pay-per-view
SARFT	State Administration of Radio, Film and Television
Term Sheet	Draft equity term sheet to be entered between Legendary, Huayi and Paul Y.
Transaction	The set up of Legendary East as a JV by Legendary, Huayi and Paul Y., to produce and distribute Chinese-themed Pictures
USD	United States dollars
VOD	Video-on-demand

A. Letter from the reporting accountant on the valuation report on the Film Joint Venture

The following is the text of an accountants' report on calculations of discounted future estimated cash flows in connection with the valuation of 100% equity interest in Legendary East Ltd. received from the independent reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for incorporation in this circular.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTEREST IN LEGENDARY EAST LTD.

TO THE DIRECTORS OF PAUL Y. ENGINEERING GROUP LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation, prepared by KPMG Transaction Advisory Services Limited dated 19 September 2011, of 100% equity interest in Legendary East Ltd. ("Legendary East") as at 6 September 2011 (the "Valuation") is based. Legendary East was a company set up by Legend Pictures, LLC ("Legendary"), and will be a joint venture company of Legendary, Huayi Brothers International Limited and Paul Y. Engineering Group Limited (the "Company"). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in a circular dated 24 October 2011 to be issued by the Company in connection with (i) proposed placing requiring a specific mandate to issue new shares of HK$0.20 each in the share capital of the Company; (ii) proposed cash contribution to Legendary East constituting a very substantial acquisition; (iii) proposed capital reduction by the Company and proposed distribution in specie of a 49% interest in the Company's existing businesses with a cash alternative offered by PYI Corporation Limited, the ultimate holding company of the Company; and (iv) proposed cash dividend of HK$0.25 per share with a scrip alternative (the "Circular").

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in Appendix II to the Circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Legendary East.

Because the Valuation relates to the discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 October 2011

B. Letter from the financial adviser on the valuation report on the Film Joint Venture

The following is the text of a letter, prepared for inclusion in this circular, from Anglo Chinese in connection with the fair market valuation of 100% equity of Legendary East.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
財務顧問有限公司 英高
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

24 October 2011

The Board of Directors
Paul Y. Engineering Group Ltd
16/F, Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

We refer to the independent valuation in connection with the fair market value of 100% equity of Legendary East Ltd. ("**Legendary East**") by KPMG Transaction Advisory Services Limited as at 19 September 2011 (the "**Valuation**") as set out in appendix II in the circular of Paul Y. Engineering Group Limited (the "Company") dated 24 October 2011 (the "**Circular**").

The valuation methodology of the Valuation was based on the discounted cash flow of the future estimated cash flows of Legendary East (the "**Forecast**") as prepared by the management of the Company, Legendary East, and Legend Pictures, LLC (the "**Management**"), and for which the Management are solely responsible.

We have discussed with the Management the bases and assumptions, as set out in appendix II of the Circular, upon which the Forecast has been made. We have also considered the letter to the Company from Deloitte Touche Tohmatsu dated 24 October 2011 regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing and in the absence of unforeseeable circumstances, the bases and assumptions made by the Management and the accounting policies and calculations adopted by the Management and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which the Management are solely responsible, has been made after due and careful enquiry.

Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stuart Wong
Director

A. FINANCIAL INFORMATION OF THE GROUP

1. FINANCIAL REPORTS

Financial information on the Group for each of the three years ended 31 March 2009, 2010 and 2011 are disclosed in the annual reports of the Company for the years ended 31 March 2009 at http://www.hkexnews.hk/listedco/listconews/sehk/20090728/LTN20090728259.pdf; 31 March 2010 at http://www.hkexnews.hk/listedco/listconews/sehk/20100729/LTN20100729652.pdf; and 31 March 2011 at http://www.hkexnews.hk/listedco/listconews/sehk/20110721/LTN20110721297.pdf respectively, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.pyengineering.com/pyeCms/en/finInfo.jsp). The auditor's reports issued for each of the three years ended 31 March 2009, 2010 and 2011 are not qualified.

The following table summarises the results, and the assets and liabilities of the Group for each of three years ended 31 March:

Results

	Year ended 31 March		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	4,333,791	3,644,873	4,427,216
Cost of sales	(4,141,601)	(3,449,549)	(4,230,966)
Gross profit	192,190	195,324	196,250
Other income	12,889	22,894	31,213
Administrative expenses	(155,611)	(152,195)	(170,462)
Finance costs	(10,076)	(13,561)	(18,924)
Gain on disposal of an associate	–	25	–
Gain on disposal of a subsidiary	–	185	–
Impairment loss recognised in respect of goodwill	(74)	(2,692)	–
Share of results of associates	(552)	3,072	149
Share of results of jointly controlled entities	2,892	(5,241)	743
Profit before tax	41,658	47,811	38,969
Income tax expense	(7,895)	(1,240)	(2,960)
Profit for the year	33,763	46,571	36,009
Profit for the year attributable to:			
Owners of the Company	30,083	44,688	40,218
Non-controlling interests	3,680	1,883	(4,209)
	33,763	46,571	36,009

Assets and Liabilities

	As at 31 March		
	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	477,887	358,978	206,428
Current assets	2,293,761	2,189,912	2,186,888
Current liabilities	(2,158,124)	(1,954,505)	(1,795,664)
Non-current liability	(9,203)	(4,972)	(47,964)
	604,321	589,413	549,688
Attributable to:			
Owners of the Company	605,393	574,657	536,815
Non-controlling interests	(1,072)	14,756	12,873
TOTAL EQUITY	604,321	589,413	549,688

2. INDEBTEDNESS

(a) Borrowings

As at the close of business on 31 August 2011, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had aggregate outstanding borrowings of approximately HK$321.9 million comprising (i) secured bank borrowings of approximately HK$145.6 million; and (ii) unsecured bank borrowings of approximately HK$176.3 million.

The secured bank borrowings were secured by the Group's bank deposits of approximately HK$89.1 million, property, plant and equipment with an aggregate carrying amount of approximately HK$42.3 million and charges over the Group's benefit from certain construction contracts as at 31 August 2011.

(b) Contingent liabilities

As at the close of business on 31 August 2011, the Enlarged Group had contingent liabilities in respect of guarantee of approximately HK$36.8 million given to banks for banking facilities granted to an associate and jointly controlled entities.

(c) Disclaimer

Save as aforesaid or as otherwise disclosed on pages 117 and 238 to this circular under the heading "Litigation" , and apart from intra-group liabilities, as at the close of business on 31 August 2011, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, financial leases or hire purchases commitments, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2011, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

After taking into account the Enlarged Group's:

(a) internal financial resources;

(b) present available banking facilities;

(c) cash flows to be generated from the operating activities of the existing Group;

(d) net proceeds of approximately HK$1,886.1 million to be received from the issue of Placing Shares under the Independent Placing Agreement and the AID Subscription Agreement;

(e) cash outflow arising on a cash contribution to Legendary East constituting a very substantial acquisition of approximately HK$1,719.9 million; and

(f) payment of special cash dividend of approximately HK$151.7 million,

the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirement, that is for at least the next twelve months from the date of this circular.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED 31 MARCH 2011

1. Business review

For the year ended 31 March 2011, the Group's business activities organised into two segments including (1) management contracting division and (2) property development management division. The management contracting division remained as the core business and the major revenue contributor of the Group.

For the year ended 31 March 2011, the Group's turnover and gross profit amounted to approximately HK$4,333.8 million and approximately HK$192.2 million, representing an increase of approximately 18.9% and a decrease of approximately 1.6% from last year, respectively. Gross profit ratio amounted to approximately 4.4%, representing a decrease of approximately 0.9%, which was mainly due to the rise in manpower costs and material price.

For the year ended 31 March 2011, the Group's profit attributable to owners of the Company and basic earnings per share amounted to approximately HK$30.1 million and approximately HK$0.05, representing an decrease of approximately 32.7% and approximately 32.4% from last year, respectively, which is mainly due to the decrease in interest income and increase in income tax expense.

2. Comments on segment information

For the year ended 31 March 2011, the turnover and operating profit of the management contracting division amounted to approximately HK$4,312.9 million and approximately HK$82.9 million, representing an increase of approximately 18.8% and a decrease of approximately 24.6% from last year, respectively. This division has secured new construction contracts with an aggregate value of approximately HK$4,669.3 million, representing an increase of approximately 4.2% from last year. As at 31 March 2011, the value of contracts on hand and value of work remaining amounted to approximately HK$10,406.8 million and approximately HK$5,907.5 million, representing an increase of approximately 4.0% and approximately 8.1% from last year, respectively.

For the year ended 31 March 2011, the turnover and operating profit of the property development management division amounted to approximately HK$22.6 million and approximately HK$3.6 million respectively. However, the value of contracts on hand for property development management division at the year end was reduced to approximately HK$0.7 million.

3. Major customers and suppliers

For the year ended 31 March 2011, the five largest customers and the single largest customer of the Group accounted for approximately 66% and 26% of the turnover of the Group, respectively. The aggregate purchases attributable to the five largest suppliers of the Group during the year were less than 30% of the purchases of the Group.

As far as the Directors are aware, none of the Directors, their associates, or any Shareholders which to the knowledge of the Directors own more than 5% of the share capital of PYE have an interest in any of the five largest customers of the Group for the year ended 31 March 2011.

4. Capital structure, liquidity and financial resources

As at 31 March 2011, the Group's bank deposits, bank balances and cash amounted to approximately HK$407.1 million, of which approximately HK$360.0 million, HK$36.8 million, HK$10.0 million and HK$0.3 million were denominated in HK$, RMB, MOP and US$ respectively. The Group's bank deposits, bank balances and cash represented approximately 67.2% of equity attributable to owners of the Company of approximately HK$605.4 million and approximately 14.7% of the total assets of approximately HK$2,771.6 million. Current assets amounted to approximately HK$2,293.7 million, representing approximately 1.1 times the current liabilities of approximately HK$2,158.1 million.

Under its prudent funding and treasury policies, the Group maintains a variety of credit facilities to meet requirements of working capital. As at 31 March 2011, the Group's total bank borrowings amounted to approximately HK$253.9 million of which approximately HK$244.7 million are repayable within one year. Approximately 99.2% of these bank borrowings are at floating interest rates and all bank borrowings are denominated either in Hong Kong Dollars or Renminbi. The Renminbi borrowings are directly tied in with the Group's business in the PRC. No financial instruments were used for hedging purpose.

As at 31 March 2011, the Group's gearing ratio, measured as the total bank borrowings of approximately HK$253.9 million over the equity attributable to owners of the Company of approximately HK$605.4 million, was reduced from approximately 0.56 at 31 March 2010 to about 0.42 at 31 March 2011.

The Group's net cash inflow from operating activities and net cash outflow from investing and financing activities amounted to approximately HK$212.4 million and approximately HK$174.7 million respectively, resulting in a net increase in cash and cash equivalents of approximately HK$37.7 million for the year.

As at 31 March 2011, the Group had capital expenditure contracted for but not provided in the consolidated financial statements, in respect of the acquisition of property, plant and equipment, of approximately HK$4.8 million.

As at 31 March 2011, the Group did not have any outstanding forward contracts in foreign currency committed that might involved it in significant foreign exchange risks and exposures.

5. Contingent liabilities and pledge of assets

As at 31 March 2011, the Group's contingent liabilities, in respect of guarantee given to banks for banking facilities granted to an associate and jointly controlled entities, amounted to approximately HK$36.8 million.

As at 31 March 2011, the Group pledged bank deposits of approximately HK$75.0 million, property, plant and equipment of approximately HK$34.6 million, and charged the Group's benefits over certain construction contracts to secure general banking facilities granted to the Group.

6. Employee and remuneration policy

As at 31 March 2011, the Group employed 1,354 full-time employees. Total staff costs during the year amounted to approximately HK$398.4 million. All employees were remunerated based on the employees' skill, knowledge, involvement in the Group's affairs and the Group's performance, as well as remuneration benchmark in the industry and the prevailing market conditions. The ultimate objective of the remuneration policy is to ensure the Group is able to attract, retain and motivate a high-calibre team which is essential to its success. The Group also offers benefits to employees including discretionary bonus, training, medical coverage and three share incentive schemes, namely Share Option Scheme, share award scheme and share financing plan. For the year ended 31 March 2011, no Shares were granted under the said schemes.

7. Material investments, acquisitions and disposals

For the year ended 31 March 2011, the Group did not have any material investment, acquisitions and disposals.

8. Financial and trading prospects

The global market remains very complex. The disaster in Japan, the political unrest in the Middle East, the Eurozone sovereign debt problem and the expiry of the quantitative easing policy in the U.S. will further increase the uncertainty and volatility in the foreign exchange and the worry for the possible shock to the global economy. However, the strong economic growth in PRC and the infrastructure projects put on stream by the Hong Kong government will continue to underpin the growth of the local construction industry in the impending years.

Some of the Ten Major Infrastructure Projects have been rolled out in the market as scheduled. Other major projects invested by the HKSAR Government are also expected to commence in the forthcoming years. The HKSAR Government estimates that the capital works expenditure for each of the next few years will exceed HK$60 billion per annum. However, the balance between market demand and supply will inevitably be shifted as the industrial capacity is filled up rapidly over a short period of time. As a result, the shortage of trained professionals and skilled labour may erode the profit margin of those committed projects. The recent ruling against the environmental impact report on the Hong Kong-Zhuhai-Macau Bridge will surely delay the launch of some scheduled projects. Accordingly, competition is expected to become severe in the short run when all the contractors put their focus on those unaffected projects. On the other hand, the continuous growth of the overall economy in PRC and Macau will drive the demand for infrastructure and professional engineering services constantly. Those contractors who have carefully planned their resources and capacity will outperform the market consequently. The Group will maintain an optimal balance of risk and return to shareholders, and strive for growth but remain vigilant for any adverse effects on our profit margin arising from drastic fluctuation of exchange rates, labour and material costs.

Looking forward, the Group will continue to take a proactive approach in tapping opportunities in the market while managing the risks through joint ventures with other contractors in major infrastructure projects and enhancement of operation efficiency. More emphasis will be put in the PRC market. With a solid existing business, the Group will explore new business opportunities in the regions for enhancing the returns to our shareholders, should such opportunities arise.

FOR THE YEAR ENDED 31 MARCH 2010

1. Business review

For the year ended 31 March 2010, the Group's business activities organised into two segments including (1) management contracting division and (2) property development management division. The management contracting division remained as the core business and the major revenue contributor of the Group.

For the year ended 31 March 2010, the Group's turnover and gross profit amounted to approximately HK$3,644.9 million and approximately HK$195.3 million, representing a decrease of approximately 17.7% and approximately 0.5% from last year, respectively. Gross profit ratio amounted to approximately 5.4%, representing a slight increase of approximately 0.9%, which was mainly contributed by the continued effort in cost control and prudent risk management.

For the year ended 31 March 2010, the Group's profit attributable to owners of the Company and basic earnings per share amounted to approximately HK$44.7 million and approximately HK$0.074, representing an increase of approximately 11.1% and approximately 10.4% from last year, respectively, which is mainly due to the decrease in administrative expenses.

2. Comments on segment information

For the year ended 31 March 2010, the turnover and operating profit of the management contracting division amounted to approximately HK$3,629.6 million and approximately HK$109.9 million, representing a decrease of approximately 17.5% and an increase of approximately 22.5% from last year, respectively. This division has secured new construction contracts with an aggregate value of approximately HK$4,480.9 million, representing an increase of approximately 8.0% from last year. As at 31 March 2010, the value of contracts on hand and value of work remaining amounted to approximately HK$10,005.9 million and approximately HK$5,465.6 million, representing a decrease of approximately 4.2% and an increase of approximately 26.2% from last year, respectively.

For the year ended 31 March 2010, the turnover and operating loss of the property development management division amounted to approximately HK$19.2 million and approximately HK$12.1 million respectively. However, the value of contracts on hand amounted to approximately HK$86.8 million.

3. Major customers and suppliers

For the year ended 31 March 2010, the five largest customers and the single largest customer of the Group accounted for approximately 67% and 30% of the turnover of the Group, respectively. The aggregate purchases attributable to the five largest suppliers of the Group during the year were less than 30% of the purchases of the Group.

As far as the Directors are aware, none of the Directors, their associates, or any Shareholders which to the knowledge of the Directors own more than 5% of the share capital of PYE have an interest in any of the five largest customers of the Group for the year ended 31 March 2010.

4. Capital structure, liquidity and financial resources

As at 31 March 2010, the Group's bank deposits, bank balances and cash amounted to approximately HK$322.6 million, of which approximately HK$243.2 million, HK$77.4 million and HK$2.0 million were denominated in HK$, RMB and MOP respectively. The Group's bank deposits, bank balances and cash represented approximately 56.1% of equity attributable to owners of the Company of approximately HK$574.7 million and approximately 12.7% of the total assets of approximately HK$2,548.9 million. Current assets amounted to approximately HK$2,189.9 million, representing approximately 1.1 times the current liabilities of approximately HK$1,954.5 million.

Under its prudent funding and treasury policies, the Group maintains a variety of credit facilities to meet requirements of working capital. As at 31 March 2010, the Group's total bank borrowings amounted to approximately HK$322.4 million of which approximately HK$317.4 million are repayable within one year. Approximately 98.3% of these bank borrowings are at floating interest rates and all bank borrowings are denominated either in Hong Kong Dollars or Renminbi. The Renminbi borrowings are directly tied in with the Group's business in the PRC. No financial instruments were used for hedging purpose.

As at 31 March 2010, the Group's gearing ratio, measured as the total bank borrowings of approximately HK$322.4 million over the equity attributable to owners of the Company of approximately HK$574.7 million, was reduced from approximately 0.59 at 31 March 2009 to about 0.56 at 31 March 2010.

