
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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 ALLOTMENT AND ISSUE OF SHARES AND ISSUE
OF CONVERTIBLE BONDS REQUIRING
A SPECIFIC MANDATE,
PROPOSED ACQUISITION OF FALLONCROFT CONSTITUTING
A VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,
PROPOSED DISTRIBUTION IN SPECIE OF A
49% INTEREST IN ITS EXISTING BUSINESSES, WITH THE OFFER
OF A CASH ALTERNATIVE,
PROPOSED SPECIAL CASH DIVIDEND OF HK\$0.26 PER SHARE
WITH A SCRIP ALTERNATIVE
AND
NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

Anglo Chinese Corporate Finance, Limited

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

 **SOMERLEY LIMITED**

Placing Agent

CLSA
ASIA-PACIFIC MARKETS

CLSA Limited

A notice convening the special general meeting of the Company to be held at Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on 21 January 2013 at 10:30 a.m. is set out on pages 261 to 266 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 purpose only

CONTENTS

	<i>PAGE</i>
DEFINITIONS	1
LETTER FROM THE BOARD	11
INTRODUCTION	11
A. PROPOSED (I) PLACING OF SHARES AND CONVERTIBLE BONDS AND (II) CONTINGENT PLACING CONVERTIBLE BONDS PURSUANT TO A SPECIFIC MANDATE	12
REASONS FOR THE PLACING AND THE CONTINGENT PLACING AND USE OF PROCEEDS	28
CHANGES TO THE EXISTING ISSUED SHARE CAPITAL AS A RESULT OF THE PLACING AND THE CONTINGENT PLACING	29
EQUITY FUND RAISING ACTIVITIES BY PYE DURING THE PAST TWELVE MONTHS	31
EFFECT OF THE PLACING AND CONTINGENT PLACING ON PYI	31
B. ACQUISITION OF FALLONCROFT	32
FALLONCROFT SHARE OPTION SCHEME AND EXCHANGE RIGHT ...	38
REASONS FOR THE ACQUISITION	42
FURTHER INFORMATION ON THE LAND AND THE PROJECT	43
EFFECT OF THE TRANSACTIONS ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP	43
EFFECT OF THE TRANSACTIONS UNDER THE LISTING RULES	44
INFORMATION ON THE FALLONCROFT GROUP, PRIDE WIDSOM AND EMPRESA	44
C. PROPOSED DISTRIBUTION IN SPECIE BY PYE AND PROPOSED CASH DIVIDEND	46
PYE BVI	47
CASH DIVIDEND	52
FURTHER CIRCULAR	53
STRUCTURE OF INTERESTS BEFORE AND AFTER THE TRANSACTIONS	53
D. PROPOSED NEW DIRECTORS	55
INFORMATION ON PYE	58
INFORMATION ON PYI AND ITS SUBSIDIARIES	58
GENERAL	58
SPECIAL GENERAL MEETING	59
RECOMMENDATION	60
ADDITIONAL INFORMATION	61
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	62
LETTER FROM SOMERLEY	64

CONTENTS

APPENDIX I	: FURTHER INFORMATION ON THE LAND AND THE PROJECT	100
APPENDIX II	: VALUATION REPORT ON THE LAND	117
APPENDIX III	: VALUATION REPORT ON THE PROJECT	129
APPENDIX IV	: LETTERS IN RELATION TO THE VALUATION REPORTS	145
APPENDIX V	: FINANCIAL INFORMATION OF THE GROUP	148
APPENDIX VI	: MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP	151
APPENDIX VII	: FINANCIAL INFORMATION OF FALLONCROFT AND UNI-DRAGON GROUP	164
APPENDIX VIII	: MANAGEMENT DISCUSSION AND ANALYSIS OF FALLONCROFT	188
APPENDIX IX	: UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (INCLUSIVE OF ITS INTEREST IN FALLONCROFT)	189
APPENDIX X	: MATTERS RELEVANT TO HOLDING SHARES IN PYE BVI	198
APPENDIX XI	: DIRECTORS AND SENIOR MANAGEMENT	239
APPENDIX XII	: PARTIES INVOLVED IN THE PLACING	244
APPENDIX XIII	: GENERAL INFORMATION	247
	NOTICE OF SPECIAL GENERAL MEETING	261

PROPOSED TIMETABLE

Latest time for lodging proxy form for PYE SGM	10:30 a.m. on Saturday, 19 January 2013
PYE SGM	10:30 a.m. on Monday, 21 January 2013
Announcement of the poll results of PYE SGM	Monday, 21 January 2013
Latest day for dealing in the Shares cum-entitlement to the Distribution in Specie, Cash Alternative and Cash Dividend	Tuesday, 29 January 2013
First day for dealing in the Shares ex-entitlement to the Distribution in Specie, Cash Alternative and Cash Dividend	Wednesday, 30 January 2013
Latest time for lodging transfer of Shares to be entitled to the Distribution in Specie, Cash Alternative and Cash Dividend	4:00 p.m. on Thursday, 31 January 2013
Register of members closed (both dates inclusive)	Friday, 1 February 2013 to Monday, 4 February 2013
Record Date	Monday, 4 February 2013
Register of members re-opens	Tuesday, 5 February 2013
Placing Completion Date ¹	On or before Friday, 8 February 2013
Acquisition Closing Date ¹	On or before Friday, 8 February 2013
Despatch further circular enclosing Cash Alternative Election Form, Excess Application Form and Scrip Dividend Form	Friday, 8 February 2013
Last day of submitting the Cash Alternative Election Form, Excess Application Form and Scrip Dividend Form	Wednesday, 27 February 2013
Announcement of the results of the Cash Alternative and Excess applications	Friday, 1 March 2013
Date of despatching share certificate/ Date of payment for Distribution in Specie, Cash Alternative, Cash Dividend and Scrip Alternative	Tuesday, 12 March 2013

Note:

- 1 In the event that the Placing Completion Date and the Acquisition Closing Date are delayed (each of the Placing Agreement, the Contingent Placing Agreements and the Falloncroft SPA provides for a long stop date of 1 March 2013, or such later date as may be agreed between the parties), 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.

DEFINITIONS

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

“Acquisition”	the acquisition of the entire issued share capital of Falloncroft
“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
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“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
“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 or its 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\$0.26 per Share held by the Qualifying Shareholders on the Record Date
“CDP”	Conyers Dill & Pearman
“Challenge Shore”	Challenge Shore Limited, a private company incorporated in the British Virgin Islands
“Chief Wise”	Chief Wise Limited, a private company incorporated in the British Virgin Islands
“Colliers”	Colliers International (Hong Kong) Limited
“Concordia”	Concordia Property Development Holdings Limited, a private company incorporated in the British Virgin Islands
“Connected Person(s)”	has the meaning ascribed thereto under the Listing Rules
“Construction LOI”	a letter of intent dated 19 November 2012 between Paul Y. Construction and Falloncroft in relation to the development of the hotel to be constructed on the Land

DEFINITIONS

“Contingent Placeses”	the professional, institutional and other investor(s) selected and procured by or on behalf of the Contingent Placing Agents to subscribe for the Contingent Placing Convertible Bonds on the terms and subject to the conditions set out in the Contingent Placing Agreements
“Contingent Placing”	the proposed contingent placing of the Contingent Placing Convertible Bonds pursuant to the terms of the Contingent Placing Agreements
“Contingent Placing Agents”	Chrystal Capital Partners LLP, Kilometre Capital Management Cayman and TDR Investment Holdings Corporation collectively and “Contingent Placing Agent” means any of them
“Contingent Placing Agreements”	the three bilateral contingent placing agreements dated 19 November 2012 entered into between PYE and each of the Contingent Placing Agents in relation to the contingent placing of the Contingent Placing Convertible Bonds
“Contingent Placing Completion Date”	the fifth Business Day following receipt by any or all of the Contingent Placing Agents of the Contingent Placing Notice (and provided always that all of the conditions precedent of the relevant Contingent Placing Agreements, to the extent not waived, remain satisfied on the Contingent Placing Completion Date)
“Contingent Placing Convertible Bonds”	up to a maximum of HK\$1,600 million worth of Convertible Bonds as may be subscribed pursuant to the Contingent Placing
“Contingent Placing Notice”	the notice served by PYE, at its sole discretion, on any or all of the Contingent Placing Agents to complete the Contingent Placing pursuant to the Contingent Placing Agreements
“Contingent Placing Notice Period”	the period of four months commencing on or around the Placing Completion Date as agreed between PYE and the Contingent Placing Agents
“Convertible Bonds”	the zero coupon convertible bonds proposed to be issued by PYE pursuant to the Placing (and, if completed, the Contingent Placing): being Convertible Bonds in the aggregate amount of HK\$2,400 million assuming no exercise of the Upsize Option and no completion of the Contingent Placing; in the aggregate amount of HK\$3,600 million assuming exercise in full of the Upsize Option but no completion of the Contingent Placing; in the aggregate amount of HK\$5,200 million assuming exercise in full of the Upsize Option and completion in full of the Contingent Placing

DEFINITIONS

“Convertible Bondholder(s)”	the holder(s) of the Convertible Bonds
“Deloitte”	Deloitte Touche Tohmatsu
“DICJ”	Direcção de Inspeção e Coordenação de Jogos, also known as, the Gaming Inspection and Coordination Bureau
“Directors”	the directors of PYE
“Distribution in Specie”	the proposed Distribution in Specie by PYE of one PYE BVI Share for every one Share held by Qualifying Shareholders on the Record Date
“DSEC”	Direcção dos Serviços de Estatística e Censos, also known as, Government of Macao Special Administrative Region Statistics and Census Service
“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 transfer of Shares pursuant to the Distribution in Specie and, or, the allotment and issue of 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
“Empresa”	Empresa De Fomento Industrial E Comercial Concórdia, S.A. (Concord Industrial and Commercial Development Enterprise Limited 聯生發展股份有限公司), a company registered in Macau
“Enlarged Group”	the Group immediately after the completion of the Transactions
“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

DEFINITIONS

“Exchange Right”	the right to exchange Falloncroft Shares subscribed by Falloncroft management for Shares in PYE, as further described in this circular
“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
“Falloncroft”	Falloncroft Investments Limited, a private company incorporated in the British Virgin Islands
“Falloncroft Group”	collectively, Falloncroft, Uni-Dragon, Manlink, Challenge Shore and New Concordia on completion of the Uni-Dragon SPA and “Falloncroft Group Company” means any one of them individually
“Falloncroft Share(s)”	ordinary share(s) in the capital of Falloncroft
“Falloncroft SPA”	the sale and purchase agreement dated 19 November 2012 entered into between PYE and Pride Wisdom in relation to the entire issued share capital of Falloncroft
“Galaxy”	Galaxy Entertainment Group Limited (HK Stock Code: 27), the issued share capital of which is listed on the main board of the Stock Exchange
“Group”	PYE and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 Acquisition, the Exchange Right, 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 Acquisition, the Exchange Right, the Distribution in Specie and Cash Alternative

DEFINITIONS

“Independent Shareholders”	Shareholders excluding PYI and its associates
“Invested Entity”	any entity in which the Group holds an equity interest
“ITC Corporation”	ITC Corporation Limited (HK Stock Code: 372), a company incorporated in Bermuda, the issued share capital of which is listed on the main board of the Stock Exchange
“ITC Properties”	ITC Properties Group Limited (HK Stock Code: 199), a company incorporated in Bermuda, the issued share capital of which is listed on the main board of the Stock Exchange
“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
“Land”	the parcel of land known as Lot 1 situated in the Coloane Island of Macau, at the site of Concórdia, along the Road of Seac Pai Van on which it is proposed to be developed into a hotel and associated facilities as described in this circular
“Latest Practicable Date”	31 December 2012, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained in this circular
“Listing Committee”	has the meaning ascribed thereto under the Listing Rules
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	1 March 2013 or such other extended date to be mutually agreed between PYE and Pride Wisdom
“Macau”	the Macau Special Administrative Region of the PRC
“Macau Government”	The Government of the Macau Special Administrative Region of the PRC
“Manlink”	Manlink Limited, a private company incorporated in the British Virgin Islands
“MOP”	Macau Patacas, the lawful currency of Macau

DEFINITIONS

“MOU”	a memorandum of understanding dated 16 April 2008 between Falloncroft and an affiliate of one of the holders of a gaming concession or subconcession in Macau, in relation to the management and operation of a casino proposed to be opened in the hotel to be constructed on the Land, which was supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012
“Mr. Coker”	Mr. Peter Lee Coker Jr.
“Mr. Hung”	Mr. Stephen Hung
“Mr. Power”	Mr. Walter Craig Power
“New Concordia”	Hotel Nova Concórdia, Limitada (New Concordia Hotel Limited 新聯生酒店有限公司), a company limited by quotas registered in Macau
“Operator”	the operator, which is one of the six concessionaires or subconcessionaires in Macau licensed and authorised by the Macau Government through concessions or subconcessions to operate games of fortune and chance or other cash games in Macau, whose affiliate entered into the MOU with Falloncroft
“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
“Paul Y. Construction”	PY Construction (Macau) Limited, a private company incorporated in Macau and an indirect wholly-owned subsidiary of PYE and PYE BVI
“Placees”	the professional, institutional and other investor(s) selected and procured by or on behalf of the Placing Agent to subscribe for the Placing Shares and the Placing Convertible Bonds on the terms and subject to the conditions set out in the Placing Agreement
“Placing”	the proposed placing of the Placing Shares and the Placing Convertible Bonds pursuant to the terms of the Placing Agreement
“Placing Agent”	CLSA Limited
“Placing Agreement”	the placing agreement dated 19 November 2012 entered into between PYE and the Placing Agent in relation to the conditional placing of the Placing Shares and the Placing Convertible Bonds

DEFINITIONS

“Placing Completion Date”	the fifth Business Day after the satisfaction of all the relevant conditions precedent, the fulfillment of which has not been waived by the Placing Agent or such other date as may be agreed by and between PYE and the Placing Agent (and provided always that all of the conditions precedent, to the extent not waived, remain satisfied on the Placing Completion Date)
“Placing Convertible Bonds”	the HK\$2,400 million worth of Convertible Bonds provisionally proposed to be issued pursuant to the Placing assuming no exercise of the Upsize Option or HK\$3,600 million worth of Convertible Bonds assuming exercise in full of the Upsize Option
“Placing Parameters”	the placing parameters pursuant to the Placing Agreement include: (i) the number of new Shares to be issued pursuant to the Placing will be a minimum of 1,176,470,588 new Shares (raising minimum gross proceeds of HK\$800 million); (ii) the maximum amount of additional Placing Shares and additional Placing Convertible Bonds to be issued pursuant to the exercise of the Upsize Option will be 588,235,294 new Shares and HK\$1,200 million Convertible Bonds respectively; (iii) PYE will maintain its minimum public float requirement as prescribed by the Listing Rules; and (iv) there will not be a change in control in PYE (as defined in the Takeovers Code)
“Placing Period”	the period from the execution of the Placing Agreement up to and including 1 March 2013
“Placing Price”	the placing price per Placing Share being HK\$0.68
“Placing Shares”	the 1,176,470,588 new Shares provisionally proposed to be issued pursuant to the Placing assuming no exercise of the Upsize Option; or the 1,764,705,882 new Shares assuming full exercise of the Upsize Option
“POA”	the irrevocable and exclusive power of attorney to be granted by Empresa in favour of New Concordia in respect of the Land
“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” or “China” or “Mainland China”	the People’s Republic of China, for the purposes of this circular, excluding Hong Kong, Macau and Taiwan

DEFINITIONS

“Pride Wisdom”	Pride Wisdom Group Limited, a private company incorporated in the British Virgin Islands
“Project”	the proposed construction and operation of a 5 star hotel and ancillary retail and entertainment facilities (including but not limited to gaming, subject to the approval of the Macau Government) on the Land
“Proposed New Directors”	Mr. Hung, Mr. Coker and Mr. Power
“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 private 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 19 November 2012 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 Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on Monday, 21 January 2013 at 10:30 a.m. to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
“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 Stock Exchange
“PYI Board”	the board of directors of PYI
“PYI Directors”	the directors of PYI
“PYI Group”	PYI and its subsidiaries
“PYI SGM”	the special general meeting of PYI to be convened and held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 18 January 2013 at 10:30 a.m. to consider and, if thought fit, to approve resolutions relevant to the implementation of the Transactions
“PYI Shareholder(s)”	shareholder(s) of PYI

DEFINITIONS

“Qualifying Shareholders”	all Shareholders registered on PYE’s share register or branch share register on the Record Date
“Record Date”	the record date for the purposes of ascertaining entitlements of the Shareholders to the Distribution in Specie or Cash Alternative and, or, the Cash Dividend or Scrip Alternative, being a date to be announced by PYE in due course and which will be a date that follows the PYE SGM
“RMB”	Renminbi, the lawful currency of 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 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 Shares pursuant to the Scrip Alternative
“SFO”	the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.20 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
“SJM”	SJM Holdings Limited (HK Stock Code: 880), the issued share capital of which is listed on the main board of the Stock Exchange
“Specific Mandate”	a specific mandate to be sought from the Shareholders at the PYE SGM to allot and issue (i) the Placing Shares and the Placing Convertible Bonds; (ii) the Contingent Placing Convertible Bonds; (iii) the Shares upon exercise of the conversion rights attaching to the Placing Convertible Bonds and the Contingent Placing Convertible Bonds; and (iv) the Shares upon the exercise of the Exchange Right
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Transaction(s)”	the Acquisition; the Placing; the Contingent Placing; the Exchange Right; the Distribution in Specie and the Cash Alternative; the Cash Dividend and the Scrip Alternative; and all matters respectively relating thereto
“Transactions Announcement”	the joint announcement of PYE and PYI dated 19 November 2012 relating to the Transactions
“Uni-Dragon”	Uni-Dragon Limited, a private company incorporated in the British Virgin Islands
“Uni-Dragon SPA”	the sale and purchase agreement dated 30 October 2012 between Concordia, Empresa and Falloncroft relating to the entire issued share capital of Uni-Dragon and related shareholder’s loans
“Upsize Option”	the option granted by PYE to the Placing Agent pursuant to the Placing Agreement by virtue of which PYE may be required by the Placing Agent provisionally to allot and issue to Placees up to an additional 588,235,294 Placing Shares at the Placing Price (aggregate price, HK\$400 million) and HK\$1,200 million worth of Placing Convertible Bonds
“US\$”	United States dollars, the lawful currency of the United States of America
“Wynn”	Wynn Macau Limited (HK Stock Code: 1128), the issued share capital of which is listed on the main board of the Stock Exchange

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

LETTER FROM THE BOARD



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)

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

in Hong Kong:

16th Floor, Paul Y. Centre

51 Hung To Road

Kwun Tong

Kowloon

Hong Kong

5 January 2013

To the Shareholders

Dear Sir or Madam,

**PROPOSED ALLOTMENT AND ISSUE OF SHARES AND ISSUE
OF CONVERTIBLE BONDS REQUIRING
A SPECIFIC MANDATE,
PROPOSED ACQUISITION OF FALLONCROFT CONSTITUTING
A VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,
PROPOSED DISTRIBUTION IN SPECIE OF A
49% INTEREST IN ITS EXISTING BUSINESSES, WITH THE OFFER
OF A CASH ALTERNATIVE,
PROPOSED SPECIAL CASH DIVIDEND OF HK\$0.26 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 private 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

* For identification purpose only

LETTER FROM THE BOARD

potential business developments that stand to benefit PYE and all of the Shareholders, has made the decision to enter into a series of transactions that would involve PYE undertaking a substantial capital raising exercise, predominantly for the purpose of funding its involvement in the Acquisition and subsequently, in the development of the Land on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming, subject to the approval of the Macau Government).

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, subject to the fulfillment of certain conditions as stated below, in section C of this letter, PYE is proposing to pay a special cash dividend to the Shareholders in the amount of HK\$0.26 per Share and to offer all Eligible Qualifying Shareholders the right to a scrip dividend in lieu of cash.

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

The Board believes that the combination of this series of transactions will, in due course, generate strong discretionary cash flows and ultimately benefit all of the Shareholders.

A. PROPOSED (I) PLACING OF SHARES AND CONVERTIBLE BONDS AND (II) CONTINGENT PLACING CONVERTIBLE BONDS PURSUANT TO A SPECIFIC MANDATE

Placing Agreement

The Placing

On 19 November 2012, PYE entered into a conditional placing agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed, as agent of PYE, to place, on a best-efforts basis, what has provisionally been set as a split of 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to HK\$2,400 million worth of Convertible Bonds at face value, each within the Placing Period. In addition, PYE has granted to the Placing Agent the Upsize Option pursuant to which PYE may be required by the Placing Agent to allot and issue what has provisionally been set as a split of up to an additional 588,235,294 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$400 million) and up to HK\$1,200 million worth of Convertible Bonds at face value, each, again, within the Placing Period. The exact apportionment as between the new Shares and the Convertible Bonds will be settled and announced in due course after the book-building for the Placing has been completed but always on the basis that: (i) the number of new Shares to be issued pursuant to the Placing will be a minimum of 1,176,470,588 new Shares (raising minimum gross proceeds of HK\$800 million); (ii) the maximum amount of additional Placing Shares and additional Placing Convertible Bonds to be issued pursuant to the exercise of the Upsize Option will be 588,235,294 new Shares and HK\$1,200 million worth of Convertible Bonds, respectively; (iii) PYE will maintain its minimum public float requirement as prescribed by the Listing Rules; and (iv) there will not be a change in control (as defined in the Takeovers Code) in PYE. Accordingly, the changes to the existing and enlarged share capital of PYE as a result of the Placing mentioned in this circular are for

LETTER FROM THE BOARD

illustrative purposes only, assuming the split between the new Shares and the Convertible Bonds is 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to HK\$2,400 million worth of Convertible Bonds at face value.

The Placing Agent has indicated that, as at the date of the Transactions Announcement, there are a number of potential investors who have expressed interest in subscribing for approximately HK\$2,400 million worth of Placing Shares and, or, Placing Convertible Bonds.

Subject to the completion of the Placing Agreement, the Placing Agent shall be entitled to (i) a placing commission of 4% of the aggregate Placing Price of the Placing Shares, (ii) 4% of the aggregate face value of the Placing Convertible Bonds allotted and issued under the Placing Agreement, and (iii) an incentive payment of US\$1 million payable at the sole discretion of PYE. 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, the Placing Agent and its ultimate beneficial owner are third parties independent of, and not connected with, PYE and its connected persons.

It is expected that there will not be less than six Placees, in aggregate, subscribing for the Placing Shares and the Placing Convertible Bonds pursuant to the Placing Agreement within the Placing Period. None of the Placees will be a connected person of PYE 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.

Mr. Hung, a proposed director of PYE and a director of Pride Wisdom, has indicated his intention to subscribe himself, and, or, through Pride Wisdom, for HK\$200 million worth of Placing Shares and, or, Placing Convertible Bonds, split provisionally as 73,529,411 Placing Shares and 220,588,235 new Shares as would be allotted and issued on exercise in full of such Placing Convertible Bonds.

The Upsize Option has been granted to the Placing Agent as a means of expanding the size of the Placing should there be sufficient demand for the Placing Shares and, or, the Placing Convertible Bonds. It has not been granted in the context of any prospective price stabilisation programme.

Conditions precedent

The Placing is conditional upon, amongst others:

- (a) both the Uni-Dragon SPA and the Falloncroft SPA having been duly entered into;
- (b) PYE having obtained the approvals of the Shareholders in a general meeting and of any applicable court or regulatory body necessary to implement the Transactions (excluding the Distribution in Specie), including (i) the Acquisition as a very substantial acquisition and a connected transaction, including the Exchange Right; (ii) the Specific Mandate; (iii) the Cash Dividend and the Scrip Alternative and the issue

LETTER FROM THE BOARD

of Shares thereunder; (iv) the increase in the authorised share capital as described in this circular; and (v) the appointment of the Proposed New Directors to the Board, and such approvals not having been or proposed to be revoked;

- (c) PYI having obtained the necessary approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to authorise the deemed disposal of a very substantial interest of PYI in PYE and other applicable aspects of the Transactions, and such approvals not having been or proposed to be revoked;
- (d) the Listing Committee having granted listing of, and permission to deal in, the Shares to be issued under the Transactions (including the Shares to be issued pursuant to (i) the Placing; (ii) conversion of the Convertible Bonds; (iii) exercise of the Scrip Alternative; and (iv) exercise of the Exchange Right), and such listing and permission not having been subsequently revoked;
- (e) the Bermuda Monetary Authority having granted all, and not revoking any, necessary approvals and permissions for the creation, allotment and issue of the new Shares to be issued under the Transactions (as referred to above) and all other applicable approvals, authorisations and consents being unconditionally obtained for the Transactions;
- (f) the taking effect unconditionally of the Falloncroft SPA and the Uni-Dragon SPA (save for any condition as to completion of the Placing or the Contingent Placing) in all respects in accordance with their terms;
- (g) the MOU remaining in place and the terms of the MOU remaining unchanged;
- (h) PYE being in the position to raise minimum gross proceeds of HK\$3,200 million on the basis of completion of the Placing and, as applicable, the Contingent Placing, the completion of which will not result in a loss of the minimum public float requirement as prescribed by the Listing Rules;
- (i) the Placing Agent having completed due diligence in relation to the Transactions, the Group, the Acquisition and the Placing to the satisfaction of the Placing Agent;
- (j) the deed constituting the Convertible Bonds and the paying and conversion agency agreement in relation to the Convertible Bonds shall have been executed by all parties thereto on or prior to the Placing Completion Date;
- (k) there not having occurred any breach of, or any event rendering untrue or inaccurate, any of the representations, warranties or undertakings under the Placing Agreement, as given (i) on the date of the Placing Agreement; (ii) on the Placing Completion Date; (iii) on all dates between the date of the Placing Agreement and the Placing Completion Date on which PYE makes any public announcement and the issue of any public documents; and (iv) on the date of the launch of the Placing;

LETTER FROM THE BOARD

- (l) trading generally not having been suspended or materially limited on, or by, the Stock Exchange, the Shanghai Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange or the London Stock Exchange;
- (m) trading of any securities of PYE not being suspended on the Stock Exchange (other than for any suspension of a routine nature pending publication of any announcement(s) in relation to the Transactions);
- (n) a material disruption in securities settlement, payment or clearance services in Hong Kong, the United States, Japan, or the PRC not having occurred;
- (o) any moratorium on commercial banking activities not having been declared by Hong Kong, PRC, Japan, Federal or New York State authorities;
- (p) there not having occurred any event, or series of events beyond the reasonable control of the Placing Agent (including, without limitation, any outbreak or escalation of hostilities, declaration of a national emergency or war, act of terrorism, any significant event, development or change in financial markets, currency exchange rates or controls or calamity or crisis, any act of government, strike, labour dispute, lock-out, fire, explosion, flooding, earthquake, tsunami, civil commotion, economic sanctions, epidemic, pandemic, outbreak of infectious disease and act of God) that, in the Placing Agent's judgment in its sole discretion, is material and adverse and which, singly or together with any other event specified above, makes it, in the Placing Agent's judgment in its sole discretion, impracticable, inexpedient or inadvisable to proceed with the offer, sale or delivery of the Placing Shares or the Convertible Bonds on the terms and in the manner contemplated in the Placing Agreement;
- (q) there not having come into effect any new law or regulation and there being no change (whether or not permanent) or development (whether or not permanent) involving a prospective change in existing laws or regulations or the interpretation or application thereof by any court or other competent authority which in the sole opinion of the Placing Agent is or is likely to be materially adverse to the success of the Placing, or makes or is likely to make it impracticable or inadvisable or inexpedient to proceed therewith;
- (r) 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);
- (s) 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;

LETTER FROM THE BOARD

- (t) 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;
- (u) the Placing Agent not becoming aware, after the date of the 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 the Placing Agent's sole judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Placing Agent prior to the date of the Placing Agreement or would be expected to impair the Placing or the Transactions;
- (v) there not having been any acquisition or transaction by PYE proposed, effected or completed after the date of the Placing Agreement and before the completion of the Placing (save as those contemplated in the Transactions Announcement) which would or may reasonably be expected to in the Placing Agent's opinion in its sole discretion, impair or adversely affect the Placing or affect the marketing of the Placing Shares or the Convertible Bonds or otherwise makes it inadvisable, inexpedient or impracticable to proceed with the Placing;
- (w) the Placing Agent having completed book-building for the Placing to the satisfaction of the Placing Agent;
- (x) the Transactions Announcement and any subsequent public disclosures (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 Agent (save as to any amendments made with the prior written consent of the Placing Agent) prior to the issue thereof by PYE;
- (y) there not having been any capital restructuring and, or, capital reorganisation by PYE proposed, effected or completed after the date of the Placing Agreement (save for those disclosed in the Transactions Announcement);
- (z) 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 Placing Agreement;
- (aa) the accuracy and completeness of all representations that PYE makes to the Placing Agent and all information that PYE furnishes to the Placing Agent in connection with the Placing and, or, the Transactions;
- (bb) receipt by the Placing Agent of, amongst others, a signed original of the legal opinion from PYE's Bermuda legal counsel opining on PYE's due incorporation and valid existence, corporate power and authority to enter into and perform the Placing Agreement and the legal and binding effect and enforceability of the Placing Agreement against PYE; and

LETTER FROM THE BOARD

(cc) the Placing Parameters having been met.

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

Termination

If there shall be any failure or refusal on the part of PYE to comply with the terms of the Placing Agreement applicable to PYE, the Placing Agreement may be terminated by the Placing Agent 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.

Contingent Placing Agreements

The Contingent Placing

On 19 November 2012, PYE entered into separate bilateral contingent placing agreements with the three Contingent Placing Agents. The Contingent Placing Agents have conditionally agreed to use all reasonable endeavours contingently to place a total (between them) of up to HK\$1,600 million worth of Contingent Placing Convertible Bonds at face value. The Contingent Placing will take place, assuming fulfilment (or, as applicable, waiver) of the conditions only in circumstances where PYE elects to complete the Contingent Placing by serving the Contingent Placing Notice on any or all of the Contingent Placing Agents within the Contingent Placing Notice Period.

The Contingent Placing has been arranged by PYE to complete the Acquisition (depending upon market response to the Placing) and, or as a prospective source of funding for the development of the Project and as a means of reducing the amount of bank borrowings required to complete the Project in the event that the Board decides that the Contingent Placing represents the better commercial proposition as regards financing the Project when compared with raising the equivalent amount by bank borrowings.

The Contingent Placing Agents shall be entitled to a commission of 2%, payable on the Placing Completion Date, in respect of funds, by then, raised by the Contingent Placing Agents; and an additional 2%, payable when the Contingent Placing Notice is served, in respect of the aggregate face value of the Contingent Placing Convertible Bonds allotted and issued under the Contingent Placing Agreements. The Directors are of the view that the contingent placing commission reflects a market rate and is fair and reasonable.

LETTER FROM THE BOARD

Assuming fulfilment (or, as applicable, waiver) of the conditions if, at the end of the Contingent Placing Notice Period, the Contingent Placing Notice has not been served (or has been served but only in respect of part of the total sums raised), PYE shall pay to the Contingent Placing Agents, for the benefit of the proposed subscribers, an abortion fee of 2% of the aggregate amount raised from such proposed subscribers but not used in subscribing Contingent Placing Convertible Bonds.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Contingent Placing Agents 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 Contingent Placees, in aggregate, subscribing for the Contingent Placing Convertible Bonds pursuant to the Contingent Placing Agreements. The Contingent Placing Agents will, themselves, be at liberty to, but have no obligation to, subscribe the Contingent Placing Convertible Bonds for which they have, respectively, assumed responsibility to place. None of the Contingent Placees or their ultimate beneficial owners will be a connected person of PYE 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.