The Group's net cash flow used in operating activities and net outflow from investing and financing activities amounted to approximately HK$31.5 million and approximately HK$54.2 million respectively, resulting in a net decrease in cash and cash equivalents of approximately HK$85.7 million for the year.

As at 31 March 2010, the Group had capital expenditure contracted for but not provided in the consolidated financial statements, in respect of the acquisition of property, plant and equipment, of approximately HK$2.9 million.

As at 31 March 2010, the Group did not have any outstanding forward contracts in foreign currency committed that might involved it in significant foreign exchange risks and exposures.

5. Contingent liabilities and pledge of assets

As at 31 March 2010, the Group did not have any significant contingent liabilities.

As at 31 March 2010, the Group pledged bank deposits of approximately HK$31.6 million, property, plant and equipment of approximately HK$15.7 million, and charged the Group's benefits over certain construction contracts to secure general banking facilities granted to the Group.

6. Employee and remuneration policy

As at 31 March 2010, the Group employed 1,386 full-time employees. Total staff costs during the year amounted to approximately HK$350.7 million. All employees were remunerated based on the employees' skill, knowledge, involvement in the Group's affairs and the Group's performance, as well as remuneration benchmark in the industry and the prevailing market conditions. The ultimate objective of the remuneration policy is to ensure the Group is able to attract, retain and motivate a high-calibre team which is essential to its success. The Group also offers benefits to employees including discretionary bonus, training, medical coverage and three share incentive schemes, namely Share Option Scheme, share award scheme and share financing plan. For the year ended 31 March 2010, no Shares were granted under the said schemes.

7. Material investments, acquisitions and disposals

For the year ended 31 March 2010, the Group did not have any material investment, acquisitions and disposals.

8. Financial and trading prospects

The medium-term development of global economy was shadowed by the recent financial crisis in Greece, which might spread throughout Europe and affect other major economies in the world, casting uncertainties on their currency and fiscal markets. Such drawbacks, however, are unlikely to substantially affect the strong growth in PRC, which was supported by strong domestic demand and ongoing urban development. Provided with enormous opportunities arising in PRC, the prospect of the Hong Kong economy remained optimistic.

FOR THE YEAR ENDED 31 MARCH 2009

1. Business review

For the year ended 31 March 2009, the Group's business activities organised into two segments including (1) management contracting division and (2) property development management division. The management contracting division remained as the core business and the major revenue contributor of the Group.

For the year ended 31 March 2009, the Group's turnover and gross profit amounted to approximately HK$4,427.2 million and approximately HK$196.3 million, representing a decrease of approximately 9.9% and approximately 16.1% from last year, respectively. Gross profit ratio amounted to approximately 4.4%, representing a decrease of approximately 0.3%, which was mainly due to the increase in material prices, wages and competition.

For the year ended 31 March 2009, the Group's profit attributable to owners of the Company and basic earnings per share amounted to approximately HK$40.2 million and approximately HK$0.067, representing a decrease of approximately 66.3% and approximately 66.8% from last year, respectively, which is mainly due to the decrease in gross profit and share of results of associates.

2. Comments on segment information

For the year ended 31 March 2009, the turnover and operating profit of the management contracting division amounted to approximately HK$4,402.1 million and approximately HK$89.7 million, representing a decrease of approximately 9.3% and approximately 19.2% from last year, respectively. This division has secured new construction contracts with an aggregate value of approximately HK$4,149.0 million, representing an increase of approximately 165.2% from last year. As at 31 March 2009, the value of contracts on hand and value of work remaining amounted to approximately HK$10,441.9 million and approximately HK$4,332.6 million, representing an increase of approximately 16.9% and approximately 14.2% from last year, respectively.

For the year ended 31 March 2009, the turnover and operating loss of the property development management division amounted to approximately HK$28.3 million and approximately HK$9.7 million, respectively. The value of contracts on hand for property development management division at the year end was approximately HK$183.0 million.

3. Major customers and suppliers

For the year ended 31 March 2009, the five largest customers and the single largest customer of the Group accounted for approximately 66% and 18% of the turnover of the Group, respectively. The aggregate purchases attributable to the five largest suppliers of the Group during the year were less than 30% of the purchases of the Group.

As far as the Directors are aware, none of the Directors, their associates, or any Shareholders which to the knowledge of the Directors own more than 5% of the share capital of PYE have an interest in any of the five largest customers of the Group for the year ended 31 March 2009.

4. Capital structure, liquidity and financial resources

As at 31 March 2009, the Group's bank deposits, bank balances and cash amounted to approximately HK$441.8 million, of which approximately HK$280.3 million, HK$65.7 million, HK$17.2 million and HK$78.6 million were denominated in HK$, RMB, MOP and US$ respectively. The Group's bank deposits, bank balances and cash represented approximately 82.3% of equity attributable to owners of the Company of approximately HK$536.8 million and approximately 18.5% of the total assets of approximately HK$2,393.3 million. Current assets amounted to approximately HK$2,186.9 million, representing approximately 1.2 times the current liabilities of approximately HK$1,795.7 million.

Under its prudent funding and treasury policies, the Group maintains a variety of credit facilities to meet requirements of working capital. As at 31 March 2009, the Group's total bank borrowings amounted to approximately HK$316.2 million of which approximately HK$268.2 million are repayable within one year. Approximately 97.2% of these bank borrowings are at floating interest rates and all bank borrowings are denominated either in Hong Kong Dollars or Renminbi. The Renminbi borrowings are directly tied in with the Group's business in the PRC. No financial instruments were used for hedging purpose.

As at 31 March 2009, the Group's gearing ratio, measured as the total bank borrowings of approximately HK$316.2 million over the equity attributable to owners of the Company of approximately HK$536.8 million, stood at about 0.59.

The Group's net cash flow used in operating and net outflow from investing and financing activities amounted to approximately HK$32.7 million and approximately HK$26.3 million, respectively, resulting in a net decrease in cash and cash equivalents of approximately HK$59.0 million for the year.

As at 31 March 2009, the Group had capital expenditure contracted for but not provided in the consolidated financial statements, in respect of the acquisition of property, plant and equipment, of approximately HK$1.4 million.

As at 31 March 2009, the Group did not have any outstanding forward contracts in foreign currency committed that might involve in significant foreign exchange risks and exposures.

5. Contingent liabilities and pledge of assets

As at 31 March 2009, the Group's contingent liabilities, in respect of guarantee given to banks for banking facilities granted to an associate, amounted to approximately HK$11.8 million.

As at 31 March 2009, the Group pledged bank deposits of approximately HK$65.3 million, property, plant and equipment of approximately HK$17.7 million, and charged the Group's benefits over certain construction contracts to secure general banking facilities granted to the Group.

6. Employee and remuneration policy

As at 31 March 2009, the Group employed 1,349 full-time employees. Total staff costs during the year amounted to approximately HK$404.6 million. All employees were remunerated based on the employees' skill, knowledge, involvement in the Group's affairs and the Group's performance, as well as remuneration benchmark in the industry and the prevailing market conditions. The ultimate objective of the remuneration policy is to ensure the Group is able to attract, retain and motivate a high-calibre team which is essential to its success. The Group also offers benefits to employees including discretionary bonus, training, medical coverage and three share incentive schemes, namely Share Option Scheme, share award scheme and share financing plan. For the year ended 31 March 2009, no Shares were granted under the said schemes.

7. Material investments, acquisitions and disposals

For the year ended 31 March 2009, the Group did not have any material investment, acquisitions and disposals.

8. Financial and trading prospects

With different economies launching extensive market revitalizing schemes to combat the financial tsunami, we have seen some signs of economic recovery in the first quarter of 2009. The overall effectiveness of such schemes are yet to be seen, thus 2009 remained to be a challenging year for Hong Kong.

The following is the text of a letter prepared by the independent reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for incorporation in this circular.

Deloitte.
德勤

The Directors
Paul Y. Engineering Group Limited
16/F, Paul Y Centre
51 Hung To Road
Kwun Tong
Kowloon, Hong Kong

24 October 2011

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding Legendary East Ltd. ("**Legendary East**") for the period from 24 May 2011 (date of incorporation) to 30 June 2011 (the "**Relevant Period**"), for inclusion in the circular of Paul Y. Engineering Group Limited (the "**Company**") dated 24 October 2011 in connection with, inter alia, the proposed cash contribution by the Company to Legendary East constituting a very substantial acquisition (the "**Circular**").

Legendary East was incorporated with limited liability in Cayman Islands on 24 May 2011. The registered office of Legendary East is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The sole director of Legendary East has informed us that no audited financial statements of Legendary East have been prepared up to the date of this report. For the purpose of this report, the sole director of Legendary East has prepared the management accounts of Legendary East for the Relevant Period using accounting policies which are in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Management Accounts**"). We have reviewed the relevant transaction of Legendary East for the Relevant Period.

We have examined the Underlying Management Accounts in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Management Accounts. No adjustments were deemed necessary by us to the Underlying Management Accounts in preparing our report for inclusion in the Circular.

The Underlying Management Accounts are the responsibility of the sole director of Legendary East who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Legendary East as at 30 June 2011, and of the results and cash flows of Legendary East for the Relevant Period.

A. FINANCIAL INFORMATION OF LEGENDARY EAST

STATEMENT OF FINANCIAL POSITION

		As at 30 June 2011
	NOTE	*US$*
CURRENT ASSET		
Cash		100
CAPITAL		
Share capital	4	100

STATEMENT OF CHANGES IN EQUITY

	Share capital
	US$
At date of incorporation	1
Issue of shares	99
At 30 June 2011	100

STATEMENT OF CASH FLOWS

	From 24 May 2011 (date of incorporation) to 30 June 2011 *US$*
CASH FROM FINANCING ACTIVITY	
Issue of shares	100
CASH AND CASH EQUIVALENTS AT DATE OF INCORPORATION	–
CASH AND CASH EQUIVALENTS AT 30 JUNE 2011	100

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

No statement of comprehensive income is presented because Legendary East has not incurred any expenditure nor generated any revenue from the date of its incorporation to 30 June 2011 and its only transaction during the period was issuing of shares.

The financial information is presented in United States dollars, which is the same as the functional currency of Legendary East.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the Relevant Period, Legendary East has applied all HKFRSs issued by the HKICPA that are effective for the period.

Legendary East has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective.

HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2012

The sole director of Legendary East anticipates that the application of the new and revised standards, amendments and interpretations will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below, and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Legendary East's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Legendary East expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Equity instruments

Equity instruments issued by Legendary East are classified according to the substance of the contractual arrangements entered into and the definitions of an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Legendary East after deducting all of its liabilities. Equity instruments issued by Legendary East are recorded at the proceeds received, net of direct issue costs.

4. SHARE CAPITAL

	Number of shares	Amount
		US$
Shares of par value of US$1 each		
Authorised:		
At date of incorporation and 30 June 2011	50,000	50,000
Issued and fully paid:		
At date of incorporation	1	1
Shares allotted	99	99
At 30 June 2011	100	100

Legendary East is authorised to issue 50,000 shares of par value of US$1 each at date of its incorporation. On 24 May 2011, 1 share of par value of US$1 each was issued to Maples Corporate Services Limited, a company incorporated in the Cayman Islands. On 6 June 2011, the 1 share was transferred, and further 99 shares were allotted, to Legendary East Holdings, LLC ("**Legendary East Holdings**"), a limited liability company formed in the United States of America. All 100 shares were issued as fully paid. Legendary East Holdings has become the sole shareholder of Legendary East and also the holding company of Legendary East since 6 June 2011.

5. EVENT AFTER THE REPORTING PERIOD

On 21 August 2011, the Company entered into the legally-binding heads of agreement with Legendary East, Legend Pictures, LLC ("**Legendary**") and Huayi Brothers International Ltd. ("**Huayi**"). The heads of agreement has been entered into to reflect the terms on which the parties have agreed to pursue 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 Legendary East subscription agreement and the Legendary East shareholders' agreement and the other agreements to be entered into pursuant thereto. The Company's contribution to Legendary East will be a cash injection in the amount of US$220.5 million. The Company will own 50% equity interest of Legendary East. Legendary will upon completion own 40.1% equity interest of Legendary East. Legendary will also transfer certain existing development properties and related intellectual property rights for films based on Chinese history, mythology or culture to Legendary East. Upon completion, Huayi will own 9.9% equity interest of Legendary East.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Legendary East in respective of any period subsequent to 30 June 2011.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

As at the Latest Practicable Date, Legendary East does not have any operation since its incorporation on 24 May 2011.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information presented below is prepared to illustrate (a) the financial position of the Enlarged Group as if the transactions (including (i) the Placing (assuming no exercise of the Upsize Options is made); (ii) the proposed cash contribution to Legendary East Ltd.; (iii) the Capital Reduction by PYE and the Distribution in Specie with a Cash Alternative; and (iv) the Cash Dividend with a Scrip Alternative) had been completed on 31 March 2011; and (b) the results and cash flows of the Enlarged Group as if the transactions 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 Enlarged Group as at 31 March 2011 or at any future date had the transactions been completed on 31 March 2011 or the results and cash flows of the Enlarged Group for the year ended 31 March 2011 or for any future period had the transactions been completed on 1 April 2010.

The unaudited pro forma financial information is prepared based on the consolidated statement of financial position of the Group as at 31 March 2011, the consolidated income statement and consolidated statement of cash flows of the Group for the year ended 31 March 2011 as extracted from the annual report of the Company, after making pro forma adjustments directly attributable to the transactions which are factually supportable.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group	Pro forma adjustments					The Enlarged Group before distribution in specie	Pro forma adjustment	The Enlarged Group after distribution in specie
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	
NON-CURRENT ASSETS									
Property, plant and equipment	148,956						148,956		148,956
Prepaid land lease payments	20,261						20,261		20,261
Goodwill	61,646						61,646		61,646
Other intangible assets	7,570						7,570		7,570
Interests in associates	82,178				1,719,900		1,802,078		1,802,078
Interests in jointly controlled entities	4,065						4,065		4,065
Other debtors – non-current portion	153,211						153,211		153,211
	477,887	–	–	–	1,719,900	–	2,197,787	–	2,197,787

	The Group			Pro forma adjustments			The Enlarged Group before distribution in specie	Pro forma adjustment	The Enlarged Group after distribution in specie
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	
CURRENT ASSETS									
Prepaid land lease payments	575						575		575
Amounts due from customers for contract works	258,350						258,350		258,350
Trade and other debtors, deposits and prepayments	1,371,647			126,845			1,498,492		1,498,492
Amounts due from related companies	54,373						54,373		54,373
Amounts due from associates	43,760						43,760		43,760
Amounts due from jointly controlled entities	22,956						22,956		22,956
Amounts due from fellow subsidiaries	126,845			(126,845)			–		–
Loan to a related company	8,148						8,148		8,148
Pledged bank deposits	75,026						75,026		75,026
Short term bank deposits	177,513						177,513		177,513
Bank balances and cash	154,568		1,886,138		(1,719,900)	(151,739)	169,067		169,067
	2,293,761	–	1,886,138	–	(1,719,900)	(151,739)	2,308,260	–	2,308,260
CURRENT LIABILITIES									
Amounts due to customers for contract works	947,938						947,938		947,938
Trade and other creditors and accrued expenses	848,426						848,426		848,426
Amounts due to related companies	131						131		131
Amounts due to associates	57,557						57,557		57,557
Amount due to a jointly controlled entity	45,000						45,000		45,000
Amounts due to non-controlling interests	61						61		61
Other financial liability	–		1,100				1,100		1,100
Taxation payable	14,344						14,344		14,344
Bank borrowings – due within one year	244,667						244,667		244,667
	2,158,124	–	1,100	–	–	–	2,159,224	–	2,159,224
NET CURRENT ASSETS	135,637	–	1,885,038	–	(1,719,900)	(151,739)	149,036	–	149,036
TOTAL ASSETS LESS CURRENT LIABILITIES	613,524	–	1,885,038	–	–	(151,739)	2,346,823	–	2,346,823

	The Group	Pro forma adjustments					The Enlarged Group before distribution in specie	Pro forma adjustment	The Enlarged Group after distribution in specie
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	
NON-CURRENT LIABILITY									
Bank borrowings – due after one year	9,203						9,203		9,203
	604,321	–	1,885,038	–	–	(151,739)	2,337,620	–	2,337,620
CAPITAL AND RESERVES									
Share capital	303,477	(182,086)	620,000				741,391		741,391
Reserves	301,916	182,086	1,265,038			(151,739)	1,597,301	(296,643)	1,300,658
Equity attributable to owners of the Company	605,393	–	1,885,038	–	–	(151,739)	2,338,692	(296,643)	2,042,049
Non-controlling interests	(1,072)						(1,072)	296,643	295,571
TOTAL EQUITY	604,321	–	1,885,038	–	–	(151,739)	2,337,620	–	2,337,620

Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

	The Enlarged Group before distribution in specie	**Pro forma adjustment**	**The Enlarged Group after distribution in specie**
	HK$'000	*HK$'000*	*HK$'000*
		(Note 7)	
Turnover	4,333,791		4,333,791
Cost of sales	(4,141,601)		(4,141,601)
Gross profit	192,190	–	192,190
Other income	12,889		12,889
Administrative expenses	(155,611)		(155,611)
Finance costs	(10,076)		(10,076)
Impairment loss recognised in respect of goodwill	(74)		(74)
Share of results of associates	(552)		(552)
Share of results of jointly controlled entities	2,892		2,892
Profit before tax	41,658	–	41,658
Income tax expense	(7,895)		(7,895)
Profit for the year	33,763	–	33,763
Profit for the year attributable to:			
Owners of the Company	30,083	(14,741)	15,342
Non-controlling interests	3,680	14,741	18,421
	33,763	–	33,763