Conditions precedent

The Contingent Placing Agreements are in substantially similar form and each is conditional upon:

- (a) both the Uni-Dragon SPA and the Falloncroft SPA having been duly entered into;
- (b) PYE having obtained the approvals of the Shareholders or as required the Independent Shareholders in a general meeting and of any applicable court or regulatory body necessary to implement the Transactions, including (i) the Acquisition as a very substantial acquisition and a connected transaction, including the Exchange Right; (ii) the Specific Mandate; (iii) the Cash Dividend and the Scrip Alternative; (iv) the increase in the authorised share capital as described in this circular; and (v) the appointment of the Proposed New Directors to the Board, and such approvals not having been or proposed to be revoked;
- (c) PYI having obtained the necessary approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to authorise the deemed disposal of a very substantial interest of PYI in PYE and other applicable aspects of the Transactions as necessary, and such approvals not having been or proposed to be revoked;
- (d) the Listing Committee having granted listing of, and permission to deal in, the Shares to be issued under the Transactions (including the Shares to be issued pursuant to (i) the Placing; (ii) conversion of the Convertible Bonds; (iii) exercise of the Scrip Alternative and (iv) exercise of the Exchange Right), and such listing and permission not having been subsequently revoked;

LETTER FROM THE BOARD

- (e) the Bermuda Monetary Authority having granted all, and not revoking any, necessary approvals and permissions for the creation, allotment and issue of the Shares to be issued under the Transactions (as referred to above) and all other applicable approvals, authorisations and consents being unconditionally obtained for the Transactions;
- (f) the taking effect unconditionally of the Falloncroft SPA and the Uni-Dragon SPA (save for any condition as to completion of the Placing or the Contingent Placing) in all respects in accordance with their terms;
- (g) the MOU remaining in place and the terms of the MOU remaining unchanged;
- (h) the ability to complete the Placing Agreement (whether or not simultaneously) such that PYE would, in conjunction with the completion of the Contingent Placing Agreements, raise minimum gross proceeds of HK\$3,200 million but not result in a loss of the minimum public float requirement as prescribed by the Listing Rules;
- (i) the deed constituting the Convertible Bonds shall have been executed by PYE on or prior to the Placing Completion Date;
- (j) there not having occurred any breach of, or any event rendering untrue or inaccurate to a material extent, any of the representations, warranties or undertakings under the Contingent Placing Agreements, as given (i) on the date of the Contingent Placing Agreements; (ii) on the Contingent Placing Completion Date; (iii) on all dates between the date of the Contingent Placing Agreements and the Contingent Placing Completion Date on which PYE makes any public announcement or issues any public documents; and (iv) on the date of the launch of the Contingent Placing;
- (k) trading generally not having been suspended or materially limited on, or by, the 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 pending publication of any announcement(s) in relation to the Transactions or other matters);
- (m) a material disruption in securities settlement, payment or clearance services in Hong Kong not having occurred;
- (n) any moratorium on commercial banking activities not having been declared by Hong Kong authorities;

LETTER FROM THE BOARD

- (o) there not having occurred any event, or series of events beyond the reasonable control of the Contingent 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 any of the Contingent Placing Agent's judgment in its sole discretion, is material and adverse and which, singly or together with any other event specified above, makes it, in the Contingent Placing Agent's judgment in its sole discretion, impracticable, inexpedient or inadvisable to proceed with the offer, sale or delivery of the Contingent Placing Convertible Bonds on the terms and in the manner contemplated in the Contingent Placing Agreements;
- (p) there not having come into effect any new law or regulation and there being no change (whether or not permanent) or development (whether or not permanent) involving a prospective change in existing laws or regulations or the interpretation or application thereof by any court or other competent authority which in the sole opinion of the Contingent Placing Agents is or is likely to be materially adverse to the success of the Contingent 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 Contingent Placing Agents not becoming aware, after the date of the Contingent Placing Agreements, 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 Contingent Placing that (in the Contingent Placing Agent's sole judgment) is inconsistent in a material and adverse manner with any such information or other matter disclosed to the Contingent Placing Agent prior to the date of the Contingent Placing Agreements or would reasonably be expected to impair the Contingent Placing or the Transactions;

LETTER FROM THE BOARD

- (u) there not having been any acquisition or transaction by PYE proposed, effected or completed after the date of the Contingent Placing Agreements and before the completion of the Contingent Placing (save as those contemplated in the Transactions Announcement) which would or may reasonably be expected to in the Contingent Placing Agent's opinion in its sole discretion, impair or adversely affect the Contingent Placing or affect the marketing of the Contingent Placing Convertible Bonds or otherwise makes it inadvisable, inexpedient or impracticable to proceed with the Contingent Placing;
- (v) there not having been any capital restructuring and, or, capital reorganisation by PYE proposed, effected or completed after the date of the Contingent Placing Agreements (save for those disclosed in the Transactions Announcement);
- (w) except pursuant to the Contingent 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 Contingent Placing Agreements; and
- (x) the accuracy and completeness of all representations that PYE makes to the Contingent Placing Agents and all information that PYE furnishes to the Contingent Placing Agents in connection with the Contingent Placing and, or, the Transactions.

If the above conditions are not fulfilled to the satisfaction of the Contingent Placing Agents or waived by the Contingent Placing Agents (to the extent permissible), PYE shall not be entitled to serve the Contingent Placing Notice and the Contingent Placing will not be implemented. In these circumstances, the commissions or the abortion fee described above will not be paid to the Contingent Placing Agents. Rather, the Contingent Placing Agreements and the obligations of the parties thereunder shall cease and terminate at that time and neither PYE nor the Contingent Placing Agents shall be under any liability to the other under the Contingent Placing Agreements, save for liability in respect of any antecedent breaches of the agreement.

Termination

Each of the Contingent Placing Agreements may be terminated by PYE by written notice to the relevant Contingent Placing Agent, and can be given at any time prior to completion if there shall be any failure or refusal on the part of the Contingent Placing Agents to comply with the terms of the Contingent Placing Agreements.

Completion of the Contingent Placing

In the event that PYE elects to complete the Contingent Placing, such placing shall take place on the Contingent Placing Completion Date.

LETTER FROM THE BOARD

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are summarised below:

- (1) **Principal Amount** Issued pursuant to the Placing and (as applicable) the Contingent Placing, assuming the split between the new Shares and the Convertible Bonds pursuant to the Placing is 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to the following respective aggregate amounts of Convertible Bonds at face value:
- HK\$2,400 million (in the absence of exercise of the Upsize Option and assuming no completion of the Contingent Placing); or HK\$3,600 million (on the exercise in full of the Upsize Option but assuming no completion of the Contingent Placing); or HK\$5,200 million (on exercise in full of the Upsize Option and completion in full of the Contingent Placing).
- (2) **Form, denomination and subscription** The Convertible Bonds will be issued in registered form in the denomination of HK\$100,000 each, and will be subscribed at 100% of their principal amount.
- (3) **Interest/Coupon** Interest free/zero coupon.
- (4) **Maturity date and Redemption** The twelfth anniversary of the date of issue of the Convertible Bonds (the “**Maturity Date**”).
- Unless previously redeemed or converted by PYE as described below or purchased and cancelled, each of the Convertible Bonds will be redeemed by PYE on the Maturity Date at its principal amount outstanding.
- (5) **Redemption at the option of PYE** At any time on or after the fifth anniversary of the date of issue of the Convertible Bonds, PYE may, having given not less than 30 days’ nor more than 60 days’ notice to the Convertible Bondholders, redeem the Convertible Bonds in whole or in part, at their Early Redemption Amount.
- “**Early Redemption Amount**” means an amount calculated with reference to the principal amount of the relevant Convertible Bonds so that it represents a gross yield of 5% per annum (calculated on a semi-annual basis) for the remainder of the period from the date fixed for early redemption until the Maturity Date.

LETTER FROM THE BOARD

- (6) Redemption for delisting In the event the Shares cease to be listed on the Stock Exchange or a suitable alternative exchange (a “**Delisting**”), each Convertible Bondholder shall have the right (the “**Delisting Put Right**”), at such Convertible Bondholder’s option, to require PYE to redeem all (but not less than all) of such Convertible Bondholder’s Convertible Bonds on the twentieth Business Day after notice has been given to Convertible Bondholders regarding the Delisting or, if such notice is not given, the twentieth Business Day after the Delisting at their principal amount.
- (7) Conversion The conversion rights attached to the Convertible Bonds may only be exercisable by the Convertible Bondholders so long as and to the extent that immediately after such exercise, there will be sufficient public float of the Shares as required under the Listing Rules.
- No conversion of the Convertible Bonds will be permitted to the extent that such conversion would result in a change of control (as defined in the Takeovers Code) of PYE.
- The Convertible Bonds may be converted at any time commencing on the date of issue of the Convertible Bonds and up to the close of business on a day no later than seven days prior to the Maturity Date (both days inclusive), or if such Convertible Bonds shall have been called for redemption by PYE before the Maturity Date, then up to the close of business on a day no later than seven days (both days inclusive) prior to the day fixed for redemption thereof.
- (8) Conversion Price The initial conversion price, subject to adjustment, shall be HK\$0.68, being equal to the Placing Price.
- (9) Adjustments to the Conversion Price The conversion price will be subject to adjustment upon occurrence of certain prescribed events including amongst others, consolidation, subdivision or reclassification of Shares; rights issues of Shares or options over Shares at less than 90% of the then current market price; right issues of other securities; issues of Shares, or options to subscribe for Shares or other securities convertible or exchangeable into Shares, at a price per Share of less than 90% of the then current market price; modification of rights attaching to any such convertible or exchangeable securities as may from time to time be issued, where as a result of such modification Shares would be issued at less than 90% of the then current market price; and other offers to Shareholders. The conversion price may not be reduced so that the conversion shares would fall to be issued at a discount to their par value.

LETTER FROM THE BOARD

No adjustment will be made to the conversion price when (i) Shares or other securities are issued to employees (including directors) of the Group or any associated company of PYE pursuant to any employee's share scheme or plan adopted in accordance with the Listing Rules; or (ii) Shares are issued on exercise of the Exchange Right.

- (10) Conversion at the option of PYE
- At the election of PYE, the Convertible Bonds will, subject to the restrictions on conversion referred to in (7) above, be mandatorily converted into Shares in the event that less than 10% of the original issue remains outstanding at any time.
- (11) Distributions
- The Convertible Bonds will have no entitlement to interest, but
- (i) if and whenever PYE shall, in respect of the issued Shares, pay or make any cash dividend or distribution of any kind or any distribution of assets in specie (including issues of fully or partly paid-up shares or other securities (other than fully-paid Shares), by way of capitalisation of reserves, but excluding for these purposes, Scrip Dividends (as defined below)) to the Shareholders (the "**Distribution**"), PYE shall, subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda and the applicable Listing Rules, at the same time pay or distribute to each Convertible Bondholder an amount of cash (in the case of cash dividends) or other assets the subject matter of the Distribution (in the case of distribution of any kind or any distribution of assets in specie) which is equal to (i) the amount of cash or other assets the subject matter of the Distribution per Share receivable by the Shareholders under the Distribution, multiplied by (ii) the number of Shares of which the Convertible Bondholder would have become the holder of, had such Convertible Bondholder's Convertible Bonds then outstanding been converted on the relevant record date for determining entitlement to the Distribution; or
 - (ii) if and whenever PYE shall, in respect of the issued Shares, issue any Shares credited as fully paid, out of or by way of capitalisation of its profits or reserves (including any share premium account, contributed surplus or capital redemption reserve) including Shares paid up out of distributable profits or reserves and, or, share premium account issued in lieu of the whole

LETTER FROM THE BOARD

or part of a cash dividend (whether at the choice of the Shareholders, or as a mandatory issue) (a “**Scrip Dividend**”), PYE shall at its option and subject to compliance with relevant laws, rules, regulations and requirements in Hong Kong and Bermuda and the applicable Listing Rules, issue to each Convertible Bondholder either (a) such number of Shares which is equal to (i) the number of such Shares receivable by the Shareholders in respect of each issued Share held by them under the issuance of such fully paid Shares (including the Scrip Dividend), multiplied by (ii) the number of Shares of which the Convertible Bondholder would have become a holder of, had such Convertible Bondholder’s Convertible Bonds then outstanding been converted on the relevant record date for determining entitlement to the issuance of such fully paid Shares (including the Scrip Dividend); or (b) further convertible bonds on the same terms and conditions as the Convertible Bonds in such amount which would, on conversion thereof on the record date for determining entitlement to such fully paid Shares issued (including Scrip Dividend), entitle such Convertible Bondholder to such number of Shares as is equal to (i) the number of Shares receivable by the Shareholders in respect of each issued Share held by them under the issuance of such fully paid Shares (including the Scrip Dividend), multiplied by (ii) the number of Shares of which the Convertible Bondholder would have become a holder of, had such Convertible Bondholder’s Convertible Bonds then outstanding been converted on the relevant record date for determining entitlement to the issuance of such fully paid Shares (including the Scrip Dividend).

- (12) Ranking of the new Shares converted The new Shares to be issued on the conversion of the Convertible Bonds will rank pari passu in all respects with the Shares in issue at the date of the relevant conversion notice. The holders of the new Shares to be issued on the conversion of the Convertible Bonds are not entitled to the Distribution in Specie, the Cash Dividend nor the Scrip Alternative.
- (13) Status of the Convertible Bonds The Convertible Bonds shall constitute direct, senior, unconditional, unsubordinated and unsecured obligations of PYE and shall at all times rank pari passu and without any preference or priority among themselves.

LETTER FROM THE BOARD

- (14) Transferability The Convertible Bonds may be assigned or transferred by holders thereof with prior notification to PYE. PYE will notify the Stock Exchange should it become aware of any proposed assignment or transfer of the Convertible Bonds to a connected person of PYE, and such assignment or transfer shall be subject to the requirements (if any) that the Stock Exchange may impose from time to time.
- The aggregate principal amount of the Convertible Bonds to be assigned or transferred must be at least HK\$100,000 or integral multiples of HK\$100,000.
- (15) Voting Rights The Convertible Bonds do not confer any voting rights at any meetings of PYE.
- (16) Alteration of the terms of the Convertible Bonds Save as provided below, the terms of the Convertible Bonds may be altered provided that more than 50% of the Convertible Bondholders agree in writing to such alteration or it is approved by more than 50% of the Convertible Bondholders attending and voting on a resolution proposed at a meeting of the Convertible Bondholders to approve such alteration.
- In any event, no alteration of a material nature may be made to the Convertible Bonds without the prior approval of the Shareholders in general meeting, except where the alteration takes effect automatically under the then existing terms of the Convertible Bonds.
- (17) No Listing No application will be made for the listing of the Convertible Bonds on the Stock Exchange. Application will be made to the Listing Committee for the listing of and permission to deal in the new Shares to be allotted and issued on exercise of the conversion rights attaching to the Convertible Bonds.
- (18) Specific Mandate The Convertible Bonds and the Shares to be issued on conversion of the Convertible Bonds will, if approved by the Shareholders, be allotted and issued pursuant to the Specific Mandate.

LETTER FROM THE BOARD

Number of Placing Shares and Shares to be issued upon conversion of the Placing Convertible Bonds and Contingent Placing Convertible Bonds

As mentioned above, the changes to the existing and enlarged share capital of PYE as a result of the Placing mentioned in this circular are for illustrative purposes only, assuming the split between the new Shares and the Convertible Bonds is 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to HK\$2,400 million worth of Convertible Bonds at face value.

The Placing Shares (assuming no exercise of the Upsize Option) represent approximately 193.83% of the existing issued share capital of PYE, amounting to 606,954,322 Shares as at the Latest Practicable Date, and approximately 65.97% of the total issued share capital of PYE as enlarged by the Placing Shares. The aggregate number of Placing Shares (assuming exercise, in full, of the Upsize Option), amounting to 1,764,705,882 new Shares, represent approximately 290.75% of the existing issued share capital of PYE as at the Latest Practicable Date, and approximately 74.41% of the total issued share capital of PYE as enlarged by the Placing Shares.

The number of Shares to be allotted and issued on exercise in full of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds, assuming no exercise of the Upsize Option, amounting in total to 5,882,352,940 new Shares, represents approximately 969.16% of the existing issued share capital of PYE, and approximately 90.65% of the total issued share capital of PYE as enlarged by full conversion of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds. The number of Shares to be allotted and issued on exercise in full of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds, assuming exercise in full of the Upsize Option, amounting in total to 7,647,058,822 new Shares, represents approximately 1,259.91% of the existing issued share capital of PYE, and approximately 92.65% of the total issued share capital of PYE as enlarged by full conversion of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds.

Placing Price

The Placing Price of HK\$0.68 per Share represents:

- (i) a discount of approximately 18.07% to the closing price of HK\$0.83 per Share as quoted on the Stock Exchange on 19 November 2012, being the trading day of the date of the Placing Agreement;
- (ii) a discount of approximately 15.00% to the average closing price of approximately HK\$0.80 per Share as quoted on the Stock Exchange for the last five trading days of the date of the Placing Agreement;
- (iii) a premium of approximately 19.30% to the price referred to at (i) above after factoring in payment by PYE of the Cash Dividend;
- (iv) a premium of approximately 25.93% to the price referred to at (ii) above after factoring in payment by PYE of the Cash Dividend;

LETTER FROM THE BOARD

- (v) a discount of approximately 16.05% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on 31 December 2012, being the Latest Practicable Date; and
- (vi) a premium of approximately 23.64% to the price referred to at (v) above after factoring in payment by PYE of the Cash Dividend.

The net placing price after the placing commission under the Placing Agreement is approximately HK\$0.65 per Placing Share.

The Directors consider that the Placing Price, and the terms of the Placing and the Contingent Placing, which were agreed after arm's length negotiations between PYE, the Placing Agent and the Contingent Placing Agents with reference to the market price of the Shares in recent months and after factoring in the distribution of capital to Qualifying Shareholders as proposed by the Distribution in Specie and Cash Dividend, as 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 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.

Specific Mandate

The Placing Shares and the Placing Convertible Bonds; and the Contingent Placing Convertible Bonds will be allotted and issued pursuant to the Specific Mandate, which it is proposed, as regards such securities will have a validity period of nine months from the date of the PYE SGM. The Specific Mandate will also cover the allotment and issue of new Shares upon exercise of the conversion rights attaching to the Placing Convertible Bonds, the Contingent Placing Convertible Bonds and the allotment and issue of new Shares on exercise of the Exchange Right.

As the Placing has not been launched and completion of the Placing and (as applicable) the Contingent Placing are respectively subject to the fulfillment of a number of conditions precedent, the Placing and the Contingent Placing may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of PYE and, or, PYI.

REASONS FOR THE PLACING AND THE CONTINGENT PLACING AND USE OF PROCEEDS

The Placing and the Contingent Placing are being pursued by PYE so as to enable PYE to fund the Acquisition and subsequent development of the Land as discussed further below.

LETTER FROM THE BOARD

The Placing (assuming no exercise of the Upsize Option) will result in PYE raising gross proceeds of up to HK\$3,200 million or net proceeds (after placing commission) of up to approximately HK\$3,072 million. The Contingent Placing, if pursued by PYE, will result in PYE raising additional gross proceeds of up to HK\$1,600 million or net proceeds (after commission) of up to approximately HK\$1,536 million.

From this combination of fund raisings, assuming the minimum gross proceeds of HK\$3,200 million is raised, PYE will receive net proceeds of approximately HK\$3,072 million after placing commission. PYE will apply HK\$2,000 million to the Acquisition, as described below. The balance, of approximately HK\$1,072 million (assuming completion in full of the Placing (but not the Upsize Option and no completion of the Contingent Placing)), will be applied as to approximately HK\$778 million towards the construction of the hotel and other aspects of developing the Project, as to approximately HK\$44 million towards transaction expenses and as to the balance of approximately HK\$250 million for general working capital purposes.

In the event that the Upsize Option is exercised in full, PYE will receive additional gross proceeds of HK\$1,600 million or net proceeds of approximately HK\$1,536 million after placing commission. The additional monies will also be applied towards development of the Project, and would, accordingly, reduce the bank borrowings needed to complete the Project.

In the event that the Contingent Placing is pursued by PYE, PYE will receive additional gross proceeds of HK\$1,600 million or net proceeds after commission of approximately HK\$1,536 million which will also be applied towards the Project, thereby also reducing the bank borrowings necessary to complete the Project.

Given the size of funds to be raised, the Directors are of the view that the use of the Placing and the Contingent Placing are the most appropriate alternatives to raise the funds for the Acquisition. And, although the Placing and Contingent Placing will dilute the interests of the existing Shareholders, the Distribution in Specie and Scrip Alternative reduce the dilution, and allow the existing Shareholders to re-invest in the Company.

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

As mentioned above, the changes to the existing and enlarged share capital of PYE as a result of the Placing mentioned in this circular are for illustrative purposes only, assuming the split between the new Shares and the Convertible Bonds is 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to HK\$2,400 million worth of Convertible Bonds at face value.

The tables below set 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; (iii) as it would be immediately after conversion of the Placing Convertible Bonds; and (iv) as it would be immediately after conversion of all of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds. The first table assumes no exercise of the Upsize Option. The second table assumes exercise in full of the Upsize Option. For the purposes of illustration, it has been assumed, in each scenario, that no Shareholders will elect to receive new Shares pursuant to the Scrip Alternative.

LETTER FROM THE BOARD

Table 1 – Assuming no exercise of the Upsize Option:

Identity of Shareholders	Shareholdings in PYE as at the Latest Practicable Date		Shareholdings in PYE upon completion of the Placing		Shareholdings in PYE upon conversion in full of the Placing Convertible Bonds		Shareholdings in PYE upon conversion in full of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
PYI ¹	375,826,317	61.92	375,826,317	21.07	375,826,317	7.07	375,826,317	4.90
Other Shareholders as at the Latest Practicable Date	231,128,005	38.08	231,128,005	12.96	231,128,005	4.35	231,128,005	3.02
Places	nil	nil	1,176,470,588	65.97	4,705,882,352	88.58	4,705,882,352	61.39
Contingent Places	nil	nil	nil	nil	nil	nil	2,352,941,176	30.69
	<u>606,954,322²</u>	<u>100.00</u>	<u>1,783,424,910</u>	<u>100.00</u>	<u>5,312,836,674</u>	<u>100.00</u>	<u>7,665,777,850</u>	<u>100.00</u>

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 were no outstanding share options granted by PYE pursuant to the share option scheme of PYE adopted on 7 September 2005.

Table 2 – Assuming exercise in full of the Upsize Option:

Identity of Shareholders	Shareholdings in PYE as at the Latest Practicable Date		Shareholdings in PYE upon completion of the Placing		Shareholdings in PYE upon conversion in full of the Placing Convertible Bonds		Shareholdings in PYE upon conversion in full of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
PYI ¹	375,826,317	61.92	375,826,317	15.85	375,826,317	4.90	375,826,317	3.75
Other Shareholders as at the Latest Practicable Date	231,128,005	38.08	231,128,005	9.74	231,128,005	3.02	231,128,005	2.30
The Places	nil	nil	1,764,705,882	74.41	7,058,823,528	92.08	7,058,823,528	70.46
Contingent Places	nil	nil	nil	nil	nil	nil	2,352,941,176	23.49
	<u>606,954,322²</u>	<u>100.00</u>	<u>2,371,660,204</u>	<u>100.00</u>	<u>7,665,777,850</u>	<u>100.00</u>	<u>10,018,719,026</u>	<u>100.00</u>

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 were no outstanding share options granted by PYE pursuant to the share option scheme of PYE adopted on 7 September 2005.

LETTER FROM THE BOARD

EQUITY FUND RAISING ACTIVITIES BY PYE DURING THE PAST TWELVE MONTHS

PYE has not completed 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.

As disclosed in the joint announcement of PYE and PYI dated 29 December 2011, PYE entered into a placing agreement and a subscription agreement on 21 August 2011 to allot and issue a total of up to 3,600 million Shares. However, both agreements terminated on 31 December 2011.

EFFECT OF THE PLACING AND CONTINGENT PLACING ON PYI

Deemed very substantial disposal

The Placing, the allotment and issue of Shares pursuant to the conversion of any of the Convertible Bonds issued pursuant to the Placing and the Contingent 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 21.07% assuming no exercise of the Upsize Option and no completion of the Contingent Placing; or to approximately 15.85% assuming exercise in full of the Upsize Option and no completion of the Contingent Placing; and after conversion of the Convertible Bonds including those issued pursuant to the Contingent Placing, to approximately 4.90% assuming no exercise of the Upsize Option or to approximately 3.75% assuming exercise in full of the Upsize Option.

With or without conversion of the Convertible Bonds, this constitutes a deemed disposal by PYI for the purposes of the Listing Rules and on the basis that one or more of the percentage ratios exceeds 75%, the transaction amounts to a deemed very substantial disposal on the part of PYI. On completion, PYE will no longer be a subsidiary of PYI and its financial position and results will not be consolidated into those of PYI. PYE will be accounted for as an associate or an available-for-sale investment depending on the ultimate shareholding interest of PYI in PYE.

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

Financial information on PYE

The consolidated net asset value of PYE attributable to the Shareholders as at 31 March 2012, being PYE's last financial year end, was approximately HK\$639.43 million. This figure has been extracted from its 2012 annual report. The unaudited consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012, being PYE's latest interim report, was approximately HK\$654.40 million.

The consolidated net profit before taxation and extraordinary items of PYE for the financial year ended 31 March 2012 and the financial year ended 31 March 2011 was approximately HK\$34.52 million and HK\$41.66 million, respectively. These figures have been extracted from its 2012 annual report. Furthermore, for the six months ended 30 September 2012 the unaudited consolidated net profit before taxation and extraordinary items of PYE was approximately HK\$24.25 million, as extracted from PYE's latest interim report.

LETTER FROM THE BOARD

The consolidated net profit after taxation and extraordinary items of PYE for the financial year ended 31 March 2012 and the financial year ended 31 March 2011 was approximately HK\$33.00 million and HK\$33.76 million, respectively. These figures have been extracted from its 2012 annual report. Furthermore, for the six months ended 30 September 2012 the unaudited consolidated net profit after taxation and extraordinary items of PYE was approximately HK\$21.19 million, as extracted from PYE's latest interim report.

The unaudited pro forma net asset value attributable to its shareholders per Share, taking into consideration the effect of the Transactions (including the Placing (assuming the conversion in full of the Placing Convertible Bonds with no exercise of the Upsize Option and no completion of the Contingent Placing Convertible Bonds)) as if they had been completed on 30 September 2012, equates to approximately HK\$0.603 per Share. Further unaudited pro forma financial information is contained in appendix IX to this circular.

B. ACQUISITION OF FALLONCROFT

The principal terms of the Falloncroft SPA are as follows:

- Date:** 19 November 2012
- Parties:** (a) PYE; and
(b) Pride Wisdom

Pride Wisdom is a private company indirectly owned by Mr. Sean Hung, the son of Mr. Hung. Given that Pride Wisdom will become, as a result of the Acquisition, an associate of Mr. Hung, a proposed director of PYE, the Acquisition also constitutes a connected transaction for PYE pursuant to Rule 14A.13(b)(i) of the Listing Rules.

Pride Wisdom is not currently a connected person of PYE, but will, when Mr. Hung is appointed as a director of PYE with effect from completion of the Acquisition, become an associate of Mr. Hung and will, therefore, become a connected person of PYE after completion of the Acquisition.

- Subject matter:** Pride Wisdom agreed to sell, or procure the sale of, and PYE agreed to purchase, or procure the purchase of, the entire issued share capital of Falloncroft, a private company incorporated in the British Virgin Islands that will, on completion of the Uni-Dragon SPA, hold the entire issued share capital of Uni-Dragon, which is the legal and beneficial owner of all the issued shares of Manlink and Challenge Shore. Manlink and Challenge Shore in turn holds 60% and 40% respectively of New Concordia which, on completion, will be granted the POA by Empresa in respect of the Land on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming, subject to the approval of the Macau Government). The grant of the POA is a completion obligation under each of the Falloncroft SPA and the Uni-Dragon SPA, which cannot be waived pursuant to the terms thereto.

LETTER FROM THE BOARD

It is stipulated under the land grant that: (i) the title to the Land is only transferrable after completion of construction of the buildings on the Land and issuance of user licence by the relevant authority; and (ii) while the Land has not been fully developed, the transfer of title has to be approved by the Macau Government in advance. In view of these land grant provisions, the POA will be granted by Empresa to New Concordia to enable the Falloncroft Group to develop the Land.

PYE sought and obtained a legal opinion on, amongst others, the POA and certain aspects of Macau law. As opined by the Macau legal adviser, the POA lawfully grants to the attorney a set of rights, interests and powers tantamount to title to the Land. Having considered the content of the legal opinion, the PYE Directors do not foresee any difficulties in obtaining the approvals, licenses or permits for the construction on and the development of the Land. In the event that the transfer before the completion of the development of the Land is not permitted by the Macau Government, New Concordia will, upon completion of the development of the Land, be entitled to transfer the legal title of the buildings which will be erected on the Land to itself and, or, third parties pursuant to the authority vested in it under the POA and a related promissory agreement to be entered into between Empresa and New Concordia at the same time as the POA.

Stamp duty is calculated at 3.15% over the price of the Land (MOP900,000,000.00), payable by New Concordia, pursuant to the Macau law, as the transferee of the Land within 30 days counting from the date of execution of the POA. Falloncroft has agreed to bear the cost of the stamp duty under the Uni-Dragon SPA. The transfer of legal title of the buildings to be erected on the Land to New Concordia upon completion of the development shall attract notarization fee and registration fee payable by New Concordia to the Macau Government. The registration fee is calculated as 0.4% to 0.2% over the price of the buildings transferred; and the notarization fee is calculated as 0.5% to 0.1% progressively over the price of the buildings transferred.

Falloncroft has entered into the MOU, with an affiliate of the Operator, which is one of the gaming concessionaires or subconcessionaires in Macau, in relation to the management and operation of a casino proposed to be opened in the hotel to be constructed on the Land, subject to the approval of the Macau Government. Pursuant to the MOU, the Operator shall operate the gaming casino in the hotel and Falloncroft shall provide the Operator with an area in the hotel with utilities for gaming activities. As opined by the Macau legal adviser, PYE does not foresee any difficulties for obtaining approval from the Macau Government on the arrangement as contemplated under the MOU.

LETTER FROM THE BOARD

If approval from the Macau Government on the arrangement as contemplated under the MOU cannot be obtained, PYE may explore other arrangements with another one of the concessionaires or subconcessionaires and may continue with the operation of a casino with another operator, subject to agreement with another operator and authorisation from the Macau Government.

Consideration:

The consideration to be paid by PYE to Pride Wisdom for the purchase of the entire issued share capital of Falloncroft will be HK\$2,000 million, settled as follows:

- (i) HK\$30 million, in cash, as a deposit on the signing of the Falloncroft SPA; and
- (ii) the balance, in cash, upon completion.

The consideration was negotiated by the parties on an arm's length basis, with the Board also having sought and obtained for internal purposes and due diligence into forming its views on the consideration amount an independent property valuation of the Land and an independent professional valuation of the Project.

If the conditions precedent are not satisfied (including the condition as to the approval of Shareholders) or, as applicable waived, the deposit will be refunded to PYE.

The Directors are satisfied that the consideration payable is fair and reasonable as the acquisition of Falloncroft means that the Group acquires interest in the Land, the incremental benefits of the MOU (needed for the proposed casino), the Construction LOI (needed to build the hotel), and the necessary management for the Project.

Conditions precedent:

Completion is conditional upon the following conditions being satisfied or waived pursuant to the terms of the Falloncroft SPA on or before the Long Stop Date:

- (i) the Uni-Dragon SPA having been duly entered into;
- (ii) PYE having obtained the approvals of the Shareholders or as required the Independent Shareholders in a general meeting and of any applicable court or regulatory body necessary to implement the Transactions, including (i) the Acquisition as a very substantial acquisition and a connected transaction, including the Exchange Right; (ii)

LETTER FROM THE BOARD

the Specific Mandate; (iii) the Cash Dividend and the Scrip Alternative; (iv) the increase in the authorised share capital as described in this circular; and (v) the appointment of the Proposed New Directors to the Board, among whom each of Mr. Hung and Mr. Coker shall be proposed to be appointed as an executive director and Joint Chairman of PYE and Mr. Power shall be proposed to be appointed as an executive director and Chief Executive Officer of PYE, and such approvals not having been or proposed to be revoked;

- (iii) PYI having obtained the necessary approvals of its shareholders in a general meeting and of any applicable court or regulatory body necessary to authorise the deemed disposal of a very substantial interest of PYI in PYE and other applicable aspects of the Transactions as necessary, and such approvals not having been or proposed to be revoked;
- (iv) the Listing Committee having granted listing of, and permission to deal in, the Shares to be issued under the Transactions (including the Shares to be issued pursuant to (i) the Placing; (ii) conversion of the Convertible Bonds; (iii) exercise of the Scrip Alternative and (iv) exercise of the Exchange Right), and such listing and permission not having been subsequently revoked;
- (v) the Bermuda Monetary Authority having granted all, and not revoking any, necessary approvals and permissions for the creation, allotment and issue of the Shares to be issued under the Transactions (as referred to above) and all other applicable approvals, authorisations and consents being unconditionally obtained for the Transactions;
- (vi) completion of the Placing and (if applicable) the Contingent Placing raising minimum gross proceeds of HK\$3,200 million but not result in a loss of the minimum public float requirement as prescribed by the Listing Rules;
- (vii) the MOU remaining in place and the terms of the MOU remaining unchanged;
- (viii) PYE being satisfied that each Falloncroft Group Company has, or will on completion have, zero assets and liabilities (other than, directly or indirectly, in relation to the Land, the MOU and the Construction LOI);

LETTER FROM THE BOARD

- (ix) Falloncroft having adopted the share option scheme and having granted options that would, for a subscription and capital injection of HK\$600 million, entitle Chief Wise to subscribe new Falloncroft Shares representing what will, following the injection of additional capital by PYE, be 10% of the enlarged issued share capital of Falloncroft (on the basis that 100% of the issued share capital of Falloncroft (inclusive of the shares to be issued on exercise of the options) would be valued at HK\$6,000 million); and
- (x) the representations, warranties and undertakings of Pride Wisdom being true, correct, complete and not misleading in any material respect at, and as if made on, the completion date and at all times between the date of the Falloncroft SPA and the completion date, and all information that Pride Wisdom furnishes to PYE in connection with Falloncroft and, or, the Land being true, correct and complete and not misleading in any material respect.

In the event that not all the conditions have been satisfied or waived pursuant to the terms of the Falloncroft SPA on or before the Long Stop Date, the Falloncroft SPA will lapse and become null and void and the parties shall be released from all obligations under the Falloncroft SPA, save and except: (i) the deposit in the amount of HK\$30 million shall be refunded to PYE; (ii) for the ongoing obligations such as governing law, confidentiality and costs provisions; (iii) for liability in respect of any antecedent breaches of the Falloncroft SPA; and (iv) if all of the conditions precedent, other than the condition in sub-paragraph (viii) above, are satisfied on or prior to 14 February 2013 or such later date as may be agreed between the parties and the parties are ready to complete the Acquisition on or prior to 14 February 2013 or such later date as may be agreed between the parties, if not for the fact that the condition in sub-paragraph (viii) above is not fulfilled and if it is the only condition that has not been fulfilled and leads to the lapse of the Falloncroft SPA, Pride Wisdom shall pay to PYE a sum, capped at HK\$20 million, in reimbursement of professional costs and expenses incurred by PYE in relation to the Transactions.

Construction LOI:

Falloncroft entered into the Construction LOI on 19 November 2012 with Paul Y. Construction pursuant to which Paul Y. Construction will act as the project and construction manager for the development and construction of the hotel and casino to be constructed on the Land.

LETTER FROM THE BOARD

The Construction LOI sets out the terms and conditions on which the formal contract for the construction and development of the Project shall be based. The scope of the formal contract comprises the management consultancy services for the development of the Project and the construction of the Project. The Construction LOI identifies the Project's basic parameters, including its design concept, expectation and user requirements. The parties have agreed amongst other things the price for the provision of the project management consultancy services and the construction of the Project, a basic timeline for the construction and development of the Project, and the scope of work and obligations of Paul Y. Construction in the construction and development of the Project. In the event that the formal contract, when entered into, is a continuing connected transaction for PYE, PYE will make an announcement, and comply with the requirements under Chapter 14A of the Listing Rules, in relation to the contract.