Unaudited Pro Forma Condensed Consolidated Statement of Cash Flows of the Enlarged Group

	The Group	Pro forma adjustments			The Enlarged Group
	HK$'000	*HK$'000* *(Note 2)*	*HK$'000* *(Note 4)*	*HK$'000* *(Note 5)*	*HK$'000*
NET CASH FROM OPERATING ACTIVITIES	212,377				212,377
INVESTING ACTIVITIES					
Additions to property, plant and equipment	(99,158)				(99,158)
Refundable deposits paid for potential projects	(50,000)				(50,000)
Increase in pledged bank deposits	(43,457)				(43,457)
Increase in loan to a related company	(10,500)				(10,500)
Acquisition of interest in an associate	–		(1,719,900)		(1,719,900)
Additional contribution to an associate	(9,300)				(9,300)
Contribution to a jointly controlled entity	(4,600)				(4,600)
Repayment of other loans receivable	62,500				62,500
Refundable deposits refunded for potential projects	25,000				25,000
Repayment of loans to related companies	17,352				17,352
Interest received	6,336				6,336
Proceeds from disposal of available-for-sale investments	437				437
Proceeds from disposal of property, plant and equipment	335				335
Acquisition of subsidiaries, net of cash and cash equivalents acquired	234				234
Dividends received from associates	81				81
NET CASH USED IN INVESTING ACTIVITIES	(104,740)	–	(1,719,900)	–	(1,824,640)

	The Group	Pro forma adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 2)	*(Note 4)*	*(Note 5)*	
FINANCING ACTIVITIES					
Repayment of bank loans	(303,499)				(303,499)
Contribution repaid to non-controlling interests	(19,508)				(19,508)
Interest paid	(8,855)				(8,855)
Dividends paid	(9,137)			(151,739)	(160,876)
New bank loans raised	226,022				226,022
Advance from a jointly controlled entity	45,000				45,000
Proceeds from issue of shares	–	2,015,000			2,015,000
Share issue expenses	–	(128,862)			(128,862)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(69,977)	1,886,138	–	(151,739)	1,664,422
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,660	1,886,138	(1,719,900)	(151,739)	52,159
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,405				3,405
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	291,016				291,016
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	332,081	1,886,138	(1,719,900)	(151,739)	346,580
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Short term bank deposits	177,513				177,513
Bank balances and cash	154,568	1,886,138	(1,719,900)	(151,739)	169,067
	332,081	1,886,138	(1,719,900)	(151,739)	346,580

Notes:

For the purpose of the presentation of the unaudited pro forma financial information, conversion of US$ into HK$ is calculated at the rate of US$1.0 = HK$7.8.

1. These adjustments represent the proposed reduction of issued share capital of the Company from approximately HK$303,477,000 comprising 606,954,322 shares of HK$0.5 each to approximately HK$121,391,000 comprising 606,954,322 shares of HK$0.2 each.

2. These adjustments represent (i) the net proceeds from the proposed allotment of 3,100,000,000 Placing Shares at HK$0.65 each pursuant to the Independent Placing Agreement and the AID Subscription Agreement, net of share issue expenses (including placing commission, legal and professional fees and publication fees payable by the Company) of approximately HK$128,862,000, assuming no exercise of the Upsize Options is made; and (ii) the recognition of the fair value of approximately HK$1,100,000 of the indemnities provided by PYE to the placees and the AID subscribers in respect of the claims as disclosed in PYE's 2011 annual report and on page 238 of this circular, which is arrived at based on a preliminary valuation performed by an independent valuer. The valuation will be updated as at the completion date when such indemnities become effective upon completion of the Placing.

3. These adjustments represent the reclassification of the amounts due from PYI and its subsidiaries as at 31 March 2011 as PYE will no longer be a subsidiary of PYI after the Placing.

4. According to the Heads of Agreement, the Group will acquire 50% equity interest of Legendary East. The cash contribution amounting to approximately HK$1,719,900,000 (equivalent to US$220.5 million) will be settled by cash.

5. These adjustments represent the proposed payment of special cash dividend of HK$0.25 per New Share, for 606,954,322 shares, assuming all Shareholders elect to receive cash.

6. These adjustments represent the proposed distribution in specie of a 49% equity interest in PYE BVI. For the purpose of this unaudited pro forma financial information, the carrying amount of net asset value of PYE BVI and its subsidiaries (collectively referred to as "PYE BVI Group") as at 31 March 2011, after adjusting for the capitalisation of the amount of approximately HK$259,120,000 owed by subsidiaries of PYE BVI to PYE, approximated the consolidated net asset value of the Group, which is approximately HK$605,393,000 as at 31 March 2011.

7. These adjustments represent the share of 49% profit on PYE BVI Group by non-controlling interests assuming the proposed distribution in specie of a 49% equity interest in PYE BVI had been completed on 1 April 2010. For the purpose of this unaudited pro forma financial information, the profit of PYE BVI Group is approximate to the consolidated profit of the Group, which is approximately HK$30,083,000 for the year ended 31 March 2011.

8. According to valuation report of the Exchange Rights prepared by an independent valuer, no value has been recognised in the above pro forma financial information as the values are insignificant.

If, assuming exercise in full of the Upsize Options, additional net proceeds from the allotment of 500,000,000 Placing Shares at HK$0.65 each pursuant to the Independent Placing Agreement and the AID Subscription Agreement, net of share issue expenses (including placing commission and legal and professional fees payable by the Company) of approximately HK$8,938,000, would amount to approximately HK$316,062,000.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF PAUL Y. ENGINEERING GROUP LIMITED

We report on the unaudited pro forma financial information of Paul Y. Engineering Group Limited (the "**Company**"), its subsidiaries (hereinafter collectively referred to as the "**Group**") and its interest in Legendary East Ltd. (hereinafter collectively referred to as the "**Enlarged Group**"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the (i) proposed placing requiring a specific mandate to issue new shares of HK$0.20 each in the share capital of the Company; (ii) proposed cash contribution to Legendary East Ltd. constituting a very substantial acquisition; (iii) proposed capital reduction by the Company and proposed distribution in specie of a 49% interest in the Company's existing businesses with a cash alternative offered by PYI Corporation Limited, the ultimate holding company of the Company; and (iv) proposed cash dividend of HK$0.25 per share with a scrip alternative might have affected the financial information presented, for inclusion in Appendix VIII of the circular dated 24 October 2011 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix VIII 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 (the "**HKICPA**").

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 HKICPA. 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 Enlarged Group as at 31 March 2011 or any future date; or
- the results and cash flows of the Enlarged 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
24 October 2011

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

"appointed newspapers"	one English language newspaper and one Chinese language newspaper, being in each case a newspaper published daily and circulating generally in Hong Kong in accordance with the rules of the Designated Stock Exchange (as defined in the Articles)
"associate"	the meaning assigned to it by Chapter 1 of the Listing Rules
"Articles"	articles of association of PYE BVI
"Auditor"	the auditor of PYE BVI for the time being and may include any individual or partnership
"board"	the board of directors or the directors present at a meeting of directors at which a quorum is present
"BVI"	British Virgin Islands
"business day"	shall mean a day on which the Designated Stock Exchange (as defined in the Articles) generally is open for the business of dealing in securities in Hong Kong. For the avoidance of doubt, where the Designated Stock Exchange (as defined in the Articles) is closed for the business of dealing in securities in Hong Kong on a business day for the reason of a Number 8 or higher Typhoon Signal, Black Rainstorm Warning or other similar event, such day shall for the purposes of the Articles be counted as a business day
"capital"	the share capital from time to time of the company
"Capital Reduction Effective Date"	the date on which the Capital Reduction becomes effective, expected to be on or around 21 November 2011
"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 Shareholders (other than PYI)
"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 Shareholders on the Record Date
"clear days"	in relation to the period of a Notice that period excluding the day when the Notice is given or deemed to be given and the day for which it is given or on which it is to take effect
"clearing house"	a clearing house recognised by the laws of the jurisdiction in which the shares of the company are listed or quoted on a stock exchange in such jurisdiction
"competent regulatory authority"	a competent regulatory authority in the territory where the shares of the company are listed or quoted on a stock exchange in such territory
"debenture" and "debenture holder"	include debenture stock and debenture stockholder respectively

"Distribution in Specie"	the proposed distribution in specie by PYE of one PYE BVI share for every one New Share held by Qualifying Shareholders on the Record Date
"director(s)"	the director(s) of PYE BVI
"head office"	such office as the directors may from time to time determine to be the principal office of PYE BVI
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IBC"	international business company
"IBC Act"	the International Business Companies Act (Cap.291) of the laws of the BVI
"Joint Policy Statement" or "JPS"	the Joint Policy Statement issued by the Stock Exchange and the Securities and Futures Commission of Hong Kong on 7 March 2007 regarding policy on the listing of overseas companies on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"member"	a duly registered holder from time to time of the Share(s)
"Memorandum"	memorandum of association of PYE BVI
"month"	a calendar month
"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
"Notice"	written notice unless otherwise specifically stated and as further defined in the Articles
"Office"	the registered office of PYE BVI for the time being
"ordinary resolution"	a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such members as, being entitled so to do, vote in person or, in the case of any member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 50
"paid up"	paid up or credited as paid up
"Proposed Memorandum and Articles of PYE BVI"	the proposed Memorandum and Articles
"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 BVI"	Paul Y. Engineering (BVI) Limited, a company incorporated in the BVI and a wholly-owned subsidiary of PYE

"PYE SGM"	the special general meeting of PYE to be convened and held at JW Marriott Ballroom on Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m.
"PYI"	PYI Corporation Limited (HK stock code: 498), a company incorporated in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange
"Qualifying Shareholders"	all Shareholders registered on PYE's, share register or branch share register on the Record Date
"Record Date"	Friday, 25 November 2011 being the record date for the purposes of ascertaining entitlements of the Shareholders to the Distribution in Specie or Cash Alternative and, or, the Cash Dividend or Scrip Alternative, being a date that follows both the PYE SGM and the Capital Reduction Effective Date
"Register"	the principal share register and where applicable, any branch share register of PYE BVI to be maintained at such place within or outside the BVI as the board shall determine from time to time
"Registration Office"	in respect of any class of share capital, such place as the board may from time to time determine to keep a branch share register in respect of that class of share capital and where (except in cases where the board otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered
"Scrip Alternative"	the proposed scrip dividend arrangements of PYE as defined in page 9 of this circular
"Secretary"	any person, firm or corporation appointed by the board to perform any of the duties of secretary of PYE BVI and includes any assistant, deputy, temporary or acting secretary
"share(s)"	ordinary share(s) of a par value of HK$0.10 each in PYE BVI
"Shareholders"	shareholders of PYE
"special resolution"	a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 50 a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of the Articles or the Statutes
"Stock Exchange"	the Stock Exchange of Hong Kong Limited

A. INCORPORATION

PYE BVI was incorporated in the BVI on 8 June 2011 as a BVI Business Company with limited liability under the BVI Business Companies Act.

PYE BVI has established a place of business in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 28 September 2011. Mr. Law Hon Wa, William and Ms. Mui Ching Hung, Joanna of 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong have been appointed as the Hong Kong authorised representatives of PYE BVI for acceptance of the service of process and notices on behalf of PYE BVI as may be required to be served on PYE BVI in Hong Kong.

B. SUMMARY OF THE CONSTITUTION OF PYE BVI AND OF CERTAIN ASPECTS OF BVI COMPANY LAW

As PYE BVI was incorporated in the BVI, its operations are subject to the BVI Companies Act and to its constitution, which comprises its memorandum of association and its articles of association.

Conditional upon PYE BVI having any members other than PYE and PYI on completion of the Distribution in Specie, PYE BVI will, shortly before completion of the Distribution in Specie, adopt the Memorandum and the Articles certain provisions of which are described below.

It is noted that following the Joint Policy Statement, the Stock Exchange, in its Listing Decision HKEx-LD84-1 (the "**Listing Decision**"), approved BVI as an acceptable overseas jurisdiction for listing provided that the relevant company incorporated sufficient shareholder protection matters into its memorandum and articles of association to bring it in line with the standards of existing or recognised jurisdictions accepted by the Stock Exchange.

With a view to providing members of PYE BVI with constitutional protections similar to those which would apply were the shares of PYE BVI to be listed on the Stock Exchange, the Proposed Memorandum and the Articles of PYE BVI have been drafted in compliance with the requirements of (i) Appendix 3 and Part B of Appendix 13 of the Listing Rules and (ii) the shareholder protection matters identified in the annexure to the Listing Decision. That said, the shares will not, as part of the Transactions, be listed on the Stock Exchange and there is no current intention on the part of the directors that they will be so listed.

Set out below are summaries of the following:

- in sub-section 1, a summary of certain provisions of the Memorandum;
- in sub-section 2, a summary of certain provisions of the Articles;
- in sub-section 3, a summary of certain aspects of the BVI company law; and

– in sub-section 4, a table to show how shareholder protection matters identified in the Joint Policy Statement and the Listing Decision are dealt with under the BVI Companies Act (if applicable) or otherwise will be dealt with under the Proposed Memorandum and Articles of PYE BVI.

1. Proposed Memorandum of Association of PYE BVI

(a) The Memorandum states, inter alia, that subject to Regulation 4 of the Memorandum, the objects for which PYE BVI is established are unrestricted and PYE BVI has full power and authority to carry out any object not prohibited by the BVI Companies Act or any other law of the BVI.

(b) The Memorandum states, inter alia, that the liability of each member is limited to the amount from time to time unpaid on the shares held by such member.

(c) PYE BVI may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. Proposed Articles of Association of PYE BVI

The Articles include the following provisions (capitalised terms used in this summary having the same meanings as ascribed to them in the Articles):

a. Directors

(i) Power to allot and issue shares, share options and warrants

Subject to the provisions of the BVI Companies Act and the Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as PYE BVI may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the BVI Companies Act, the Memorandum and the Articles, any share may be issued on terms that, at the option of PYE BVI or the holder thereof, they are liable to be redeemed.

The board may issue share options and warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of PYE BVI on such terms as it may from time to time determine.

Subject to the provisions of the BVI Companies Act and the Articles, where applicable, the rules of the Designated Stock Exchange (as defined in the Articles), and any direction that may be given by PYE BVI in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in PYE BVI shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither PYE BVI nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of PYE BVI or any subsidiary

There are provisions in the Articles relating to the disposal of the assets of PYE BVI or any of its subsidiaries and requirements for approval of members in certain circumstances disclosed in paragraph (t) below. The directors may otherwise sell, transfer, secure, exchange or otherwise dispose of the assets of PYE BVI without authorisation by the members pursuant to section 175 of the BVI Companies Act and may exercise all powers and do all acts and things which may be exercised or done or approved by PYE BVI and which are not required by the Articles or the BVI Companies Act to be exercised or done by PYE BVI in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any director or past director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the director is contractually entitled) must be approved by PYE BVI in general meeting.

(iv) Loans and provision of security for loans to directors

There are provisions in the Articles prohibiting the making of loans to directors.

(v) Disclosure of interests in contracts with PYE BVI or any of its subsidiaries

A director may hold any other office or place of profit with PYE BVI (except that of the Auditor) in conjunction with his office of director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A director may be or become a director or other officer of, or otherwise interested in, any company promoted by PYE BVI or any other company in which PYE BVI may be interested, and shall not be liable to account to PYE BVI or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by PYE BVI to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the BVI Companies Act and the Articles, no director or proposed or intended director shall be disqualified by his office from contracting with PYE BVI, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any director is in any way interested be liable to be avoided, nor shall any director so contracting or being so interested be liable to account to PYE BVI or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such director holding that office or the fiduciary relationship thereby established. A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with PYE BVI shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract, transaction, arrangement or proposal for giving of any security or indemnity to the director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of PYE BVI or any of its subsidiaries;

(bb) any contract, transaction, arrangement or proposal for the giving by PYE BVI of any security or indemnity to a third party in respect of a debt or obligation of PYE BVI or any of its subsidiaries for which the director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by PYE BVI or any other company which PYE BVI may promote or be interested in for subscription or purchase, where the director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract, transaction, arrangement or proposal in which the director is interested in the same manner as other holders of shares or debentures or other securities of PYE BVI or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of PYE BVI;

(ee) any contract, transaction, arrangement or proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the director together with any of his associates is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to directors and employees of PYE BVI or of any of its subsidiaries and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the directors shall from time to time be determined by PYE BVI in general meeting and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the board in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day.

The directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of PYE BVI or otherwise in connection with the discharge of their duties as directors.

Any director who, by request, goes or resides abroad for any purpose of PYE BVI or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a director. An executive director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and, or, gratuity and, or, other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a director.

The board may establish or concur or join with other companies (being subsidiary companies of PYE BVI or companies with which it is associated in business) in establishing and making contributions out of PYE BVI's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any director or ex-director who may hold or have held any executive office or any office of profit with PYE BVI or any of its subsidiaries) and ex-employees of PYE BVI and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any director appointed by the board in the manner set out in the following paragraph shall not be taken into account in determining which particular directors or the number of directors who are to retire by rotation. There are no provisions relating to retirement of directors upon reaching any age limit.

The directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the board or as an addition to the existing board. Any director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of PYE BVI and shall then be eligible for re-election. Neither a director nor an alternate director is required to hold any shares by way of qualification.

The members may, at any general meeting convened and held in accordance with the Articles, by ordinary resolution remove a director at any time before the expiration of his period of office notwithstanding anything to the contrary in these Articles or in any agreement between PYE BVI and such director (but without prejudice to any claim for damages under any such agreement). Unless otherwise determined by PYE BVI in general meeting, the number of directors shall not be less than two. There is no maximum number of directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to PYE BVI at the registered office of PYE BVI for the time being or tendered at a meeting of the board whereupon the board resolves to accept such resignation;

(bb) if he becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law; or (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with PYE BVI for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such director or directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of PYE BVI to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of PYE BVI and, subject to the BVI Companies Act, to issue debentures, bonds and other securities of PYE BVI, whether outright or as collateral security for any debt, liability or obligation of PYE BVI or of any third party.

(ix) Proceedings of the board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of directors and Officers

The Articles provide that PYE BVI will maintain at its registered office a register of directors and officers which is not available for inspection by the public.

b. Alterations to constitutional documents

The Articles may be rescinded, altered or amended by PYE BVI in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association of PYE BVI (save for an amendment for purposes of altering the capital as described in (c) below which shall require an ordinary resolution only), to amend the Articles or to change the name of PYE BVI.

c. Alteration of capital

Subject to the Memorandum and the Articles, PYE BVI may by ordinary resolution:

(i) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by PYE BVI in general meeting, as the directors may by resolution of the directors determine provided always that where PYE BVI issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting"; or

(ii) combine its shares, including issued shares, into a smaller number of shares; or

(iii) sub-divide its shares, or any of them, into a greater number of shares, provided that, where shares are divided or combined, the aggregate par value (if any) of the new shares must be equal to the aggregate par value (if any) of the original shares.

d. Variation of rights of existing shares or classes of shares

Subject to the BVI Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

e. Special resolution-majority required

Pursuant to the Articles, a special resolution of PYE BVI must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice and not less than ten (10) clear business days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice and not less than ten (10) clear business days' notice has been given.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of PYE BVI as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

f. Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided by way of a poll.

If a clearing house (or its nominee(s)), being a corporation, is a member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of PYE BVI or at any meeting of any class of members provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of PYE BVI held by the clearing house (or its nominee(s)).

Where PYE BVI has knowledge that any member is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of PYE BVI or restricted to voting only for or only against any particular resolution of PYE BVI, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

g. Requirements for annual general meetings

An annual general meeting of PYE BVI shall be held in each year other than the year of PYE BVI's adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or not more than eighteen (18) months after the date of adoption of the Articles, unless a longer period would not infringe the rules of the Designated Stock Exchange (as defined in the Articles), if any) at such time and place as may be determined by the board.

h. Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by PYE BVI, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of PYE BVI and of all other matters required by the BVI Companies Act and in accordance with the generally accepted accounting principles and practices in Hong Kong or as may be necessary to give a true and fair view of PYE BVI's affairs and to explain its transactions.

The accounting records shall be kept at the Office or, at such other place or places as the board decides and shall always be open to inspection by the directors. No member (other than a director) shall have any right of inspecting any accounting record or book or document of PYE BVI except as conferred by law or authorised by the board or PYE BVI in general meeting.

In the event that PYE BVI should ever cease to be the subsidiary of a company listed on the Stock Exchange of Hong Kong Limited, it will adopt the following procedures as regards the preparation and publication of its accounts for the financial year in which it so ceases to be the subsidiary of such a listed company and for the financial years thereafter:

(i) A printed copy of the directors' report, accompanied by the balance sheet and income statement, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of PYE BVI under convenient heads and a statement of income and expenditure, together with a copy of the Auditor's report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before PYE BVI at the annual general meeting held in accordance with the Articles provided that the Articles shall not require a copy of those documents to be sent to any person whose address PYE BVI is not aware or to more than one of the joint holders of any shares or debentures.

(ii) Auditor shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditor shall be fixed by PYE BVI in general meeting or in such manner as the members may determine.

(iii) The financial statements of PYE BVI shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the BVI. If so, the financial statements and the report of the Auditor should disclose this fact and name such country or jurisdiction.

i. Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from PYE BVI, and also to the Auditor for the time being of PYE BVI.

Notwithstanding that a meeting of PYE BVI is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of:

(a) the declaration and sanctioning of dividends;

(b) consideration and adoption of the accounts and balance sheet and the reports of the directors and Auditor and other documents required to be annexed to the balance sheet;

(c) the election of directors whether by rotation or otherwise in the place of those retiring;

(d) appointment of Auditor (where special notice of the intention for such appointment is not required by the BVI Companies Act) and other officers;

(e) the fixing of the remuneration of the Auditor, and the voting of remuneration or extra remuneration to the directors;

(f) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of PYE BVI representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(g) the granting of any mandate or authority to the directors to repurchase securities of PYE BVI.

j. Transfer of shares

Subject to the Articles, any member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in any other form approved by the board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers.

Unless the board otherwise agrees (which agreement may be on such terms and subject to such conditions as the board in its absolute discretion may from time to time determine, and which agreement the board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place at which the Register is kept in accordance with the BVI Companies Act.

The board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share issued for a promissory note or other binding obligation to contribute money or property or a contribution thereof to PYE BVI on which PYE BVI has a lien.

The board may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share, the instrument of transfer is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) or, if applicable, the instrument of transfer is duly and properly stamped.

The registration of transfers may be suspended and the register closed on giving notice by advertisement in the appointed newspaper or by other means as set out in the Articles, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

k. Power for PYE BVI to purchase its own shares

Subject to the BVI Companies Act, the Memorandum and the Articles, PYE BVI shall have all the powers conferred upon it by the BVI Companies Act to purchase or otherwise acquire its own shares and such power shall be exercisable by the board in such manner, upon such terms and subject to such conditions as it thinks fit, including but not limited to, the purchase of shares at a price less than fair value.

Shares that PYE BVI purchases, redeems or otherwise acquires pursuant to the Articles may be cancelled or held as treasury shares provided that the number of shares purchased, redeemed or otherwise acquired when aggregated with shares already held as treasury shares may not exceed 50% of the shares of that class previously issued (excluding shares that have been cancelled).

l. Power for any subsidiary of PYE BVI to own shares in PYE BVI

There are no provisions in the Articles relating to ownership of shares in PYE BVI by a subsidiary.

m. Dividends and other methods of distribution

Subject to the BVI Companies Act, PYE BVI in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The board may recommend and pay to all members on a pro rata basis a dividend or a distribution at such time and of such an amount as they think fit if they are satisfied, on reasonable grounds, that immediately after the payment of the dividend or distribution, the value of PYE BVI's assets exceeds its liabilities and PYE BVI is able to pay its debts as they fall due. The resolution shall include a statement to that effect. The board may from time to time pay to the members such interim dividends as appear to the board to be justified by the profits of PYE BVI.

Except in so far as the rights attaching to, or the terms of issue of, any Share otherwise provide all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Whenever the board has resolved that a dividend be paid or declared on the share capital of PYE BVI, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. PYE BVI may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of PYE BVI that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to member to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of PYE BVI in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to PYE BVI. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of PYE BVI until claimed and PYE BVI shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to PYE BVI.

No dividend or other monies payable by PYE BVI on or in respect of any share shall bear interest against PYE BVI.

n. Proxies

Any member entitled to attend and vote at a meeting of PYE BVI is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of PYE BVI or at a class meeting. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

o. Forfeiture of shares

Where a share is not fully paid for on issue, the directors may, subject to the terms on which the share was issued, at any time serve upon the member a written notice of call specifying a date for payment to be made. Where a notice complying with the provisions of the Articles has been issued and the requirements of the notice have not been complied with, the directors by Resolution of directors may, at any time before tender of payment forfeit and cancel the share to which the notice relates.

When any Share has been forfeited, Notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.

The board may accept the surrender of any Share liable to be forfeited and, in such case, references in the Articles to forfeiture will include surrender.

A declaration by a director or the Secretary that a Share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the Share, and such declaration shall (subject to the execution of an instrument of transfer by PYE BVI if necessary) constitute a good title to the Share, and the person to whom the Share is disposed of shall be registered as the holder of the Share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the Share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the Share. When any Share shall have been forfeited, notice of the declaration shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

Notwithstanding any such forfeiture as aforesaid, the board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the Share, and upon such further terms (if any) as it thinks fit.

p. Inspection of share register

Unless closed in accordance with the Articles, the Register and any branch register of members, as the case may be, shall be open to inspection for at least two (2) hours on every business day by members without charge or by any other person, upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the Office or such other place at which the Register is kept in accordance with the BVI law or, if appropriate, upon a maximum payment of HK$1.00 or such lesser sum specified by the board at the Registration Office. The Register including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles) or by any electronic means in such manner as may be accepted by the Designated Stock Exchange (as defined in the Articles) to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the board may determine and either generally or in respect of any class of shares.

q. Quorum for meetings and separate class meetings

No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. The absence of a quorum shall not preclude the appointment of a chairman. Save as otherwise provided by the Articles, two (2) members entitled to vote and present in person or by proxy or (in the case of a member being a corporation) by its duly authorised representative shall form a quorum for all purposes. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

r. Untraceable members

PYE BVI may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, PYE BVI may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. PYE BVI shall have the power to sell, in such manner as the board thinks fit, any shares of a member who is untraceable, but no such sale shall be made unless (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by these Articles have remained uncashed; (b) so far as it is aware at the end of the relevant period, PYE BVI has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and (c) PYE BVI, if so required by the rules governing the listing of shares on the Designated Stock Exchange (as defined in the Articles), has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange (as defined in the Articles) to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange (as defined in the Articles), and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange (as defined in the Articles) has elapsed since the date of such advertisement.

For the purpose of the foregoing, the "relevant period" means the period commencing twelve (12) years before the date of publication of the advertisement referred to in paragraph (c) above and ending at the expiry of the period referred to in that paragraph.

s. Procedures on liquidation

A resolution that PYE BVI be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if PYE BVI shall be wound up and the assets available for distribution amongst the members of PYE BVI shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if PYE BVI shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If PYE BVI shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the BVI Companies Act divide among the members in specie or kind the whole or any part of the assets of PYE BVI whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of properties to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

t. Reserved matters

No material transaction with a connected person of PYE BVI (for which purposes a 'connected person' shall have the meaning given to it in Chapter 1 of the Listing Rules, which for purposes of these articles shall be construed to mean the version of such rules in existence on the date of adoption of these articles)) may be undertaken by PYE BVI or its subsidiaries unless (1) it is a transaction on normal commercial terms conducted in the ordinary and usual course of business (as defined in Chapter 14 of the Listing Rules) of PYE BVI or its subsidiaries; or (2) it is a transaction involving any acquisition or disposal of assets on normal commercial terms, with total assets (calculated so far as practicable as prescribed by Chapter 14 of the Listing Rules) of (a) less than 5% of total assets (calculated so far as practicable as prescribed by Chapter 14 of the Listing Rules) of PYE BVI and its subsidiaries as shown in the latest consolidated accounts of PYE BVI; or (b) more than 5% but less than 25% of total assets (calculated so far as practicable as prescribed by Chapter 14 of the Listing Rules) and total revenue (calculated so far as practicable as prescribed by Chapter 14 of the Listing Rules) of PYE BVI and its subsidiaries as shown in the latest consolidated accounts and the total consideration is less than HK$10,000,000; or (3) it involves the grant of financial assistance to or for the benefit of PYE BVI or its subsidiaries on normal commercial terms (or better for PYE BVI or its subsidiaries) and where no security over the assets of PYE BVI or its subsidiaries is granted in respect of the financial assistance; or (4) it is made subject to the approval of disinterested member(s), if any, by way of ordinary resolution in general meeting. Where any such transaction requiring approval of disinterested member(s) is proposed for consideration by the members, the board shall prepare and send a notice convening the general meeting accompanied by a circular to all members containing a summary of the terms of the proposed transaction and other relevant information relating to such transaction and the advice of an independent financial adviser as to whether the terms of such proposed transaction are fair and reasonable.

3. BVI company law

PYE BVI is incorporated in the BVI subject to the BVI Companies Act and, therefore, operates subject to BVI law. Set out below is a summary of certain provisions of BVI company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of BVI company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

The BVI Business Companies Act 2004

Prior to 2004, the principal statute in the BVI in relation to international corporate transactions had been the IBC Act. The legislation previously applicable to companies in the BVI depended on whether PYE BVI was a "local" company (in which case the Companies Act (Cap 285) would apply), or an IBC (in which case the IBC Act would apply).

The IBC Act contained flexible provisions in relation to the manner in which the IBC may be governed, including allowing directors to alter constitutional documents and increase and reduce capital.

In October 2004, the BVI government announced the introduction of the BVI Companies Act to replace the IBC Act and the Companies Act (Cap 285). The BVI Companies Act came into effect on 1 January 2005. Under the BVI Companies Act, all BVI companies would be subject to a zero tax regime from 1 January 2007 (previously, local companies were not exempted from income tax). All BVI companies are now regulated by the BVI Companies Act.

Although IBCs were re-registered automatically as business companies from 1 January 2007, the BVI Companies Act provides for a number of provisions identical to those in the IBC Act to continue to apply to an IBC once it has been automatically re-registered, unless such provisions are specifically disapplied by PYE BVI.

a. Share capital

Under the BVI Companies Act there is no concept of authorised capital. Companies incorporated under the BVI Companies Act may be authorised to issue a specific number of shares or PYE BVI's memorandum of association may provide that PYE BVI is authorised to issue an unlimited number of shares. The BVI Companies Act also provides that, subject to PYE BVI's memorandum and articles of association, shares may be issued with or without a par value and in any currency. The BVI Companies Act also permits PYE BVI to issue fractional shares.

Shares issued by PYE BVI will be the personal property of the members and confer on the holder of a share:

(i) the right to one vote at a meeting of the members or on any resolution of the members;

(ii) the right to an equal share in any dividend paid in accordance with the BVI Companies Act; and

(iii) the right to an equal share in the distribution of the surplus assets of PYE BVI.

Subject to any limitations or provisions to the contrary in PYE BVI's memorandum or articles of association, the unissued shares and treasury shares of PYE BVI are at the disposal of the directors who may, without limiting or affecting any rights previously conferred on the holders of any existing shares or class or series of shares, offer, allot or otherwise dispose of shares to such persons, at such times and upon such terms as PYE BVI may by resolution of directors determine.

Similarly, subject to PYE BVI's memorandum and articles of association, options to acquire shares in PYE BVI may be granted at any time, to any person and for such consideration as the directors may determine.

Subject to PYE BVI's memorandum and articles of association, PYE BVI may issue shares which are partly paid or nil-paid. Shares may also be issued for consideration in any form, including money, a promissory note, real property, personal property (including goodwill and know-how), services rendered or the provision of future services.

Subject to PYE BVI's memorandum and articles of association, PYE BVI may issue shares with or without voting rights or with different voting rights; common, preferred, limited or redeemable shares; options, warrants or similar rights to acquire any securities of PYE BVI; and securities convertible into or exchangeable for other securities or property of a company.

Subject to its memorandum and articles of association, PYE BVI may issue more than one class of shares. A statement of the classes of shares that PYE BVI is authorised to issue and, if PYE BVI is authorised to issue two or more classes of shares, the rights, privileges, restrictions and conditions attaching to each class of shares must be included in PYE BVI's memorandum and articles of association. Subject to its memorandum and articles, PYE BVI may issue a class of shares in one or more series.

b. Financial assistance to purchase shares of a company or its holding company

Subject to the BVI Companies Act, any other enactment and PYE BVI's memorandum and articles of association, PYE BVI has, *irrespective of corporate benefit* full capacity to carry on or undertake any business or activity, do any act or enter into any transaction including:

(i) unless it is a company limited by guarantee or an unlimited company that in either case is not authorised to issue shares:

(aa) issue and cancel shares and hold treasury shares,

(bb) grant options over unissued shares in PYE BVI and treasury shares,

(cc) issue securities that are convertible into shares, and

(dd) give financial assistance to any person in connection with the acquisition of its own shares;

(ii) issue debt obligations of every kind and grant options, warrants and rights to acquire debt obligations;

(iii) guarantee a liability or obligation of any person and secure any of its obligations by mortgage, pledge or other charge, of any of its assets for that purpose; and

(iv) protect the assets of PYE BVI for the benefit of PYE BVI, its creditors and its members and, at the discretion of the directors, for any person having a direct or indirect interest in PYE BVI.

c. Purchase of shares and warrants by a company and its subsidiaries

If PYE BVI satisfies the solvency test described below, and subject to PYE BVI's memorandum and articles of association, PYE BVI may purchase, redeem or otherwise acquire its own shares. The solvency test PYE BVI must satisfy to be able to acquire its own shares is:

(i) does the value of PYE BVI's assets exceed its liabilities; and

(ii) is PYE BVI able to pay its debts as they fall due.

The BVI Companies Act sets out three procedures by which a company may purchase, redeem or otherwise acquire its own shares. Other procedures for the purchase, redemption or acquisition by a company of its own shares may be set out in PYE BVI's memorandum or articles of association.

Where a company purchases, redeems or acquires its own shares otherwise than in accordance with the provisions set out in the BVI Companies Act, it may not purchase, redeem or otherwise acquire the shares without the consent of the member whose shares are to be purchased, redeemed or acquired, unless PYE BVI is specifically permitted by its memorandum or articles of association to do this without consent.