There are various approvals, licenses or permits which will be required for the construction and development of the Land, being the usual Macau Government approvals, licenses or permits, as would be required for all property developments in Macau under the laws of Macau. These include plans, to be approved by the Macau Land and Public Works Department (such as plans relating to foundation, structures and construction works etc.), and licenses or permits (such as the "License for Construction Works" issued by the Macau Land and Public Works Department, and the "Occupancy Permit" issued by the Macau Land and Public Works Department etc.).

The installation and operation of a five-star hotel in Macau is subject to licensing by the Tourism Office of Macau, pursuant to Decree-law no. 16/96/M, which approved the legal framework applicable to hotel and similar businesses, and Regulation No. 83/96/M, which approved the regulation of the said legal framework. The said legal framework defines the process for the application and granting of hotel business licenses, following an inspection performed by several departments and authorities from the Macau Government to verify compliance with Macau laws, as well as the requirements for the installation and operation of hotels in general and five-star hotels in particular.

Disputes:

The Falloncroft SPA is governed by the laws of Hong Kong and the parties have submitted to the non-exclusive jurisdiction of the Hong Kong courts in the event there is a dispute arising out of or in connection with the Falloncroft SPA. The POA is governed by the laws of Macau, and any dispute arising from the POA will be subject to the exclusive jurisdiction of the Macau courts.

LETTER FROM THE BOARD

FALLONCROFT SHARE OPTION SCHEME AND EXCHANGE RIGHT

Falloncroft proposes to adopt a share option scheme prior to completion of the Falloncroft SPA and will, prior to such completion, grant options that would, for a subscription and capital contribution, in cash, of up to HK\$600 million, entitle Chief Wise, an affiliate of Mr. Hung, to subscribe new Falloncroft Shares. If exercised in full, this will represent up to 10% of the issued share capital of Falloncroft as enlarged by the injection of new capital after completion of the Falloncroft SPA for the purposes of pursuing the Project (and which would in aggregate result in Falloncroft having an issued share capital and, or shareholders' loans valued at HK\$6,000 million, calculated as the product of the HK\$2,000 million acquisition cost of Falloncroft plus the injection of additional capital in the form of shares and, or shareholders' loans to an aggregate amount of up to HK\$3,400 million from PYE and up to HK\$600 million in the form of capital from the optionholders on exercise of the options). Some or all of the options may, in due course, be assigned by the grantee to the management of Falloncroft who are contributing to the development of the Project. All of the options will be granted subject to detailed vesting schedules relevant to performance criteria applicable to the Project and may be exercised at a price per Falloncroft Share that values 10% of Falloncroft's share capital on a basis that is pro rata to PYE's capital commitment, at all times, to Falloncroft (measured as the sum of its cost of purchase and cost of additional capital contribution), the cost of the 10% being capped at HK\$600 million.

In effect, the share option scheme is designed to permit management of Falloncroft to acquire an interest in Falloncroft at the same "entry price" as it is envisaged will be paid by PYE itself (such entry price representing a combination of the price PYE will pay to Pride Wisdom for its stake in Falloncroft and the price to PYE of injecting additional capital into Falloncroft). The Directors believe that this is a fair and reasonable basis by which to set the price for the options given their view that HK\$6,000 million is a fair and reasonable estimate of the total Project costs. The Directors do not envisage a scenario whereby optionholders would gain a benefit by needing to inject only HK\$600 million for a maximum of 10%, whilst PYE would have to spend more than HK\$5,400 million for its 90%, on the basis that the Directors believe that were Falloncroft to be capitalised to the extent of HK\$6,000 million, additional funding for the Project could readily be obtained by means of bank borrowings (thereby avoiding the prospect of a disproportionate shift in the relative percentages of the Falloncroft equity in favour of the optionholders and at the expense of PYE).

The scheme will be structured such that optionholders will, on exercise, never be able to acquire more than 10% of Falloncroft and will always have to pay the same pro rata amount (up to a maximum of HK\$600 million) for their shares as PYE pays for its interest in Falloncroft.

Chief Wise is a private company indirectly owned by Mr. Sean Hung, the son of Mr. Hung. Mr. Hung is a director of Chief Wise and Chief Wise is a company accustomed to act in accordance with Mr. Sean Hung's instructions. Save as described above, Chief Wise has no connections to other parties to the Transactions. Chief Wise is not currently a connected person of PYE, but will, when Mr. Hung is appointed as a director of PYE with effect from completion of the Acquisition, become an associate of Mr. Hung. Chief Wise will, therefore, become a connected person of PYE after completion of the Acquisition. Chief Wise may assign options to the management of Falloncroft as it sees fit. The ownership, rights and benefits of the options belong to Chief Wise until it elects to assign all or any of the same.

LETTER FROM THE BOARD

Subject to fulfillment of the Exchange Conditions (as defined below), management of Falloncroft subscribing Falloncroft Shares on exercise of the options will each have the right at one time, or from time to time, to require PYE to purchase some or all of their respective holdings of Falloncroft Shares in exchange for an allotment and issue of new Shares on the basis described below.

Exchange Conditions:

The Exchange Right will be conditional on the following (the “Exchange Conditions”):

- (i) approval of the same by the Shareholders (as an integral part of approving the Acquisition);
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in all Shares to be allotted and issued pursuant to the exercise of the Exchange Right;
- (iii) the Exchange Right may only be exercised so long as and to the extent that immediately after such exercise, there will be sufficient public float of the Shares as required under the Listing Rules; and
- (iv) the Exchange Right may only be exercisable so long as and to the extent that immediately after such exercise, there will not be a change in control (as defined in the Takeovers Code).

Exchange Ratio:

Subject to adjustment in the event of any alteration in the capital structure of PYE, on exercise of the Exchange Right, Falloncroft Shares will be exchanged for new Shares based upon the following formula:

$$a = \frac{b \times c}{d}$$

where:

- a = the number of new Shares allotted and issued (rounded down to the nearest whole number);
- b = the number of Falloncroft Shares being exchanged;
- c = the price paid and all capital contributed per Falloncroft Share; and
- d = the Placing Price.

LETTER FROM THE BOARD

Under this formula, “b x c” will always be equal to the actual amount paid by the optionholders for their Falloncroft Shares (capped at a maximum of HK\$600 million). Accordingly, the maximum aggregate number of new Shares that would be allotted and issued on exercise, in full, of the Exchange Right would be 882,352,941 Shares. This would equate to PYE issuing HK\$600 million worth of Shares (based on an issue price of HK\$0.68 per Share) in order to purchase 10% of the enlarged issued share capital of Falloncroft, valued at the same aggregate amount.

Specific Mandate:

The Shares to be issued upon exercise of the Exchange Right shall be allotted and issued pursuant to the Specific Mandate the authority in respect of which will remain perpetually valid. The Shares issued on exercise of the Exchange Right shall not be subject to any restrictions imposed by PYE on subsequent sales.

The Directors are satisfied that it is fair and reasonable for the Exchange Right to be fixed by reference to the Placing Price, notwithstanding its perpetual term (rather than by reference to the price of Shares at or around the time of exchange), as the Exchange Right is, as regards pricing, tantamount to the grant of options in PYE and has been benchmarked against the price payable for the Share by the Placees. In this regard, the exercise price for options granted under PYE’s share option scheme is similarly set at the time of grant (not at the time of exercise). Moreover, it should be noted that the Exchange Right fixes the values of both the Falloncroft Shares and the Shares at the outset. Thus, on exchange, PYE captures the upside of any increment over time in the Falloncroft Shares, just as much as the party exercising the Exchange Right captures the benefit of any increase in value of the Shares. In addition, fixing the Exchange Right at the outset is an integral part of the Company’s purchase of Falloncroft, requiring as it does, all relevant shareholders’ approvals to be obtained as a pre-condition. An unknown Exchange Right would likely require exercise of the same to be subject to PYE independent shareholder approval at the relevant time. Accordingly, as an integral part of a wider commercial transaction, the Directors are satisfied that the Exchange Right represents a fair and reasonable component of the deal.

The tables below show the issued share capital of PYE (i) immediately after completion of the Placing; (ii) on exercise in full of the Exchange Right assuming no conversion of the Convertible Bonds; (iii) on exercise of the Exchange Right assuming full conversion of the Placing Convertible Bonds; and (iv) on exercise of the Exchange Right assuming full conversion of all of the Convertible Bonds including those issued pursuant to the Contingent Placing. The first table assumes no exercise of the Upsize Option. The second table assumes exercise in full of the Upsize Option. In each case, it is assumed that all options issued pursuant to the Falloncroft share option scheme will have been exercised. For the purposes of illustration, it has been assumed, in each scenario, that no Shareholders will elect to receive new Shares pursuant to the Scrip Alternative.

As mentioned above, the changes to the existing and enlarged share capital of PYE as a result of the Placing mentioned in this circular are for illustrative purposes only, assuming the split between the new Shares and the Convertible Bonds is 1,176,470,588 new Shares at the Placing Price (raising aggregate gross proceeds of HK\$800 million) and up to HK\$2,400 million worth of Convertible Bonds at face value.

LETTER FROM THE BOARD

Table 1 – Assuming no exercise of the Upsize Option:

Identity of Shareholders	Shareholdings in PYE on completion of the Placing		Shareholdings in PYE on exercise of the Exchange Right (and no conversion of the Convertible Bonds)		Shareholdings in PYE on exercise of the Exchange Right (and full conversion of the Placing Convertible Bonds)		Shareholdings in PYE on exercise of the Exchange Right (and full conversion of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds)	
	Number of		Number of		Number of		Number of	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
PYI ¹	375,826,317	21.07	375,826,317	14.10	375,826,317	6.07	375,826,317	4.40
Placees	1,176,470,588	65.97	1,176,470,588	44.13	4,705,882,352	75.96	4,705,882,352	55.05
Other Shareholders	231,128,005	12.96	231,128,005	8.67	231,128,005	3.73	231,128,005	2.70
Management of Falloncroft	nil	nil	882,352,941	33.10	882,352,941	14.24	882,352,941	10.32
Contingent Placees	nil	nil	nil	nil	nil	nil	2,352,941,176	27.53
	<u>1,783,424,910</u>	<u>100.00</u>	<u>2,665,777,851</u>	<u>100.00</u>	<u>6,195,189,615</u>	<u>100.00</u>	<u>8,548,130,791</u>	<u>100.00</u>

Note:

- 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.

Table 2 – Assuming exercise in full of the Upsize Option:

Identity of Shareholders	Shareholdings in PYE on completion of the Placing		Shareholdings in PYE on exercise of the Exchange Right (and no conversion of the Convertible Bonds)		Shareholdings in PYE on exercise of the Exchange Right (and full conversion of the Placing Convertible Bonds)		Shareholdings in PYE on exercise of the Exchange Right (and full conversion of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds)	
	Number of		Number of		Number of		Number of	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
PYI ¹	375,826,317	15.85	375,826,317	11.55	375,826,317	4.40	375,826,317	3.45
Placees	1,764,705,882	74.41	1,764,705,882	54.23	7,058,823,528	82.58	7,058,823,528	64.75
Other Shareholders	231,128,005	9.74	231,128,005	7.10	231,128,005	2.70	231,128,005	2.12
Management of Falloncroft	nil	nil	882,352,941	27.12	882,352,941	10.32	882,352,941	8.09
Contingent Placees	nil	nil	nil	nil	nil	nil	2,352,941,176	21.59
	<u>2,371,660,204</u>	<u>100.00</u>	<u>3,254,013,145</u>	<u>100.00</u>	<u>8,548,130,791</u>	<u>100.00</u>	<u>10,901,071,967</u>	<u>100.00</u>

Note:

- 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.

LETTER FROM THE BOARD

REASONS FOR THE ACQUISITION

The Directors believe that the Acquisition will, in due course, generate strong cash flows to PYE for the benefit of all of the Shareholders. PYE proposes to build an exclusive luxury hotel and entertainment complex on a site of some 65,000 square feet which forms part of a larger mixed use development on Coloane Island, Macau. The overall design of the complex is planned to be a distinctive rounded, sculptural building. The development is planned to comprise a hotel of some 584,000 square feet, all the accommodation in which will be individual suites varying in size from approximately 2,200 to 15,000 square feet each with its own lift lobby. In addition, subject to obtaining the approval of the Macau Government, the hotel will offer two floors of gaming rooms with approximately 66 tables, restaurants and shops with the gaming activities proposed to be operated by one of Macau's gaming concessionaires or subconcessionaires. It is planned that the proposed casino, lobby, food and shopping outlets will comprise some 96,000 square feet, with the balance of the development of some 164,000 square feet being parking and refuge floors. It is also planned that the complex will be designed and outfitted to the highest international specifications, offering a level of service and luxury which is presently unmatched in Macau. In keeping with its aim of attracting the very wealthy patron and offering exclusive accommodation and services, minimum table bets will be set at a high level. The Directors believe that there is substantial demand for an exclusive hotel and entertainment facility in Macau designed to provide the highest level of quality and service and that, on completion, which is expected to occur in 2016, it will generate strong discretionary cash flows to PYE and ultimately benefit all of the Shareholders.

The total cost of this development, including the cost of the Land, is expected to be approximately HK\$6,000 million. Out of net proceeds of approximately HK\$3,072 million raised through the Placing (assuming no exercise of the Upsize Option), approximately HK\$2,778 million will be utilised to fund this development, with the balance to be provided by bank borrowings on terms yet to be negotiated. In the event the Upsize Option is exercised in full, additional net proceeds of HK\$1,536 million will be raised and will also be applied towards the Project, thereby reducing the bank borrowings necessary to complete the Project. The Contingent Placing, if pursued by PYE, will raise additional net proceeds of HK\$1,536 million and will also be applied towards the Project, thereby also reducing the bank borrowings necessary to complete the Project.

Additionally, Falloncroft has entered into the Construction LOI with Paul Y. Construction, an indirect wholly-owned subsidiary of PYE and PYE BVI, which will act as the project and construction manager for the development.

Given the aforesaid and having also reviewed the valuations of the Land and the Project set out in appendices II and III of this circular, the Directors believe that the Acquisition and the terms of the Falloncroft SPA are fair and reasonable and in the interests of the Shareholders as a whole. The Directors, having discussed with Colliers the assumptions used in the valuation reports for each of the Land and the Project, are satisfied that the assumptions are fair and reasonable.

The Directors consider that the going concern uncertainty of Falloncroft raised by Deloitte in appendix VII is not material because Falloncroft will be acquired by the Company with zero assets and liabilities (other than the Land, the MOU and the Construction LOI) and the Company will inject new capital into Falloncroft after completion of the Acquisition. It is a condition precedent to completion of the Falloncroft SPA that the Directors are satisfied that Falloncroft has zero liabilities (save to acquire the Land and save as regards its commitments to be finalised under the MOU and the Construction LOI).

LETTER FROM THE BOARD

Moreover, such absence of liabilities has been warranted to the Company by Pride Wisdom. The Company will draw up completion accounts in respect of Falloncroft to verify its statement of financial position as at the completion date of the Falloncroft SPA and, in the event of breach, will enforce all rights of recourse under the Falloncroft SPA and, as necessary, proposed security rights to be afforded by Pride Wisdom (or its affiliates) in respect of Shares and, or Convertible Bonds worth HK\$200 million (based on the Placing Price of the Shares and face value of the Convertible Bonds) as are proposed to be issued to Pride Wisdom (or its affiliates) pursuant to the Placing. Accordingly, the Directors, are satisfied that, with the additional monies to be injected into Falloncroft by way of working capital, the Company has made adequate plans to address the going concern uncertainties raised by Deloitte.

The Directors collectively have relevant hotel experience. Two of the Directors, Mr. Lau Ko Yuen, Tom and Mr. Chan Fut Yan, were directors of PYI when PYI acquired a hotel property in October 1997 in Causeway Bay, Hong Kong. PYI carried out the development, construction and operation of this hotel, until it was disposed of in December 2002. Furthermore, Mr. Chan Fut Yan has been the Vice Chairman of Apex Quality Group Limited since July 2003, a company which operates Rosedale Hotel in Causeway Bay, Hong Kong, as well as Rosedale Hotel & Suites in Beijing, Rosedale Hotel & Suites in Guangzhou and Times Plaza Hotel in Shenyang. None of the current executive Directors has gaming related experience. Mr. Iain Ferguson Bruce, an independent non-executive Director, happens also to be an independent non-executive director of Sands China Limited (HK stock code: 1928). It is proposed that Mr. Hung and Mr. Power, both of whom do have experience in the gaming industry, will be appointed to executive positions on the Board.

FURTHER INFORMATION ON THE LAND AND THE PROJECT

Your attention is drawn to appendices I, II and III of this circular for further information relevant to the Land and the Project, including an independent valuation report in respect of the Land contained in appendix II and an independent valuation report in respect of the Project contained in appendix III.

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

Based on Scenario 1 of the unaudited pro forma financial information in appendix IX to this circular which was prepared for illustrative purposes only, upon the completion of the Transactions (assuming no exercise of the Upsize Option, no exercise of the Placing Convertible Bonds and no completion of the Contingent Placing Convertible Bonds), the total assets of the Group would be increased by approximately HK\$2,870.19 million to approximately HK\$6,765.99 million, the total liabilities of the Group would be increased by approximately HK\$2,304.00 million to approximately HK\$5,543.56 million and equity attributable to shareholders would be increased by approximately HK\$245.54 million to approximately HK\$899.94 million as shown in the unaudited pro forma condensed consolidated statement of financial position of the Group. The gearing ratio, which was calculated using the bank borrowings of approximately HK\$376.98 million and the equity attributable to shareholders of approximately HK\$899.94 million would be reduced to about 0.42 while the current ratio would be increased to about 1.39, being current assets of approximately HK\$4,277.03 million over current liabilities of approximately HK\$3,074.16 million.

LETTER FROM THE BOARD

Based on Scenario 2 of the unaudited pro forma financial information in appendix IX to this circular which was prepared for illustrative purposes only, upon the completion of the Transactions (including completion of the Upsize Placing and the Contingent Placing Convertible Bonds, but excluding the exercise of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds), the total assets of the Group would be increased further by approximately HK\$3,072.00 million to approximately HK\$9,837.99 million, the total liabilities of the Group would be increased further by approximately HK\$2,688.00 million to approximately HK\$8,231.56 million and equity attributable to shareholders would be increased further by approximately HK\$384.00 million to approximately HK\$1,283.94 million as shown in the unaudited pro forma condensed consolidated statement of financial position of the Group. The gearing ratio, which was calculated using the bank borrowings of approximately HK\$376.98 million and the equity attributable to shareholders of approximately HK\$1,283.94 million would be reduced further to about 0.29 while the current ratio would be increased further to about 2.39, being current assets of approximately HK\$7,349.03 million over current liabilities of approximately HK\$3,074.16 million.

As shown in the unaudited pro forma condensed consolidated income statement of the Group, the profit of the Group attributable to the Shareholders would be reduced due to the distribution in specie of 49% interest in PYE BVI and the recognition of share-based payment expenses. Please refer to appendix IX to this circular for the unaudited pro forma financial information of the Enlarged Group.

EFFECT OF THE TRANSACTIONS UNDER THE LISTING RULES

The Acquisition 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. Given that Pride Wisdom will become, as a result of the Acquisition, an associate of Mr. Hung, a proposed director of PYE, the Acquisition also constitutes a connected transaction for PYE pursuant to Rule 14A.13(b)(i) of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. To the best of the Directors' knowledge, as at the Latest Practicable Date, none of Pride Wisdom, Mr. Hung and their respective associates held any Shares. In any event, they would not be entitled to vote at the PYE SGM.

In addition, the Exchange Right constitutes an additional, integral part, of the very substantial acquisition and a connected transaction to the extent that the Falloncroft Shares that are subject to the Exchange Right are owned by Chief Wise. On the basis that the value of the Exchange Right can be calculated from the outset and the maximum aggregate number of Shares to be allotted and issued has been fixed, the approval of the Shareholders will be sought in respect of Exchange Right at the PYE SGM.

INFORMATION ON THE FALLONCROFT GROUP, PRIDE WIDSOM AND EMPRESAS

Falloncroft is a private investment holding company incorporated in the British Virgin Islands and a party to the MOU. As described above, upon completion of the Uni-Dragon SPA, Falloncroft will hold the entire issued share capital of Uni-Dragon, which is the legal and beneficial owner of all the issued shares of Manlink and Challenge Shore. Manlink and Challenge Shore in turn holds 60% and 40% respectively of New Concordia which, on completion, will be granted the POA by Empresa in respect of the Land.

LETTER FROM THE BOARD

As at the Latest Practicable Date, no consolidated accounts for the Falloncroft Group had been prepared. The net liabilities of Falloncroft on a stand-alone basis as at 31 December 2011 was approximately HK\$572.04 million. The aggregate losses of Falloncroft before taxation and extraordinary items for the years ended 31 December 2010 and 31 December 2011 were approximately HK\$407.66 million and HK\$45.48 million, respectively.

The aggregate losses of Falloncroft after taxation and extraordinary items for the years ended 31 December 2010 and 31 December 2011 were approximately HK\$407.66 million and HK\$45.48 million, respectively.

The losses recorded by Falloncroft in the two years mentioned were in respect of general administrative expenses and finance costs (namely interest on its convertible bonds which will be cancelled without further cost or liability to Falloncroft on completion of the Acquisition).

The consolidated net asset value of Uni-Dragon as at 30 September 2012 was zero.

The consolidated net profit of Uni-Dragon before taxation and extraordinary items for the years ended 31 December 2010 and 31 December 2011 were zero, respectively.

The consolidated net profit of Uni-Dragon after taxation and extraordinary items for the years ended 31 December 2010 and 31 December 2011 were zero, respectively.

As Uni-Dragon, Manlink, Challenge Shore and New Concordia are non-trading shell companies, they have not recorded any profits for the years ended 31 December 2010 and 31 December 2011. The Falloncroft Group will derive value from the POA in respect of the Land to be granted by Empresa to New Concordia on completion, which will constitute the principal asset of the Falloncroft Group.

On completion, the Falloncroft Group will be accounted as subsidiaries of PYE and the results of the Falloncroft Group will be consolidated into the accounts of PYE.

Falloncroft was a company established by Pride Wisdom as a holding company for investment purposes on the basis of a nominal original purchase cost of approximately HK\$80,000 in the form of subscriptions for new shares.

Pride Wisdom is a private investment holding company incorporated in the British Virgin Islands.

Empresa is a private company incorporated in Macau principally engaged in property development. It is responsible for the development of multiple parcels of land adjacent to the Land principally for residential use. Its decision to grant the POA necessary to enable New Concordia to undertake the Project was a commercial decision taken by Empresa, which the Directors believe will have been motivated by a desire to see the Land developed concurrently and on the basis that a 5 star hotel with related amenities will enhance the desirability of the location generally. Empresa is the guarantor pursuant to the Uni-Dragon SPA, pursuant to which Falloncroft will acquire Uni-Dragon and the right to develop the Land for an aggregate consideration of HK\$900 million. ITC Properties, an associate of ITC Corporation which is a shareholder of PYI, holds an indirect attributable interest of approximately 35.5% in Empresa. Empresa and Concordia are associates of ITC Properties.

LETTER FROM THE BOARD

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

Introduction

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

For the financial year ended 31 March 2012, the consolidated net profit of PYE attributable to the Shareholders was approximately HK\$30.30 million and the consolidated net asset value of PYE attributable to the Shareholders as at 31 March 2012 was approximately HK\$639.43 million, as extracted from its 2012 annual report. In addition, for the six months ended 30 September 2012, the unaudited consolidated net profit of PYE attributable to the Shareholders was approximately HK\$20.97 million, and the unaudited consolidated net asset value of PYE attributable to the Shareholders as at 30 September 2012 was approximately HK\$654.40 million. Such numbers are also representative of the consolidated net profit and consolidated net asset value of PYE BVI.

The Distribution in Specie requires the approval of the Shareholders at the PYE SGM. Recognising that the Shareholders (other than PYI) may not wish to hold shares in PYE BVI, PYI has agreed to provide the 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 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 Share which he or she or it holds on the Record Date. The Placing Shares and the Shares to be issued on the conversion of the Convertible Bonds 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 2012 annual report and as disclosed in the Transactions Announcement 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.

LETTER FROM THE BOARD

The Cash Alternative and the Cash Dividend with Scrip Alternative serve two different purposes. The Cash Alternative forms part of the structure of the Distribution in Specie and provides Eligible Qualifying Shareholders an option to receive cash should they choose not to hold shares in PYE BVI.

The Cash Dividend with Scrip Alternative is to be paid by PYE to all Eligible Qualifying Shareholders of PYE, it provides Eligible Qualifying Shareholders a choice between payment in the form of cash or in the form of new Shares (thereby giving the Eligible Qualifying Shareholders an opportunity to reinvest into the Enlarged Group.)

Reason for the Distribution in Specie

The Board, in seeking to refocus the business activities of PYE through the Acquisition and reduce the scale of PYE's economic interest in the Existing Businesses, 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 and the allotment and issue of Shares pursuant to the conversion of any of the Convertible Bonds. 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, and PYE will remain the controller of the Existing Businesses. The reduction in the economic interest by PYE is to allow more resources to be focused on the Acquisition, and subsequently, the Project. 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 2012, based on the consolidated net asset value of PYE attributable to its shareholders as at 31 March 2012, equates to approximately HK\$313.32 million. Furthermore, a 49% interest in the unaudited consolidated net asset value of PYE BVI for the six months ended 30 September 2012, equates to approximately HK\$320.66 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.

As PYE BVI will, following the Distribution in Specie, continue to be a non-wholly owned subsidiary of PYE, transactions entered into by PYE BVI may trigger compliance obligations on the part of the Company pursuant to the Listing Rules, including pursuant to Chapter 14 (Notifiable Transactions) and, in circumstances where any connected person of PYE is entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of PYE BVI (as may well be true of PYI), pursuant to Chapter 14A (Connected Transactions).

LETTER FROM THE BOARD

Your attention is drawn to appendix X 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 X 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 X 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 X 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;

LETTER FROM THE BOARD

- 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; 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 Hong Kong 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 Distribution in Specie;
- (b) (as necessary) 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) 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
- (d) completion of the Acquisition.

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

LETTER FROM THE BOARD

Proposed Increase in the Authorised Share Capital

In order to create sufficient numbers of Shares for the purposes of effecting the Placing, (if applicable) the Contingent Placing and, potentially, in order to satisfy the obligations of PYE pursuant to the Exchange Right described above, PYE proposes to increase the authorised share capital from HK\$2,000 million divided into 10,000 million shares of HK\$0.20 each to HK\$3,000 million divided into 15,000 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.

On 29 August 2012, the authorised and issued share capital of Paul Y. Construction & Engineering Co. Limited, a subsidiary of the Company, has been increased from HK\$42,000,000 divided into 420,000 ordinary shares of HK\$100 each to HK\$100,000,000 divided into 1,000,000 ordinary shares of HK\$100 each. All new issued shares are fully paid in cash.

Save as disclosed above, there has been no alteration in the share capital of any member of the Group since the date to which the latest published audited accounts of PYE were made up.

Cash Alternative

As a result of the Distribution in Specie, and excluding the effect of Shareholders taking up the Cash Alternative, the shares of PYE BVI would be held as to 51% by PYE, approximately 30.34% by PYI and approximately 18.66% by Shareholders other than PYI. The book value of that 18.66% stake equates to a value of approximately HK\$0.52 and HK\$0.53 per PYE BVI Share respectively based on the consolidated net asset value of PYE attributable to the Shareholders as at 31 March 2012 and 30 September 2012.

The Directors recognise that the 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 shares of PYE BVI. 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 shares of PYE BVI) not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equating to a price of:

HK\$0.30 per PYE BVI Share.

The cash alternative of HK\$0.30 per PYE BVI Share was based on 49% of the 30 days' average closing price of Share of HK\$0.78 as quoted on the Stock Exchange during the period ended 19 November 2012, being the trading date of the date of the Placing Agreement, as adjust for the Cash Dividend i.e. HK\$0.78 less HK\$0.26 multiplied by 49% (equals approximately HK\$0.25). The trading price of PYE Shares is considered to be the appropriate valuation basis for the up to 18.66% minority interest potentially available to be acquired. It represents an approximate 20% premium to the 30 days' average closing price of HK\$0.78 per Share less the net of the proposed special cash dividend of HK\$0.26 per Share and multiplied by 49%. 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 PYI Directors and the Directors are of the view

LETTER FROM THE BOARD

that the calculation basis for the Cash Alternative of HK\$0.30 per PYE BVI Share is fair and reasonable. The trading price of the Shares is considered to be the appropriate valuation basis for the up to 18.66% minority interest potentially available to be acquired instead of the book value as a consideration price based on the trading price would be expected for the acquisition of a minority interest in a business, rather than the book value which could not be realised unless the business was liquidated. Further, the fact that the Shares do not trade at its book value validates that book value is not the basis for its trading price.

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 application, 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.

LETTER FROM THE BOARD

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 independent board committee of the Board and independent Shareholders as regards, among other things, 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\$0.26 per 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 Shares in lieu of cash in respect of all or part of the Cash Dividend, on the basis that each Share is required to be allotted and paid up (using the cash otherwise distributable pursuant to the Cash Dividend) as to HK\$0.68 per Share. Accordingly, the number of Shares which Eligible Qualifying Shareholders would receive in respect of the Shares registered in their names on the Record Date would be calculated as follows:

$$\begin{array}{rcccl} \text{Number of} & & \text{Number of} & & \text{(Cash Dividend} \\ \text{new Shares} & & \text{Shares held on} & & \text{per Share)} \\ \text{to be allotted} & = & \text{the Record Date} & \times & \text{HK\$0.26} \\ \text{and issued} & & \text{for which} & & \text{HK\$0.68} \\ & & \text{election is made} & & \text{(the Placing} \\ & & & & \text{Price)} \end{array}$$

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

The Shares to be allotted and issued pursuant to the Scrip Alternative will rank pari passu in all respects with the other Shares then in issue (but will not rank for the Distribution in Specie and the Cash Dividend). The number of 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 Shares will not be issued to such Shareholders.

LETTER FROM THE BOARD

Conditions to the Cash Dividend and Scrip Alternative

The Cash Dividend and Scrip Alternative are conditional:

- (a) on the passing, at the PYE SGM, of resolution(s) to approve the Cash Dividend and Scrip Alternative; and
- (b) completion of the Acquisition.

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

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 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.

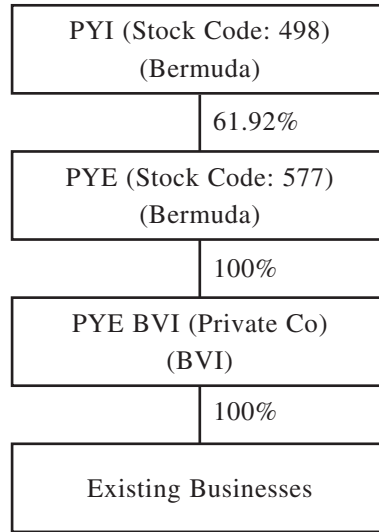
In the event that all resolutions are passed at the PYE SGM other than the resolution to approve the Distribution in Specie, PYE's further circular will enclose only the Scrip Dividend Election Form, pursuant to which Eligible Qualifying Shareholders will be able to elect to receive the Scrip Alternative,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

STRUCTURE OF INTERESTS BEFORE AND AFTER THE TRANSACTIONS

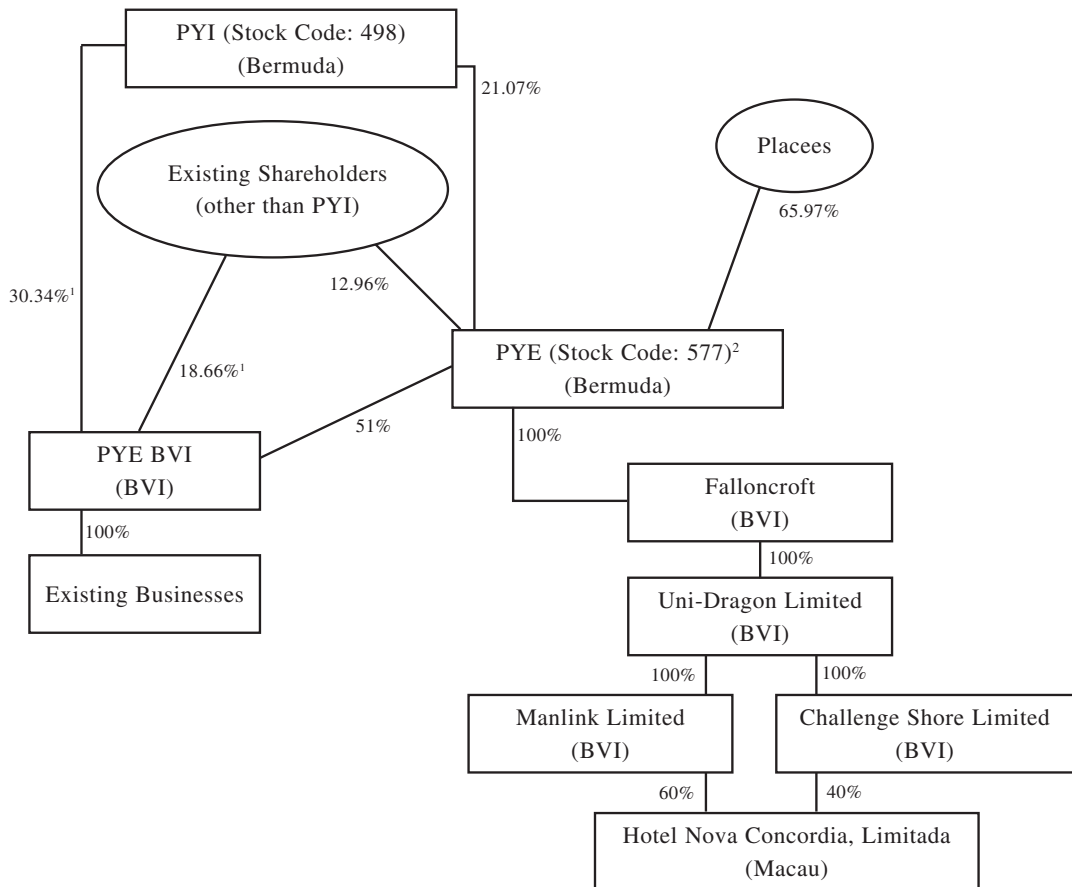
Set out below are simplified diagrams of the structure of the interests of PYE and PYI before and after completion of the Transactions (assuming no exercise of the Upsize Option). They do not illustrate the effect of any exercise of options to be granted pursuant to the share option scheme to be adopted by Falloncroft or the exercise of the Exchange Right applicable to Falloncroft Shares allotted and issued on the exercise of such options. They also do not illustrate the effect of any Shares being allotted and issued on conversion of any of the Convertible Bonds.