Under the BVI Companies Act, the directors may determine:

(aa) to purchase, redeem or otherwise acquire all the shares issued by PYE BVI if the offer is an offer made to all shareholders that:

  (i) would, if accepted, leave the relative voting and distribution rights of the shareholders unaffected; and

  (ii) affords each shareholder a reasonable opportunity to accept the offer; or

(bb) to purchase, redeem or otherwise acquire shares of one or more shareholders issued by PYE BVI if the offer is an offer to which all shareholders have consented and which the directors have expressly determined in a resolution:

  (i) is to the benefit of the remaining shareholders; and

  (ii) the terms of the offer and the consideration offered for the shares are fair and reasonable to PYE BVI and to the remaining shareholders.

Shares may also be redeemable at the option of the shareholder. If this is the case and the shareholder gives PYE BVI proper notice of his intention to redeem the share, PYE BVI is required to redeem the share on the date specified in the notice or, if no date is specified, on the date of the receipt of the notice. Unless the share redeemed at the option of the shareholder is held as a treasury share, it is deemed to have been cancelled.

A determination by the directors is, however, not required:

(i) where shares are purchased, redeemed or otherwise acquired pursuant to a right of a member to have his shares redeemed or to have his shares exchanged for money or other property of PYE BVI;

(ii) by virtue of the provisions of the BVI Companies Act in relation to the rights of dissenters under a redemption of minority shareholders, merger, consolidation, a disposition of assets, a compulsory redemption or an arrangement; or

(iii) pursuant to an order of the court.

Where a company has redeemed, purchased or otherwise acquired its own shares as set out in paragraphs (a) and (b), above, or at the option of the shareholder, PYE BVI may hold the acquired shares as treasury shares if:

(i) PYE BVI's memorandum or articles of association do not prohibit PYE BVI from holding treasury shares;

(ii) the directors resolve that shares to be purchased, redeemed or otherwise acquired should be held as treasury shares; and

(iii) the number of shares purchased, redeemed or otherwise acquired, when aggregated with shares of the same class already held by PYE BVI as treasury shares, does not exceed 50%. of the shares of that class previously issued by PYE BVI, excluding shares that have been cancelled.

A company may purchase, redeem or otherwise acquire the shares of PYE BVI at a price lower than fair value if permitted by, and then only in accordance with, the terms of its memorandum or articles of association; or a written agreement for the subscription for the shares to be purchased, redeemed or otherwise acquired.

Under BVI law, a subsidiary may hold shares in its holding company.

All the rights and obligations attaching to shares held by a company as treasury shares are suspended and shall not be exercised by or against PYE BVI while PYE BVI holds the share as a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under BVI law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association.

d. Protection of minorities

The BVI Companies Act contains various mechanism to protect minority shareholders, including:

(i) **Restraining or Compliance Orders:** if a company or a director of a company engages in, or proposes to engage in, conduct that contravenes the BVI Companies Act or PYE BVI's memorandum and articles of association, the court may, on the application of a member or a director of PYE BVI, make an order directing PYE BVI or its director to comply with, or restraining PYE BVI or director from engaging in conduct that contravenes, the BVI Companies Act or PYE BVI's memorandum and articles of association;

(ii) **Derivative Actions:** the court may, on the application of a member of a company, grant leave to that member to:

(aa) bring proceedings in the name and on behalf of that company; or

(bb) intervene in proceedings to which PYE BVI is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of PYE BVI; and

(iii) **Unfair Prejudice Remedies:** a member of a company who considers that the affairs of PYE BVI have been, are being or are likely to be, conducted in a manner that is, or any acts of PYE BVI have been, or are, likely to be oppressive, unfairly discriminatory, or unfairly prejudicial to him, may apply to the court for an order and, if the court considers that it is just and equitable to do so, it may make such order as it thinks fit, including, without limitation, one or more of the following orders:

(aa) in the case of a shareholder, requiring PYE BVI or any other person to acquire the shareholder's shares;

(bb) requiring PYE BVI or any other person to pay compensation to the member;

(cc) regulating the future conduct of PYE BVI's affairs;

(i) amending the memorandum or articles of association of PYE BVI;

(ii) appointing a receiver of PYE BVI;

(iii) appointing a liquidator of PYE BVI under section 159(1) of the Insolvency Act, 2003;

(iv) directing the rectification of the records of PYE BVI; and

(v) setting aside any decision made or action taken by PYE BVI or its directors in breach of the BVI Companies Act or PYE BVI's memorandum and articles of association.

(iv) **Representative Actions:** a member is able to bring an action against PYE BVI for a breach of a duty owed by PYE BVI to member in his capacity as a member. Where a member brings such an action and other members have the same (or substantially the same) action against PYE BVI, the court may appoint the first member to represent all or some of the members having the same interest and may make an order:

(aa) as to the control and conduct of the proceedings;

(bb) as to the costs of the proceedings; and

(cc) directing the distribution of any amount ordered to be paid by a defendant in the proceedings among the members represented.

The BVI Companies Act provides that any member of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following:

(i) a merger;

(ii) a consolidation;

(iii) any sale, transfer, lease, exchange or other disposition of more than 50% of the assets or business of PYE BVI if not made in the usual or regular course of the business carried on by PYE BVI but not including:

(aa) a disposition pursuant to an order of the court having jurisdiction in the matter;

(bb) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the members in accordance with their respective interests within one (1) year after the date of disposition;

(cc) a transfer pursuant to the power of the directors to transfer assets for the protection thereof;

(dd) a redemption of 10% or less of the issued shares of PYE BVI required by the holders of 90% or more of the shares of PYE BVI pursuant to the terms of the BVI Companies Act; and

(ee) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the BVI or their individual rights as shareholders as established by PYE BVI's memorandum and articles of association.

e. Dividends and distributions

Subject to any limitations or provisions to the contrary in its memorandum or articles and the solvency test set out above being satisfied, a company may by resolution of directors authorise a distribution to its members.

A distribution may be a direct or indirect transfer of an asset (other than PYE BVI's own shares) or the incurring of a debt for the benefit of a member.

f. Management

Subject to its memorandum and articles of association, the business and affairs of a company shall be managed by, or under the direction or supervision of, the directors of PYE BVI and the directors shall have all the powers necessary for managing, and for directing and supervising, the business and affairs of PYE BVI. The number of directors of a company may be fixed by, or in the manner provided in the articles of association of a company.

The BVI Companies Act provides that, subject to any limitations or provisions to the contrary in its memorandum and articles of association, any sale, transfer, lease, exchange or other disposition, other than a mortgage, charge or other encumbrance of the enforcement thereof, of more than 50% of the assets of a company, if not made in the usual or regular course of business carried on by PYE BVI, must be approved by a resolution of members.

The BVI Companies Act contains no other specific restrictions on the power of directors to dispose of assets of a company.

The BVI Companies Act contains a statutory code of directors' duties. Each director of a company, in performing his functions, must do so honestly and in good faith with a view to the best interests of PYE BVI and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

g. Amendment of constitutional document

The members of a company may, by resolution, amend the memorandum or articles of association of PYE BVI. The memorandum of a company may include a provision:

(i) that specified provisions of the memorandum or articles of association may not be amended;

(ii) that a resolution passed by a specified majority of members, greater than 50%, is required to amend the memorandum or articles of association or specified provisions of the memorandum or articles of association; and

(iii) that the memorandum or articles of association, or specified provisions of the memorandum or articles of association, may be amended only if certain specified conditions are met.

The memorandum of association of a company may authorise the directors, by resolution, to amend the memorandum or articles of association of PYE BVI

Where a resolution is passed to amend the memorandum or articles of association of a company, PYE BVI must file for registration:

(aa) a notice of amendment in the approved form; or

(bb) a restated memorandum or articles incorporating the amendment made.

An amendment to the memorandum or articles of association has effect from the date that the notice of amendment, or restated memorandum or articles of association incorporating the amendment, is registered by the BVI Registrar of Corporate Affairs or from such other date as may be ordered by the court.

h. Accounting requirements

A company must keep such accounts and records as are sufficient to show and explain PYE BVI's transactions and which will, at any time, enable the financial position of PYE BVI to be determined with reasonable accuracy. There is generally no obligation to have financial statement audited, unless PYE BVI is operating as a certain type of fund regulated by the Mutual Funds Act, 1996.

i. Exchange control

There are no exchange control regulations or currency restrictions in the BVI.

j. Loans to and transactions with directors

There is no express provision in the BVI Companies Act prohibiting the making of loans by a company to any of its directors.

A director of a company shall, immediately after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by PYE BVI, disclose the interest to the board of PYE BVI. If a director fails to make such a disclosure, he is liable, upon summary conviction, to a fine of US$10,000.

A director of a company is not required to disclose his interest if:

(i) the transaction or proposed transaction is between the director and PYE BVI; and

(ii) the transaction or proposed transaction is or is to be entered into in the ordinary course of PYE BVI's business and on usual terms and conditions.

A disclosure to the board to the effect that a director is a member, director, officer or trustee of another named company or other person and is to be regarded as interested in any transaction which may, after the date of the entry or disclosure, be entered into with that company or person, is a sufficient disclosure of interest in relation to that transaction. It should be noted, however, that a disclosure is not made to the board unless it is made or brought to the attention of every director on the board.

k. Taxation in the BVI

A company incorporated under the BVI Companies Act is exempt from all provisions of the Income Tax Act (as amended) of the BVI (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by PYE BVI to persons who are not persons resident in the BVI).

Capital gains realised with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the BVI are also exempt from all provisions of the Income Tax Act of the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligations or other securities of PYE BVI, save for interest payable to or for the benefit of an individual resident in the European Union.

l. Stamp duty on transfer

No stamp duty is payable in the BVI on a transfer of shares in a BVI company.

m. Inspection of corporate records

Members of the general public, on a payment of a nominal fee, can inspect the public records of a company available at the office of the BVI Registrar of Corporate Affairs which will include, *inter alia,* PYE BVI's certificate of incorporation, its memorandum and articles of association (with any amendments) and the records of licence fees paid to date.

A director may, on giving reasonable notice, inspect (and make copies of) the documents and records of a company without charge and at a reasonable time specified by the director.

A member of a company may, on giving written notice to a company, inspect PYE BVI's memorandum and articles of association, the register of members, the register of directors and the minutes of meetings and resolutions of members and of those classes of members of which he is a member.

Subject to any provision to the contrary in PYE BVI's memorandum and articles of association, the directors may, if they are satisfied that it would be contrary to PYE BVI's interests to allow a member to inspect any document, or part of a document, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

A company shall keep minutes of all meetings of directors, members, committees of directors, committees of officers and committees of members and copies of all resolutions consented to by directors, members, committees of directors, committees of officers and committees of members. The books, records and minutes required by the BVI Companies Act shall be kept at the registered office or at such other place as the directors determine.

A company is required to keep one or more registers to be known as the register of members containing, *inter alia,* the names and addresses of the persons who hold registered shares in PYE BVI, in the case of shares issued to bearer, the total number of each class and series of shares issued to the bearer, etc. The share register may be in any form as the directors may approve but, if it is in magnetic, electronic or other data storage form, PYE BVI must be able to produce legible evidence of its contents and a copy of the share register commencing from the date of registration of PYE BVI shall be kept at the registered office of PYE BVI. The share register is *prima facie* evidence of any matters directed or authorised by the BVI Companies Act to be contained therein.

A company is required to keep a register to be known as a register of directors containing, inter alia, the names and addresses of the persons who are directors and the date on which each person whose name is entered on the register was appointed and ceased to be a director. The register of directors may be in such form as the directors approve, but if it is in magnetic, electronic or other data storage form, PYE BVI must be able to produce legible evidence of its contents. A copy of the register of directors must be kept at the registered office and the register is *prima facie* evidence of any matters directed or authorised by the BVI Companies Act to be contained therein.

n. Winding up

The court has authority under the Insolvency Act 2003 of the BVI to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may enter into voluntary liquidation under the BVI Companies Act if it has no liabilities or is able to pay its debts as they fall due. Where it is proposed to appoint a voluntary liquidator, the directors of PYE BVI must:

(i) make a declaration of solvency in the approved form stating that, in their opinion, PYE BVI is and will continue to be able to discharge, pay or provide for its debts as they fall due; and

(ii) approve a liquidation plan specifying:

(aa) the reasons for the liquidation of PYE BVI;

(bb) their estimate of the time required to liquidate PYE BVI;

(cc) whether the liquidator is authorised to carry on the business of PYE BVI if he determines that to do so would be necessary or in the best interests of the creditors or members of PYE BVI;

(dd) the name and address of each individual to be appointed as liquidator and the remuneration proposed to be paid to each liquidator; and

(ee) whether the liquidator is required to send to all members a statement of account prepared or caused to be prepared by the liquidator in respect of his actions or transactions.

Subject to certain exceptions in the BVI Companies Act, a declaration of solvency is insufficient for the purposes of voluntary liquidation unless:

(aa) it is made on a date no more than four weeks earlier than the date of the resolution to appoint a voluntary liquidator; and

(bb) it has attached to it a statement of PYE BVI's assets and liabilities as at the latest practical date before the making of the declaration.

To be effective, a liquidation plan must be approved by the directors no more than six weeks prior to the date of the resolution to appoint a voluntary liquidator.

A director making a declaration of solvency without having reasonable grounds for the opinion that PYE BVI is and will continue to be able to discharge, pay or provide for its debts in full as they fall due, commits an offence and is liable on summary conviction to a fine of US$10,000.

Subject to the provisions of the BVI Companies Act, a voluntary liquidator may be appointed in respect of a company:

(i) by a resolution of the directors; or

(ii) by a resolution of the members.

o. Reconstructions

There are statutory provisions which facilitate arrangements which involve a plan of arrangement being approved by a resolution of directors of PYE BVI and application being made to the court for approval of the proposed arrangement. Upon approval by the court, the directors of PYE BVI are required to approve the plan of arrangement as approved by the court whether or not the court has directed any amendments to be made thereto and give notice to the persons whom the court requires notice to be given or submit the plan of arrangement to those person for such approval, if any, as the court order required.

p. Compulsory acquisition

Subject to any limitations in the memorandum or articles of association of a company, members holding 90% of the votes of the outstanding shares entitled to vote on a merger or consolidation may give a written instruction to a company directing PYE BVI to redeem the shares held by the remaining members. Upon receipt of the written instruction, PYE BVI is required to redeem the shares and give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected.

q. Indemnification

BVI law does not limit the extent to which a company's articles of association may provide for indemnification of directors, officers and any other person, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime.) provided that the indemnified person acted honestly and in good faith and in what he believed to be in the best interests of PYE BVI and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

4. Comparison Table to Identify Implementation of the Joint Policy Statement as Regards PYE BVI

Set out in the table below is a summary of how the various shareholder protection items identified in the Joint Policy Statement ("**JPS**"), a copy of which can be obtained on the websites of both the Stock Exchange of Hong Kong Limited and the Securities and Futures Commission of Hong Kong, are dealt with under the BVI Companies Act and would be dealt with under the Proposed Memorandum and Articles of PYE BVI.

Part I – items identified in the JPS where the BVI Companies Act is different		
Item in JPS	**Differences under the BVI Companies Act**	**Solution**
1(a)	Alteration to the constitutional documents may be effected by majority vote of resolution of members or the directors if authorised by the memorandum.	Articles specify that directors do not have power to amend the constitutional documents and that any alteration must be approved by members' special resolution.
4(a)	The concept of share capital no longer exists and hence no mechanism for increasing share capital.	Memorandum states the maximum number of shares and Articles provide for the increase of shares by majority vote.
4(b)	The concepts of share capital and maintenance no longer exist. Hence, no mechanism for reduction of capital.	In line with Bermuda law, the Articles specify that any distribution must be approved by special resolution of the members.
4(c)	While the BVI Companies Act does not specify the funding sources for redemption and share repurchase, its 'solvency test' (the "**Solvency Test**") provides that any company may only effect the repurchase if the value of its assets exceeds its liabilities and it is able to pay its debts.	As the Solvency Test, in practice, limits a BVI company's funding sources for redemption and share repurchase, the position in BVI is broadly comparable to the position under Bermuda law. The Articles provide the mechanism for a repurchase.
4(d)	A company can make a distribution from any available source provided that following such distribution the BVI company satisfies the Solvency Test.	No amendment needed as PYE BVI cannot make a distribution when insolvent under the Solvency Test. The company can only make a distribution when its assets exceed liabilities.
Part II – items identified in the JPS where no generally equivalent provisions can be found in the BVI Companies Act		
Item in JPS	**Details**	**Solution**
1(b); 1(c); 1(d) - 1(f); 2(a) - 2(f); 3(a) - 3(e); and 4(e)	There are no generally equivalent provisions in the BVI Companies Act.	Incorporation of the matters has been effected by inclusion of relevant provisions in the Articles.
Part III – items identified in the JPS where generally equivalent provisions can be found in the BVI Companies Act		
Item in JPS	**Details**	**Solution**
1(g)	There are relevant provisions under the BVI Companies Act.	Nothing required as the current provisions under the BVI Companies Act provide protection.

C. CERTAIN COMPARISONS BETWEEN PYE BVI AND A COMPANY LISTED ON THE STOCK EXCHANGE

Following the Distribution in Specie, the shares of PYE BVI will not be listed on the Stock Exchange (or on any other recognised stock exchange) and there is no current intention that they be so listed. Accordingly, Shareholders may wish to take into consideration the following factors when considering whether to accept the Distribution in Specie or elect to receive the Cash Alternative. The following summary is not intended to be an exhaustive comparison of the laws and regulations applicable to an unlisted company as compared to one that is listed on the Stock Exchange, rather it is designed to provide some guidance as to some of the more material differences.

1. Listing Rules

The Listing Rules do not directly apply to PYE BVI and holders of PYE BVI shares will not be afforded the protections provided by the Listing Rules.