LETTER FROM THE BOARD

Current structure:



Proposed structure:



LETTER FROM THE BOARD

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 Shares pursuant to the Scrip Alternative, and that the Upsize Option is not exercised.

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 Acquisition. As the business dynamic of the Group will undergo significant change after completion of the Acquisition, Ir James Chiu intends to step down as Chairman of PYE following completion of the Acquisition and Mr. Hung and Mr. Coker will take up the position of Joint Chairman of PYE. Set out below are brief biographical details of the Proposed New Directors:

Mr. Stephen Hung (“Mr. Hung”), Aged 54

Proposed Position

An executive Director and Joint Chairman of PYE.

Experience

Mr. Hung has over 30 years of experience in the finance and investment industries. He is the Chairman of Falloncroft, the Chairman of The Taipan Investment Group and the Vice Chairman of Rio Entertainment Group, which operates the Rio Hotel & Casino through its affiliates in Macau. Mr. Hung was formerly co-head of investment banking for Asia at Merrill Lynch and subsequently formed his own investment banking firm, Amida Capital Limited in 1992. From 2000 to 2002, Mr. Hung served as the Vice Chairman of eSun Holdings Limited (HK stock code: 571). From 2000 to 2004, he also served as a non-executive director of AcrossAsia Limited (HK stock code: 8061). Mr. Hung graduated from University of Southern California, Los Angeles with a master’s degree in business administration in 1981.

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

Mr. Hung is not related to any directors, senior management, substantial or controlling shareholders of PYE.

Interests in Shares

As at the Latest Practicable Date, Mr. Hung had indicated his intention to subscribe himself, and, or, through Pride Wisdom, for HK\$200 million worth of Placing Shares and, or, Placing Convertible Bonds, split provisionally as 73,529,411 Placing Shares and 220,588,235 new Shares as would be allotted and issued on exercise in full of the Placing Convertible Bonds.

LETTER FROM THE BOARD

Service contract

It is proposed that there will be a director's service contract entered into between Mr. Hung and PYE. Mr. Hung 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 PYE. 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 PYE's general meetings and with reference to the prevailing market conditions. The emoluments (including any bonus payment and Director's fee) of Mr. Hung in future will be disclosed in accordance with the Listing Rules.

Save as disclosed above, there are no other matters concerning the proposed appointment of Mr. Hung 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. Peter Lee Coker Jr. ("Mr. Coker"), Aged 44

Proposed Position

An executive Director and Joint Chairman of PYE.

Experience

Mr. Coker has over 22 years of experience in the finance and investment industries. He is the Managing Partner of Pacific Advisers, and is also a partner of TDR Capital Investment Ltd (a Shenzhen-based private equity firm). Mr. Coker served as an officer of the Bridge Companies prior to joining Wellington Securities (New Zealand) in 2002. During his service with the Bridge Companies, Mr. Coker held the title of Managing Director-Asia, Chief Executive Officer of E-Bridge and Managing Director of Bridge Asia where he was responsible for the firm's equity business in Japan and South East Asia/Australia. From 2000 to 2001, Mr. Coker served as the Chairman of IRESS Market Technology Limited (formerly BridgeDFS) (ASX: IRE). From 2002 to 2005, Mr. Coker served as the Chairman of Wellington Securities (New Zealand). From 2006 to 2009, Mr. Coker served as the Chairman of Global Trading Offshore Pte (Singapore). Mr. Coker graduated from Lehigh University in the United States with a Bachelor of Arts degree in 1990.

Relationships with directors, senior management, substantial or controlling shareholders of PYE

Mr. Coker is not related to any directors, senior management, substantial or controlling shareholders of PYE.

Interests in Shares and Falloncroft Shares

As at the Latest Practicable Date, Mr. Coker did not have any interest in any shares or underlying shares of PYE required to be disclosed pursuant to Part XV of the SFO. Mr. Coker does not have any interest in Falloncroft Shares.

LETTER FROM THE BOARD

Service contract

It is proposed that there will be a director's service contract entered into between Mr. Coker and PYE. Mr. Coker 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 PYE. 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 PYE's general meetings and with reference to the prevailing market conditions. The emoluments (including any bonus payment and Director's fee) of Mr. Coker in future will be disclosed in accordance with the Listing Rules.

Save as disclosed above, there are no other matters concerning the proposed appointment of Mr. Coker 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. Walter Craig Power ("Mr. Power"), Aged 58

Proposed Position

An executive Director and Chief Executive Officer of PYE.

Experience

Mr. Power is one of the longest serving casino executive expatriates in Macau's gaming industry. Arrived in Macau in January 2003, Mr. Power has held the positions of Chief Operating Officer of New Cotai Entertainment, an investor and developer of Macau Studio City, as well as Senior Vice President of Operations of Venetian Macau Limited. Mr. Power was instrumental to the success of the development, opening and operation of the Sands, the first western casino in Macau. During his tenure at the Sands, he was responsible for casino operations, hotel operations, all food and beverage outlets and security operations. He was also a member of the Compliance and Credit Committees. Being one of first western executives to enter the Macau gaming market, and having worked in Macau for over nine years, Mr. Power is known internationally for his extensive knowledge of Macau gaming to include junket, VIP, and mass market operations. A 20-year gaming industry veteran, Mr. Power accumulated extensive international gaming experience through executive operational positions at casino resorts in the United States, Argentina, South Africa and the Philippines, in addition to his work in Macau. Mr. Power, a former United States Marine Corps Major and Naval Aviator, received his BA and MBA from the University of Michigan. He is also a graduate of the casino industry's Executive Development Program offered by the University of Nevada/Reno.

Relationships with directors, senior management, substantial or controlling shareholders of PYE

Mr. Power is not related to any directors, senior management, substantial or controlling shareholders of PYE.

LETTER FROM THE BOARD

Interests in Shares and Falloncroft Shares

As at the Latest Practicable Date, Mr. Power did not have any interest in any shares or underlying shares of PYE required to be disclosed pursuant to Part XV of the SFO. Mr. Power does not have any interest in Falloncroft Shares.

Service contract

It is proposed that there will be a director's service contract entered into between Mr. Power and PYE. Mr. Power 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 PYE. 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 PYE's general meetings and with reference to the prevailing market conditions. The emoluments (including any bonus payment and Director's fee) of Mr. Power in future will be disclosed in accordance with the Listing Rules.

Save as disclosed above, there are no other matters concerning the proposed appointment of Mr. Power 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.

INFORMATION ON PYE

The Group is an international engineering services group serving Hong Kong, the PRC and the international market with its 60 years' of expertise. Through its subsidiary, PYE BVI, it has three core areas of business: management contracting, property development management and property investment. Following the completion of the Transactions, the Group will also be involved in the hotel and gaming (subject to the approval of the Macau Government) industries.

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 ports and infrastructure development and investment, the operation of ports and logistics facilities, land and property development and investment in association with ports and infrastructure development, treasury investment and provision of comprehensive engineering and property-related services through its direct and indirect interests in PYE BVI.

GENERAL

As completion of the various Transactions is, in each case, subject to the fulfillment 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 of PYE and, or, PYI.

LETTER FROM THE BOARD

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 Placing Shares, the Shares to be allotted and issued pursuant to the Scrip Alternative, the Shares to be allotted and issued on exercise of the Exchange Right and the Shares to be allotted and issued on exercise of the conversion rights attaching to the Convertible Bonds. The listing fee for the Shares to be issued pursuant to the Placing, the Scrip Alternative, the Shares to be allotted and issued on exercise of the Exchange Right and the Shares to be allotted and issued on exercise of the conversion rights attaching to the Convertible Bonds has been estimated at HK\$600,000.

SPECIAL GENERAL MEETING

A notice convening the PYE SGM is set out on pages 261 to 266 of this circular at which resolutions will be proposed, inter alia, to approve:

- (i) the Distribution in Specie;
- (ii) the Acquisition, including the Exchange Right;
- (iii) the Specific Mandate for the allotment and issue of (i) the Placing Shares and the Placing Convertible Bonds; (ii) the Contingent Placing Convertible Bonds; (iii) the Shares upon exercise of the conversion rights attaching to the Placing Convertible Bonds and the Contingent Placing Convertible Bonds; and (iv) the Shares upon exercise of the Exchange Right;
- (iv) the Cash Dividend and the Scrip Alternative;
- (v) the increase in the authorised share capital; and
- (vi) the appointment of the Proposed New Directors to the Board and the fixing of Directors' remuneration.

Each of the resolutions to be proposed at the PYE SGM need only be passed as ordinary resolutions. As regards each of the resolutions, the Directors anticipate that all Shareholders will be eligible to vote upon each of the resolutions to be proposed at the PYE SGM, save as described below, as the interests of all Shareholders are, save as described below, aligned in all material respects as regards the Transactions. Given that PYI has conditionally agreed to acquire an additional 18.66% of PYE BVI pursuant to PYE BVI Shares Deed of Undertaking, PYI's interest in any resolution proposed at the PYE SGM relating to the Distribution in Specie, is somewhat different from the interests of other Shareholders (notwithstanding that they, too, have a right to acquire additional PYE BVI Shares by way of excess application). Accordingly, PYI and its associates who, together, hold in aggregate approximately 61.92% of PYE, will abstain from voting on any resolution relating to the Distribution in Specie. In addition, and for the avoidance of doubt, in light of the fact that the Acquisition (including the Exchange Right) constitutes a connected transaction for PYE, for the reasons described above, it is the case that were Mr. Hung, Pride Wisdom or any of their respective associates to hold Shares, they would be disenfranchised from voting on any resolution relating to the Acquisition.

LETTER FROM THE BOARD

Save for the resolution relating to the Distribution in Specie, PYI, which indirectly owns approximately 61.92% of PYE, has irrevocably undertaken to Pride Wisdom that conditional on the Distribution in Specie being approved by the Shareholders at the PYE SGM, PYI will vote, or to procure that its subsidiaries holding Shares will vote, insofar as it is not, or they are not, disenfranchised pursuant to the Listing Rules or otherwise, in favour of all resolutions put to the PYE SGM relating to the Transactions on the condition that no material changes are made to the Transactions as described in the Transactions Announcement.

In practice, if the resolution to approve the Distribution in Specie is not approved at the PYE SGM, the PYE Directors understand that PYI would not vote in favour of other resolutions concerning the Transactions, given that the interest of all Shareholders in PYE BVI (otherwise received by virtue of the Distribution in Specie) would be diluted and otherwise shared with the Placees. Accordingly, the Distribution in Specie will be the first resolution on the agenda of the PYE SGM and whilst all of the Transactions, other than the Distribution in Specie, are inter-conditional, the likelihood is that none of the Transactions, including the Distribution in Specie, will proceed, unless the resolution to approve the Distribution in Specie is approved at the PYE SGM.

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 Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative, and its recommendation to Independent Shareholders as regards voting in respect of the resolutions relating to the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative; and (ii) the letter from Somerley contained in this circular which contains its advice as regards the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative.

The Independent Shareholders are advised to read these letters before deciding how to vote on the resolutions concerning the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative.

LETTER FROM THE BOARD

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



Paul Y. Engineering Group Limited

保華建業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 577)

5 January 2013

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED ACQUISITION AND 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 5 January 2013 (the “**Circular**”) to the shareholders of the Company, of which this letter forms part. Terms defined in the Circular 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 Acquisition, the Exchange Right, 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 Acquisition, the Exchange Right, 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 64 to 99 of the Circular, and the letter from the Board as set out on pages 11 to 61 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 proposed Acquisition, the Exchange Right, 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 the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative are fair and reasonable so far as the Independent Shareholders are concerned.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative 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 or it 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

LETTER FROM SOMERLEY

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
20th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

5 January 2013

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

Dear Sirs,

**PROPOSED ACQUISITION OF FALLONCROFT CONSTITUTING
A VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND
PROPOSED DISTRIBUTION IN SPECIE OF A 49% INTEREST IN ITS EXISTING BUSINESS,
WITH THE OFFER OF A CASH ALTERNATIVE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative. Details of the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative are set out in the letter from the Board contained in this circular (the “**Circular**”) of PYE to the Shareholders dated 5 January 2013, 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 discretionary cash flows and ultimately be of benefit to all Shareholders. In summary, PYE proposes to acquire a private company, Falloncroft, which has entered into the MOU and on completion will, indirectly, own New Concordia, a private company with an irrevocable, unconditional and exclusive power of attorney in respect of the Land located on the Cotai Strip in Macau, on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming). 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 these transactions, PYE also entered into a conditional agreement with the Placing Agent pursuant to which the Placing Agent has conditionally agreed to place, on a best-efforts basis, what has provisionally been set as a split of 1,176,470,588 new Shares at a Placing Price of HK\$0.68 per Share and up to HK\$2,400 million

LETTER FROM SOMERLEY

of Convertible Bonds at face value, with the prospect of up to an additional 588,235,294 new Shares at the Placing Price and up to HK\$1,200 million of Convertible Bonds at face value pursuant to the Upsize Option. Further details regarding the Transactions are set out in the letter from the Board of the Circular.

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 Acquisition, the Exchange Right, 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 PYE, PYI, Pride Wisdom or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the Acquisition, the Exchange Right, 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 PYE, PYI, Pride Wisdom or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, among other things, the annual reports of PYE for each of the financial years ended 31 March 2010, 31 March 2011 and 31 March 2012, the interim report of PYE for the six months ended 30 September 2012, the legal opinion issued by Leonel Alves' Law Firm, the independent property valuation report on the Land as set out in Appendix II to the Circular and the valuation report on the Project as set out in Appendix III to the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by PYE 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 PYE 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 in its existing state or as enlarged by the Acquisition, 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 Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative, we have taken into account the following principal factors and reasons:

LETTER FROM SOMERLEY

1. Information on the Group and PYE BVI Group

The Group is an international engineering services group serving Hong Kong, the PRC and the international market with 60 years' expertise. As confirmed by the Directors, PYE is an investment holding company and, save for its holding of the entire issued share capital of PYE BVI, PYE conducts no business activities. PYE, through the members of PYE BVI Group, has three core areas of business, being management contracting, property development management and property investment. As confirmed by PYE, (i) the Existing Businesses of PYE are entirely contained under PYE BVI and the financial performance and financial position of the Group are substantially representative of those of the Existing Businesses that contained under PYE BVI and its subsidiaries (the "**PYE BVI Group**") for the three financial years ended 31 March 2012 and up till the Latest Practicable Date; and (ii) the payment of Cash Dividend by PYE will have no impact on the net asset value of PYE BVI Group.

1.1 Historical financial performance of the Group

Set out below are the highlights of the financial results of the Group for the three years ended 31 March 2012 and for the six months ended 30 September 2011 and 2012, details of which are set out in Appendix V to the Circular:

	For the six months ended 30 September		For the year ended 31 March		
	2012	2011	2012	2011	2010
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million
Turnover	3,438.5	2,067.3	4,304.2	4,333.8	3,644.9
Profit for the period/year attributable to owners of PYE	21.0	14.7	30.3	30.1	44.7

For the financial year ended 31 March 2011 (the "**FY2011**"), the Group recorded a consolidated turnover of approximately HK\$4,333.8 million, which represented an increase of approximately 18.9% as compared to the turnover of approximately HK\$3,644.9 million for the financial year ended 31 March 2010 (the "**FY2010**"). Such improvement in turnover was mainly 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. However, as a result of the rise in manpower costs and materials price, the decrease in interest income, and increase in income tax expense, the profit attributable to owners of PYE for FY2011 decreased by approximately 32.7% to approximately HK\$30.1 million.

The operations of the Group remained stable for the year ended 31 March 2012 ("**FY2012**") as compared to that for FY2011. The consolidated turnover of Group dropped slightly from approximately HK\$4,333.8 million for FY2011 to approximately HK\$4,304.2 million for FY2012, representing a decrease of approximately 0.7% as certain management contracting business was carried out through joint ventures with other contractors. The profit attributable to owners of PYE for FY2012 maintained at the level of approximately HK\$30.3 million.

LETTER FROM SOMERLEY

For the six months ended 30 September 2012, the Group's turnover amounted to approximately HK\$3,438.5 million, representing an increase of approximately 66.3% from last corresponding period as a result of the strong order book on hand. The Group's profit attributable to owners of the Company for the six months ended 30 September 2012 amounted to approximately HK\$21.0 million, representing an increase of approximately 43.0% from the corresponding period in the previous financial year.

The Group's business activities are organised into three segments: (i) management contracting division, (ii) property development management division and (iii) property investment division. Management contracting has remained the core business and the major contributor of revenue, contributing over 99% of the Group's total turnover for each of the three years ended 31 March 2012 and the six months ended 30 September 2012. In FY2012, turnover of the management contracting division amounted to approximately HK\$4,268.5 million, representing a decrease of about 1% from approximately HK\$4,312.9 million in FY2011. For the six months ended 30 September 2012, turnover of the management contracting division amounted to approximately HK\$3,434.4 million, representing an increase of about 68.2% as compared to the corresponding period in 2011 due to the increase in demand for construction services both in Hong Kong and Macau. It reported operating profit of approximately HK\$100.6 million and HK\$63.7 million for FY2012 and the six months ended 30 September 2012. As at 30 September 2012, the value of contracts on hand was approximately HK\$15,874.7 million, while the value of work remaining stood at approximately HK\$10,506.5 million. During FY2012, the management contracting division secured new construction contracts with an aggregate value of approximately HK\$8,891.6 million, representing an increase of approximately 90.4% as compared to the amount of approximately HK\$4,669.3 million for FY2011, while during the six months ended 30 September 2012 it secured new construction contracts with an aggregate value of approximately HK\$3,503.6 million, representing an increase of approximately 2.7% as compared to the amount of approximately HK\$3,412.2 million for last corresponding period. Currently the Group is undertaking construction projects in Hong Kong, Macau, the PRC and Singapore.

The property development management division reported a turnover and operating profit of approximately HK\$35.8 million (excluding inter-segment sales) and HK\$4.2 million respectively for FY2012, while the property investment division, through associates, contributed a profit of approximately HK\$4.0 million for FY2012.

LETTER FROM SOMERLEY

1.2 Financial position of the Group

Set out below is the summary of the consolidated assets and liabilities of the Group as at 31 March 2011, 31 March 2012 and 30 September 2012 respectively, details of which are set out in Appendix V to the Circular:

	As at 30 September 2012 (unaudited) <i>HK\$' million</i>	As at 31 March 2012 (audited) <i>HK\$' million</i>	2011 (audited) <i>HK\$' million</i>
ASSETS			
Total non-current assets	589.0	551.5	477.9
Total current assets	3,306.8	2,777.1	2,293.7
	<hr/>	<hr/>	<hr/>
Total assets	3,895.8	3,328.6	2,771.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND EQUITY			
Total non-current liabilities	(165.4)	(112.9)	(9.2)
Total current liabilities	(3,074.2)	(2,574.7)	(2,158.1)
	<hr/>	<hr/>	<hr/>
Total liabilities	(3,239.6)	(2,687.6)	(2,167.3)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Equity attributable to			
– owners of PYE	654.4	639.4	605.4
– non-controlling interests	1.8	1.6	(1.1)
	<hr/>	<hr/>	<hr/>
Total equity	656.2	641.0	604.3
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group has maintained a strong financial position with total assets increasing by (i) around 20.1% from 2011 to approximately HK\$3,328.6 million as at 31 March 2012; and (ii) around 17.0% from 2012 to approximately HK\$3,895.8 million as at 30 September 2012. Current assets of the Group as at 31 March 2011, 31 March 2012 and 30 September 2012 were maintained at the level of approximately 1.1 times the current liabilities. The equity attributable to owners of PYE stood at approximately HK\$654.4 million as at 30 September 2012, representing an increase of around 2.3% as compared with the equity attributable to owners of PYE as at 31 March 2012 of approximately HK\$639.4 million. Based on the total number of issued Shares of 606,954,322 as at the Latest Practicable Date, the unaudited net asset value of PYE attributable to its shareholders as at 30 September 2012 was HK\$1.08 per Share.

LETTER FROM SOMERLEY

1.3 Outlook of the Existing Businesses

Set out below is a table relating to the new building construction (in term of gross floor area) in Hong Kong and Macau for the period 2007 to 2011:

	Construction of new building (gross floor area)	
	Hong Kong <i>(square metres)</i>	Macau <i>(square metres)</i>
2007	1,851,856	2,199,805
2008	1,331,353	533,310
2009	1,327,822	228,874
2010	1,524,775	183,571
2011	1,293,612	367,253

Source: Building Department of Hong Kong and Statistics and Census Services, Macau SAR Government

As shown in the table above, the construction industry in both Hong Kong and Macau suffered from a downturn in 2008 and 2009. The Hong Kong market recovered a bit in 2010 while the Macau market suffered a further decline. The situation was reversed in 2011, in that Macau had a significant improvement in new building construction when compared to 2010, while the Hong Kong market recorded a drop of approximately 15.2% when compared with the corresponding period in 2010.

As disclosed in the interim report of PYE for the six months ended 30 September 2012, the Group has endeavored to diversify risk through increasing its activities outside Hong Kong, and Macau is one of the Group's major expansion targets in recent years. With its economy almost immune from the recent global financial turmoil, Macau's demand for construction services is still very strong. As recently announced by PYE on 22 November 2012, the contract for the construction of a project known as Studio City at Cotai, Macau (the "**Studio City Project**"), a cinematically-themed integrated entertainment, retail and gaming resort for Studio City Developments Limited, a 60% owned indirect subsidiary of Melco Crown Entertainment Limited (SEHK: 6883) (Nasdaq: MPEL), a developer and owner of casino gaming and entertainment resort facilities focused on the Macau market, has been awarded to Paul Y. Construction (an indirect wholly-owned subsidiary of PYE and PYE BVI) and Yau Lee Construction (Macau) Company Limited as a joint venture. The contract sum for the Studio City Project is approximately HK\$10 billion. The completion date is expected to be in the middle of 2015. Paul Y. Construction has also entered into the Construction LOI with Falloncroft, pursuant to which Paul Y. Construction will act as the project and construction manager for the development of the hotel to be constructed on the Land.

LETTER FROM SOMERLEY

It is disclosed in the letter from the Board that 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 2012 annual report and as disclosed in the Transactions Announcement 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 (after PYE itself) shareholder of PYE BVI upon completion of the Transactions. 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.

2. The Acquisition and the Exchange Right

2.1 Information on Falloncroft Group, the Land and the Project

Falloncroft is a private investment holding company incorporated in the British Virgin Islands. Upon completion, Falloncroft will hold the entire issued share capital of Uni-Dragon, which is the legal and beneficial owner of all the issued shares of Manlink and Challenge Shore. Manlink and Challenge Shore in turn hold 60% and 40% respectively of New Concordia which, on completion, will be granted an irrevocable and exclusive power of attorney by Empresa in respect of the Land. Falloncroft has also entered into (i) the MOU (as supplemented by a confirmation letter dated 3 November 2010) with an affiliate of the Operator, which is one of the gaming concessionaries or subconcessionaries in Macau, in relation to the management and operation of a casino proposed to be opened in the hotel to be constructed on the Land, subject to the approval of the Macau Government; and (ii) the Construction LOI with Paul Y. Construction, an indirect wholly-owned subsidiary of the Company and PYE BVI, which will act as the project and construction manager for the development.

As disclosed in the letter from the Board, (i) Uni-Dragon, Manlink, Challenge Shore and New Concordia are non-trading shell companies which did not have material assets and liabilities and have not recorded any profits for the years ended 31 March 2011 and 31 March 2012; and (ii) one of the conditions precedent to the Falloncroft SPA is the Company being satisfied that each Falloncroft Group Company has, or will on completion have, zero assets and liabilities (other than, directly or indirectly, in relation to the Land, the MOU and the Construction LOI). Accordingly, it is expected that upon completion of the Falloncroft SPA, Falloncroft Group will have no material assets and liabilities and will derive value from the power of attorney in respect of the Land to be granted by Empresa to New Concordia on completion, which will constitute the principal asset of the Falloncroft Group.

Empresa, an associate of ITC Properties, is a private company incorporated in Macau principally engaged in property development. It is responsible for the development of multiple parcels of land adjacent to the Land principally for residential use. Empresa is the guarantor under the Uni-Dragon SPA, pursuant to which Falloncroft will acquire Uni-Dragon and the right to develop the Land for an aggregate consideration of HK\$900 million.

LETTER FROM SOMERLEY

The Land is situated in the Coloane Island of Macau at the site of Concordia, along the Road of Seac Pai Van on which the Company proposes to build an exclusive luxury hotel and entertainment complex on a site of some 65,000 square feet which forms part of a larger mixed use development on Coloane Island. As explained in the letter from the Board, the overall design of the complex is planned to be a distinctive rounded, sculptural building which is expected to become a Macau landmark. The development is planned to comprise a hotel of some 584,000 square feet, all the accommodation in which will be individual suites varying in size from approximately 2,200 to 15,000 square feet each with its own lift lobby. In addition, subject to obtaining the approval of the Macau Government, the hotel will offer two floors of gaming rooms with approximately 66 tables, restaurants and shops with the gaming activities to be operated by one of Macau's gaming concessionaires or subconcessionaires. The proposed casino, lobby, and food and shopping outlets are planned to comprise some 96,000 square feet, with the balance of the development of some 164,000 square feet being parking and refuge floors. It is planned that the complex will be designed and outfitted to the highest international specifications. In keeping with its aim of attracting very wealthy patrons and offering exclusive accommodation and services, minimum table bets will be set at a high level. Development of the Project is expected to complete in 2016. The total cost of this development, including the cost of the Land, is expected to be approximately HK\$6,000 million.

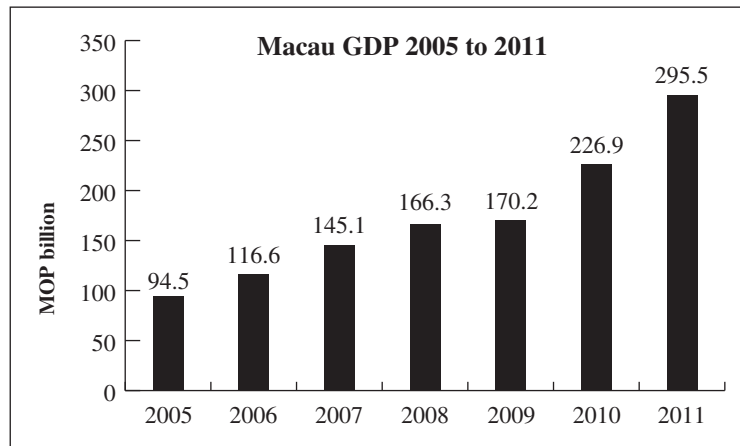
2.2 *Information on Macau and the Macau gaming and hotel markets*

2.2.1 Overview on Macau economy

Macau, a Special Administration Region of the PRC, is located on the southeast coast of Mainland China within the Pearl River Delta, and is adjacent to one of China's wealthiest and most urbanised provinces, Guangdong (population of approximately 85.2 million in 2010). It can be reached by a one-hour ferry trip from Hong Kong and an approximately four-hour flight from multiple populous regions including Beijing, Shanghai, Taipei, Seoul, Manila and Bangkok.

As one of the special administration regions of China, Macau benefits from the robust economic growth of Mainland China. Despite the uncertainties of European and American economies, Macau has delivered a remarkable economic result in recent years. As shown in the chart below, between 2005 and 2011, Macau's gross domestic products ("GDP") has grown more than three times from MOP94.5 billion in 2005 to MOP295.5 billion in 2011 with a compound annual growth rate ("CAGR") of approximately 20.9%.

LETTER FROM SOMERLEY



Source: DSEC

Tourism contributes significantly to Macau's GDP. Tertiary sector including recreational and gaming contributed over 90% of Macau's GDP in 2011. In 2011, more than 28.0 million tourists visited Macau. Pursuant to the Statistics and Census Services, Macau SAR Government ("DSEC"), between January 2012 and October 2012, the majority of the visitors to Macau are from Mainland China and Hong Kong, accounting for 59.9% and 25.6% of the total visitors, respectively. Driven by the continuing development and prosperity of the PRC, total visitors to Macau have grown from approximately 18.7 million in 2005 to approximately 28.0 million in 2011, representing a CAGR of approximately 7.0% from 2005 to 2011. According to the National Bureau Statistics of China, China's GDP and the annual per capita disposable income of urban households in China grew at a CAGR of approximately 17.0% and a CAGR of approximately 12.7% respectively during the period 2006 to 2010. China is currently the second largest economy (by GDP) in the world. The high propensity for gaming of the Chinese population in general and its growing spending power are expected to continue to support the growth in Macau's gaming market.

Macau's proximity to major population centres in Asia facilitates its appeal as a popular gaming destination for foreign tourists. The number of international visitors has increased dramatically with the arrivals from Mainland China, India and Republic of Korea, growing at a CAGR of 11.6%, 27.2% and 12.5%, respectively, from 2008 to 2011. Macau's economy and gaming sector are expected to continue to benefit from the fast growing visitations driven by continued economic growth in China and other Asian countries.

2.2.2 Macau gaming and hotel industries development and trend

The Macau gaming market is in the forefront of the world's gaming industry and exhibits attractive investment and operating prospects, including that Macau, being the only legally allowable gaming city in China, is the largest gaming market in the world in terms of gaming revenue of approximately MOP269.1 billion in 2011 according to information published by the Gaming Inspection and Coordination Bureau of Macau ("DICJ").

LETTER FROM SOMERLEY

According to DSEC and DICJ, the Macau gaming market generated MOP269.1 billion in gross gaming revenues in 2011, more than double the MOP120.4 billion generated in 2009. From 2005 through 2011, Macau's gross gaming revenues grew at a CAGR of approximately 33.7%. Total Macau gross gaming revenues for the first quarter of 2012 were MOP74.6 billion, representing an increase of approximately 26.9% from MOP58.8 billion in the same period in 2011.

According to DICJ, there were 35 casinos in Macau as of the third quarter of 2012. Geographically, the Macau gaming market is segregated into two regions, the Peninsula and Cotai. Currently, the Peninsula is the hub of gaming and entertainment activity given its dense cluster of 23 of the market's 35 casino resort properties. Cotai, where the Land is situated, is regarded as the coming development focus in Macau gaming sector. Cotai is located between Taipa and Coloane islands. Cotai's greater available land for development has enabled gaming operators to build resorts characterised by significant non-gaming amenities, in particular convention and meeting facilities, compared to many of the properties currently located on the Peninsula.

There are currently six companies licensed to operate casinos in Macau through concession or subconcessions. Generally, the Macau gaming market consists of distinct customer segments: the mass market segment and the VIP market segment. The mass market segment comprises of both table games and slot machines players on the main gaming floors for the public, which usually consists of walk-in and day-trip visitors. The VIP segment typically comprises of wealthy individuals who play mostly in dedicated VIP rooms or designated gaming tables. Some of the VIP players are sourced by junket operators who receive commissions for such marketing services. As disclosed in the valuation report on the Project as set out in Appendix III to the Circular, the Macau gross gaming revenue is highly dependent on VIP gaming as it represented approximately 73% of the total revenue of the Macau casino operations in 2011.

Macau's hotel market has benefited from the flourishing gaming industry. As disclosed in the valuation report on the Project as set out in Appendix III to the Circular, the average occupancy rate of Macau's five-star hotels climbed 4.3% to 83.5% in 2011 and remained at 83.2% in the first nine months of 2012. Five-star hotels in Macau recorded growth in average room rate of 5.1% and revenue per available room of 6.6%, year-on-year.

Having considered the above and particularly, the following factors:

1. as discussed above, visitors to Macau are primarily from the PRC and Hong Kong. Due to the close proximity between Macau and China and Hong Kong, the generally high appetite for gaming and entertainment from the population of China and Hong Kong is expected to remain a strong support to the gaming and hotel markets of Macau. The relatively easy access from major population centers in Asia also facilitates Macau's development as a popular gaming destination in Asia;

LETTER FROM SOMERLEY

2. demand for gaming and non-gaming offerings including hotel, retail, leisure and entertainment services is also expected to be supported by the double-digit annual growth rate of per capita disposable income and the growth of the middle class in the PRC. According to the “Chinese Luxury Consumer White Paper” issued in March 2012, the number of ultra high net worth individuals (people with personal assets of more than RMB100 million) in China has reached 63,500 and the number of high net worth individuals (people with personal assets of more than RMB6 million) has reached 2.7 million. The emergence of such wealthier demographic in China, in particular, would potentially drive the demand for luxury hospitality and entertainment services such as those to be provided by the proposed hotel and casino complex under the Project; and
3. the improving transportation to and within Macau, including the upgrading of the Macau international airport, the addition of the Taipa ferry terminal and the Hong Kong – Zhuhai – Macau Bridge, is expected to contribute to further growth in visitation and gaming players,

we consider that the outlook of the gaming and hotel industries in Macau would remain positive in the near future.

2.3 Background to and reasons for the Acquisition

It is stated in the letter from the Board that the Board, in its efforts to explore new projects and potential business developments that stand to benefit PYE and all of its shareholders, has made the decision to enter into a series of transactions that would involve PYE undertaking a substantial capital raising exercise, predominantly for the purpose of funding its involvement in the Acquisition and subsequently in the development of the Land on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming).

Further details of the design and development plan regarding the Project are set out in section headed “Information on Falloncroft Group, the Land and the Project” above, sections headed “Reasons for the Acquisition” and “Further information on the Land and the Project” in the letter from the Board and Appendix I to the Circular. As disclosed in the letter from the Board, the Directors believe that there is substantial demand for an exclusive hotel and entertainment facility in Macau designed to provide the highest levels of quality and service and that, on completion, which is expected to occur in 2016, it will generate strong discretionary cash flows to PYE and ultimately benefit all Shareholders.

We noted from the letter from the Board that two of the Directors namely Mr. Lau Ko Yuen, Tom and Mr. Chan Fut Yan have relevant hotel experience. Details of their past experience in the hotel business are set out in the section headed “Reasons for the Acquisition” in the letter from the Board. Also as disclosed in Appendix I to the Circular, the proposed management team, including Mr. Hung and Mr. Power, has a proven track record in the gaming business. In particular, Mr. Hung has been the Vice Chairman of Rio Entertainment Group operates the Rio Hotel and Casino through

LETTER FROM SOMERLEY

its affiliates in Macau, and has experience in dealing with ultra-high net worth Chinese clientele, while Mr. Power has 20 years of experience in the gaming and hospitality industry accumulated through executive operational position at casino resorts in the United States, Argentina, South Africa and the Philippines, in addition to his work in Macau.

On the basis that, among other things, (i) the positive outlook of the gaming and hotel industries in Macau as discussed in section 2.2 “Information on Macau and the Macau gaming and hotel markets” above; (ii) relevant experience in hotel and gaming industries of the existing as well as the proposed management; and (iii) the consideration under the Falloncroft SPA being fair and reasonable as elaborated in section 2.4.2 below, we consider it commercially reasonable for PYE to enter into the Falloncroft SPA for the Acquisition.

2.4 *Key terms of the Acquisition*

2.4.1 Conditions precedent of the Acquisition

Completion is conditional upon certain conditions being satisfied or waived pursuant to the terms of the Falloncroft SPA on or before the Long Stop Date. Details of the conditions precedent to the completion of the Acquisition are set out under section headed “B. Acquisition of Falloncroft” in the letter from the Board.

2.4.2 Consideration of the Acquisition

Pursuant to the Falloncroft SPA, the consideration to be paid by PYE to Pride Wisdom for the purchase of the entire issued share capital of Falloncroft will be HK\$2,000 million, settled as to (i) HK\$30 million, in cash, as a deposit on the signing of the Falloncroft SPA; and (ii) the balance, in cash, upon completion. The consideration was negotiated by the parties on an arm’s length basis, with the Board also having sought and obtained (for internal purposes and as due diligence when forming its views on the consideration) an independent property valuation of the Land and an independent professional valuation of the Project.

a. Valuation on the Land

The Land has been valued by Colliers International (Hong Kong) Limited, an independent valuer (the “**Valuer**”). The full text of the valuation report and certificate of the Land for its market value assuming the Land ready for development as at 1 November 2012 (the “**Property Valuation Report**”) is set out in Appendix II to the Circular. According to the Valuation Report, as at 1 November 2012, the market value of the Land, assuming it is ready for development, is approximately HK\$2,118 million (the “**Property Valuation**”).

We have reviewed the Property Valuation Report and discussed with the Valuer the methodology of, and bases and assumptions adopted for, the valuations and adjustments made to arrive at the Property Valuation. We note that the Valuer has carried out inspections, made relevant enquiries and searches for the purpose of the Property Valuation. We also noted that the Valuer has adopted Residual Approach

LETTER FROM SOMERLEY

for the assessment of the value of the Land by calculating the gross development value of the proposed development, as if completed at the date of valuation, and then deducting the estimated development costs including the construction costs provided by the qualified quantity surveyor, an allowance, amounting to 30% of gross development value, for developer's profit and risk, professional fees, finance charges and contingencies. The gross development value of the proposed development represents the value of the optimal development to be built on the Property assuming that the hypothetical development is completed and in operation as at the date of valuation. We have reviewed and discussed with the Valuer the underlying assumptions made and projections involved in the Property Valuation. We have assessed the reasonableness of various key underlying assumptions, including but not limited to, the bases for determining the net win per table per day, the hotel occupancy rates and the operating expenses by making reference, to the extent possible based on information and data available in the public domain, to the performance of other industry players (such as the companies listed on the Stock Exchange which have gaming and hotel operations in Macau including SJM Holdings Limited, MGM China Holdings Limited, Melco Crown Entertainment Limited, Wynn Macau Limited, Galaxy Entertainment Group Limited and Sands China Limited) and/or with other hotel/gaming industry statistics.

It is stated in the Property Valuation Report that the direct market comparison method is not feasible due to the lack of comparable market transactions in the locality in which the Land is situated. In such circumstances, we consider the Residual Approach, which is a means of valuing land by reference to its development potential, a reasonable and common alternative approach where the valuation subject is the Land with the proposed feasible development of the Project. We also note that the Valuer states in the Property Valuation Report that there is no approved building plan for the Land as at the date of valuation and that the Residual Approach is generally acknowledged as being a less reliable valuation method. Independent Shareholders are therefore urged to consider carefully the assumptions stated in the Property Valuation Report and exercise caution in interpreting it.

b. Valuation on the Project

The Project has been valued by the Valuer and the full text of the valuation report of the Project (the "**Project Valuation Report**") is set out in Appendix III to the Circular. According to the Project Valuation Report, subject to the assumptions, investigations, terms and conditions contained within and annexed to such report, and assuming the Land is free of all encumbrances, the market value of the Project is approximately HK\$8,088 million as at 1 November 2012 (the "**Project Valuation**").

We have reviewed the Project Valuation Report and discussed with the Valuer the methodology of, and bases and assumptions adopted for, the Project Valuation. We note that the Valuer has adopted the Discounted Cash Flow Method in assessing the value of the Project. The Discounted Cash Flow Method involves discounting

LETTER FROM SOMERLEY

future cash flows on yearly basis over the assumed cash flow period at an appropriate rate reflecting risk to derive a market value. We note that the Valuer has discussed with PYE and the related parties the background of the Land, the nature, operational rights and prospects of the Project and has conducted an on-site inspection of the Land. As stated in the Project Valuation Report, the Valuer has verified the feasibility of the Project and the validity of the financial projections by conducting appropriate research and analysis in respect of the economic outlook, industry performance and competitive environment to understand the macro-market conditions and outlook, and has also performed search and analysis of comparable companies, reviewed certain financial data, operating statistics and other relevant documents in order to obtain an in-depth knowledge of the operation and performance of the gaming and hotel operators in Macau. We have also reviewed and discussed with the Valuer the underlying assumptions made and projections involved in the Project Valuation. We have assessed the reasonableness of various key underlying assumptions including, but not limited to, the bases for determining the net win per table per day, the revenue growth rates and the hotel occupancy rates by making reference, to the extent possible based on information and data available in the public domain, to the performance of other industry players as referred to in sub-section “a. Valuation on the Land” above and/or with other hotel/gaming industry statistics.

Given that the Project is at a preliminary stage with no historical track record, the adoption of the Discounted Cash Flow Method based on projected cash flows is, in our opinion, in line with market practice and a reasonable approach in establishing the market value of the Project.

From the above, we note that the consideration under the Falloncroft SPA of HK\$2,000 million represents a discount of approximately 5.6% to the open market value of the Land of approximately HK\$2,118 million. We also note that the estimated cost of the Project is approximately HK\$6,000 million and that the net present value of the Project, after recovery of the costs, at the discount rate of 15% and the terminal capitalisation rate of 10.3% adopted by the Valuer is approximately HK\$8,088 million. The Valuer has also shown as sensitivities the effect if different combinations of the discount rate and terminal capitalisation rate are adopted. On such basis, we consider the consideration under the Falloncroft SPA is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

2.5 The POA and the promissory agreement

Pursuant to the terms of the Falloncroft SPA and the Uni-Dragon SPA, upon completion of the Transactions, New Concordia, which will become an indirect wholly owned subsidiary of Falloncroft, will, among other things, (i) be granted an irrevocable and exclusive power of attorney by Empresa in respect of the Land; and (ii) enter into the promissory sale and purchase agreement (the “**Promissory Agreement**”) with Empresa in respect of the Land pursuant to which Empresa promises and undertakes to sell to New Concordia, and New Concordia promises and undertakes to purchase, the Land together with the Land rights. Descriptions on the powers conferred under the POA are set out in Appendix I to the Circular.

LETTER FROM SOMERLEY

We have reviewed the legal opinion (the “**Legal Opinion**”) issued by Leonel Alves’ Law Firm, the legal adviser of the Company as to Macau Laws (the “**Macau Legal Adviser**”). As opined by the Macau legal adviser, the POA lawfully grants to the attorney a set of rights, interests and powers tantamount to title to the Land. The Legal Opinion also states that in addition to the complete and exclusive control over the Land, New Concordia shall be entitled to all the economic benefits which may arise or be derived from the Land, pursuant to the POA and the Promissory Agreement.

As disclosed in the letter from the Board, the development of the Land as well as the operation of a casino in the hotel to be erected on the Land is subject to approvals of the Macau Government.

With regards to the development of the Land, we note from the Legal Opinion that the various approvals, licenses or permits to be required for the construction and development of the Land are usual Macau Government approvals, licenses or permits which are normally required for property development in Macau under the laws of Macau, and the Macau Legal Adviser is of the view that the obtaining of such approvals, licenses or permits for the construction on and development of the Land are not being, and should not be, subject to any difficulties.

With regards to the casino operation, the Legal Opinion states that, in light of, among other things, a significant number of the casinos in Macau being installed and operated in hotel premises that are not owned by any of the licensed gaming operators but with contractual arrangements between the relevant gaming operators and the hotel owners, the Macau Legal Adviser is of the opinion that New Concordia will be able to enter into similar arrangements with a licensed gaming operator for the installation and operation of a casino in the premises of the hotel that will be built on the Land, subject to obtaining the necessary approval from the Macau Government and to its best knowledge, the obtaining of such approval from the Macau Government is not being, and should not be, subject to any difficulties. As disclosed in the letter from the Board, if approval from the Macau Government on the arrangement as contemplated under the MOU cannot be obtained, PYE may explore other arrangements with another one of the concessionaires or subconcessionaires and may continue with the operation of a casino with another operator, subject to agreement with another operator and authorisation from the Macau Government.

Taking into account the Legal Opinion and in particular, the opinion of the Macau Legal Adviser as discussed above, we concur with the Directors’ view that the Company does not foresee any difficulties in (i) obtaining the approvals, licenses or permits for the construction on and the development of the Land; and (ii) obtaining approval from the Macau Government on the arrangement as contemplated under the MOU.

LETTER FROM SOMERLEY

2.6 *The Exchange Right*

As disclosed in the letter from the Board, Falloncroft proposes to adopt a share option scheme prior to completion of the Falloncroft SPA and will, prior to such completion, grant options that would, for a subscription of up to HK\$600 million, entitle Chief Wise, an affiliate of Mr. Hung, to subscribe new Falloncroft Shares. Some or all of the options may, in due course, be assigned by Chief Wise to the management of Falloncroft who are contributing to the development of the Project. The ownership, rights and benefits of the options belong to Chief Wise until it elects to assign all or any of the same.

If the options are exercised in full, they will represent up to 10% of the issued share capital of Falloncroft as enlarged by the injection of new capital after completion of the Falloncroft SPA for the purposes of pursuing the Project (and which would in aggregate result in Falloncroft having an issued share capital and, or shareholders' loans of HK\$6,000 million, calculated as the product of the HK\$2,000 million acquisition cost of Falloncroft plus the injection of additional capital in the form of shares and, or shareholders' loans to an aggregate amount of up to HK\$3,400 million from PYE and up to HK\$600 million in the form of capital from the optionholders on exercise of the options).

All of the options will be granted subject to detailed vesting schedules relevant to performance criteria applicable to the Project and may be exercised at a price per Falloncroft Share that values 10% of Falloncroft's share capital on a basis that is pro rata to PYE's capital commitment, at all times, to Falloncroft (measured as the sum of its cost of purchase and cost of additional capital contribution), the cost of the 10% being capped at HK\$600 million. Further particulars of the Falloncroft share option scheme are set out under the section headed "Falloncroft Share Option Scheme and Exchange Right" of the letter from the Board.

Subject to fulfillment of the Exchange Conditions (as detailed below) management of Falloncroft subscribing Falloncroft Shares on exercise of the options will each have the right at one time, or from time to time, to require PYE to purchase some or all of their respective holdings of Falloncroft Shares in exchange for an allotment and issue of new Shares up to the maximum aggregate number of 882,352,941 Shares.

The Exchange Right will be subject to the following conditions (the "**Exchange Conditions**"):

- (i) approval of the same by the Shareholders (as an integral part of approving the Acquisition);
- (ii) the Listing Committee granting approval for the listing of, and permission to deal in all Shares to be allotted and issued pursuant to the exercise of the Exchange Right;
- (iii) the Exchange Right may only be exercised so long as and to the extent that immediately after such exercise there will be sufficient public float of the Shares as required under the Listing Rules; and

LETTER FROM SOMERLEY

- (iv) the Exchange Right may only be exercised so long as and to the extent that immediately after such exercise there will not be a change in control of PYE (as defined in the Takeovers Code).

Subject to adjustment in the event of any alteration in the capital structure of PYE, and based on the formula for calculating the number of new Shares to be issued pursuant to the exercise of the Exchange Right as set out under section headed “Falloncroft Share Option Scheme and Exchange Right” in the letter from the Board, the maximum aggregate number of new Shares that would be allotted and issued on exercise, in full, of the Exchange Right would be 882,352,941 Shares. This would equate to PYE issuing HK\$600 million worth of Shares (based on an issue price of HK\$0.68 per Share) in order to purchase 10% of the enlarged issued share capital of Falloncroft, valued at the same aggregate amount.

As illustrated in the section headed “Falloncroft Share Option Scheme and Exchange Right” in the letter from the Board, the shareholding of the existing Independent Shareholders could be diluted to (i) approximately 8.67% upon the completion of the Placing (with no exercise of the Upsize Option, no completion of the Contingent Placing and no conversion of the Placing Convertible Bonds) and exercise in full of the Exchange Right; or (ii) approximately 7.10% upon the completion of the Placing (with the exercise in full of the Upsize Option and no conversion of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds) and exercise in full of the Exchange Right.

We considered the potential dilution can be justified by the following factors:

- (1) as mentioned in Appendix I to the Circular, the Company’s ability to maintain the competitive position of the hotel and gaming businesses is dependent to a large degree on the efforts, skills and continuous service of Mr. Hung, a proposed director and Joint Chairman of PYE, and other key management and operating personnel, namely Mr. Power and Mr. Coker. The retention of Mr. Hung, Mr. Power and Mr. Coker, assisted by the provision of an appropriate incentive scheme in recognition of their services and contribution to the Project, is crucial to the success of the Project. In addition, the operation of the Exchange Right is similar to other share option schemes adopted by many listed companies in Hong Kong except the exercise cost to subscribe new Falloncroft Shares by the optionholder(s) is tied to the then investment cost contributed by PYE towards the Project;
- (2) the valuation of the Falloncroft Shares to be issued pursuant to the exercise of the share option(s) by optionholder(s) represents the same “entry price”, on a pro-rata basis, as it is envisaged will be paid by PYE itself (such entry price representing a combination of the price PYE will pay to Pride Wisdom for its stake in Falloncroft and the price to PYE of injecting additional capital into Falloncroft). This mechanism has the effect of aligning the interest of optionholder(s) of Falloncroft Share Option Scheme with PYE as a rational optionholder would only exercise his/her right if a premium over the “entry price” i.e. the investment costs contributed by PYE and these optionholder(s) when such options are exercised, can be obtained; and

LETTER FROM SOMERLEY

- (3) the issue price of the Shares to be issued and allotted pursuant to the exercise of the Exchange Right is equivalent to the Placing Price of HK\$0.68 which (i) was arrived at after arm's length negotiation with the Placing Agent 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; and (ii) represents a premium of 12.8% and 8.6% over the unaudited pro forma net asset value attributable to owners of PYE of HK\$0.603 (for Scenario 1) and HK\$0.626 (for Scenario 2) per Share on fully diluted basis (detailed calculations of such unaudited pro forma net asset value per Share are set out in section 3.6 "Dilution effects as a result of the completion of the Transactions" below) upon completion of the Transactions, based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix IX to the Circular. This fixed exchangeable factor i.e. the exercise cost of these options divided by HK\$0.68, is considered fair as (i) the majority of the value of PYE post-Completion is comprised by the Project; and (ii) this HK\$0.68 "conversion price" corresponds to the investment risks taken by the independent investors who will take up the Shares through the Placing at this Project development stage.

we concur with the view of the Directors that the terms of the Exchange Right are fair and reasonable.

3. The Distribution in Specie and the Cash Alternative

3.1 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 enter into a series of transactions which the PYE Board believes will, in due course, generate strong discretionary cash flows and ultimately benefit all PYE Shareholders. In line with the Board's decision to refocus PYE's business activities through the Acquisition, the Board is proposing to effect the Distribution in Specie.

As set out in the letter from the Board, The PYE Board, in seeking to refocus the business activities of PYE through the Acquisition and reduce the scale of PYE's economic interest in the Existing Businesses, wishes to ensure that all PYE 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 and the allotment and issue of Shares pursuant to the conversion of any of the Convertible Bonds. Further details of the Placing, the Upsize Option and the Contingent Placing are set out in the letter from the Board in the Circular.

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,

LETTER FROM SOMERLEY

pursuant to the PYE BVI Shares Deed of Undertaking, to acquire up to the full 18.66% stake in PYE BVI (equating to approximately 231,128,005 shares of PYE BVI) not otherwise held by PYE or PYI for an aggregate cash sum of approximately HK\$69.34 million, equivalent to a price of HK\$0.30 per PYI BVI Share as the Cash Alternative. The Board further proposes that PYE will declare and pay to the Qualifying Shareholders the Cash Dividend of HK\$0.26 per Share, with the option to elect to receive Shares in lieu of cash in respect of all or part of the Cash Dividend. As confirmed by PYE, the payment of the Cash Dividend by PYE will have no impact on the net asset value of PYE BVI Group.

3.2 *Key terms of the Distribution in Specie and the Cash Alternative*

3.2.1. 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 Distribution in Specie by PYE and Proposed Cash Dividend” in the letter from the Board.

Shareholders should note that all the Transactions, apart from the Distribution in Specie, are inter-conditional. As disclosed in the letter from the Board, save for the resolution relating to the Distribution in Specie, PYI has irrevocably undertaken to Pride Wisdom that conditional on the Distribution in Specie being approved by the Shareholders at the PYE SGM, PYI will vote, or to procure that its subsidiaries holding shares in PYE will vote (insofar as it is not, or they are not, disenfranchised pursuant to the Listing Rules or otherwise) in favour of all resolutions put to the PYE SGM relating to the Transactions on the condition that no material changes are made to the Transactions Announcement. It is also disclosed in the letter from the Board that, if the resolution to approve the Distribution in Specie is not approved at the PYE SGM, the PYE Directors understand that PYI would not vote in favour of other resolutions concerning the Transactions, given that the interest of all Shareholders in PYE BVI (in the absence of the Distribution in Specie) would be diluted and shared with the Placees. Accordingly, the Distribution in Specie will be the first resolution on the agenda of the PYE SGM and whilst all of the Transactions, other than the Distribution in Specie, are inter-conditional, the likelihood is that none of the Transactions will proceed, unless the resolution to approve the Distribution in Specie is approved at the PYE SGM.

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 Acquisition. Accordingly, the Distribution in Specie will not be carried out without the Cash Alternative.

LETTER FROM SOMERLEY

3.2.2. 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 PYE 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.

3.2.3. Excess applications

As mentioned in the letter from the Board, PYE 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 certain 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 by Eligible Qualifying Shareholders on the Excess Application Forms.

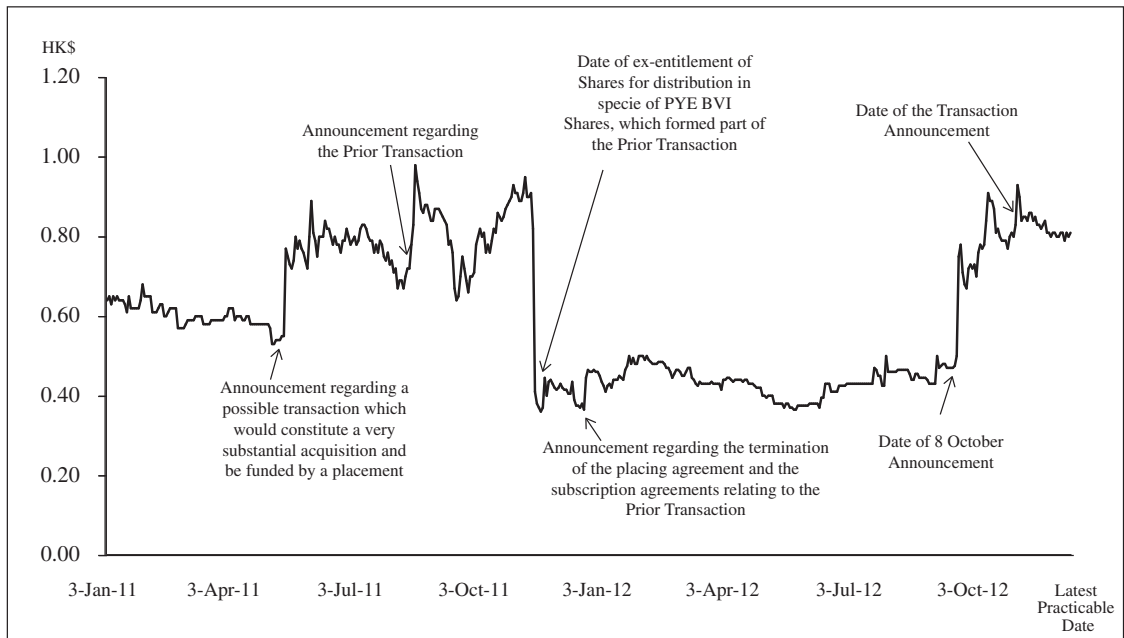
We concur with the view of the Directors that it is a fair principle to offer the Eligible Qualifying Shareholders an opportunity to increase their direct interests in PYE BVI Shares through the excess applications.

3.3 *Historical Share price performance and historical discount of market price to net asset value*

We have reviewed the Share price performance of PYE for the period from 3 January 2011 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.

LETTER FROM SOMERLEY

Share Price Chart



Source: Bloomberg

As shown in the above chart, considerable fluctuations in Share price were recorded during the period between May and December 2011 and from 8 October 2012.

During the period from 3 January to 18 May 2011, 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\$0.60 per Share. On 19 May 2011, the Company released an announcement disclosing its negotiation on a possible transaction which would constitute a very substantial acquisition and be funded by a placement. Further on 21 August 2011, the Company announced, among other things, its proposal regarding the establishment of a new joint venture to develop and produce films which would be funded by a placing of new shares, distribution in specie of PYE BVI Shares and cash dividend (the “**Prior Transaction**”). The Prior Transaction was approved by the independent shareholders of PYE in the special general meeting held on 15 November 2011. Since 19 May 2011 and prior to 21 November 2011 (being the last date of the cum-entitlement of the Shares for the distribution in specie, which formed part of the Prior Transaction), the Share price had surged and stood at price levels above HK\$0.70 per Share for a majority of the time, with a range between HK\$0.66 and HK\$0.98 per Share. The Shares were traded on ex-entitlement basis before the aforesaid placing was completed and on the ex-entitlement date on 22 November 2011, the Share price dropped and closed at HK\$0.41 per Share. Subsequently on 29 December 2011, PYE announced that, due to the difficult conditions of the capital markets, the placing of new shares could not proceed and accordingly, the agreements relating to the Prior Transaction would lapse or be terminated with effect from 31 December 2011.

LETTER FROM SOMERLEY

The closing prices of the Shares have been within the range of HK\$0.365 and HK\$0.50 per Share, with an average of approximately HK\$0.44 per Share during the period since the termination of the Prior Transaction up to 5 October 2012 (the “**Pre-Announcement Period**”), being the last trading date immediately prior to the suspension of trading in Shares and the release of the announcement by PYE on 8 October 2012 disclosing its negotiation on a transaction which would, if agreed, constitute a very substantial acquisition of PYE and be primarily financed by the placement and/or subscription of shares in PYE (the “**8 October Announcement**”). Immediately prior to the suspension of trading in the Shares from 10:59 a.m. on 8 October 2012 and the release of the 8 October Announcement, the Share price surged and closed at HK\$0.75 in the morning session on 8 October 2012. Since 8 October 2012 up till the Latest Practicable Date (the “**Post-Announcement Period**”), the closing prices of the Shares stood at price levels on or above HK\$0.80 per Share for the majority of the time, with a range between HK\$0.67 and HK\$0.93 per Share. During the Post-Announcement Period, the average closing price of the Shares was approximately HK\$0.81 per Share, which is approximately 84.1% higher than the average of the closing prices of the Shares of approximately HK\$0.44 during the Pre-Announcement Period.

The average daily trading volume of the Shares during the Pre-Announcement Period was generally below 0.50% of the Shares in public hands. Following the publication of 8 October 2012, the average daily trading volume of the Shares in October 2012 surged to approximately 3.13% of the Shares in public hands. During the period from 1 November 2012 up to the Latest Practicable Date, the average daily trading volume of Shares decreased in general and amounted to approximately 1.04% of the Shares in public hands in November and December 2012.

We are advised by PYE that PYE is not aware of any reasons, other than the 8 October Announcement and the Transaction Announcement, for the recent significant increase in Share price and liquidity. Since 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.

The Cash Alternative of HK\$0.30 represents a discount of (i) around 42.3% to the amount of approximately HK\$0.52 per PYE BVI Share based on the audited consolidated net asset value of PYE attributable to its shareholders as at 31 March 2012; and (ii) around 43.4% to the amount of approximately HK\$0.53 per PYE BVI Share based on the unaudited consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012.

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 PYE, 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.

LETTER FROM SOMERLEY

Period	Consolidated net asset value attributable to equity holders per Share [#] HK\$	Closing price per Share			Discount to consolidated net asset value attributable to equity holders per Share represented by		
		Highest	Lowest	Average	Highest	Lowest	Average
		HK\$	HK\$	HK\$	closing price Approximate %	closing price Approximate %	closing price Approximate %
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
29/11/2010* – 24/06/2011	0.962	0.890	0.530	0.641	7.5	44.9	33.4
27/06/2011* – 25/11/2011	0.997	0.980	0.360	0.788	1.7	63.9	21.2
28/11/2011* – 22/06/2012	1.025	0.500	0.365	0.431	51.2	64.4	58.0
25/06/2012* – 05/10/2012 [†]	1.054	0.500	0.370	0.443	52.5	64.9	57.9

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")

39.7

Note:

* the date following the release of PYE'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 PYE, which are extracted from the respective PYE's annual reports or interim reports, divided by the total number of issued share capital of PYE as at the relevant year ended/ period ended date.

[†] Being the last trading day immediately prior to the suspension of trading in the Shares and the release of the 8 October Announcement.

Based on the analysis set out above, we note that (i) the closing prices of the Shares have traded 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 PYE up to 5 October 2012, being the last trading date immediately prior to the suspension of trading in the Shares on 8 October 2012 and the release of the 8 October Announcement; and (ii) the discounts represented by the closing prices of the Shares to the then underlying net asset value attributable to equity holders during the recent period since 28 November 2011 up to 5 October 2012, being the last trading

LETTER FROM SOMERLEY

date immediately prior to the suspension of trading in Shares and the release of the 8 October Announcement, have been over 50% (the “**Recent Discounts**”). The discount of 43.4% represented by the Cash Alternative to the amount of approximately HK\$0.53 per PYE BVI Share based on the unaudited consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012 is close to the Average Discount of about 39.7% and lower than the Recent Discounts.

3.4 *Comparable companies and comparable transactions analysis*

3.4.1. 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 5 companies listed (the “**Comparable Companies**”) on the Mainboard of the Stock Exchange which are (i) principally engaged in building and civil engineering construction; (ii) are profit-making for the latest reported financial year; and (iii) have a market capitalisation below HK\$700 million as at the Latest Practicable Date. The market capitalisation below HK\$700 million represents a range roughly up to around double PYE’s market capitalisation (being around HK\$300 million based on the 606,954,322 issued Shares and the undisturbed market price of around HK\$0.44 per Share on average during the Pre-Announcement Period) which, in our opinion, offers a reasonable sample size and a mix of comparable companies with market capitalisations below as well as above PYE’s market capitalisation.

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

LETTER FROM SOMERLEY

	Closing share price on the Latest Practicable Date HK\$ (Note 1)	Market capitalisation as at the Latest Practicable Date HK\$' million (Note 1)	Audited consolidated profits attributable to equity holders HK\$' million (Note 1)	Audited/ unaudited consolidated net asset value attributable to equity holders HK\$' million (Note 1)	PER times (Note 2)	Discount of market capitalisation to net asset value attributable to equity holders approx. %
Yau Lee Holdings Limited (stock code 0406)	1.520	665.8	35.6	1,475.0	18.7	54.9
Hanison Construction Holdings Limited (stock code 0896)	1.320	643.6	128.2	1,154.5	5.0	44.3
Deson Development International Holdings Limited (stock code 0262)	0.510	290.4	72.2	772.2	4.0	62.4
Chinney Alliance Group Limited (stock code 0385)	0.385	229.0	22.9	521.1	10.0	56.0
Build King Holdings Limited (stock code 0240)	0.150	186.3	25.6	270.6	7.3	31.1
Mean					9.0	49.7
Max					18.7	62.4
Min					4.0	31.1
PYE BVI Group	0.300 (Note 3)	371.6 (Note 4)	30.3 (note 5)	654.4	12.3 (Note 7)	43.2 (Note 6)

Notes:

- 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.
- 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.
- The Cash Alternative of HK\$0.30.
- 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.
- As confirmed by PYE, the audited profits attributable to owners of PYE BVI would be approximately the same as that attributable to the owners of PYE.

LETTER FROM SOMERLEY

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 unaudited consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012.
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 2012.

As shown in the table above, the discount of share prices to consolidated net asset values attributable to equity holders of the Comparable Companies ranged from a discount of approximately 31.1% to 62.4%, with a mean of approximately 49.7% 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 43.2% is lower than the average discount to consolidated net asset value of the Comparable Companies.

The PERs of the Comparable Companies ranged from approximately 4.0 times to 18.7 times, with a mean value of approximately 9.0 times. The PER represented by the Cash Alternative of 12.3 times is significantly higher than the mean PER of the Comparable Companies.

3.4.2. 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**”). Due to, in particular, the limited number of the Comparable Transactions, we consider that it is not unreasonable to consider the Comparable Transactions over a relatively long period for our analysis. 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.

LETTER FROM SOMERLEY

Date of initial announcement	Company	Offer price per unlisted shares HK\$	Discount of offer price to the unaudited pro forma consolidated net asset value attributable to equity holders approx. %
2012			
July	Winsor Properties Holdings Limited (stock code 1036)	27.6000	27.6
January	Chinlink International Holdings Limited (<i>formerly known as Decca Holdings Limited</i>) (stock code 0997)	0.8000	52.1
2011			
November	Zhong Fa Zhan Holdings Limited (<i>formerly known as Nobel Jewelry Holdings Limited</i>) (stock code 0475)	0.5000	31.7
2010			
November	Enterprise Development Holdings Limited (<i>formerly known as Tai-I International Holdings Limited</i>) (stock code 1808)	0.4500	63.4
July	Gemimi Investments (Holdings) Limited (<i>formerly known as Kee Shing (Holdings) Limited</i>) (stock code 0174)	0.1920	31.4
2009			
September	China Overseas Grand Ocean Limited (<i>formerly known as Shell Electric Mfg. (Holdings) Company Limited</i>) (stock code 0081)	1.8000	50.3

LETTER FROM SOMERLEY

Date of initial announcement	Company	Offer price per unlisted shares HK\$	Discount of offer price to the unaudited pro forma consolidated net asset value attributable to equity holders approx. %
2008			
September	Cinda International Holdings Limited <i>(formerly known as Hantec Investment Holdings Limited)</i> (stock code 0111)	0.3000	18.9
2007			
February	Mexan Limited (stock code 0022)	0.3000	55.9
2003			
August	China Agri-products Exchange Limited <i>(formerly known as Rosedale Hotel Group Limited)</i> (stock code 0149)	0.2600	85.0
February	Mexan Limited <i>(formerly known as Asean Resources Holdings Limited)</i> (stock code 0022)	0.1216	87.8
		Mean	50.4
		Max	87.8
		Min	18.9
2012			
November	PYE	0.3000	43.4

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

LETTER FROM SOMERLEY

As seen from the above table, the offer prices in the case of the Comparable Transactions all represent 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 50.4%. The approximately 43.4% discount to consolidated net asset value attributable to owners of PYE BVI as at 30 September 2012 represented by the Cash Alternative is lower than the mean discount of the Comparable Transactions.

3.5 *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:

- (a) hold one Share;
- (b) 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
- (c) receive the Cash Dividend of HK\$0.26 per Share.

On such basis, and by reference to the prospective market valuation of the Share based on the Placing Price of HK\$0.68 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\$1.24 (the "**Estimated Total Return**") with respect to each existing Share he/she holds, as follows:

	<i>HK\$ per share</i>
(i) Market price of a Share based on the Placing Price	0.68
(ii) Cash Alternative	0.30
(iii) Cash Dividend	0.26
	<hr/>
Total	1.24
	<hr/> <hr/>

We would like to remind the Independent Shareholders that the future market price of the 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\$0.68 and is included in this letter for reference and analysis purposes only.