However, it should be noted that for so long as PYE BVI remains a subsidiary of PYE (and for so long as PYE remains listed) certain aspects of the Listing Rules will continue, indirectly, to apply in respect of PYE BVI. In order to derive any indirect benefit in this regard, a PYE BVI shareholder may wish, also, to continue to hold some of his or her shares in PYE. Thus, for so long as PYE BVI remains the subsidiary of PYE (and on the basis that PYE retains its listing), the following provisions will, amongst others, be relevant:

(i) The annual reports and the interim reports of PYE, as required to be published in accordance with the Listing Rules will include the consolidated financial results of PYE BVI and its subsidiaries. (See below as regards accounts of PYE BVI).

(ii) Transactions entered into by PYE BVI with connected persons of PYE will continue to constitute connected transactions of PYE and will be subject to the provisions of Chapter 14A of the Listing Rules. Moreover, transactions entered into between PYE BVI (as a non-wholly owned subsidiary of PYE) and PYE itself will constitute connected transactions of PYE for so long as any connected person of PYE (for example, PYI were it to remain substantial shareholder of PYE) is entitled to exercise or control of the exercise of, 10% or more of the voting power at any general meeting of PYE BVI, and will accordingly be subject to the provisions of Chapter 14A of the Listing Rules.

Shareholders should note that this is not the same thing as saying that Chapter 14A of the Listing Rules applies directly to PYE BVI or for the benefit of PYE BVI shareholders as a whole. However, Shareholders may wish to note that the Articles include a simple form connected transaction regime, as described in sub-paragraph B. 2. (t) above. Moreover, so far as contracts, arrangements or other proposals in which any PYE BVI director were to have a material interest, the Articles include restrictions as regards his voting on the same, as a director of PYE BVI, that are broadly in line with the restrictions applicable to companies listed on the Stock Exchange, as described in sub-paragraph B. 2.(a)(v) above.

2. Accounts of PYE BVI

On the basis that financial information about PYE BVI and its subsidiaries will, for so long as PYE BVI remains as subsidiary of PYE, be included in the routine financial disclosures of PYE as required to be published in accordance with the Listing Rules, it is not proposed that separate accounts of PYE and its subsidiaries will be prepared and sent to PYE BVI shareholders. However, in the event that PYE BVI were ever to cease to be a subsidiary of PYE, separate accounts of PYE BVI would be so prepared and sent to PYE BVI shareholders, as described in sub-paragraph B. 2. (h) above.

3. Transfers of PYE BVI shares

No public float will exist in respect of the PYE BVI shares and such shares will not be listed on any stock exchange. Accordingly, there will be no liquid market for the shares of PYE BVI.

Moreover, shares of PYE BVI will be in physical (scrip) form only. There will be no uncertificated (scripless) form of shares in PYE BVI. This is not to say that shares in PYE BVI cannot be transferred. They can be, subject to the provisions of the Articles, although Shareholders should note that the process of registering any transfer would be expected to take in the order of four weeks to complete.

To transfer PYE BVI shares, an instrument of transfer in the prescribed form, obtainable from PYE BVI's place of business in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, must be duly completed and returned to PYE BVI's place of business, together with the related share certificate(s) in respect of the shares to be transferred. As PYE BVI is a BVI company, its share register is proposed to be kept at a registration office in the BVI. Accordingly, the relevant transfer documentation will be processed offshore and the new share certificate(s) in favour of the transferee will be returned to PYE BVI's place of business in Hong Kong for collection. As noted above, this process would be expected to take in the order of four weeks to complete.

It is not anticipated that transfers of PYE BVI shares will attract Hong Kong stamp duty.

4. Takeovers Code

The Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "**Codes**") apply to takeovers and share repurchases affecting public companies in Hong Kong. No assurance can be given at this stage that the Codes will apply to PYE BVI. The executive director of the corporate finance division of the Securities and Futures Commission would, in considering at the relevant time, whether or not PYE BVI was a 'public company in Hong Kong', apply an economic or commercial test, taking into account primarily the number of Hong Kong shareholders and the extent of share trading in Hong Kong and other factors including:

(a) the location of PYE BVI's head office and place of its central management;

(b) the location of its business and assets, including such factors as registration under companies legislation and tax status; and

(c) the existence or absence of protection available to Hong Kong shareholders given by any statute or code regulating takeovers, mergers and share repurchases outside Hong Kong.

In the event that, following the Distribution in Specie, PYE BVI were to have 50 or more members, many or most based in Hong Kong, the directors would expect the Codes to apply to PYE BVI.

5. Disclosure of interests

The disclosure of interests in securities regime, as provided for in Part XV of the Securities and Futures Ordinance ("**SFO**") will not be directly applicable to PYE BVI. However, Shareholders should note that, for so long as PYE or PYI (as the case may be) remains listed on the Stock Exchange and holds 20% or more of the PYE BVI shares, the interests of any director of PYE or PYI (as the case may be) in the share capital of PYE BVI is required to be disclosed in accordance with the provisions of Part XV of the SFO by that director, as being his interest(s) in an "associated corporation" of PYE or PYI (as the case may be).

6. Other material aspects of the SFO

Aside from the disclosure of interests regime referred to in the proceeding paragraph, the market misconduct provisions and the provisions concerning offences relating to dealings in securities, as provided for in Parts XIII and XIV of the SFO, will not apply in relation to shares in PYE BVI. These would include activities such as insider dealing, false trading, price rigging and stock market manipulation and would not be applicable given the unlisted status of the PYE BVI shares.

However, were PYE BVI minded ever to raise additional funds by means of an allotment of new securities to the public in Hong Kong (which includes any class of that public, and may include the holders of the PYE BVI shares from time to time) the provisions relating to offers of investments, as contained in Part IV of the SFO (including all potentially relevant exemptions provided for therein), would apply to PYE BVI.

7. Independent non-executive directors

There is no requirement under BVI law (or otherwise) for PYE BVI to have any independent non-executive directors on its board. However, with a view to better protecting the interests of the minority shareholders of PYE BVI, PYE proposes, subject to completion of the Distribution in Specie and provided always that there are minority shareholders of the company, to appoint not less than two independent non-executive directors to the PYE BVI board.

8. Protection of minorities

Sub-paragraph B.3.(d) above summarises certain provisions of the BVI Companies Act relevant to the protection of minority shareholders' interests. Shareholders may also wish to note that PYE BVI, as a non-Hong Kong company with a place of business registered in Hong Kong, constitutes a "specified corporation" for the purposes of section 168A of the Companies Ordinance.

Members of a “specified corporations” are entitled to rely on section 168A for the purposes of making complaints, by way of petition, to the Hong Kong courts that the affairs of the corporation are being or have been conducted in a manner unfairly prejudiced to the interests of the members generally or the some part of the members.

9. Financial assistance

The BVI Companies Act does not contain any prohibitions or restrictions on a BVI company’s ability to provide financial assistance in connection with an acquisition of its shares. Although, as a matter of relevant common law, the directors would, in the discharge of their fiduciary duties, need to be satisfied that any such acquisition was being made in the best interests of the company and its shareholders as a whole. This contrasts with, for example, the Companies Act 1981 of Bermuda, as is applicable to PYE, which does contain restrictions on the ability of a Bermuda company to provide financial assistance in connection with an acquisition of its shares. Under the Companies Act 1981 of Bermuda, whilst financial assistance is generally prohibited, there are exceptions permitting it, inter alia, where the financial assistance would not reduce the net assets of the company or to the extent that it would, if the financial assistance is provided out of funds of the company otherwise available for dividends or distribution; and subject to certain directors of the company making a declaration as to the solvency of the company taking into account the giving of the financial assistance or where there are no reasonable grounds to believe that the company is, or after providing such financial assistance would be unable to pay its, liabilities as they become due.

10. Comparison of the compulsory acquisition provisions

The BVI Companies Act permits shareholders holding 90% of the votes of the outstanding shares of a company entitled to vote to direct the company to redeem the shares held by the remaining shareholders (as referred to in sub-paragraph B.3.(p) above). On receipt of the direction, the company must redeem the shares irrespective of whether or not the shares are by their terms redeemable.

The company must then give written notice to each shareholder whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. Shareholders entitled to use the power under the BVI Companies Act may do so at any time, whether pursuant to a tender offer or otherwise. The redemption price may be any amount and the redemption proceeds may be paid in cash or goods, but a shareholder whose shares are being redeemed may dissent and demand to be paid the fair value of his shares in cash.

Upon giving notice of his election to dissent, a shareholder ceases to have any rights of a shareholder except the right to be paid the fair value of his shares

Within seven days of the later of the delivery of the notice of election to, the company must make a written offer to each dissenting shareholder to purchase his shares at a specified price that the company determines to be their fair value. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then the company and the shareholder shall each designate an appraiser and these two appraisers shall designate a third appraiser. These three appraisers shall fix the fair value of the shares.

This contrasts with the position under the Companies Act 1981 of Bermuda, as applies to PYE, which contains two provisions relevant to the compulsory acquisition of shares, as follows:

(i) Acquisition of shares representing 90% of shares subject to an offer

Where an offer for the shares of a Bermuda company is approved by the holders of 90% in value of the shares which are the subject of the offer, the offeror can compulsorily acquire the shares of dissentient shareholders. Shares owned by the offeror or its subsidiary or their nominees at the date of the offer do not, however, count towards the 90%. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10% of the shares in the subject company at the date of the offer the offeror must offer the same terms to all holders of the same class and the holders who accept the offer, besides holding not less than 90% in value of the shares, must also represent not less than 75% in number of the holders of those shares although these additional restrictions should not apply if the offer is made by a subsidiary of a parent (where the subsidiary does not own more than 10% of the shares of the subject company) even where the parent owns more than 10% of the shares of the subject company, provided that the subsidiary and the parent are not nominees.

The 90% must be obtained within 4 months after the making of the offer and, once obtained, the compulsory acquisition may be commenced within 2 months of the acquisition of 90%. Dissentient shareholders do not have express appraisal rights but are entitled to seek relief (within one month of the compulsory acquisition notice) from the Supreme Court of Bermuda which has power to make such orders as it thinks fit.

(ii) Acquiring 95% of the shares of a Bermuda company

Holders of 95% or more of the shares or any class of shares may serve a notice on the remaining shareholders or class of shareholders under the relevant provisions of the Act. Dissentient shareholders have a right to apply to the Court within one month of the compulsory acquisition notice to have the value of their shares appraised by the Court.

D. GENERAL

Conyers Dill & Pearman, PYE's offshore legal adviser, have sent to PYE a letter summarizing certain provisions of the Proposed Memorandum and Articles of PYE BVI, certain aspects of BVI company law and a comparison of the Joint Policy Statement with the Proposed Memorandum and Articles of PYE BVI. This letter, together with a copy of the BVI Companies Act, is available for inspection, as referred to in section 10 of appendix IX. Any person wishing to have a detailed summary of BVI company law or advice on the differences between it and the laws of Bermuda, as apply to PYE, is recommended to seek independent legal advice.

BOARD OF DIRECTORS

The Board consists of six Directors, of whom two are executive Directors, one is non-executive Directors and three are independent non-executive Directors. The executive Directors and non-executive Directors are appointed for a term not exceeding three years, and the independent non-executive Directors are appointed for an initial period of three years, with one-third of the Board retiring at each annual meeting provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

DIRECTORS

James Chiu, *OBE, JP*, aged 73, has been the chairman (independent non-executive Director) of the Company since March 2006. He is also the chairman of the audit committee, remuneration committee and corporate governance committee of the Company. Ir Chiu has served Hong Kong's construction industry for 47 years. He was the managing director of the General Electric Company of Hong Kong Limited from 1984 to 1998.

He has held a number of important industry roles. He was a president of the Hong Kong Institution of Engineers and a chairman of the British Chamber of Commerce in Hong Kong. Currently, he is a council member of Hong Kong Electrical & Mechanical Contractors' Association. He is also a director of BEAM Society Limited, Hong Kong Green Building Council and Hong Kong Electrical Contractor's Association Limited.

Ir Chiu is a fellow of the Institution of Engineering and Technology, the Hong Kong Institution of Engineers and Hong Kong Academy of Engineering Sciences.

Lau Ko Yuen, Tom, aged 60, has been the deputy chairman (non-executive Director) of the Company since January 2005. He is also a member of the nomination committee, disclosures committee and corporate governance committee of the Company. Mr. Lau has over 38 years' international corporate development and management experience in infrastructure developments as well as construction and engineering services involving the road, rail, port, power, telecommunications, mining and resources sectors in the Asia Pacific Region. Mr. Lau is the chairman and managing director of PYI. He is also the deputy chairman and non-executive director of Prosperity Investment Holdings Limited (HK stock code: 0310) and an independent non-executive director of China National Building Material Company Limited (HK stock code: 3323). Mr. Lau is a director of PYI Treasury Group Limited, Growing Success Limited and Paul Y. Investments Limited, all of which as well as PYI have interests in the shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Chan Fut Yan, aged 58, has been the deputy chairman (executive Director) of the Company since May 2010. He is also a member of the executive committee of the Company, and a director of certain subsidiaries of the Company. Mr. Chan has over 38 years of experience in the local construction field specialising in planning of construction business. Mr. Chan is an executive director of ITC Corporation Limited (HK stock code: 0372) and the managing director of ITC Properties Group Limited (HK stock code: 0199).

Wong Kam Cheong, Stanley, aged 53, has been the executive Director & chief executive officer of the Company since September 2008. He is also the chairman of the executive committee of the Company, a member of the remuneration committee and finance and investment committee of the Company, and directors of certain subsidiaries of the Company. Ir Dr Wong has over 29 years of experience in the field of engineering, design, construction, project management, property development and corporate management. Ir Dr Wong holds a bachelor (Hons) degree in civil engineering awarded by the University of Manchester, U.K., a master of science degree in finance awarded by the Chinese University of Hong Kong, a master of business degree and a doctor of business administration degree awarded by the University of Newcastle, Australia. He is a member of the Hong Kong Institution of Engineers, a registered professional engineer in Hong Kong, a chartered professional engineer of Australia, a U.K. chartered civil and structural engineer and a vice president and a fellow member of the Hong Kong Institute of Real Estate Administrators. Ir Dr Wong is also a registered structural engineer and an authorised person (engineer) registered under section 3 of the Buildings Ordinance.

Lee Chack Fan, *SBS, JP*, aged 66, has been an independent non-executive Director of the Company since January 2005. He is also the chairman of the nomination committee of the Company, and a member of the audit committee and remuneration committee of the Company. Professor Lee is the chair professor of geotechnical engineering and director of the School of Professional and Continuing Education of the University of Hong Kong. He is also an academician of Chinese Academy of Engineering. Professor Lee graduated from The University of Hong Kong in 1968 and subsequently received his master's degree from the University of Hong Kong in 1970 and a Ph.D. from the University of Western Ontario, Canada in 1972. Professor Lee is an internationally renowned expert in geotechnical engineering. He worked for Ontario Hydro in Canada for some 20 years before he joined his alma mater in 1994. He has participated in the design of many massive dams and nuclear power stations. He has served as a specialist consultant or an advisor to many international bodies such as the United Nations Development Plan, World Bank, Asian Development Bank, etc. on numerous energy and infrastructure projects in many parts of the world. Professor Lee's eminent achievement in civil engineering has been highly recognized; he was awarded the KY Lo Medal in 2000 by the Engineering Institute of Canada and was elected the academician of the Chinese Academy of Engineering in 2003 in recognition of his contributions to the engineering profession. He has been appointed as Justice of the Peace by the Hong Kong Special Administration Region Government in July 2003, and he has been awarded the Silver Bauhinia Star in July 2005.

Professor Lee is currently the chairman of the Council of the Lord Wilson Heritage Trust, the chairman of Hong Kong Institute for Promotion of Chinese Culture, member of the Board of the West Kowloon Cultural District Authority and the president of the Fu Hui Charity Foundation.

Iain Ferguson Bruce, aged 70, has been an independent non-executive Director since January 2005. He is also the chairman of the finance and investment committee and disclosures committee of the Company, and a member of the audit committee, nomination committee and corporate governance committee of the Company. Mr Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996 and served as chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of

Certified Public Accountants with over 46 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute. He is the chairman of KCS Limited and a director of Citibank (Hong Kong) Limited. Mr Bruce serves as an independent non-executive director on the boards of several publicly listed companies in Hong Kong, including Vitasoy International Holdings Ltd. (HK stock code: 0345), Wing On Company International Limited (HK stock code: 0289), Tencent Holdings Limited (HK stock code: 0700), Sands China Ltd. (HK stock code: 1928) and Goodbaby International Holdings Limited (HK stock code: 1086). He is also an independent non-executive director of Noble Group Limited, a company whose shares are listed on the Singapore Exchange Securities Trading Limited, China Medical Technologies Inc., a company whose shares are traded on Nasdaq and Yingli Green Energy Holding Company Limited, a company whose shares are traded on NYSE.