LETTER FROM SOMERLEY

As discussed in the section 3.3 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\$0.44; and (2) during the Post-Announcement Period was approximately HK\$0.81. The Estimated Total Return of HK\$1.24, therefore, represents (i) a premium of approximately 181.8% as compared with the average closing price per Share during the Pre-Announcement Period; and (ii) a premium of approximately 53.1% as compared with the average closing price per Share during the Post-Announcement Period. The Estimated Total Return also represents a premium of approximately 53.1% over the closing price per Share of HK\$0.81 as at the Latest Practicable Date.

3.6 Dilution effects as a result of the completion of the Transactions

The Board has decided to refocus PYE’s business activities through the pursuit of the acquisition of Fallcroft Group 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 PYE. As illustrated in the section headed “Changes to the Existing Issued Share Capital as a result of the Placing and the Contingent Placing” in the letter from the Board, the shareholding of the existing Independent Shareholders could be diluted from approximately 38.08% to (i) approximately 12.96% upon completion of the Placing (with no exercise of the Upsize Option, no completion of the Contingent Placing and no conversion of the Placing Convertible Bonds); (ii) approximately 4.35% upon the completion of the Placing and the conversion in full of the Placing Convertible Bonds (with no exercise of the Upsize Option and no completion of the Contingent Placing); or (iii) approximately 2.30% upon the completion of the Placing (with the exercise in full of the Upsize Option) and the Contingent Placing, the conversion in full of the Placing Convertible Bonds and the Contingent Placing Convertible Bonds. 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, the Contingent Placing and the exercise of the Exchange Right.

LETTER FROM SOMERLEY

Set out below is the summary of the effect on the aggregate underlying net asset value of PYE and PYE BVI, on a fully diluted basis, as a result of the Placing and the Contingent Placing:

	Scenario 1 – upon completion with no exercise of the Upsize Option and no completion of the Contingent Placing	Scenario 2 – upon completion with exercise in full of the Upsize Option and completion of the Contingent Placing
Pro forma consolidated net asset value per Share attributable to owners of PYE on fully diluted basis (Note 1) (HK\$) <i>a</i>	0.603 (Note 2)	0.626 (Note 3)
Net asset value per PYE BVI Share (HK\$) <i>b</i>	0.530	0.530
Aggregate net asset value an Independent Shareholder entitles to (HK\$) <i>a+b</i>	<u>1.133</u>	<u>1.156</u>
Enhancement (%) as compared with consolidated net asset value attributable to owners of PYE of approximately HK\$1.08 per Share as at 30 September 2012	4.9%	7.0%

Note:

- We understand from the Company that under Hong Kong Financial Reporting Standards immediately upon full conversion of the Convertible Bonds, the Group's liabilities will be reduced by the entire carrying value of the liability portion and the embedded derivative components of the Convertible Bonds as a result of the extinguishment of the liability component and the exercise in full of the embedded derivative components of the Convertible Bonds. Thus, the Group's net assets will accordingly be increased by the same amount as a result of the issue of the conversion Shares. As such and in order to perform our assessment based on fully diluted scenarios, we have considered the adjusted pro forma consolidated net asset value attributable to owners of PYE upon completion of the Transactions, which is:
 - for Scenario 1, approximately HK\$3,203.9 million (the "**Scenario 1 Adjusted Pro Forma NAV**") calculated by adding back (i) the amount of liability portion of the Convertible Bonds of approximately HK\$411.7 million to; and (ii) the amount of embedded derivative components of the Convertible Bonds of approximately HK\$1,892.3 million, to the pro forma consolidated net asset value attributable to owners of PYE of approximately HK\$899.9 million under Scenario 1.
 - for Scenario 2, approximately HK\$6,275.9 million (the "**Scenario 2 Adjusted Pro Forma NAV**") calculated by adding back (i) the amount of liability portion of the Convertible Bonds of approximately HK\$892.2 million to; and (ii) the amount of embedded derivative components of the Convertible Bonds of approximately HK\$4,099.8 million, to the pro forma consolidated net asset value attributable to owners of PYE of approximately HK\$1,283.9 million under Scenario 2.

LETTER FROM SOMERLEY

2. Based on the Scenario 1 Adjusted Pro Forma NAV above and the total number of issued Shares of 5,312,836,674 assuming the completion of the Placing and the conversion in full of the Placing Convertible Bonds with no exercise of the Upsize Option and no completion of the Contingent Placing.
3. Based on the Scenario 2 Adjusted Pro Forma NAV and the total number of issued Shares of 10,018,719,026 assuming the completion of the Placing and the Contingent Placing with the exercise in full of the Upsize Option, the conversion in full of the Placing Convertible Bonds and the Contingent Convertible Bonds.

As shown in the above, assuming the completion of the Transactions (including the Distribution in Specie becoming effective), the total underlying book value represented by one Share plus one PYE BVI Share that an Independent Shareholder is entitled to with respect to each existing Share he/she holds would be, on a fully diluted basis, approximately HK\$1.133 under Scenario 1 or HK\$1.156 under Scenario 2, each of which represents an enhancement as compared with the consolidated net asset value attributable to owners of PYE of approximately HK\$1.08 per Share as at 30 September 2012.

4. Financial effects of the Transactions

4.1 Earnings

According to the unaudited pro forma condensed consolidated income statement of the Enlarged Group as set out in Appendix IX to the Circular, the profit of the Group attributable to the owners of PYE would be reduced due to the distribution in specie of 49% interest in PYE BVI (assuming the Distribution in Specie had been completed on 1 April 2012) and the recognition of share-based payment expenses.

Following completion of the Acquisition, earnings of the Falloncroft Group will be consolidated into the consolidated financial statements of PYE. Given that the development of the Project is expected to be completed in 2016, the Acquisition is not expected to have an immediate earnings contribution to the Enlarged Group. Following the Distribution in Specie becoming effective, PYE BVI will remain a non-wholly owned subsidiary of PYE and its earnings will continue to be consolidated into the consolidated financial statements of PYE. The actual contribution of earnings or losses by each of Falloncroft Group and PYE BVI Group will depend on various factors such as the future operating performance of and total cost incurred or to be incurred for the Project, and the future performance of the Existing Businesses.

4.2 Net asset value

According to the unaudited pro forma condensed consolidated statement of financial position of the Enlarged Group as set out in Appendix IX to the Circular, the equity attributable to owners of PYE would increase from approximately HK\$654.4 million to (i) approximately HK\$899.9 million under Scenario 1 assuming completion of the Transactions with no exercise of the Upsize Option and no completion of the Contingent Placing; or (ii) approximately HK\$1,283.9 million under Scenario 2 assuming completion of the Transactions with the exercise in full of the Upsize Option and the completion of the Contingent Placing.

LETTER FROM SOMERLEY

The gearing ratio, calculated using the bank borrowings and the equity attributable to shareholders, would be reduced from 0.58 times to about (i) 0.42 times under Scenario 1; and (ii) 0.29 times under Scenario 2, while the current ratio would be increased from 1.08 times to about (i) 1.39 times under Scenario 1; and (ii) 2.39 times under Scenario 2, being current assets over current liabilities.

4.3 Working capital

According to the unaudited pro forma condensed consolidated statement of financial position of the Enlarged Group as set out in Appendix IX to the Circular, the bank balances and cash position would increase from HK\$253.1 million as at 30 September 2012 to (i) approximately HK\$1,123.3 million under Scenario 1 assuming completion of the Transactions with no exercise of the Upsize Option and no completion of the Contingent Placing; or (ii) approximately HK\$4,195.3 million under Scenario 2 assuming completion of the Transactions with the exercise in full of the Upsize Option and the completion of the Contingent Placing.

As stated in the letter from the Board of the Circular, the total cost of this development, including the cost of the Land, is expected to be approximately HK\$6,000 million. PYE currently envisages that out of net proceeds of approximately HK\$3,072 million raised through the Placing (assuming no exercise of the Upsize Option), approximately HK\$2,778 million will be utilised to fund the development of the Project, with the balance to be provided by bank borrowings on terms yet to be negotiated. In the event the Upsize Option is exercised in full and/or the Contingent Placing is pursued by PYE, additional net proceeds of HK\$1,536 million and/or HK\$1,536 million will be raised respectively, and will also be applied towards the Project, thereby reducing the bank borrowings necessary to complete the Project. As set out in the Circular, taking into account, among other things, the Enlarged Group's internal financial resources, present available banking facilities, cash flows to be generated from the operating activities of the existing Group and the net proceeds from the Placing, the Directors are of the opinion that the Enlarged Group has sufficient working capital for at least the next twelve months from the date of the Circular.

Based on the above, save for the reduction in earnings due to, in particular, the recognition of the share-based payment expenses, we do not expect there would be material adverse financial impact on the Group immediately upon the completion of the Acquisition and the Distribution in Specie.

CONCLUSION

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

Fairness and reasonableness of the terms of the Falloncroft SPA

As discussed in various sections above, we consider the terms of the Falloncroft SPA are fair and reasonable taking into account, in particular:

- the positive outlook of the gaming and hotel industries in Macau as discussed in section 2.2 "Information on Macau and the Macau gaming and hotel markets" above;

LETTER FROM SOMERLEY

- the relevant experiences in hotel and gaming industries of the existing as well as the proposed management which could facilitate the development and operation of the Project;
- the consideration under the Falloncroft SPA of HK\$2,000 million, which represents a discount of approximately 5.6% to the open market value of the Land of approximately HK\$2,118 million, is considered fair; and
- by the reasons as discussed in the section 2.6 “The Exchange Right” above, the terms of the Exchange Right being fair and reasonable.

Substantial uplift of value of Independent Shareholders’ interests

During the Pre-Announcement Period, Independent Shareholders held a Share with a closing price of around HK\$0.44 on average with little liquidity. As discussed in the section 3.5 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\$1.24, representing a substantial uplift over the historical closing prices of the Shares since 3 January 2011.

Also as discussed in the section 3.6 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 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 43.4% represented by the Cash Alternative of HK\$0.30 to the amount of approximately HK\$0.53 per PYE BVI Share based on the consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012 is close to the Average Discount and lower than the Recent Discounts;
- 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 43.2% is lower than the mean discount of the Comparable Companies of around 49.7%. The PER represented by the Cash Alternative of around 12.3 times is higher than the average of the Comparable Companies, which is considered favourable as compared with the Comparable Companies; and
- the discount of approximately 43.4% represented by the Cash Alternative of HK\$0.30 to the amount of approximately HK\$0.53 per PYE BVI Share based on the consolidated net asset value of PYE attributable to its shareholders as at 30 September 2012 is lower than the mean discount of the Comparable Transactions of around 50.4%.

LETTER FROM SOMERLEY

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 X 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 X 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 PYE 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.

LETTER FROM SOMERLEY

According to the proposed timetable as set out in page iii of the Circular, the first day for dealing in the Shares ex-entitlement to the Distribution in Specie, the Cash Alternative and the Cash Dividend will be on Wednesday, 30 January 2013, the Record Date for which is scheduled on Monday, 4 February 2013. However, Shareholders and potential investors should note that the Shares will most probably be traded on the ex-entitlement basis before the Placing Agreement is completed. Under the terms of the Placing Agreement, the long stop date for the completion of the Placing is 1 March 2013. If owing to volatile market conditions or for any other reason, the Placing at the fixed Placing Price of HK\$0.68 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. Something similar happened after the Prior Transaction in 2011, a film joint venture with the Legendary group, was approved by independent shareholders but the related placing to fund it did not complete. Please refer to the Share price chart and our comments in the section 3.3 “Historical Share price performance and historical discount of market price to net asset value” above. Consequently, Shareholders and potential investors should exercise caution when dealing in the Shares.

RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative are fair and reasonable and in the interests of PYE 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 resolutions to be proposed at the PYE SGM in relation to the Acquisition, the Exchange Right, the Distribution in Specie and the Cash Alternative.

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

A. MACAU HOTEL CASINO INDUSTRY OVERVIEW**Asian gaming market overview**

Asia is the fastest-growing gaming market in the world and has been the world's largest gaming destination in terms of gross gaming revenue. As of December 2011, the annual gross revenue generated by the Macau gaming market amounts to MOP269,058 million, an increase of 41.9% from December 2010.

Macau is only an hour away via high-speed ferry from Hong Kong and the only city in China to offer legalised casino gaming. Between January 2012 and October 2012, according to DSEC, the majority of the visitors to Macau are from mainland China and Hong Kong, accounting for 59.9% and 25.6% of the total visitors, respectively.

Macau's proximity to major population centres in Asia facilitates its appeal as a popular gaming destination for foreign tourists. The number of international visitors has increased dramatically with the arrivals from Mainland China, India and Republic of Korea, growing at a compound annual growth rate of 11.6%, 27.2% and 12.5%, respectively, from 2008 to 2011. Macau's economy and gaming sector are expected to continue to benefit from the fast growing visitations driven by continued economic growth in China and other Asian countries.

Macau market development and trends

The Macau gaming market is segregated into two regions geographically, the Peninsula and Cotai. The Peninsula is the hub of the gaming and entertainment activity, 23 out of Macau's 35 casino resort properties are situated in the Peninsula. Cotai is located between Taipa and Colane islands. The greater availability of land for development in Cotai has enabled gaming operators to build resorts characterised by significant non-gaming amenities, in particular convention and meeting facilities, compared to many of the properties currently located on the Peninsula.

Following the decision to open Macau's gaming industry, the Macau Government initiated a bidding process to grant three gaming concessions in late 2001. In 2002, "Sociedade de Jogos de Macao, S.A (澳門博彩股份有限公司)" (a subsidiary of SJM) was awarded the first gaming concession, followed by Wynn Resorts (Macau), S.A. (a subsidiary of Wynn Macau) and Galaxy Casino, S.A. (a subsidiary of Galaxy). Subsequently, each concessionaire granted, with the approval of the Macau Government, one subconcession.

Market segments

The Macau gaming market consists of distinct customer segments: the cash or mass market and the rolling chip or VIP market. The mass market segment comprises of both table games and slot machines players on the main gaming floors for the public, which usually consists of walk-in and day-trip visitors. The mass market segment is viewed as a higher-margin component of the overall gaming market as compared to the VIP segment due to the commission costs of the gaming promoters incurred by the operators of the VIP segment. The VIP segment typically comprises of

wealthy individuals who play mostly in dedicated VIP rooms or designated gaming tables. Some of the VIP players are sourced by gaming promoters which offer various services to the VIP players, such as extension of credit as well as complimentary hotel, food and beverage services.

Geographic location and infrastructure of Macau

The growth of the Macau gaming market has been facilitated by a number of drivers and initiatives, including favourable population demographics and economic growth across Asia.

Close proximity to China

Macau shares a border with Guangdong, one of China's most populous and wealthiest provinces. The relatively easy access from major population centres in Asia also facilitates Macau's development as a popular gaming destination. The double-digit annual growth rate of personal disposable income and middle class in China has also supported Macau's gaming industry.

Development of transportation and infrastructure

Macau is accessible by land, air and sea. In 2011, approximately 54.6% of visitors arrived in Macau via the Zhuhai border gate crossing with China, approximately 39.4% arrived via the Peninsula ferry terminal from Hong Kong and nearby cities in China, and approximately 6.01% arrived via the Macau International Airport from other major cities in Asia.

The improvement of transportation and infrastructure to and within Macau might contribute to the continued growth in visitation and gaming players. A number of infrastructure projects to facilitate travel have been recently completed or are in various stages of planning or development, these include the upgrading of the Macau international airport, the addition of the Taipa ferry terminal and the Hong Kong-Zhuhai-Macau Bridge. The improved transportation to and within Macau is expected to contribute to the growth in visitation and mass market gaming.

Liberalisation of travel restrictions

The number of visitors from Mainland China, Macau's primary source of visitors, has been supported by the implementation of the Individual Visit Scheme (the "IVS"), which allows qualified Chinese residents to visit Hong Kong and Macau on an individual basis. Following the implementation of the IVS in 2003, Chinese citizens from certain large urban regions were able to obtain permits to travel to Macau on their own without participating in a tour group. Since December 2009, IVS had expanded to cover 49 cities, and around 270 million Mainland Chinese citizens are eligible under the IVS. During the first ten months of 2012, the number of Chinese visitors to Macau reached 13.9 million, representing a 5.2% increase from the same period in the previous year.

Gaming Regulations

General

Macau law prohibits all forms of operation of, promotion of or assistance to gaming outside of the premises and areas authorised by the Macau Government. It also prohibits any illicit form of gaming in the authorised areas and premises. The law of Macau forbids any unlicensed granting of loans or gaming credit to gaming patrons.

The principal laws and regulations are as follows:

The Gaming law and related regulations

Macau Law No. 16/2001 (the “**Gaming Law**”) came into effect on 25 September 2001. The Gaming Law establishes the legal framework for the regulation of casinos and principal rules for operating games of fortune in casinos in Macau. The Gaming Law also contains provisions dealing with Macau’s concession system, detailing concessionaires’ obligations and laying the foundation for the Macau Government’s grant of the three current 20-year concessions through a public tender process.

Macau Administrative Regulation No. 26/2001 (the “**Gaming Tender Regulation**”) became effective on 30 October 2001. The Gaming Tender Regulation supplements the Gaming Law and sets forth the terms of the public tender process through which the casino concessions were awarded. It also established the eligibility criteria for bidders as well as the suitability and financial requirements that the concessionaires and subconcessionaires had to satisfy.

Extension of credit for gaming

Macau Law No. 5/2004 (the “**Gaming Credit Law**”) became effective on 1 July 2004. The Gaming Credit Law regulates the extension of gaming credit in Macau and authorizes concessionaires, subconcessionaires and gaming promoters who enter into a contract with a concessionaire or subconcessionaire to carry out credit granting activities in connection with gaming and betting in casinos in Macau.

Regulatory framework for concessionaires and subconcessionaires

Under the laws and administrative regulations governing the operation of casinos in Macau, concessionaires and subconcessionaires, their officers, directors and key employees, and direct holders of 5% or more of a concessionaire’s or subconcessionaire’s equity securities are required to meet certain suitability requirements relating to background, associations and reputation. The suitability requirements also apply to any entity engaged by a concessionaire or subconcessionaire to manage casino operations. In addition, the Macau Government may also exercise its general supervisory powers to inquire as to the suitability of any other person who has an interest in the Company. The Macau Government may investigate the relevant individuals at any time and may deny the application for, or a finding of, suitability for any cause it deems reasonable.

Government agencies*DICJ*

The DICJ is the principal regulatory and supervisory authority in charge of Macau's gaming industry. It supervises and monitors the operations of the concessionaires and subconcessionaires to ensure compliance with their obligations imposed by the applicable gaming laws and administrative regulations and as set forth in their respective concession agreements. Concessionaires and subconcessionaires are required to make all significant documentation and periodic reports regarding their business and operations available to the DICJ for record and, or, inspection, and must report to the DICJ all matters requiring approval or authorization from the Macau Government, including requests for changes in their shareholder structure, changes in directorship, key employees and gaming equipment, changes in control or some other changes and matters related to the operation of games of fortune.

Gaming Commission

The Gaming Commission is a specialized commission directly reporting to, and presided over by, the Chief Executive of Macau. Its responsibility is to study the development of Macau's gaming operations, to create and update the relevant regulatory framework, to supervise gaming operations and to formulate policies to guide gaming operations.

Business licenses for hotels and casinos

The installation and operation of a five-star hotel in Macau is subject to licensing by the Tourism Office of Macau, pursuant to Decree-law no. 16/96/M, which approved the legal framework applicable to hotel and similar businesses, and Regulation No. 83/96/M, which approved the regulation of the said legal framework. The said legal framework defines the process for the application and granting of hotel business licenses, following an inspection performed by several departments and authorities from the Macau Government to verify compliance with Macau laws, as well as the requirements for the installation and operation of hotels in general and five-star hotels in particular. The installation and operation of a casino business in the five-star hotel that will be erected on the Land, will be subject to the authorization of the DICJ, to be granted to a gaming operator licensed by the Macau Government to operate games of chance and other games in casino.

B. BUSINESS PLANS**Business Model**

PYE, through the business operation of Falloncroft and with the approval of the Macau Government, is planning to develop a luxurious, prestigious and exclusive hotel and casino complex on a prime site located in the south of the Cotai Strip in Macau. The complex will employ a hotel-casino business model, targeting the high premium cash casino market and the luxury boutique hotel segments.

High premium cash casino market segment

Patrons of casinos are generally categorised in two distinct groups, being the VIP market and the cash market, which is also referred to as the mass market.

VIP customers are individuals who have been referred to a casino by a gaming promoter, or junket operator. They wager with chips, often provided on credit by the gaming promoter, called rolling chips which cannot be cashed in but must be played. By use of these rolling chips, the gaming promoter and the casino can track the total amount of betting and determine the incentives which they may offer to the VIP customers, such as hotel rooms, complimentary food and drink, and rebates. VIP services are normally provided to gamblers who wager relatively large sums of money. However, due to the use of junket operators and the benefits given to their customers, the profit margin to the hotel casino owner, or service provider, is significantly reduced.

The other category of patron is the mass market customer. The mass market customer is not introduced to the casino through a gaming promoter and normally gambles with cash chips. They are not usually provided with free hotel rooms or other complimentary goods or services, but are free to gamble as they wish and cash out when desired. Although these patrons can be expected generally to wager smaller total sums of money, within the mass market there are a number of wealthy gamblers who wager substantial sums of money but travel to Macau independently and do not use or require the services of a gaming promoter. This category of the mass market is referred to as the high premium cash market. It is this group of gamblers which Falloncroft intends to attract as it is believed that this group offers the highest margins available to a hotel casino owner or operator.

Falloncroft intends to attract the high premium cash market by offering an unmatched luxury experience. The proposed hotel casino is intended to stand out from other hotel-casinos in Macau on the basis of its planned extravagant luxury and exclusivity.

Subject to obtaining approval of the Macau Government, the proposed casino will be operated through a service provider arrangement with the Operator which is one of the six concessionaires or subconcessionaires in Macau. It is proposed to offer approximately 66 gaming tables, consisting of approximately 50 high stakes mass market tables and approximately 16 VIP room tables, as well as approximately 150 slot machines. The minimum bets, and tokens and the minimum amount permitted to be wagered at its tables will be set at a comparative high level. Given the requirement to obtain the approval of the Macau Government for all the important aspects of Falloncroft's business plan, there may be substantial changes to these plans to accommodate the requirements of the Macau Government.

Luxury boutique hotel segment

The construction of the Project is scheduled to commence in 2013 and the complex is expected to open to the public in 2016. It is planned that the complex will have a distinctive sculptured design and prominent colour so that it will become a Macau landmark. It will be outfitted to the highest international specifications. The complex is planned to comprise a luxury hotel featuring individual two-storey, duplex suites varying in size, each with its own private lift lobby offering an extra level of privacy to its wealthy clientele. It is also expected that room rates will reflect the luxurious services provided and will be substantially higher than the rates for similar sized suites in other luxury hotel casino operations in Macau.

The complex will also aim at offering a complete package of luxury goods and premium services unique in Macau catering for the needs of its target customers. According to the current design plan, a shopping promenade featuring retail stores of well-known global brands offering bespoke, couture and l'atelier services unavailable elsewhere in Hong Kong or Macau. It is planned that access to these retail outlets to be within the complex, will be restricted to hotel guests and patrons only and generally on a by-appointment basis. Instead of charging high rentals, it is proposed to offer the retail operators a profit-sharing scheme based on sales turnover.

In addition to providing a personalised hotel and shopping experience, it is also planned for the complex to offer fine dining in a luxurious setting designed to meet the preferences of its primarily Chinese clientele. The complex is planned to include a dining area for casual all day dining serving authentic Chinese and international cuisine in the proposed casino area which will be for the exclusive use of the customers of the proposed casino. There will also be a fine dining restaurant serving French haute cuisine with a separate entrance for public customers. In keeping with the aim of attracting wealthy customers and offering the highest levels of quality and service, premium wines will be served along with the cuisine in keeping with the exclusive dining experience offered at the complex.

Strategy

Falloncroft's primary business strategy is to build on its core strength by focusing on providing an exclusive luxury experience for a niche market, comprising wealthy independent gamblers who will be attracted to the property by its unrivalled luxury and by the exclusivity of its retail tenants. Through its focus on the high premium cash market and its outsourcing of its proposed VIP tables to gaming promoters, it will avoid the risks inherent in providing credit to customers.

To operate through a hotel-casino model which aims to increase income derived from the hotel component

Falloncroft's strategy is to target the high operating margins which are expected to be earned from the high premium cash casino market and a luxury boutique hotel, rather than following the commonly adopted strategy of catering for a diversity of customers from the mass market to high-rolling VIPs.

To reduce credit and operational risk by transferring it to gaming promoters

In order to reduce credit and operational risks, it is proposed that gaming promoters will operate the casino's VIP tables, and, in return, the gaming promoters of the proposed casino will pay a fixed percentage of the gross gaming winnings generated by the VIP customers. Generally the gaming promoters offer credit to their customers to support their gaming activities. In order to retain top gaming promoters for the proposed casino, it has been decided that gaming promoters will be charged at a lower fixed percentage of revenue than its commonly charged by casinos in Macau. By engaging the gaming promoters with VIP tables and gaming services at a lower rate, the credit financing and volatility risks will be assumed by the gaming promoters.

To leverage off marketing and advertising benefits through third party retailers

In addition to employing direct marketing and advertising to create general market awareness of the Project, it is planned to partner with well-known international fashion houses and retailers to open shops offering a unique and exclusive range of limited edition items, couture fashions and bespoke luxury goods. The shops and retail area will have restricted access and it is planned that access will be generally by appointment only. By partnering with such fashion houses and retailers, it is envisaged that the complex will be able to leverage off the marketing and advertising of these retailers which are expected to be attractions themselves for wealthy customers. It is also anticipated that the partnering retailers will encourage their own VIP customers around the world to visit their outlets in the complex given the exclusive products and services that will be offered.

Competitive Strengths

Access to one of the world's largest gaming markets

Falloncroft intends to focus its development exclusively on the Macau market, which is one of the world's largest gaming market and the only location in China that offers legalised casino gaming. It is expected that the Macau gaming market will maintain its leading position in Asia as the prospects for continued revenue growth is expected to be supported by changes in China's underlying demographics and increasing regional wealth, more relaxed travel and currency restrictions in the longer term, and an increase in non-gaming investments. It is expected that the proposed hotel and casino complex will be well placed to take advantage of opportunities from this growing market.

Strong management team with a successful track record

The proposed management team has been responsible for the successful development and operation of some of the world's best known gaming resorts and have a proven track record.

Since 2006, Mr. Hung, a proposed director and Joint Chairman of PYE, has served as the Vice Chairman of Rio Entertainment Group, which operates the Rio Hotel and Casino through its affiliates in Macau. Mr. Hung's expertise in the casino industry and experience in dealing with ultra-high net worth Chinese clientele will provide the Group with a distinct advantage over other gaming enterprises in Macau.

Mr. Power, a proposed director and Chief Executive Officer of PYE, has 20 years of experience in the gaming and hospitality industry. He has held the positions as Chief Operating Officer of New Cotai Entertainment, an investor and developer of Macau Studio City, at well as Senior Vice President of Operations of Venetian Macau Limited. Mr. Power accumulated extensive experience through executive operational positions at casino resorts in the United States, Argentina, South Africa and the Philippines, in addition to his work in Macau.

Strategic location of the proposed hotel and casino complex and exclusive right to the Land

Upon completion of the Uni-Dragon SPA, Falloncroft will obtain the POA through New Concordia which will confer on New Concordia irrevocable and exclusive powers in respect of the Land thereby enabling the Group to develop the Land which is strategically located on the southwest side of Estrada de Seac Pai Van at Coloane, an area commonly known as "Cotai". Since the last decade, this area has been developed into a gambling and tourist area in Macau. With its proximity to some of Macau's largest and iconic hotels and casinos, the Land is easily accessible and is an attractive location for the proposed hotel and casino complex.

Operations of the gaming casino in the hotel

Falloncroft has also entered into the MOU with an affiliate of the Operator, which is one of the holders of a gaming concession or subconcession in Macau, in relation to the management and operation of a casino proposed to be opened in the hotel to be constructed on the Land, under which and subject to approval by the Macau Government, the Operator shall operate the gaming casino in the hotel and Falloncroft shall provide the Operator with an area in the hotel with utilities for gaming activities. The terms and conditions for the operations of the gaming activities by the Operator were still under negotiation as at the Latest Practicable Date and will be determined with reference to the terms of the prevailing market conditions, subject to approval by the Macau Government.

Project Overview

Pursuant to the project plan, the hotel casino is planned to encompass a total gross floor area ("GFA") of approximately 89,580 sq m, of which 74,300 sq m is planned for hotel and ancillary uses, the remaining 15,280 sq m is planned for car-parking and refuge floor purposes. The development period of the entire project is approximately three years and planned to become operational in 1Q 2016. The hotel casino will comprise of gaming rooms, food and beverage outlets and shops provided at the podium.

Construction of the hotel

Falloncroft entered into the Construction LOI on 19 November 2012 with Paul Y. Construction pursuant to which Paul Y. Construction will act as the project and construction manager for the development and construction of the hotel and casino proposed to be constructed on the Land.

The Construction LOI sets out the terms and conditions on which the formal contract for the construction and development of the Project shall be based. The scope of the formal contract comprises the management consultancy services for the development of the Project and the construction of the Project. The Construction LOI identifies the Project's basic parameters, including its design concept, expectation and user requirements. The parties have agreed amongst other things the price for the provision of the project management consultancy services and the construction of the Project, a basic timeline for the construction and development of the Project, and the scope of work and obligations of Paul Y. Construction in the construction and development of the Project. In the event that the formal contract, when entered into, is a continuing connected transaction for PYE, PYE will make an announcement, and comply with the requirements under Chapter 14A of the Listing Rules, in relation to the contract.

Employees, staff and other personnel*Senior management*

Mr. Hung is currently a director of Falloncroft and each of Mr. Coker and Mr. Power is a proposed director of Falloncroft, who will form the senior management team of Falloncroft responsible for the development and operation of the Project. To reinforce the prestige image of the proposed hotel and casino complex, it is planned to maintain a staff-to-customer ratio higher than other casino operators, with a view to providing personalised services to the target customers.

Gaming promoters

Gaming promoters are individuals or corporations licensed by and registered with the Macau Government to promote games of fortune and chance or other casino games to patrons, through the arrangement of certain services. Their activities are regulated by the Macau law. It is anticipated that the gaming promoters retained will introduce VIP customers to the proposed casino and will be assisting their customers in their travel, dining and entertainment arrangements.

Falloncroft intends to explore opportunities to enter into and develop relationships with independent third party gaming promoters, who will have access to larger VIP client bases and the capabilities to promote the proposed casino to allow it to tap into a wider source of revenue.

Due diligence review

PYE and its professional advisers had (1) inspected the constitutional documents of the Falloncroft Group and Empresa, including certidão do registo commercial (商業登記證明) or

certificate of incorporation and memorandum and articles of association; (2) reviewed the existing books, records and financial information of the Fallcroft Group, as provided by Pride Wisdom; (3) inspected all material contracts, agreements and documents entered into by Fallcroft, as provided by Pride Wisdom, including the Uni-Dragon SPA and the MOU; (4) obtained a Macau legal opinion on legality and validity of the Acquisition and the POA, and on legal and regulatory requirements governing the building/construction industry, gaming industry and hotel industry; and (5) inspected the documents relating to title and ownership of the Land, including the land grant.

C. DETAILS ON THE POA**Principal terms of the POA**

The POA will confer to the grantee special powers in connection with and specific to the Land and with the existing and future constructions thereon to:

- i. negotiate with the Macau Government to review the concession contract by lease, taking any decisions in that regard, including on the contractual clauses relating to the term, development and purposes, premiums and other charges and require the renewal of the permanent concession at the end of their term;
- ii. request the transmission of the right resulting from the land concession, irrespective of being temporary or permanent, receive the deposit, following deposits and its price, and provide for their discharge;
- iii. accept the terms and conditions of such transmission;
- iv. enter into undertaking to sell, transfer or otherwise dispose of and sell the Land or the ownership of the building that will be built there, with such price and conditions as deemed fit and convenient, receive deposit payments, the price, issuing invoices and receipts;
- v. enter into promissory sale and purchase contracts with promissory buyers, with or without real nature and effects, with or without promise of mortgage, authorize the assignment of the contractual position of promissory buyer, and execute the sale and purchase deed;
- vi. administer and manage the constructions, including signing agreements with developers and contractors and practicing all such acts and executing all such agreements with the purpose of developing the Land fully and completely;
- vii. mortgage or charge in other manner, including assigning the income of the property in favor of lenders, including banks and other credit institutions;
- viii. rent, renew, terminate, or in any way to terminate the lease of the property or the buildings erected on it, receive rents, even those deposited, deposit of rents and other payments;

- ix. provide preliminary studies, preliminary plans of construction, plans of change, of specialty or similar documents; apply for plans, alignments and sewage plans; apply for construction licenses, its extension or revalidation, surveys, occupancy permits, and apply for the allocation of police numbers and tax registration (matrix article), receive notices, notifications and related documents;
- x. perform repair works, construction, beneficitation and decoration, requiring, when necessary, the related licenses;
- xi. apply for real estate registration of acts, namely the provisory establishment of strata title and its conversion into definitive, as well as temporary records of purchase;
- xii. apply for tax assessment, pay taxes, complain of unfair or excessive, receive the evidence of cancellation and the amounts thereof;
- xiii. exercise legal powers and the special powers to withdraw, confess and make settlements, or refraining from receiving fees from parties, being summoned and notified, represented in court and any court proceedings, should such circumstances the substitute powers in lawyer or solicitor duly constituted;
- xiv. ship and receive correspondence, reports and other forms of communication related to the Land and other business signed under this authorization; and
- xv. in general, do all such acts that the attorney in its sole and absolute discretion considers necessary, useful or convenient for the full compliance with this mandate, intended to carry out the development of the Land.

D. OTHER INFORMATION RELATING TO THE LAND AND THE GAMING CONCESSION**Legal and regulatory requirements in respect of the construction and development of the Land**

There are various approvals, licenses or permits which will be required for the construction and development of the Land, being the usual Macau Government approvals, licenses or permits, as would be required for all property developments in Macau under the laws of Macau. These include plans, to be approved by the Macau Land and Public Works Department (such as plans relating to foundation, structures and construction works etc.), and licenses or permits (such as the “License for Construction Works” issued by the Macau Land and Public Works Department, and the “Occupancy Permit” issued by the Macau Land and Public Works Department etc.). Under the laws of Macau, such licenses and permits must be applied for by the leaseholder or by its attorney. Under the POA, New Concordia will be granted the powers to submit proposals for construction projects and any technical submissions required thereon or requested by the Macau Government and perform construction works and apply for the related licenses.

The Uni-Dragon SPA provides that Empresa shall: (i) pending completion of the Uni-Dragon SPA, at the costs of Falloncroft, make such statutory submissions and/or applications for

the development of the Land prepared by Falloncroft as Falloncroft may reasonably require; and (ii) after completion of the Uni-Dragon SPA, at the costs of New Concordia, provide assistance to New Concordia in making statutory submission and/or applications to the Macau Government and utilities companies for the development of the Land. No further consideration is payable to Empresa in relation to the aforesaid obligations of Empresa under the Uni-Dragon SPA.

The gaming concessions and subconcessions

Following its decision to open Macau's gaming industry, the Macau Government granted gaming concessions to three concessionaires in 2002. The Macau Government subsequently and successively authorized three subconcessions, permitting each of the three concessionaires to enter into subconcession contracts with their respective subconcessionaires to operate casino games and other games of chance in Macau. The concessionaires and subconcessionaires may also operate other gaming-related activities, subject to the prior approval from the Macau Government. No further granting of subconcessions is permitted unless specifically authorized by the Macau Government. The concessionaires will continue to develop and operate hotel and casino projects that are independent from their respective subconcessionaires. If a concession is terminated for any reason, the relevant subconcession will remain in effect.

The existing concessions and subconcessions do not place any limit on the number of casinos or gaming areas that may be operated under each concession or subconcession, although Macau Government approval is required before a concessionaire or subconcessionaire can commence operation of a casino or gaming area.

The concessions and the subconcessions are granted for a fixed number of years and will expire in the future unless extended or renewed pursuant to the Macau law. Upon expiry of a concession or subconcession, all of the casino premises and gaming-related equipment of the relevant concessionaire or subconcessionaire would be automatically transferred to the Macau Government without compensation.

Information on the holder of the gaming concession on subconcession

The Operator is one of six companies licensed and authorized by the Macau Government, through concessions or subconcessions, to operate games of fortune and chance or other games in casinos in Macau. The principal activity of the Operator is casino operations and investment holding. The Operator operates a number of integrated casino hotels in Macau and clubs with gaming machines as its non-casino based operations.

The Operator is a subsidiary of a listed gaming and entertainment company with its shares traded on the Stock Exchange. Such listed group is a developer, owner and, through the Operator, operator of casino gaming and entertainment resort facilities, with a focus on the Macau market.

E. RISK FACTORS

There are a number of risks and uncertainties inherent in hotel casino operations (subject as may be approved by the Macau Government). These risks and uncertainties can be categorised into two areas: (1) the business; and (2) the gaming industry in Macau.

(1) Risks relating to the business**Reliance on the Operator for the proposed casino operation**

Subject to obtaining the approval of the Macau Government, the proposed casino operation will be conducted through the Operator which is one of the concessionaires or subconcessionaires in Macau. The Company may continue with the operation of games of chance or other games in casinos in Macau with another operator, subject to agreement with another operator and authorization from the Macau Government.

Concession termination risk

Following its decision to open Macau's gaming industry, the Macau Government granted gaming concessions to three concessionaires in 2002. The Macau Government subsequently and successively authorised three subconcessions, permitting each of the three concessionaires to enter into subconcession contracts with their respective subconcessionaires to operate casino games and other games of chance in Macau. The Macau Government has the right to unilaterally terminate these concessions and subconcessions without compensation in the event of non-compliance with the terms of these concession and subconcession contracts as well as the applicable Macau laws. Upon such termination, all of the casino area premises and gaming-related equipment of the non-compliant concessionaire or subconcessionaire (as the case may be) would be automatically transferred to the Macau Government without any compensation. Currently, there is no precedent on how the Macau Government will treat the termination of a concession or subconcession.

Dependence on the gaming revenue

The revenue generated by the proposed casino business will largely derive from the difference between the casino winnings and the winning of the casino patrons. There is an inherent element of chance in the gaming industry and the Company does not have full control over the probability of winnings. If the winnings of the casino patrons exceed the casino winnings, the proposed business may record a loss from the gaming operations and the financial condition and results of the operations could be materially and adversely affected.

Dependence on a single property

The Company's operation will be conducted on one property and therefore it will be subject to greater risks than other companies with multiple operating properties. Any issues affecting the Company's or Falloncroft's right to use or develop the Land, or events affecting the customers' access to the Land, may have a significant impact on the Company's ability to carry out its business.

Development risks of the Project

Currently, the Project is expected to comprise a casino with 66 gaming tables, consisting of approximately 50 high stakes mass market tables and approximately 16 VIP room tables, as well as approximately 150 slot machines with minimum bets that are set at a comparatively high level, a luxury hotel featuring individual two-storey, duplex suites of varying size, a shopping promenade featuring retail stores of well-known global brands offering bespoke, couture and l'atelier services unavailable elsewhere in Hong Kong or Macau, as well as a dining area for casual all day dining serving authentic Chinese and international cuisine and a fine dining restaurant serving French haute cuisine.

However, as the Company is still at the early stage of the development of the Project, the development of the Project may not proceed according to the currently contemplated design, schedule or budget. The features of the Project described in the this circular may be subject to change due to the continuous fine tuning of the Company's plans or due to circumstances which are beyond the Company's control. As such, the Company may encounter significant delays and budget overrun in the development of the Project.

The proposed gaming business will depend on the ability to attract and retain a sufficient number of qualified employees to run the operations

The Company's ability to maintain its competitive position is, to a large extent, dependent on the efforts, skills and continued service of key management and operating personnel. The loss of key management and operating personnel may have an adverse impact on the Company's business.

Effectiveness of anti-money laundering and anti-corruption policies

The gaming business is subject to the anti-money laundering and counter-terrorist financing legislation envisaging the prevention and repression of money laundering and terrorism crimes. Casinos are bound by strict legal requirements to carry out customer due diligence measures and report suspicious money laundering and terrorist financing transactions.

In 2010, the new Law for Prevention and Suppression of Bribery in the Private Sector became effective with a clear intention to promote integrity management among enterprises in Macau and establish a clean and fair business environment.

Any incidents or accusations of money laundering and corruption involving the Company, its employees, gaming promoters or patrons would have an adverse impact on the Company's reputation, business, cash flows, financial condition, relationship with the regulators, and prospects of the operations.

The proposed gaming business is subject to cheating and counterfeiting

Players in the proposed casino or gaming areas may attempt to commit fraud or cheat in order to increase winnings. This could involve the use of counterfeit currency, chips or other tactics, possibly in collusion with the Company's employees. Internal acts of cheating are also a possibility and failure to discover such schemes in a timely manner could result in losses in the Company's proposed gaming operations.

Ability to retain the key management personnel

The Company's ability to maintain its competitive position is dependent to a large degree on the efforts, skills and continuous service of Mr. Hung, a proposed director and Joint Chairman of PYE, and other key management and operating personnel, namely Mr. Power and Mr. Coker. In the unlikely event that the Company loses the services of Mr. Hung, Mr. Power or Mr. Coker, the Company's ability to carry out its business may be impaired.

No direct operating history

The Project is currently under planning and construction. It is anticipated that the proposed hotel and casino (subject as approved by the Macau Government) will open for business in 2016. The operations are subject to business, economic, regulatory and competitive uncertainties, which are beyond the control of Falloncroft and the Company. It may be difficult for Falloncroft and the Company to prepare for and respond to these types of risks compared to a company with longer operating history. However, the Company believes the management of Falloncroft and the Company has sufficient experience in the hotel and gaming industry and will be able to manage these risks successfully.

The hotel casino business (subject as may be approved by the Macau Government) is currently under development and there is limited historical information available about the business operation. The Company may encounter risks and difficulties frequently experienced by companies with early stage operations, and those risks and difficulties may be heightened in a rapidly developing market such as the gaming market in Macau. The Company may not be able to operate the business in the manner the Company contemplates and generate revenues in the amounts and by the times the Company anticipates.

Dependence on gaming promoters and customers

The Company will be dependent on the reputation and integrity of the parties with whom the Company engages in business activities. This is crucial to the Company's operation in compliance with the service provider arrangement and Macau gaming laws. Failure to maintain the required standards of probity and integrity may result in severe penalty or consequences from gaming regulators or cancellation of the service provider arrangement.

Although the Company will seek to establish direct relationships with high premium mass market patrons and VIP patrons, it is expected that a portion of the proposed casino revenues and gross gaming win will be generated by VIP patrons introduced by gaming promoters. The ability to maintain relationship with the gaming promoters will influence on the retention of gaming customers. The loss of business from key VIP gaming patrons or a reduction in play by VIP gaming patrons could adversely affect the proposed business's financial condition.

Ability to obtain funding to finance its operations in the future

Further to the Placing, the Company may require new or additional debt or equity financing in the future to expand the business and fund future projects. The Company's ability to source new financing will depend on a variety of factors including the Company's financial performance, conditions of the global capital markets at prevailing time, credit availability, interest rates, and the conditions of the economy in general. If the Company is unable to obtain new financing, the Company may not be able to expand the business as planned or to fund other future projects, and the Company's business, financial condition and results of operations could be materially and adversely affected.

(2) Risks relating to the gaming industry in Macau**Fierce competition in Macau and other parts of Asia**

The casino, hotel and convention businesses in Macau are competitive, and the Company expects to encounter increasing competition as developers and operators complete and open new projects in the future. In the last five years, there have been several casino openings and expansions, including Encore at Wynn Macau, City of Dreams, Casino L'Arc Macau, Casino Lan Kwai Fong Macau, Casino Oceanus and Jimei Casino, and as of 30 September 2012, there were approximately 17,029 slot machines and 5,497 gaming tables in Macau.

It is possible that additional concessionaires or subconcessionaires may be granted by the Macau Government and therefore additional casinos will open in the future. This might result in increasing competition in the Macau gaming sector.

Sensitivity to economic downturn, economic uncertainty and other factors affecting discretionary consumer spending

Demand for luxury service and gaming-related services in general are particularly sensitive to global economic downturn. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions. However, as the Company plans to target the extremely wealthy and ultra-high net worth Chinese customers, the risks associated with economic downturn can be partially reduced as the target customers and the high premium mass market are less sensitive to global economic downturn.

The gaming industry is highly regulated

Gaming is a highly regulated industry in Macau. The Company's operations are contingent upon the Company maintaining all regulatory licenses, permits, approvals, registrations, findings of suitability, orders and authorizations pursuant to Macau law. In addition, the Company's activities in Macau are subject to administrative review and approval by various agencies of the Macau Government, including DICJ, Health Department, Labour Bureau, Public Works Bureau, Fire Department, Financial Services Bureau (including the Tax Department), Macau Monetary Authority, Financial Intelligence Bureau and Macau Government Tourism Office. The Company cannot assure the investors that the Company will be able to obtain all necessary approvals and licenses. Laws and regulations that are currently applicable to the Company and the Project may change over time or become more stringent, imposing additional regulatory obligations on the Company and the Company may incur additional compliance cost as a result. There had been a number of major changes in the regulation of the Macau gaming industry in recent years and the regulatory environment may continue to evolve, such as the imposition of a cap of 1.25% of rolling chip volume on gaming promoter commission, smoking ban on gaming floors, raising the minimum legal age for entering casinos from 18 to 21 years and the imposition of a cap on the current number of gaming tables in Macau and on the growth in the number of gaming tables in the future.

There are limited precedents interpreting and applying Macau laws and regulations concerning gaming and concessions. These laws and regulations are complex, and a court or administrative or regulatory body may in the future render an interpretation of these laws and regulations that differs from the Company's interpretation or issue new or modified regulations that apply to the Company. Furthermore, although administration actions can be redressed through courts under Macau laws, such redress has not been widely tested with respect to gaming matters.

Conducting business in Macau involves certain economic and political risks

Changes in Macau's and China's political, economic and social conditions will affect the business operating environment in Macau's economy. Other factors which may affect business operation in Macau include but are not limited to governmental policies, changes in Macau laws or regulations with regard to gaming industry, changes in exchange control regulations, potential restrictions on foreign investment and repatriation of capital, and travelling policies pertaining to Chinese citizens.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of the incorporation in this circular, received from Colliers International (Hong Kong) Limited, an independent valuer, in connection with its valuation of the property as at 1 November 2012 to be acquired by the Group.



Colliers International (Hong Kong) Ltd
Valuation & Advisory Services
Company Licence No: C-006052

Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong



5 January 2013

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

Dear Sirs,

Re: Valuation of Lote 1, Estrada de Seac Pai Van N° S/N, Aterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region (the “Property”)

INSTRUCTIONS

In accordance with your instructions for us to value the Property in relation to the acquisition of the entire issued share capital of Falloncroft Investments Limited (the “**Target Company**”) and its subsidiaries (the “**Target Group**”) by Paul Y. Engineering Group Limited (the “**Company**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary to provide you with our opinion of the values of Lote 1, Estrada de Seac Pai Van N° S/N, Aterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region (the “**Property**”) as at 1 November 2012 (the “**date of valuation**”).

BASIS OF VALUATION

Our valuation is on the basis of the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

VALUATION STANDARDS

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 to Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited. Our valuation has been carried out in accordance with the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors.

VALUATION RATIONALE

We have valued the Property held for future development by using the Residual Approach. Due to the lack of relevant land comparables, we consider that the Residual Approach is the most suitable method in assessing the value of the Property. The Residual Approach is commonly used in assessing the value of land with development or redevelopment potential. It assesses the value of the Property by calculating the gross development value of the proposed development, as if completed at the date of valuation, and then deducting the estimated development costs. These deductions include the construction costs provided by the qualified quantity surveyor, professional fees, finance charges, developer's profit and contingencies. The gross development value of the proposed development represents the value of the optimal development to be built on the Property, which is assumed to be completed and in operation as at the date of valuation. There is no approved building plan for the Property as at the date of valuation. We have been provided with a proposed development scheme for the Property by the Company and we consider that the scheme is an optimal and reasonable scheme under the existing market conditions as well as the current legal and contractual stipulations for the development of the Property. Thus, we consider that the Property can be developed and completed in accordance with the proposed development scheme provided to us. The Residual Approach assumes that all expenditure and income occurs as a single sum at a specific point of time, i.e. the date of valuation, and all that the market information on property price and rentals will remain the same at the date of completion of the project.

TITLE DOCUMENTS

We have not been provided with copies of any title documents related to the Property. We have not examined the original documents or conducted any searches to verify the existing titles to the Property or any material encumbrances that might be attached to the Property or any lease amendments. However, we have conducted a land search at the Land Registry (Conservatória do Registo Predial) in Macau to check the title and encumbrances of the Property and review the land grant concession as published in the official gazette. All documents have been used for reference only. In the course of the valuation, we have also taken into account the legal opinion from Leonel Alves' Law Firm (the "Macau Legal Adviser") which acknowledges that the pecuniary premium of the Property has been fully settled and the title of the Property is clear and free of encumbrances. The Property can be freely transferred upon the completion of the development.

SITE INSPECTION

We have inspected the Property to such extent that we consider necessary for this valuation. An external inspection of the Property was carried out by Gregory Tam, a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors, on 17 November 2012. However, we have not carried out investigations to determine the suitability of the ground conditions and service etc. for any developments and we assume no liability on these aspects. Our valuations have been prepared on the assumption that these aspects are satisfactory.

ASSUMPTIONS AND CAVEATS

Our valuation has been made on the assumption that the Property would be sold in the open market in its existing state, with the benefit of vacant possession, and a memorandum of understanding (“MOU”) dated 16 April 2008 between the Target Company and an affiliate of one of the holders of a gaming concession or subconcession in Macau. The MOU is understood to be in relation to the management and operation of a casino in the proposed development on the Property, which was supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012. As opined by the Macau Legal Adviser, it does not foresee any difficulties in obtaining approval from the Macau Government on the arrangement as contemplated under the MOU. In case the approval cannot be obtained, the Company may be able to explore other arrangements with another one of the concessionaires or subconcessionaries and continue with the operation of the proposed casino with another operator based on the same development scheme, subject to the agreement with another operator and the authorization from the Macau Government. Other than the MOU, we have disregarded all other benefits of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements that could affect the value of the property interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values. Where necessary, we have adopted the exchange rates for US dollars (“US\$”) to Hong Kong dollars (“HK\$”) at a rate of US\$1 = HK\$7.7499 and Macau Patacas (“MOP”) to Hong Kong dollars (“HK\$”) at a rate of MOP1 = HK\$0.9700, being the prevailing rate at the date of valuation.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as a reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

There is no approved building plan for the Property as at the date of valuation. We have been provided with a proposed development scheme for the Property by the Company and we consider that the scheme is an optimal and reasonable scheme under the existing market conditions as well as the current legal and contractual stipulations for the development of the Property. We have assumed that the Property will be developed and completed in accordance with the proposed development scheme provided by the Company and the proposed development scheme will be approved by the relevant government authorities without payment of any extra land premiums or land use rights fees or other onerous monies.

We have relied to a very considerable extent on the information given by the Company and the Target Group and have accepted advice given to us on matters including planning approvals, statutory notices, easements, proposed development and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Target Group. We have also sought confirmation from the Company and the Target Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view and have no reason to suspect that any material information has been withheld.

The valuation arrived at has not been determined by reference to comparable market transactions, which is the most reliable method for valuing property assets and the most common method used for valuing properties in Hong Kong and Macau, because of the lack of comparable market transactions in the locality in which the Property is situated. This valuation has used the residual method which is generally acknowledged as being a less reliable valuation method. The residual method is essentially a means of valuing land by reference to its development potential by deducting costs and developer's profit from its estimated completed development value. It is commonly used in assessing the value of land with development or redevelopment potential. It relies upon a series of assumptions made by the valuer which produce an arithmetical calculation of the expected current sale value as at the date of valuation of a property being developed or held for development or redevelopment. Where the Property is located in a relatively specialized or under-developed market those assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised its professional judgment in arriving at the value, investors are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

Our valuation certificate is attached.

Yours sincerely,

For and on behalf of

Colliers International (Hong Kong) Limited

David Faulkner

FRICS FHKIS RPS(GP) MAE

Executive Director

Valuation & Advisory Services

Gregory Tam

MRICS MHKIS RPS(GP)

Associate Director

Valuation & Advisory Services

Note: Mr. Faulkner is a fellow member of the Royal Institution of Chartered Surveyors, a fellow member of the Hong Kong Institute of Surveyors and a practising Member of The Academy of Experts. He has over 30 years of experience in the real estate field and over 28 years of experience in valuation of properties in Hong Kong, Macau, the PRC and various Asian countries.

Mr. Tam is a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He has over 15 years valuation experience in the Asia Pacific Region.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value of the Property as at 1 November 2012 (HK\$)
<p>Lote 1, Estrada de Seac Pai Van N° S/N, Atterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region</p> <p>(the “Property”)</p>	<p>The Property is a vacant site situated at the junction of Estrada de Seac Pai Wan and Rua das Arvores do Pagode in Coloane, Macau. It is located at the southern fringe of the Cotai Strip, where various casino resorts are clustered. It comprises three parcels of land with a total site area of approximately 6,059 sq m.</p> <p>According to the land grant concession by the Order of the Secretary for Transport and Public Works No. 89/2007 dated 23 October 2007 and the subsequent amendments to such concession by the Order of the Secretary for Transport and Public Works No. 42/2009 dated 23 September 2009 (the “land grant concession”), the Property, as delineated as Lote 1 of a composite development site, is permitted for five-star hotel uses with a maximum gross floor area of 87,800 sq m, of which 74,300 sq m. is set aside for hotel use (excluding refuge floor) and the remaining 13,500 sq m for ancillary car parking use.</p> <p>The Property is part of a composite development site held under the land grant concession, for a term of 25 years commencing from 31 October 2007 for a comprehensive residential cum commercial development. Accordingly, the composite development site consists of 11 lots, including eight residential lots, one commercial lot, one single family lot and one five-star hotel lot.</p>	<p>The Property is currently vacant and pending for development.</p>	<p>2,118,000,000</p> <p>(Hong Kong Dollars Two Billion and One Hundred and Eighteen Million)</p>

Notes:

1. The Property is located at the southern fringe of the Cotai Strip, where various casino resorts are clustered. Existing casino resorts on the Cotai Strip included the Venetian Resort Hotel, Four Seasons Hotels and Resort, Sands Cotai Central, Galaxy Macau and City of Dreams. The Property is of approximately 5-minutes travelling distance to the cluster.
2. The average occupancy rate of Macau's five-star hotel market is 83.2% in 3Q 2012 with an average room rate of MOP1,674 in October 2012. For the Plaza Macao (Four Seasons Macau) which is the most luxury hotel on the Cotai Strip, the average occupancy rate in 2011 is 69.9% with an average room rate of MOP2,605. We consider that the proposed hotel development is of a higher and more luxurious standard than the existing hotel developments in Macau as all the rooms provided in the proposed hotel development are duplex suite units with room size ranging from approximately 204.4 sq m to 1,393.5 sq m.
3. According to the land search record (Informação por Escrito do Registo Predial) of the Property, the registered owner of the Property is Empresa de Fomento Industrial E Comercial Concórdia, S.A. (聯生發展股份有限公司) ("**Empresa**") vide the amendment of the land grant concession (Revisão da Concessão por Arrendamento) No. 32548F dated 9 October 2009. We acknowledge that the Target Company, on completion of the sale and purchase agreement dated 30 October 2012 between Concordia Property Development Holdings Limited ("**Concordia**"), Empresa and the Target Company relating to the entire issued share capital of Uni-Dragon Limited ("**Uni-Dragon**") and related shareholder's loan (the "**Uni-Dragon SPA**"), hold the entire issued share capital of Uni-Dragon, which is the legal and beneficial owner of all the issued shares of Manlink Limited ("**Manlink**") and Challenge Shore Limited ("**Challenge Shore**"). Manlink and Challenge shore in turn holds 60% and 40% respectively of Hotel Nova Concórdia, Limitada ("**New Concordia**") which, on completion, will be granted an irrevocable and exclusive power of attorney by Empresa in respect of the Property (the "**POA**").
4. It is stipulated under the land grant concession that the title to the Property is only transferrable after completion of the development of the Property and issuance of user license by the relevant authorities and while the Property has not been fully developed, the transfer of title has to be approved by the Macau Government in advance. In view of the land grant provisions, the irrevocable and exclusive power of attorney will be granted by Empresa to New Concordia to enable the Target Group to develop the Property.
5. According to the amendment of the land grant concession by the Order of the Secretary for Transport and Public Works No. 42/2009 dated 23 September 2009 (Despacho do S.T.O.P. N° 42/2009, Publicado No B.O. da Raem N° 38, II Série, de 23/9/2009), the Property, as delineated as Lote 1, comprises three parcels of land, namely C1, D1 and K18, with a site area of 2,245 sq m, 3,506 sq m and 308 sq m respectively. The total site area of Lote 1 is 6,059 sq m.
6. According to the official alignment plan (Planta De Alinhamento Oficial) No. 79/85/M dated 28 May 2012 and published by the Land, Public Works and Transport Bureau of the Macao Special Administrative Region ("**DSSOPT**"), the Property is planned for hotel use subject to a maximum gross floor area of 89,580 sq m and a height restriction of 100m N.M.M..
7. The salient conditions of the land grant concession dated 23 October 2007 and the subsequent modification dated 23 September 2009 in relation to the Property are summarized as follows:

Term	:	25 years commencing from 31 October 2007, renewable under the applicable law subject to the completion of the development and the payment of premium	
Site Area	:	6,059 sq m	
Uses	:	Five-star hotel	
Gross Floor Area (excluding refugee floor)	:	Five-star Hotel	: 74,300 sq m
		Ancillary car parking	: 13,500 sq m
Land Premium of the Parent Lot	:	MOP578,435,648 (under GN dated 23 October 2007) MOP111,533,515 (under GN dated 23 September 2009)	
		It have been confirmed by the Macau Legal Adviser that the pecuniary premium for the Property have been fully settled.	
Annual Rent	:	During construction period	: MOP20 per sq m of site area
		Upon completion	:
		Hotel	: MOP15 per sq m of GFA
		Ancillary car parking	: MOP10 per sq m of GFA

Building Covenant : Under the land concession grant dated 23 October 2007, the grantee is required to fulfil the Building Covenant within 60 months commencing from 31 October 2007 (i.e. 30 October 2012). Pursuant to an extension letter dated 3 May 2012 issued by the Land, Public Works and Transport Bureau in Macau, the building covenant was subsequently extended for a further 48 months to 30 October 2016. We have assumed that any additional premium or fines charged for the building covenant extension will be paid by Empresa.

8. According to the Letter of Intent (LOI) signed between PY Construction (Macau) Limited and the Target Company, we have valued the Property based on the following proposed development scheme:

User	Approximate Proposed GFA (sq m)
Five-star luxury hotel	54,255.4
Casino	8,918.7
Retail space	2,787.1
Restaurants	1,114.8
Common area	7,224.0
Total	74,300.0

The proposed five-star luxury hotel will provide 236 duplex suites, with size ranging from approximately 204.4 sq m to 1,393.5 sq m, including two Royal Suites, 14 Special Suites and 220 Suites.

The proposed casino will accommodate 66 table games of which 16 will be VIP gaming tables and 50 will be premium cash mass tables. There will also be 150 slot machines provided in the casino. The VIP gaming tables will be located within 11 private VIP rooms, six of which will be single-table rooms and five of which will be double-table rooms.

Approximately 125 car parking spaces and 30 motorcycle parking spaces are proposed to be built on the basement levels, constituting a total floor area of about 13,500 sq m.

9. According to the Company, a memorandum of understanding (“MOU”) dated 16 April 2008 has been signed between the Target Company and an affiliate of one of the holders of a gaming concession or subconcession in Macau. The MOU is understood to be in relation to the management and operation of a casino in the proposed development on the Property, which was supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012.

10. The key financial parameters adopted in the residual valuation are as follows:

(i)	Estimated gross development value	:	HK\$ 10,452,400,000
(ii)	Estimated construction costs	:	HK\$ 2,602,540,000
(iii)	Estimated professional fees and project management fees	:	HK\$ 555,800,000
(iv)	Estimated contingencies	:	HK\$ 476,300,000
(v)	Estimated closing expenses and pre-opening expenses	:	HK\$ 438,350,000
(vi)	Estimated finance charges on costs	:	HK\$ 533,700,000
(vii)	Estimated finance charges on land	:	HK\$ 591,500,000
(viii)	Estimated developer’s profit and risk margin	:	HK\$ 3,135,700,000

(i) The estimated gross development value is the value of the development as if completed and in operation as at the date of valuation. By making reference to the hypothetical development scheme provided by the Company as well as the market performance of the gaming sector and the luxury hotel sector in Macau, we have adopted a capitalization rate of 9.5% and applied it to the estimated net income flow of the completed development as at the date of valuation to yield the gross development value. The general market yield for the high quality hotels in Hong Kong is approximately 5%. There are additional risks and uncertainties inherent in the development and operation of casino resorts in Macau. The economy of Macau heavily relies on the gaming industry while the gaming operation is recognized as a high-risk business as it is highly dependent on the personal competence of the gaming promoters and the discretionary customer spending preference. Also, the operation of casinos in Macau is strictly regulated by the system of concessionaires and subconcessionaires whereas the Macau Government may unilaterally terminate the concession or subconcession with the operators for cause without compensation. Moreover, the proposed development is an ultra-luxury hotel cum casino resort targeting at the wealthy Chinese in Mainland China, in which its revenue is highly related to the economic development and the political stability of China as well as the discretionary preference of the target customers.

(ii) The estimated construction costs are provided by a qualified quantity surveyor and his report is enclosed herewith.

- (iii) The estimated professional fees and project management fees, as provided by the Company, are HK\$163,000,000 and HK\$392,800,000 respectively. They contribute approximately 4% and 9.6% to the total development costs respectively. We have compared the fees to those other construction projects in Hong Kong and China and we considered that they are in line with the general market practice.
- (iv) The estimated amount of contingencies at approximately 11.7% of the total development costs is provided by the Company. It is slightly higher than the general allowance provided in the general construction projects in Hong Kong (approximately 5-10%). We considered that the allowance is reasonable in view of the surging and volatile construction material and labour price in Macau and China as well as the complexity of the project.
- (v) The estimated closing expenses and pre-opening expenses, as provided by the Company, are HK\$38,350,000 and HK\$400,000,000 respectively. We considered the expenses are within the reasonable range by reference to the expenses incurred in previous casino projects in Macau.
- (vi) We adopt an interest rate of 8% for the finance charges. Comparing the common loan rate of about 5-7.15% for the general construction projects in Hong Kong, the interest rate for the subject development is relatively higher in order to reflect the additional location risk and project risk inherent in the proposed development. Under the residual model, we assume that the full development costs will be borrowed from financial institutions and only half of the development period carries the burden of loan interest payment due to the phased payment of the loan. The development period is approximately 3.2 years according to the development schedule provided by the Company. The length of the development period is in line with the construction period of general single-bloc developments of this type.
- (vii) Under the residual model in assessing the market value of the Property in the general market, we assume that the cost of acquiring the land will be fully financed by a loan.
- (viii) The estimated developer's profit and risk margin is at 30% of the gross development value. In comparing the general profit margin of 20-25% for hotel developments in Hong Kong, there are additional risks and uncertainties inherent in the proposed hotel cum casino development in Macau. The economy of Macau heavily relies on the gaming industry while the gaming operation is recognized as a high-risk business as it is highly dependent on the personal competence of the gaming promoters and the discretionary customer spending preference. Also, the operation of casinos in Macau is strictly regulated by the system of concessionaires and subconcessionaires. The proposed casino is required to be operated by one of the concessionaires or subconcessionaires subject to the approval of the Macau Government upon the completion of the development. Moreover, the Macau Government may unilaterally terminate the concession or subconcession with the operators for cause without compensation.

Annex – Cost Estimation Report provided by Qualified Quantity Surveyor

利比 RLB | Rider Levett Bucknall

5 January 2013

Paul Y. Engineering Group Limited
16/F., Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

**Construction Cost Estimate for the Proposed Hotel Development at
Lot 1 of Concordia, Coloane, Macau**

A. Introduction

The purpose of this estimate is to provide an indication of the likely level of construction cost as at 1 November 2012 for the development to be developed by Paul Y. Engineering Group Limited.

The development is at the early conceptual stage at the moment. The cost estimate is based on the preliminary conceptual design drawings as provided by your office available to us.

B. Description of the Project

It is a hotel and casino at Lot 1 of Concordia, Coloane, Macau.

The development includes the following:

1. 74,300 sq m for Hotel and Casino;
2. 13,500 sq m for carpark in basement and ground floor;
3. The total gross floor area (“GFA”) excluding refuge floor is 87,800 sq m.

For Hotel portion, there are about 236 suites and the distribution is as follows:

- 220 keys in 2,200 sq ft each;
- 14 keys in 5,000 sq ft each;
- 2 keys in 15,000 sq ft each with car access.

For Casino portion, subject to obtaining the approval of the Macau Government, there are about 66 gaming tables and the distribution is as follows:

- 16 No. of VIP gaming tables;
- 50 No. of mass gaming tables.

The site area is approximately 6,059 sq m (Lot 1).

The proposed construction floor areas are summarized as follows:

	Gross Floor Area (sq m)
Above Ground Level	
Suite	53,530
Casino (Including Pools and Back-of-House (“BOH”))	8,830
Hotel (Including Lobby, Circulation, Dining, BOH and others)	11,940
Sub-total:	74,300
Basement Level	
Carpark (Including E&M and others)	13,500
Sub-total:	13,500
Total of Hotel, Casino and Carpark:	87,800
Refuge floor	1,780
Total:	89,580

C. Basis of the Estimate

The Estimate is based on current rates in construction market as at 1 November 2012. The assessment of cost is based on our experiences of cost estimation in Macau and is made on cost projections from other unrelated but similar developments in the locality. The cost per square meters of the construction floor area is adopted in this Estimate.

It is considered that the Estimate is based on the contractual arrangement for this project in Management Contract with Guarantee Maximum Price (“**GMP**”) and a normal construction period. Allowance has been made for possible future cost fluctuations in order to control the construction cost within the GMP.

The Estimate is solely the construction cost and does not include the value of land and any evacuation cost, professional fees, operation cost, financial and legal expenses and project management fees.

Certain preliminary conceptual design drawings are provided to us for the Estimate preparation. It should be noted that the actual site conditions, design and specification, type of contractors to be selected, etc. may all affect construction costs. According to this, we reserve the right to make necessary revisions to this report in the event of additional or new information provided.

D. Construction Cost Estimate

The estimated total construction cost of the development as at 1 November 2012 is summarized as follows:

Descriptions	Estimated Construction Cost (HK\$ 'Million)
1. Site Investigation, Preparation and Initial Works (including Site Formation)	21.21
2. Piling and Substructure (including Excavation)	159.29
3. Structural frame (including Windows, Doors, Partitions, Structural frame for Basement)	292.14
4. Hotel	
4.1 Fitting Out Works	612.25
4.2 M&E Installation (including Car lift to Royal Suite)	530.92
4.3 Roof Garden	7.63
	Sub-total (4): 1,150.80
5. Casino	
5.1 Fitting Out Works	103.46
5.2 M&E Installation	66.27
	Sub-total (5): 169.73
6. Carpark	
6.1 Fitting Out Works	57.81
6.2 M&E Installation	107.15
	Sub-total (6): 164.96
7. Curtain Wall	189.73
8. External Works	4.04
9. Other Trades/FF&E/Installation	171.80
	Sub-total (1 – 9): 2,323.70
10. Preliminaries (12%)	278.84
	Total: 2,602.54

Yours faithfully,

Stephen Lai

Managing Director

For and on behalf of Rider Levett Bucknall Limited

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of the incorporation in this circular, received from Colliers International (Hong Kong) Limited, an independent valuer, in connection with its valuation of the property as at 1 November 2012 to be acquired by the Group.