PROPOSED NEW DIRECTORS

Mr. Wu, aged 42, has over 15 years of experience in the finance and investment industries. He is the principal partner of AID Capital and was formerly the chief executive officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (HK stock code: 1132), one of the leading film entertainment companies in Asia, from 2009 to 2011. Mr. Wu was formerly the president of Investec Asia Limited from 2005 to 2007, where he managed its direct investment businesses. Mr. Wu also worked for other investment banks, including as managing director of China Everbright Capital Ltd., head of corporate finance for Grand Cathay Securities (Hong Kong) Limited, director of corporate finance department of Core Pacific-Yamaichi Capital Limited and held senior position in BNP Prime Peregrine Capital Limited. Besides, Mr. Wu also served as chief operating officer of Sega.com Asia Networks Limited in year 2000 and executive director and non-executive director of China Mining Resources Group Limited (HK stock code: 340) from 2007 to 2008. He graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration. Mr. Wu is a director of each of the AID Subscribers, AID Partners Assets Management Limited and AID Partners Ltd. Mr. Wu owns 60% of the issued share capital in AID Partners Ltd., which is the general partner of AID Partners GP1, L.P., which is in turn the general partner of AID Capital. Each of the AID Subscribers, AID Partners Assets Management Limited, AID Partners GP1, L.P., AID Capital and AID Partners Ltd. is deemed to be interested in the shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Chang, aged 43, has considerable strategic financial and advisory experience. He has worked closely with Mr. Wu for many years and, in particular, was formerly the chief financial officer and executive director of Orange Sky Golden Harvest Entertainment (Holdings) Limited from 2009 to 2011 and 2010 to 2011, respectively. Mr. Chang co-founded AID Capital with Mr. Wu and is currently the managing partner and an investment committee member of AID Capital. Mr. Chang is also an independent non-executive director of Kingsoft Corporation Limited (HK stock code: 3888) since October 2011 and currently a member of the People's Political Consultative Committee of the People's Republic of China (Beihai Guangxi). Prior to the establishment of AID Capital, Mr. Chang was the chief investment officer of Investec Asia Limited from 2005 to 2007, managing director of China Everbright Capital Limited from 2004 to 2005 and executive director of BNP Prime Peregrine Capital Limited from 2002 to 2004. Mr. Chang is also a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Chang obtained a bachelor's degree in economics from Monash University in 1990. Mr. Chang is a director of each of the AID Subscribers, AID Partners Assets

Management Limited and AID Partners Ltd. Mr. Chang owns 40% of the issued share capital in AID Partners Ltd., which is the general partner of AID Partners GP1, L.P., which is in turn the general partner of AID Capital. Each of the AID Subscribers, AID Partners Assets Management Limited, AID Partners GP1, L.P., AID Capital and AID Partners Ltd. is deemed to be interested in the shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SENIOR MANAGEMENT

Law Hon Wa, William, aged 46, joined the Group in May 2008. Mr. Law has been the chief financial officer of the Company since June 2010. He is also a member of the finance and investment committee, disclosures committee and executive committee of the Company, and directors of certain subsidiaries of the Company. Mr. Law has over 22 years' experience in auditing, accounting and financial management. He holds a bachelor degree in business administration and a master degree in applied finance. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and also a practising certified public accountant in Hong Kong.

Mui Ching Hung, Joanna, aged 42, has been the company secretary of the Company since January 2005. She is responsible for all company secretarial matters of the Group. Ms. Mui has over 19 years' experience in company secretarial field. She holds a bachelor (Hons) degree in law and a master of arts degree in language and law. Ms. Mui is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

PARTIES INVOLVED IN THE PLACING

Financial adviser to the Company	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Somerley Limited 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong
Placing Agents to the Company *(in alphabetical order)*	CLSA Limited 18th Floor, One Pacific Place, 88 Queensway, Hong Kong UBS AG, Hong Kong Branch 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Hong Kong Legal adviser to the Company	ReedSmith Richards Butler 20th Floor, Alexandra House 18 Chater Road, Central Hong Kong
Offshore Legal adviser to the Company	Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place, Central Hong Kong
Legal adviser to the Placing Agents	Slaughter and May 47th Floor, Jardine House One Connaught Place, Central Hong Kong
Auditor and reporting accountant to the Company	Deloitte Touche Tohmatsu Certificed Public Accountants 35th Floor, One Pacific Place 88 Queensway, Admiralty Hong Kong
Independent professional valuer	KPMG Transaction Advisory Services Limited 27th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong

Principal share registrar and transfer office	Butterfield Fulcrum Group (Bermuda) Limited Rosebank Centre 11 Bermudiana Road, Pembroke HM 08 Bermuda
Branch share registrar and transfer office	Tricor Strandard Limited 26th Floor, Tesbury Centre 28 Queen's Road East, Wanchai Hong Kong
Trustee of the Company's share award scheme	BOCI-Prudential Trustee Limited 12th Floor, Citicorp Centre 18 Whitfield Road, Causeway Bay Hong Kong
Principal bankers to the Company	Bank of China (Hong Kong) Limited 9th Floor, Bank of China Tower No. 1 Garden Road Hong Kong
	BNP Paribas, Hong Kong Branch 63rd Floor, Two International Finance Centre 8 Finance Street Hong Kong
	China Construction Bank (Asia) Corporation Limited Suite 2508-11, 25th Floor, Tower 6, The Gateway Harbour City, Tsimshatsui, Kowloon Hong Kong
	CITIC Bank International Limited 80th Floor, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
	DBS Bank (China) Limited, Beijing Branch 5th Floor, Winland International Finance Center No. 7 Financial Street Xicheng, District Beijing, 100140 China
	DBS Bank (Hong Kong) Limiited 18th Floor, The Centre 99 Queen's Road Central Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Fubon Bank (Hong Kong) Limited
Fubon Bank Building
38 Des Voeux Road, Central
Hong Kong

Nanyang Commercial Bank (China) Limited
Shenzhen Luohu Sub-Branch
Ground Floor and 2nd Floor, Block C, Nanyang Mansion
2002, Jian She Road, Luohu District, Shenzhen
China

The Bank of East Asia, Limited
31st Floor, BEA Tower, Millennium City 5
418 Kwun Tong Road, Kwun Tong, Kowloon
Hong Kong

The Bank of East Asia (China) Limited, Beijing Branch
Unit 5, 1st Floor and 27th Floor, Tower 1, Prosper Center
No. 5 Guanghua Road, Chaoyang District, Beijing
China

The Hongkong & Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central
Hong Kong

Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

Authorised representatives

Wong Kam Cheong, Stanley
16th Floor, Paul Y. Centre
51 Hung To Road, Kwun Tong, Kowloon
Hong Kong

Mui Ching Hung, Joanna
16th Floor, Paul Y. Centre
51 Hung To Road, Kwun Tong, Kowloon
Hong Kong

A. RESPONSIBILITY STATEMENT

This circular, for which the 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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than those relating to Legendary, Huayi Group and Legendary East) 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.

B. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in the Listing Rules or (c) which were required to be entered into the register pursuant to section 352 of the SFO were as follows:

(a) Interests in the Shares or underlying Shares

Name of Director	Capacity	Long position	Number of Share held	Approximate percentage of shareholding of the Company
Iain Ferguson Bruce	Beneficial owner	Long position	817,111	0.13%

(b) Interests in shares and underlying shares of PYI

Name of Director	Capacity	Long position	Number of shares of PYI held	Number of underlying shares (in respect of the share options (unlisted equity derivatives)) of PYI held	Total	Approximate percentage of shareholding of PYI
Lau Ko Yuen, Tom	Beneficial owner	Long position	14,237,475	36,833,332 [1]	51,070,807	1.13%
Lau Ko Yuen, Tom	Family interest and interest of controlled corporation	Long position	146,863,544 [2]	–	146,863,544	3.24%
Chan Fut Yan	Beneficial owner	Long position	–	7,083,334 [3]	7,083,334	0.16%

Notes:

1. The share options were granted to Mr. Lau Ko Yuen, Tom on 28 December 2004 under the share option scheme of PYI adopted on 27 August 2002 and entitle him to subscribe for a total of 36,833,332 shares upon exercise at the exercise prices of HK$0.43762 (as to 18,416,666 options) and HK$0.52940 (as to 18,416,666 options) per share exercisable during the period from 28 December 2004 to 26 August 2012.

2. Such interests are indirectly held by a company which is equally owned by Mr. Lau Ko Yuen, Tom and his wife.

3. The share options were granted to Mr. Chan Fut Yan on 28 December 2004 under the share option scheme of PYI adopted on 27 August 2002 and entitle him to subscribe for 7,083,334 shares upon exercise at an exercise price of HK$0.52940 per share exercisable during the period from 28 December 2004 to 26 August 2012.

PYI, the ultimate holding company of the Company, is an associated corporation, within the meaning of Part XV of the SFO, of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the 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 the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the Model Code or were required to be entered into the register required to be kept under section 352 of the SFO.

C. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS/OTHER PERSONS RECORDED IN THE REGISTRAR KEPT UNDER THE SFO

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 Directors, the following are details of the persons 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 Group:

(A) Interest of substantial shareholders in the Shares and underlying Shares

Name of substantial shareholder	Capacity	Long position	Interest in Shares held	Interest in underlying Shares	Total number of Shares and underlying Shares held	Approximate percentage of shareholding of the Company
PYI	Interest of controlled corporation[1]	Long position	–	–	375,826,317	61.92%
PYI Treasury Group Limited ("PYIT")	Interest of controlled corporation[1]	Long position	–	–	375,826,317	61.92%
Growing Success Limited ("Growing Success")	Interest of controlled corporation[1]	Long position	–	–	375,826,317	61.92%
Paul Y. Investments Limited ("PYIL")	Beneficial owner[1]	Long position	–	–	375,826,317	61.92%
Mr. Wu	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
Mr. Chang	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Partners Ltd.	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Partners GP1, L.P.	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Capital	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Partners Assets Management Limited	Interest of controlled corporation[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Subscriber 1	Beneficial owner[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Subscriber 2	Beneficial owner[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%
AID Subscriber 3	Beneficial owner[2]	Long position	360,000,000	60,000,000	420,000,000	69.20%

Notes:

1. PYIL is a wholly-owned subsidiary of Growing Success which is in turn a wholly-owned subsidiary of PYIT. PYIT is a wholly-owned subsidiary of PYI. Growing Success, PYIT and PYI are deemed to be interested in the Shares held by PYIL. Mr. Lau Ko Yuen, Tom is (i) the deputy chairman (non-executive director) of the Company; (ii) the deputy chairman & managing director of PYI; and (iii) a director of PYIT, Growing Success and PYIL.

2. AID Subscriber 1, AID Subscriber 2 and AID Subscriber 3 are the wholly-owned subsidiaries of AID Partners Assets Management Limited which is in turn the wholly-owned subsidiary of AID Capital whose general partner is AID Partner GP1, L.P. whose general partner is AID Partners Ltd. whose shareholders are Mr. Wu and Mr. Chang. AID Partners Assets Management Limited, AID Capital, AID Partner GP1, L.P., AID Partners Ltd., Mr. Wu and Mr. Chang are deemed to be interested in the New Shares due to be subscribed pursuant to the AID Subscription Agreement by AID Subscriber 1, AID Subscriber 2 and AID Subscriber 3.

(B) Interests and short positions of other persons in the Shares and underlying Shares

Name of person	Capacity	Long position	Number of Shares of the Company held	Approximate percentage of shareholding of the Company
Platinum Global Dividend Fund Limited	Investment manager	Long position	36,000,000	5.93%

(C) Other members of the Group

Name of subsidiary	Name of shareholder	% of issued share capital/ registered capital
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%
Paul Y. – Concentric Joint Venture	Concentric Construction Limited	49%
PYSCG JV Limited	SCG (H.K.) Limited	49%
PYSCG – NF JV Limited	Nam Fong Construction And Real Estate Company Limited	26.6%

Note:

All of the above subsidiaries are private limited companies, except for the joint ventures namely, Paul Y. – CREC Joint Venture, Paul Y. – CREC(HK) Joint Venture, Paul Y ISG Joint Venture and Paul Y. – Concentric Joint Venture which are all unincorporated partnerships.

Save as disclosed above, the 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 Group or had any options in respect of such Shares.

D. SERVICE CONTRACT

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

E. SHARE OPTION SCHEME

The following is a summary of the rules of the Share Option Scheme approved and adopted by Shareholders on 7 September 2005.

Purpose of the scheme

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons for their contribution to, and continuing efforts to promote the interests of the Company.

Who may join

The Board may in its absolute discretion grant options to any Eligible Person.

Price of Shares

Options can be exercised at a subscription price determined by the Board in its absolute discretion (subject to adjustments as provided in the rules of the Share Option Scheme) which shall be in any case at least the higher of (i) the nominal value of the Share; and (ii) the subscription price as is permissible under the Listing Rules from time to time. Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the subscription price is fixed at different prices for different periods during the period for the exercise of options.

A consideration of HK$1.00 is required to be paid by a Grantee for each acceptance of the offer of the grant of an option under the Share Option Scheme.

Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10 percent of the issued share capital as at 7 September 2005 (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the 10 percent limit. The Company may refresh the Scheme Mandate Limit by ordinary resolution of the Shareholders in general meeting, provided that the Scheme Mandate Limit so refreshed shall not exceed 10 percent of the issued share capital as at the date of Shareholders' approval of the refreshing of the Scheme Mandate Limit. Options previously granted under any existing schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 30 percent of issued share capital from time to time.

The maximum number of Shares (issued and to be issued) in respect of which options may be granted under the Share Option Scheme and any other share option scheme(s) of the Company (whether exercised, cancelled or outstanding) to any Eligible Person in any 12-month period shall not exceed one percent of the issued share capital from time to time unless such grant has been duly approved by ordinary resolution of the Shareholders in general meeting at which the relevant Eligible Person and his associates abstained from voting.

In calculating the aforesaid limit of 1 percent, options that have lapsed shall not be counted.

Grant of options to Connected Persons

Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a prospective Grantee of the options).

Where options are proposed to be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates, and the proposed grant of options would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the grant of such options to represent in aggregate over 0.1 percent of the total number of Shares and have an aggregate value (based on the closing price of a Share at each date of the grant of these options) exceeding HK$5 million, the proposed grant shall be subject to the issue of a circular and the approval of the Shareholders in general meeting (taken on a poll) in accordance with the requirements of the Listing Rules at which all Connected Persons abstained from voting (but a Connected Person may vote against the resolution at the general meeting provided that his intention to do so has been stated in the circular).

In calculating the aforesaid limit of 0.1 percent, options that have lapsed shall not be counted.

Time for exercise of options

The Grantee of an option may subscribe for Shares during such period as may be determined by the Board (the period shall commence on the date on which the offer relating to such option is duly approved by the Board in accordance with the Share Option Scheme and expire in any event not later than the last day of the ten year period after the date of adoption of the Share Option Scheme (subject to early termination as set out in the scheme)). The Share Option Scheme does not provide for any minimum period for which an option must be held before it can be exercised.

Performance targets

The Share Option Scheme provides that there are no performance targets that need to be met before a Grantee is entitled to exercise an option duly granted.

Rights are personal to grantee

An option shall be personal to the Grantee of the option and shall not be assignable nor transferable.

Rights on ceasing employment

Subject to the provision in the paragraph below headed "rights on death" and the subparagraph (d) under the paragraph below headed "lapse of options", if a Grantee of an option ceases to be an Eligible Person, the Grantee may only exercise the option within a period of one month thereafter.

Rights on death

If a Grantee of an option dies, the personal representatives of the Grantee may only exercise the option within a period of twelve months thereafter.

Rights on dismissal

If a Grantee of an option ceases to be an Eligible Person by reason of summary dismissal, the right to exercise the option shall thereupon terminate immediately.

Effect of alterations to capital

In the event of a capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company, the Company shall make corresponding alterations (if any) to:

(a) the number of Shares subject to options already granted so far as they remain exercisable; and, or,

(b) the subscription price;

provided that

(i) each Grantee is given the same proportion of the equity capital of the Company as that to which he was previously entitled;

(ii) no alterations shall be made which would result in the subscription price for a Share being less than its nominal value;

(iii) no such alterations shall be made in respect of an issue of securities by the Company as consideration in a transaction;

(iv) any such alterations, save as those made on a capitalisation issue, shall be confirmed by the auditor of the Company or the independent financial adviser in writing to the Directors as satisfying the requirements of the foregoing paragraphs (i) and (ii); and

(v) any such alterations made pursuant to a subdivision or consolidation of share capital shall be made on the basis that the aggregate subscription price payable by a Grantee on full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event.

Rights on a general offer

If a general offer is made to all the Shareholders and such offer is declared unconditional before the expiry date of the Option, the Grantee may by notice in writing within twenty-one days after such offer becoming or being declared unconditional exercise any options to its full extent, and to the extent that they have not been so exercised, the right to exercise the options shall upon the expiry of such period terminate immediately.

Rights on winding up

If a notice is given to each Grantee of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, each Grantee shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company. The Company shall, as soon as possible, and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Grantee, credited as fully-paid. The right to exercise the options shall, to the extent that they have not been exercised, terminate immediately on the date of the commencement of the voluntary winding-up of the Company.

Rights on a scheme of arrangement

If a general offer by way of a scheme of arrangement is made to all the Shareholders and such scheme has been approved by the necessary number of shareholders at the requisite meetings, the Grantee may thereafter (but before such time as shall be notified by the Company) by notice in writing to the Company exercise the option in full or in part.

Ranking of Shares

Shares allotted on the exercise of options will rank pari passu with the other Shares in issue at the relevant date of allotment except in respect of any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the relevant date of allotment.

Period of the scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing after its date of adoption.

Variation and termination

The Share Option Scheme may be altered in any respect by resolution of the Board except that certain provisions as to:

(a) the definitions of Grantee and Eligible Person(s);

(b) the provisions relating to the matters set out in Rule 17.03 of the Listing Rules;

shall not be altered to the advantage of Grantee or prospective Grantee except with the prior approval of the Shareholders in general meeting (with participants and their respective associates abstained from voting). No such alterations shall operate to affect adversely the terms of issue of any options granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the Grantee as would be required of the Shareholders under the bye-laws for the time being of the Company for a variation of the rights attached to the Shares.

Any alterations to the provisions of the Share Option Scheme which are of a material nature (except where alterations take effect automatically under the provisions of the Share Option Scheme) or any change to the terms of options granted must be approved by the Shareholders in general meeting. Any change to the authority of the Board in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The Company, by resolution in general meeting or the Board, may terminate the operation of the Share Option Scheme at any time and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Lapse of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(i) the expiry of the option period as described in the above paragraph headed "time for exercise of options";

(ii) the expiry of any of the periods referred to in the paragraphs above headed "rights on ceasing employment", "rights on death" and "rights on a general offer";

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in the paragraph above headed "rights on a scheme of arrangement";

(iv) the date on which the Grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which the Grantee has been convicted of any criminal offence involving his integrity or honesty;

(v) subject to the provision in the paragraph above headed "rights on winding up", the date of the commencement of the voluntary winding-up of the Company; or

(vi) the date on which the Grantee commits a breach of the provision of the Share Option Scheme that an option shall be personal to the Grantee and shall not be assignable nor transferable and that no Grantee shall sell, transfer, charge, mortgage or encumber or create any interest in favour of a third party over or in relation to any options.

Cancellation of unexercised options

The Company may cancel an option granted under the Share Option Scheme but not exercised with the approval of the holder of such option. No options may be granted to an Eligible Person in place of his cancelled options unless there are available unissued options (excluding the cancelled options) within the Scheme Mandate Limit approved by the shareholders of the Company as mentioned in the paragraph headed "maximum number of shares" above.

Grant of option

As at the Latest Practicable Date, there are no outstanding options granted under the Share Option Scheme.

F. TRADEMARKS

As at the Latest Practicable Date, the Group has applied for registration of the following trademarks:

	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
Paul Y	Hong Kong	37	300475047	11-08-2005	10-08-2015
	Hong Kong	42	300475047	11-08-2005	10-08-2015
	Macau	37	N/19412	07-04-2006	07-04-2013
	Macau	42	N/19413	15-03-2006	15-03-2013
	PRC	37	5217148	14-08-2009	13-08-2019
	PRC	42	5217147	14-08-2009	13-08-2019
Paul Y 保华建业	PRC	37	5217143	21-11-2009	20-11-2019
	PRC	42	5217142	14-08-2009	13-08-2019

Paul Y. Engineering Group Limited is one of the reputable engineering groups in Hong Kong. With more than six decades of experiences, "Paul Y." has been developed as a sign of professionalism, quality and expertise that creates value to its Existing Businesses.

G. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group save and except that a writ of summons was served upon the Company 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 the Company and two of its subsidiaries were alleged to be in breach of certain terms contained in an alleged oral agreement (which is denied). A related matter to the legal proceedings has already been disclosed in note 22 to the consolidated financial statements in the annual report of the Company for the year ended 31 March 2011. The alleged claim under the writ of summons is basically derived from the matter disclosed therein.

H. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the 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 Group.

I. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, no contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group subsisted.

As at the Latest Practicable Date, none of Directors or Proposed New Directors or experts named in the section headed "Experts and Consents" in this appendix has 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 Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

J. EXPERTS AND CONSENTS

The following is the qualification of the experts whose letters and reports are contained in this circular:

Name	**Qualification**
Anglo Chinese Corporate Finance, Limited ("**Anglo Chinese**")	a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu ("**Deloitte**")	Certified Public Accountants

KPMG Transaction Advisory Services Limited ("**KPMG TAS**")	independent professional valuer
Somerley Limited ("**Somerley**")	a licensed corporation under the SFO licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Conyers Dill & Pearman ("**CDP**")	offshore legal adviser

Each of Anglo Chinese, Deloitte, KPMG TAS, Somerley, and CDP 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, none of Anglo Chinese, Deloitte, KPMG TAS, Somerley or CDP has any shareholding directly or indirectly, in any member of the 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 Group.

As at the Latest Practicable Date, none of Anglo Chinese, Deloitte, KPMG TAS, Somerley or CDP has 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 Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

K. MATERIAL CONTRACTS

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

(a) conditional business services agreement dated 25 March 2011 entered into between the Company and PYI pursuant to which the Company agreed to provide services to the PYI and its subsidiaries with the annual cap amounts of HK$200 million, HK$300 million and HK$500 million for the three years ending 31 March 2012, 2013 and 2014 respectively;

(b) AID Subscription Agreement;

(c) Independent Placing Agreement;

(d) Heads of Agreement; and

(e) Legendary East Subscription Agreement.

L. MISCELLANEOUS

a. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

b. The principal place of business of the Company in Hong Kong is at 16th 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 Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

d. The company secretary of the Company is Ms. Mui Ching Hung, Joanna, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a Bachelor (Hons) Degree in Law and a Master of Arts Degree in Language and Law.

e. Save for the names of the Chinese 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 SGM and the accompanying form of proxy shall prevail over their respective Chinese text.

M. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 16th 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 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 letters of consent referred to in the paragraph headed "Experts and Consents" in this appendix;

(e) the valuation report in respect of the Film Joint Venture, the text of which is set out in appendix II of this circular;

(f) the letter from Deloitte relevant to the calculation of discounted cashflows of Legendary East, the text of which is set out in appendix III of this circular;

(g) the letter from Deloitte relating to the unaudited pro forma financial information of the Enlarged Group (inclusive of its interest in Legendary East), the text of which is set out in appendix VIII of this circular;

(h) the letter of recommendation from the Independent Board Committee, the text of which is set out in this circular;

(i) the letter of advice from Somerley, the text of which is set out in this circular;

(j) the letter from Conyers Dill & Pearman as referred to in appendix IX to this circular summarising the Proposed Memorandum and Articles of PYE BVI, as described in the same appendix, and certain aspects of British Virgin Islands company law, together with a copy of the BVI Companies Act;

(k) a copy of the Proposed Memorandum and Articles of PYE BVI, as described in appendix IX to this circular;

(l) 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;

(m) a copy of memorandum and articles of association of Legendary East; and

(n) the letter from Delotte relating to financial statements of Legendary East, the text of which is set out in appendix VI of this circular.

Paul Y. Engineering Group Limited
保華建業集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 577)

NOTICE IS HEREBY GIVEN that the special general meeting of Paul Y. Engineering Group Limited (the "**Company**") will be held at JW Marriott Ballroom on Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 November 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions, in the case of resolution 1 and resolutions 3 to 6 inclusive, as ordinary resolutions and, in the case of resolution 2 as a special resolution:

ORDINARY RESOLUTION

(1) "THAT:

(a) conditional on resolution (2) contained in this notice being duly passed as a special resolution, the Distribution in Specie (as defined in the Company's circular dated 24 October 2011, of which this Notice forms part (the "**Circular**")) and all documents, agreements and other actions necessary or, in the opinion of the board of directors of the Company, desirable to be issued, entered into or taken in connection with the Distribution in Specie or for the purpose of giving effect to it be and are hereby approved; and

(b) conditional on the various conditions applicable to the Distribution in Specie as set out in the Circular, the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Distribution in Specie and matters relating thereto for the benefit of all members of the Company whose names appear on the register of members of the Company on 25 November 2011 or such other date as is determined by the board of directors of the Company and duly announced in accordance with the Listing Rules (the "**Record Date**") and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Distribution in Specie; (ii) making alternative arrangements to facilitate the Cash Alternative (as defined in the Circular) for members who are not Eligible Qualifying Shareholders (as defined in the Circular) and, or, for Eligible Qualifying Shareholders electing to receive the Cash Alternative; (iii) giving effect, as applicable, to the re-distribution of shares in PYE BVI (as defined in the Circular) the subject of the Distribution in Specie based upon the completion and return of valid Excess Application Forms (as defined in the Circular); and (iv) exercising all the powers of the Company to give effect to the Distribution in Specie."

* *For identification purposes only*

SPECIAL RESOLUTION

(2) "THAT, conditional on (i) resolutions (3) to (6) contained in this notice being duly passed as ordinary resolutions of the Company; (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of the Company in issue on the Capital Reduction (as defined below) becoming effective; (iii) compliance with the requirements of section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction, with effect from such time and on such date (the "**Effective Date**") to be determined by the board of directors of the Company; and (iv) receipt by the Company (or its subsidiaries) of all relevant consents, authorisations and approvals as are required for the purposes of the reduction of capital of the Company provided for in this resolution, from any governmental or other competent regulatory authorities and, or, from any banks pursuant to facility agreements entered into by the Company (or any of its subsidiaries) and, or, from any other counter-parties to contracts entered into by the Company (or any of its subsidiaries), in each case with such receipt being by the Effective Date:

(a) the nominal value of each issued share of the Company be reduced from HK$0.50 to HK$0.20 (the "**Capital Reduction**");

(b) every unissued share of the Company of HK$0.50 each will be sub-divided into shares of HK$0.20;

(c) an amount of HK$267 million standing to the credit of the share premium account of the Company as at the Effective Date be cancelled ("**Share Premium Cancellation**");

(d) the credit arising from the Capital Reduction and the Share Premium Cancellation be transferred to the contributed surplus account of the Company and the directors of the Company be and are hereby authorised to apply the amount in the contributed surplus account of the Company in any manner permitted by the laws of Bermuda and the bye-laws of the Company, including, but not limited to effecting, as applicable, the Distribution in Specie (as defined in the Circular) and paying the Cash Dividend (as defined in the Circular) out of the same; and

(e) the board of directors of the Company be and is hereby authorised to determine the Effective Date and to take all actions in connection with the Capital Reduction and Share Premium Cancellation as the board of directors of the Company shall think necessary or desirable including, without limiting, the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Capital Reduction and Share Premium Cancellation; and (ii) exercising all the powers of the Company to give effect to the Capital Reduction and Share Premium Cancellation."

ORDINARY RESOLUTIONS

(3) "THAT, conditional on resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (4) to (6) contained in this notice being duly passed as ordinary resolutions of the Company:

(a) the subscription agreement dated 21 October 2011 entered into by and between Legendary East Holdings, LLC, Legend Pictures, LLC, Huayi Brothers International Ltd., Huayi Brothers Media Corporation, Modern Front Holdings Limited, the Company and Legendary East Ltd. (the "**Legendary East Subscription Agreement**"), a copy of which is produced to the meeting marked "A" and initialled by the chairman of the meeting for identification purposes, and the transactions contemplated under the Legendary East Subscription Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder, including entering into the shareholders agreement in substantially the form annexed to the Legendary East Subscription Agreement (the "**Legendary East Shareholders Agreement**", and together with the Legendary East Subscription Agreement, the "**Joint Venture Agreements**"), be and are hereby confirmed, approved and ratified; and

(b) the board of directors of the Company be and are hereby authorised on behalf of the Company to take all actions in connection with the Joint Venture Agreements as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with the Joint Venture Agreements; (ii) subject to completion of the Placing (as defined in the Circular), taking all steps necessary to subscribe, on behalf of the Company, for new shares in the issued share capital of Legendary East Ltd. representing 50% of the total issued share capital of Legendary East Ltd. for an aggregate cash consideration of upto US$220.5 million; and (iii) exercising all such powers of the Company to give effect to the Company's obligations under or in-relation to the Joint Venture Agreements."

(4) "THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3), (5) and (6) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) the Capital Reduction becoming effective;

(a) the authorised share capital of the Company be increased (the "**Capital Increase**") from HK$500,000,000 divided into 2,500,000,000 shares of HK$0.20 each to HK$2,000,000,000 by the creation of an additional 7,500,000,000 new shares of HK$0.20 each, such new shares to rank pari passu with the shares in the capital of the Company in existence on the Capital Reduction becoming effective;

(b) the share placing agreement dated 21 August 2011 entered into by and between the Company and UBS AG, Hong Kong Branch as amended by an amendment agreement dated 21 October 2011 entered into by and between the Company, UBS AG, Hong Kong Branch and CLSA Limited (the "**Placing Agreement**"), a copy of each agreement of which is produced to the meeting marked "B" and initialled by the chairman of the meeting for identification purposes, and the transactions contemplated under the Placing Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified;

(c) the subscription agreement dated 21 August 2011 entered into by and between the Company, Rising Wealth Group Limited, Profit Billion Limited and Mighty Merit Group Limited (the "**Subscription Agreement**"), a copy of which is produced to the meeting marked "C" and initialled by the chairman of the meeting for identification purposes and the transactions contemplated under the Subscription Agreement and the execution, performance and implementation thereof and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified;

(d) the directors of the Company be and are hereby afforded a specific mandate (the "**Specific Mandate**") to exercise all the powers of the Company to allot, issue and deal with new shares of HK$0.20 in the capital of the Company as follows:

1) to allot and issue up to 3,180,000,000 new shares of HK$0.20 per share in the capital of the Company subject to and in accordance with the terms and conditions set out in the Placing Agreement, such mandate to expire on the date that falls six months after the date of this meeting;

2) to allot and issue up to 420,000,000 new shares of HK$0.20 per share in the capital of the Company subject to and in accordance with the terms and conditions set out in the Subscription Agreement, such mandate to expire on the date that falls six months after the date of this meeting;

3) to allot and issue up to such number of new shares of HK$0.20 each as equates to 100% of the entire issued share capital of the Company on completion of the Placing (as defined in the Circular), representing up to 4,206,954,322 new shares of HK$0.20 each assuming exercise in full of the Upsize Options (as defined in the Circular), subject to and in accordance with the Put Right as defined and provided for in the Legendary East Shareholders' Agreement, with the number of new shares being subject to adjustment in the case of changes to the nominal value of the new shares by consolidation, sub-division or otherwise in the manner prescribed by the Legendary East Shareholders' Agreement, such mandate to expire on expiry of the Exchange Rights Period as defined in and provided for in the Legendary East Shareholders' Agreement; and

(e) the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Capital Increase and the Specific Mandate and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instrument or agreements and the issue of any documents for and on behalf of the Company in connection with or for the purpose of giving effect to the Capital Increase and the Specific Mandate (whether pursuant to the Placing Agreement, the Subscription Agreement, the Legendary East Shareholders' Agreement or otherwise); and (ii) exercising all such powers of the Company to give effect to the Capital Increase and the Specific Mandate."

(5) "THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3), (4) and (6) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Placing (as defined in the Circular):

(a) a special cash dividend (the "**Cash Dividend**") of HK$0.25 per share be and is hereby approved to be paid to members of the Company whose names appear on the register of members of the Company on the Record Date, subject to the rights of Eligible Qualifying Shareholders (as defined in the Circular) to elect to receive such dividend in the form of an allotment and issue of new ordinary shares of HK$0.20 each in the capital of the Company at the price of HK$0.65 per share credited as fully paid up in lieu of such special cash dividend (the "**Scrip Alternative**"), if so duly elected by Eligible Qualifying Shareholders;

(b) scrip shares of the Company (the "**Scrip Shares**") be allotted and issued, credited as fully paid up as to HK$0.65 per share, to Eligible Qualifying Shareholders whose names appear on the register of members of the Company on the Record Date and who duly elect to receive the Scrip Alternative;

(c) the Scrip Shares (if any) to be issued pursuant to this resolution shall rank pari passu with the shares in the capital of the Company in existence on the Capital Reduction becoming effective, except that they will not be eligible for the Distribution in Specie referred to in resolution (1) above or the Cash Dividend referred to in this resolution; and

(d) the board of directors of the Company be and is hereby authorised on behalf of the Company to implement the Cash Dividend and the Scrip Alternative and to take all actions in connection therewith as the board of directors of the Company shall think necessary or desirable, including, without limiting the generality of the foregoing (i) approving the execution and delivery of any instruments or agreements and the issue of any documents for and on behalf of the Company in connection with or the purpose of giving effect to the Cash Dividend and the Scrip Alternative; (ii) exercising all such powers of the Company to give effect to the Cash Dividend and the Scrip Alternative."

(6) "THAT, conditional on (i) resolution (2) contained in this notice being duly passed as a special resolution of the Company and on resolutions (3) to (5) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Placing:

(a) Mr. Wu King Shiu, Kelvin be elected as an executive director of the Company;

(b) Mr. Chang Tat Joel be elected as an executive director of the Company; and

(c) Directors' remuneration be fixed,

in each case with effect from completion of the Placing and subject to the terms and conditions of the Company's bye-laws."

By Order of the Board of
Paul Y. Engineering Group Limited
Mui Ching Hung, Joanna
Company Secretary

Hong Kong, 24 October 2011

Principal place of business in Hong Kong:	*Registered office:*
16th Floor, Paul Y. Centre	Clarendon House
51 Hung To Road	2 Church Street
Kwun Tong, Kowloon	Hamilton HM 11
Hong Kong	Bermuda

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company.

2. A form of proxy for 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 certified copy of such power or authority, shall be deposited at the Company's principal place of business in Hong Kong at 16th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument purposes to vote.

3. The register of members of the Company will be closed for the purpose of determining the entitlements to the proposed Distribution in Specie and proposed Cash Dividend from Thursday, 24 November 2011 to Friday, 25 November 2011, both dates inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed Distribution in Specie and proposed Cash Dividend, all transfers of shares accompanied by the relevant shares certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Wednesday, 23 November 2011.

As at the date of this notice, the directors of the Company are:

Ir James Chiu, *OBE, JP*	:	Chairman (Independent Non-Executive Director)
Mr. Lau Ko Yuen, Tom	:	Deputy Chairman (Non-Executive Director)
Mr. Chan Fut Yan	:	Deputy Chairman (Executive Director)
Ir Dr Wong Kam Cheong, Stanley	:	Executive Director & Chief Executive Officer
Professor Lee Chack Fan, *SBS, JP*	:	Independent Non-executive Director
Mr. Iain Ferguson Bruce	:	Independent Non-executive Director