Colliers International (Hong Kong) Ltd
Valuation & Advisory Services
Company Licence No: C-006052

Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong



5 January 2013

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

Dear Sirs,

Re: Valuation of the Project Value of the Proposed Hotel Development on Lote 1, Estrada de Seac Pai Van N° S/N, Aterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region (the “Project”)

INSTRUCTIONS

In accordance with your instructions for us to value the entire interest in a proposed five-star hotel cum ancillary retail and entertainment facilities (including gaming facilities) (the “**Project**”) related to the development and operations of a plot of land, known as Lote 1, Estrada de Seac Pai Van N° S/N, Aterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region (the “**Land**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the values of the Property as of 1 November 2012 (the “**date of valuation**”). We understand that the valuation analysis is related to the acquisition of the entire issued share capital of Falloncroft Investments Limited (the “**Target Company**”) and its subsidiaries (the “**Target Group**”) by Paul Y. Engineering Group Limited (the “**Company**”) and that the valuation is prepared according to the assumptions and information provided by the Company.

We understand that the Company, with our consent, will disclose this letter in the circular to the shareholders and to The Stock Exchange of Hong Kong Limited (the “**HKEx**”) in accordance with the requirements of the Rules Governing the Listing of Securities on the HKEx (the “**Listing Rules**”). No third party is entitled to rely on the report. We accept no responsibility or liability to any third party whatsoever in respect of the contents.

PROJECT OVERVIEW

The Project is the construction and operation of an exclusive luxury five-star hotel and entertainment complex on the Land which forms part of a larger comprehensive development on Coloane Island, Macau. Pursuant to the plan of the Company, the Project is planned to encompass a total gross floor area (“**GFA**”) of approximately 89,580 sq m, of which 74,300 sq m is for hotel and ancillary uses whereas the remaining 15,280 sq m is for carparking use and refuge floor use. The hotel portion, with a GFA of approximately 54,255 sq m, will provide 236 suites varying in size from approximately 204.4 to 1,393.5 sq m each with its own lift lobby. There will also be a complex of gaming rooms, food and beverage outlets and shops provided at the podium of the proposed hotel. The proposed casino, subject to the approval of the Macau Government, will provide 66 gaming tables and 150 slot machines to be operated by one of the Macau’s gaming concessionaires or subconcessionaires. A memorandum of understanding (“**MOU**”) dated 16 April 2008 between the Target Company and an affiliate of one of the holders of a gaming concession or subconcession in Macau, which was supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012, were made in relation to the management and operation of a casino in the proposed development. The development period of the Project is approximately three years and operations of the proposed development are planned to commence in 1Q 2016.

BASIS OF VALUATION

Our valuation is on the basis of the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

VALUATION STANDARDS

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules. Our valuation has been carried out in accordance with the HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors.

VALUATION RATIONALE

We have valued the Project by using the Income Approach. The income approach provides an indication of value by converting future cash flows to a single current capital value. We have adopted the Discounted Cash Flow Method (the “**DCF Method**”) in assessing the value of the Project. The DCF Method involves the discounting of the future cash flow on a yearly basis over the assumed cash flow period at an appropriate rate reflecting risk to derive a market value. The future cash flow refers to the net cash flow which comprises the cash inflows less the cash outflows over the cash flow period, with the addition of the terminal value in the final cash flow period.

Since the Project is at a very preliminary stage and has no historical track record, the value of the Project is subject to numerous assumptions adopted in the business plan and prospective financial information provided by the Company. To the extent that any of these assumptions or facts change, the result of the valuation conclusion may be different. With respect to the financial forecasts regarding the Company provided to or otherwise reviewed by us, it was assumed for the purposes of this valuation that such analyses and forecasts were reasonably prepared based on the assumptions reflecting the best currently available estimates and the judgements of the Company as to the expected future results of operations and financial conditions of the Project to which such analyses or forecasts relate. We can give no assurances, however, that such financial analyses and forecasts can be realized or that actual results will not vary materially from those projected. Also, the future income and outgoings quoted for the Project are projections formed on the basis of information currently available to us only and are not representations of what the value of the Property will be as of a future date.

It is confirmed by the Company that the business plan for the Project remains the same between the date of valuation and the issue date of this report. Having considered that none of the latest market data released by recognized institutes is significantly different from the assumptions adopted by the Company, and the Project is at very beginning stage of development, no substantial differences are expected on our valuation conclusion. Following these bases, it is believed that this valuation has incorporated relevant and timely information.

TITLE DOCUMENTS

We have not been provided with copies of any title documents related to the Land. We have conducted a land search at the Land Registry (Conservatória do Registo Predial) in Macau. However, we have not examined the original documents or conducted any searches to verify the existing titles to the Land or any material encumbrances that might be attached to the Land or any lease amendments. All documents have been used for reference only. In the course of the valuation, we have also taken into account the legal opinion from Leonel Alves’ Law Firm (the “**Macau Legal Adviser**”).

SITE INSPECTION

We have inspected the Land to such extent that we consider necessary for this valuation. An external inspection of the Property was carried out by Gregory Tam, a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors, on 17 November 2012. However, we have not carried out investigations to determine the suitability of the ground conditions and the service etc. for any development and we assumed no liability on these aspects. Our valuation has been prepared on the assumption that these aspects are satisfactory.

ASSUMPTIONS AND CAVEATS

Our valuation has been made on the assumption that the Project will be developed and completed in accordance with the latest development proposal and operated according to the business plan provided to us by the Company and that it would be sold in the open market upon completion, with the benefit of vacant possession, and a memorandum of understanding (“MOU”) dated 16 April 2008 between the Target Company and an affiliate of one of the holders of a gaming concession or subconcession in Macau, in relation to the management and operation of a casino in the proposed development, which was supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012. As opined by the Macau Legal Adviser, it does not foresee any difficulties in obtaining approval from the Macau Government on the arrangement as contemplated under the MOU. In case the approval cannot be obtained, the Company may be able to explore other arrangements with another one of the concessionaires or subconcessionaries and continue with the operation of the proposed casino with another operator based on the same development scheme, subject to the agreement with another operator and the authorization from the Macau Government. Other than the MOU, we have disregarded all other benefits of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangements which could affect the value of the property interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values. Where necessary, we have adopted the exchange rates for US dollars (“US\$”) to Hong Kong dollars (“HK\$”) at a rate of US\$1 = HK\$7.7499 and Macau Patacas (“MOP”) to Hong Kong dollars (“HK\$”) at a rate of MOP1 = HK\$0.9700, being the prevailing rate on the date of valuation.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have assumed that the Land will be developed and completed in accordance with the proposed development scheme provided by the Company within the scheduled time frame and the proposed development scheme will be approved by the relevant government authorities without payment of any extra land premium or land use rights fees or other onerous monies.

We have further assumed that the Company can raise the funds to finance and to develop the Project as planned and is able to yield the economic benefits as projected in the business plan. The construction and operation of the proposed casino is assumed to be approved by the Macau Government and the relevant operating agreement and license are able to be renewed after their expiration from time to time.

We have relied to a very considerable extent on the information provided by the Company and the Target Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, proposed development and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Target Group. We have also sought confirmation from the Company and the Target Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and have no reason to suspect that any material information has been withheld.

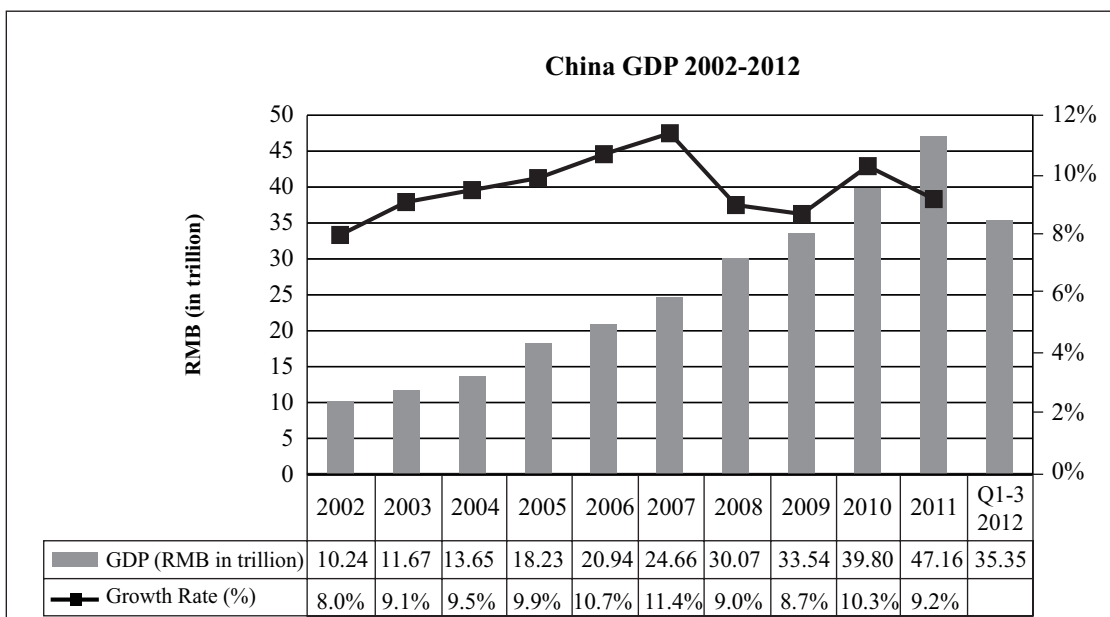
MARKET OVERVIEW

The information set out in the following sections relating to the related economy, industry and market is derived from various sources including but not limited to government publications and various unofficial sources including research, newspapers and journals from different industry practitioners and analysts. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, it should be noted that none of the reports cited was commissioned by us and no independent verification has been carried out on such information; we make no representation as to the accuracy of such information.

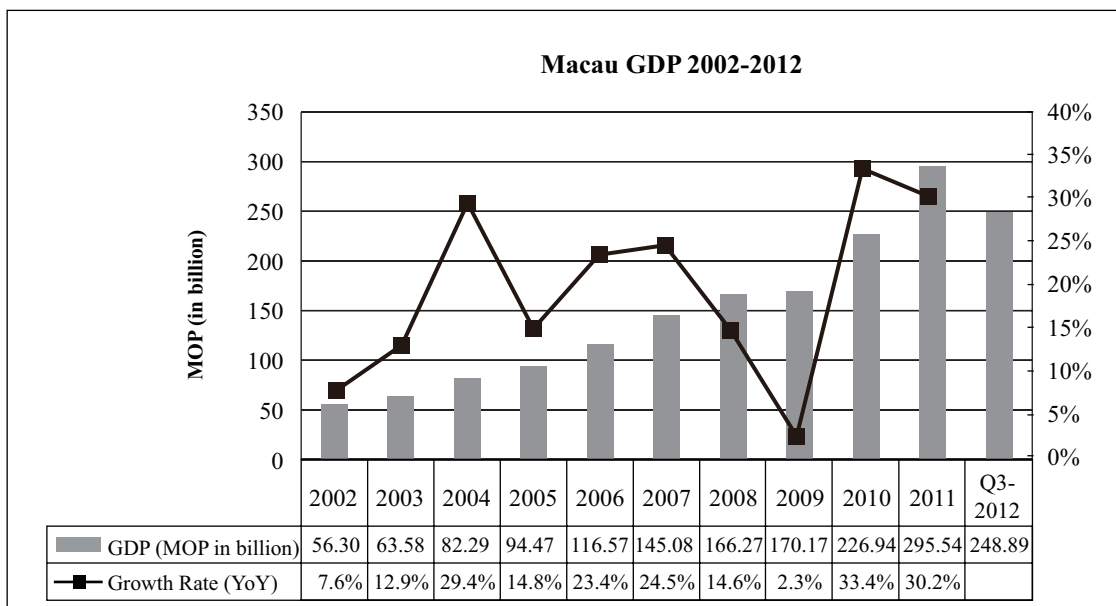
Economic Overview

Being one of the special administrative regions of China, Macau benefits from the robust economic growth of Mainland China. China has been the second largest economy in the world, after the US, since 2010. China is the world's largest exporter with an impressive average gross domestic product (“GDP”) growth rate of approximate 10% per annum for the past decade. In 2011, China's GDP growth was 9.2%, achieving RMB47.16 trillion. Despite the market consensus that expected China's GDP growth to slow to 8.1% this year, recent data indicated that China's economic slowdown may be bottoming out and the growth rate will pick up the momentum and accelerate again from 2013 onwards under the effective macro-control by the Chinese Government, the favorable foreign investment policy and the recovering global economy.

Macau has enjoyed double-digit annual economic growth since 2003. Despite the uncertain development of the sovereign debt issues in the Euro zone and the uninspiring pace of recovery in the US that is impacting growth in the global economy, the GDP in Macau in 2011 still continued its rapid growth by 30.2% year-on-year (“YoY”), achieving a record-high of MOP292.1 billion. The accumulated Macau GDP for the first three quarters in 2012 rose to MOP248.9 billion, up 17.9% in comparison with the same period of the previous year.

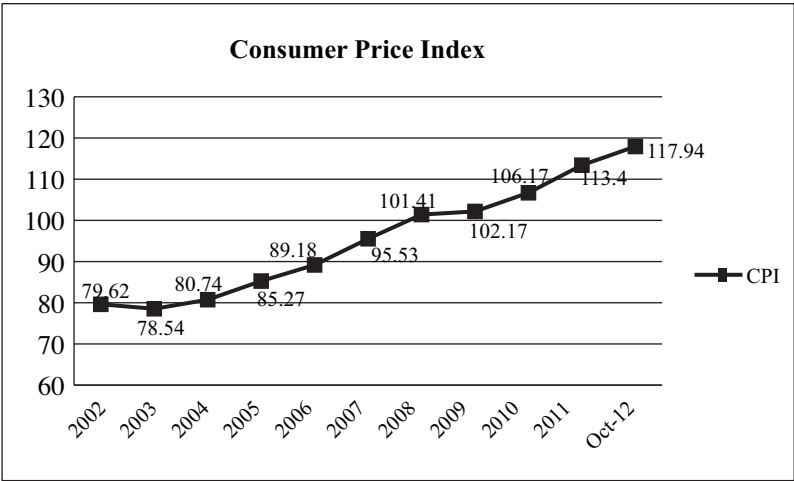


Source: National Bureau of Statistics of China



Source: DSEC

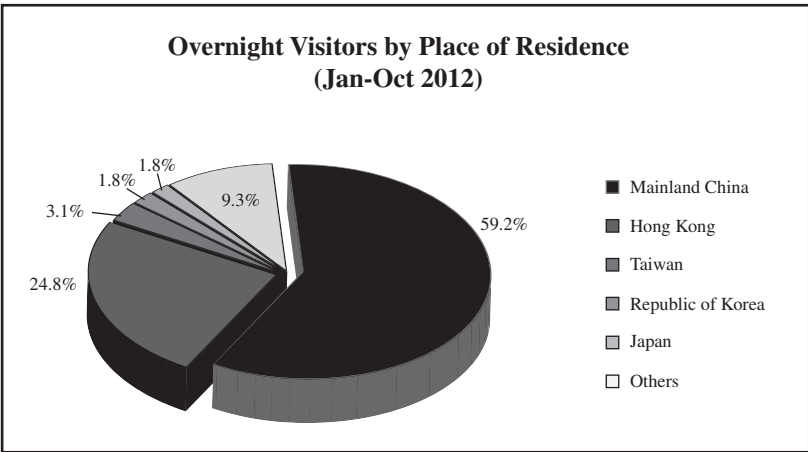
The Consumer Price Index (“CPI”) has continued its steady rising trend since 2003. In October 2012, consumer prices increased by 5.19% from the same period of last year.



Source: DSEC

2011 was the best year ever for Macau’s tourism market in terms of visitor arrivals. A historical high of 12.9 million overnight visitors has been recorded in 2011, representing an 8.4% increment when compared to 2010. In 2012, despite the mist of the Europe’s unresolved sovereign debt crisis and the economic slowdown in China, the growth of visitors still continued with 11.2 million overnight visitors for the first ten months of 2012, representing a 5% growth YoY. The total spending of visitors (excluding gaming expenses) amounted to MOP13.3 billion in 3Q 2012, up by 10% in comparison with MOP12.1 billion in 3Q 2011.

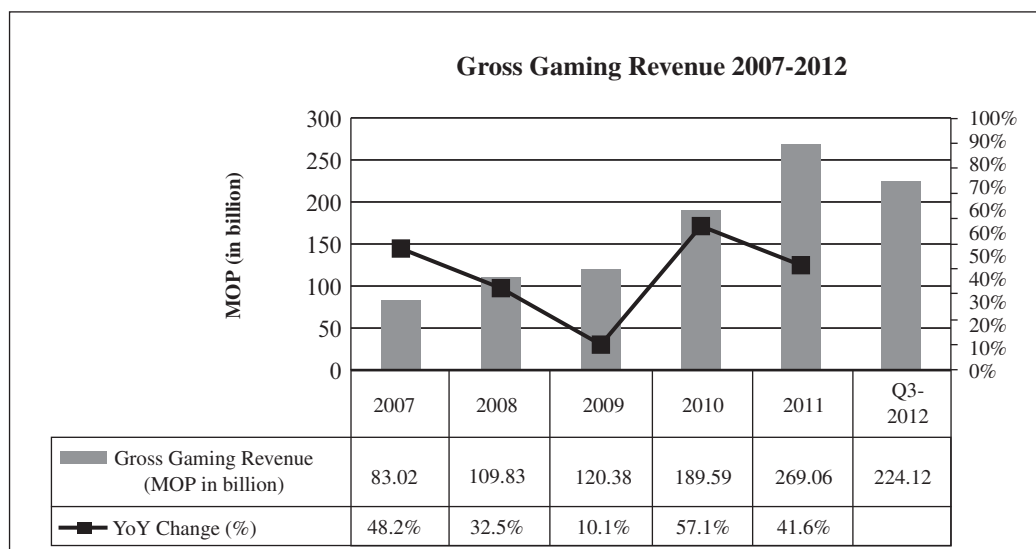
Visitors from Mainland China remained the main driver of the Macau’s tourism boom following the individual visit scheme for Mainland China residents to visit Macau and Hong Kong since 2003. Over the past ten year, the total visitor arrivals to Macau increased at a compound annual growth rate (“CAGR”) of 10.5% while the number of visitor arrivals from Mainland China grew at a CAGR of 19.3%. In October 2012, the number of overnight visitors from Mainland China reached 6.61 million, up 9.9% YoY and accounting for 59.2% of overnight visitors.



Source: DSEC

Gaming Industry Overview

Gaming industry is the most essential contributor to the Macau's economy. Being the only city in China to offer legalised casino gaming, the gaming revenue enjoyed a stable robust growth in the recent years. From 2001 to 2011, the annual gaming revenue in Macau grew by a CAGR of 31%. In particular, the gross gaming revenue has increased 57.1% and 41.6% YoY in 2010 and 2011 respectively. According to the Gaming Inspection and Coordination Bureau of Macau Government, the monthly gross revenue of games of fortune increased 3.2% YoY to MOP27.7 billion in October 2012, which was a record high. The revenue generated by the Macau gaming market has surpassed the one of the Las Vegas Strip since 2006 and is of five times the size of it in 2011.

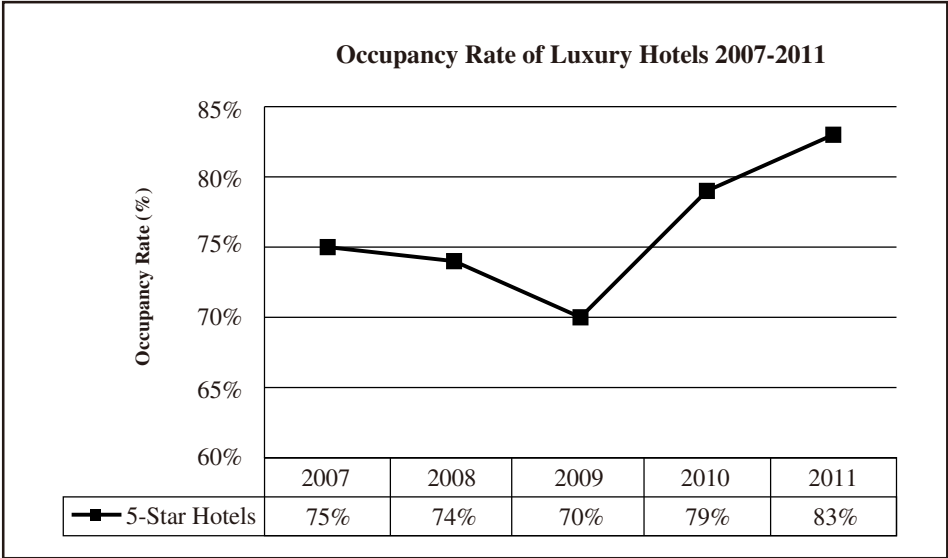


Source: DSEC

There are six casino operators at present running 35 casinos in Macau. The six operators include three concessionaires, namely SJM Holdings, Galaxy Entertainment and Wynn Resorts, and three subconcessionaires, namely MGM China, Sands China and Melco Crown. Generally, the gaming sector is segregated by two distinct market segments, the mass market segment and the VIP market segment. Unlike the mass market segment, the casino operators in Macau outsource VIP marketing to junket operators, who have better knowledge about potential customers, by paying commissions to them. The Macau gross gaming revenue is highly dependent on VIP gaming, as it represented 73% of the total revenue of the Macau casino operators in 2011.

Hotel Industry Overview

Benefiting from the flourishing gaming industry, Macau’s five-star hotel market has continued to boom, with the average occupancy rate climbing 4.3 percentage points to 83.5% in 2011, and remaining at 83.2% in the first nine months of 2012. In September 2012, three more luxury hotels, namely, Conrad Macao, Holiday Inn Macao Cotai Strip and Sheraton Cotai, were opened in Sands Cotai Central, adding a further 5,800 five-star hotel rooms to Macau’s upscale hotel market. Despite the largest addition of new supply since 2007, the average room rate (“**ADR**”) of five-star hotels in Macau still recorded growth of 5.1% YoY to MOP1,674 in October 2012. The surges in both occupancy and ADR pushed the Revenue per Available Room (“**RevPAR**”) up 6.6% to MOP1,467 in October 2012.



Source: DSEC

VALUATION ASSUMPTIONS

In performing the valuation, we have largely relied upon the business plan and the financial information provided by the Company. In order to obtain a better understanding of the Project, we have held discussions with the Company and the related parties with regard to the background of the Land, the nature, operational rights and prospects of the Project and have conducted an on-site inspection of the Land. We have verified the feasibility of the Project and the validity of the financial projections by conducting appropriate research and analysis in respect of the economic outlook, industry performance and competitive environment to understand the macro-market conditions and outlook. We have also performed search and analysis of comparable companies, reviewed certain financial data, operating statistics and other relevant documents in order to obtain an in-depth knowledge of the operation and performance of the gaming and hotel operators in Macau.

Accordingly, we have adopted the following assumptions in the valuation model:

General Assumptions

We have established a number of assumptions to address the possible changes in the marketplace in concluding our opinion of value:

- No major changes are expected in political, legal and economic conditions in China and Macau;
- Regulatory framework and market conditions for both casino and hotel industry will be developed according to the prevailing market expectations;
- No major changes in the current taxation law in Macau;
- No material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- All relevant legal approvals, business certificates or licenses for the normal courses of operation will be formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application;
- The Project will not be constrained by the availability of finance or any other political or regulatory risk;
- The construction of the proposed development will be completed on time and the operation of the business will be commenced in 1Q 2016; and
- The Company will retain competent management, key personnel and technical staff to support their ongoing operations.

Casino Revenue**REVENUE**

According to the Company and subject to obtaining the approval of the Macau Government, the proposed casino will provide approximately 66 table games, of which 50 are high premium mass gaming tables and 16 are VIP gaming tables, and about 150 slot machines. By referencing to the economic outlook, the gaming performance of the comparable companies and the recommendations of the Company, the revenue from the three types of games are projected as follows:

(i) Revenue from Mass Gaming Tables

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of tables	50	50	50	50	50	50	50
Net win per table per day (HK\$)	154,481	185,377	222,452	255,820	294,193	323,612	339,793
Total (HK\$ '000)	44,645	67,663	81,195	93,374	107,675	118,118	124,024

(ii) Revenue from Slot Machines

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of slot machines	150	150	150	150	150	150	150
Net win per slot machine per day (HK\$)	5,181	5,958	6,852	7,537	8,291	9,120	9,576
Total (HK\$ '000)	1,497	2,175	2,501	2,751	3,035	3,329	3,495

(iii) Revenue from VIP Gaming Tables

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of tables	16	16	16	16	16	16	16
Net win per table per day (HK\$)	380,355	437,408	503,019	553,321	608,653	669,518	702,994
Total (HK\$ '000)	1,758,761	2,554,463	2,937,631	3,231,395	3,554,534	3,909,985	4,105,485
Shared amount to the Company (HK\$ '000)	155,142	227,439	262,253	288,944	318,304	350,600	368,362

* We have made reference to the gaming performance of MGM, Wynn and SJM. Their net win per mass gaming table in 2011 ranged from HK\$50,219 to HK\$86,156 per day while the net win per VIP gaming table in 2011 ranged from HK\$237,646 to HK\$274,917 per day. Their net win per slot machine in 2011 ranged from HK\$1,010 to HK\$6,252 per day. Their average compound annual growth rate from 2008 to 2011 are 23%, 8% and 21% for the net win per mass gaming table, VIP gaming table and slot machine per day respectively.

For the operation of the VIP gaming segment, following the usual practice in Macau, the Company will outsource the VIP marketing to the junket operators, agents and collaborators, who have better knowledge of the potential customers. The casino operators will grant credit to the junket operators in the form of rolling chips, who will then extend the credit to VIP patrons through junket agents and collaborators. Under this operation mode, the VIP players use the rolling chips to gamble in VIP rooms. The junket agents will get paid commission from the casino operator by an agreed percentage of the rolling chip turnover. They are also responsible for the payment of the complimentary items provided to the VIP players. For the VIP patrons, they are responsible for the operating cost of the VIP rooms. They get paid by obtaining an agreed portion of the net operating revenue of the VIP gaming tables. For the Project, the shared amount enjoyed by the Company is approximately 9% of the gross VIP gaming revenue.

EXPENSES

Operating expenses include general administrative and operation expenses, marketing and promotional expenses, license operator fee, gaming tax and levies and overheads. For the gaming tax and levies, the casino operators in Macau are required to pay 35% of the gross gaming revenue to the Macau Government. There are also additional levies of 1.6% and 2.4% of the gross gaming revenue are required to pay to the Macau government for the contribution to a public foundation and the Macau Government respectively. Apart from the taxes and levies, the casino operators in Macau are also required to pay the annual gaming premium to the Macau Government. The annum premium includes a fixed operation premium of MOP30 million plus a premium charged on the number of gaming tables and machines provided in the casino. The floating premium includes MOP300,000 per VIP gaming table, MOP150,000 per mass market gaming table and MOP1,000 per mechanical gaming machine. Without historical track record as reference, based on the operating result of the peers and the assumption of the Company, it is estimated that the casino portion can achieve a EBITDA margin of approximately 34% at the first three operation years and raise to about 37.6% for the remaining years.

Hotel Revenue

REVENUE

Hotel Room Revenue

Pursuant to the business plan of the Company, there will be 236 suites accommodating in the proposed development, of which 220 are Suites, 14 are Special Suites and 2 are Royal Suites. The room size of the three types of suites is approximately 204 sq m, 465 sq m and 1,394 sq m respectively. All of the suites are duplex units and have their own lift lobby and exclusive access to the gaming area. Having regard to the economic outlook, the average room rate and occupancy rate of the top tier luxury hotels in Macau and Hong Kong, and the recommendations of the Company, the revenue from the three types of suites are projected as follows:

(i) Hotel Room Revenue from Suites

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of Room	220	220	220	220	220	220	220
Occupancy Rate	75%	75%	75%	75%	75%	75%	75%
Average Room Rate (HK\$/room/night)	10,927	11,255	11,593	11,941	12,299	12,668	13,048
REVPAR (HK\$/room)	8,195	8,441	8,695	8,955	9,224	9,501	9,786
Total (HK\$ '000)	521,067	677,838	698,173	719,118	742,721	762,912	785,800

(ii) Hotel Room Revenue from Special Suites

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of Room	16	16	16	16	16	16	16
Occupancy Rate	65%	65%	65%	65%	65%	65%	65%
Average Room Rate (HK\$/room/night)	27,318	28,138	28,982	29,851	30,747	31,669	32,619
REVPAR (HK\$/room)	17,757	18,290	18,838	19,403	19,985	20,585	21,203
Total (HK\$ '000)	71,844	93,459	96,263	99,151	102,405	105,189	108,345

(iii) Hotel Room Revenue from Royal Suites

Year (commence in 1 November of each year)	4 2015	5 2016	6 2017	7 2018	8 2019	9 2020	10 2021
Number of Room	2	2	2	2	2	2	2
Occupancy Rate	60%	60%	60%	60%	60%	60%	60%
Average Room Rate (HK\$/room/night)	81,955	84,413	86,946	89,554	92,241	95,008	97,858
REVPAR (HK\$/room)	49,173	50,648	52,167	53,732	55,344	57,005	58,715
Total (HK\$ '000)	28,422	36,973	38,082	39,225	40,512	41,613	42,862

Food and Beverage Income and Other Operating Income

The food and beverage income and the other operating income related to the expenses of the hotel guests during their accommodation are 10% and 0.5% of the gross hotel revenue respectively having regard to the estimates of the Company as well as the operation statistics of the comparable hotels in Macau and Hong Kong.

Rental Income

There will be a luxury and exclusive retail complex with a total gross floor area of about 2,787 sq m provided at the podium of the hotel. According to the business plan of the Company and the rental transaction records of the retail properties in Macau, the unit rental of the retail portion as at the first operation year is expected to be approximately HK\$266 per sq m.

EXPENSES

Operating expenses of the hotel business include general administrative and operation expenses, marketing and promotional expenses, management fees and overheads. Without historical track record as reference, based on the operating result of the peers and the assumptions of the Company, it is estimated that the hotel portion can achieve a EBITDA margin of approximately 30.5% at the first three operation years, raising to about 32.3% for the remaining years.

Capital Expenditure

Based on the current development plan of the Company, it is assumed that the initial development cost of the Project would be HK\$6.07 billion, including a land acquisition cost of HK\$2 billion, a total construction cost of HK\$3.63 billion and a closing expenses and pre-opening expenses of HK\$38.4 million and HK\$400 million respectively. Consistent with the development period of 3.2 years, the total development cost is assumed to be spent at the pattern of 20%, 40%, 30% and 10% from Year 1 to 4 (from November 2012 to October 2016) accordingly. Upon the completion of the development in 2016, the annual maintenance capital expenditure is estimated at 2% of the total revenue each year.

Discount Rate

Discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, in present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation and investigated the return required by active property investors in the market as purchasers of hotel properties.

In comparing the market yield of approximately 5% for hotel properties in Hong Kong, there are additional risks and uncertainties inherent in the development and operation of casino resorts in Macau. Despite the robust economic growth in Macau and the 10-years-CGAR of Macau's GDP and gross gaming revenue as at 2011 is approximately 20% and 31% respectively, the economic data and statistics show that the economic growth has lost its momentum and the speed of growth has decelerated mildly. Also, the economy of Macau is heavily reliant on the gaming industry while the gaming operation is recognized as a high-risk business as it is highly dependent on the personal competence of the gaming promoters and the discretionary customer spending preference and is particularly sensitive to downturns in the economy. Thus, it is considered that investing in a hotel project in Macau is more risky than that of Hong Kong and a higher rate of return is required.

Also, the operation of casinos in Macau is strictly regulated by the system of concessionaires and subconcessionaires. The proposed casino is required to be operated by one of the concessionaires or subconcessionaires subject to the approval of the Macau Government upon the completion of the development. Moreover, the Macau Government may unilaterally terminate the concession or subconcession with the operators for cause without compensation. In this regard, we have made reference to the financial information of the listed comparable companies, of which their business focus is gaming and hotel operation in Macau, in order to derive the market return and the associated systematic risk of the gaming and hotel development in Macau.

For the Project specific, additional non-diversifiable risk related to the equity size of the Company and the nature of the Project is also taken into account in determining the discount rate of the Project. As the Project is a proposed ultra-luxury hotel cum casino development targeting at the wealthy Chinese in Mainland China, its revenue is highly related to the economic development and the political stability of China as well as the discretionary preference of the target customers. Having noted that the Company is a new entrant to the gaming industry in Macau and the Project is still in a conceptual stage, we allowed addition risk to reflect the uncertainties of the Project.

Based upon the investigation and analysis outlined above, we have adopted a discount rate of 15% in our valuation. For the terminal capitalization rate, it is used to convert the anticipated stabilized net operating income into the anticipated value of the property at the end of the holding period. It is derived by subtracting the expected long-term annual growth rate from the discount rate. The terminal capitalization rate is 10.3%.

SENSITIVITY ANALYSIS

We acknowledged that the Project value is sensitive to the changes of the discount rate and the terminal capitalization rate. In this regard, we have tested the sensitivity of the Project value to the different combination of the abovementioned variables and the result is presented below:

Value of the Project (HK\$ 'Billion)

Discount Rate	Terminal Capitalization Rate				
	9.5%	10.0%	10.3%	10.5%	11%
14.0%	9.117	8.976	8.894	8.841	8.709
14.5%	8.696	8.562	8.483	8.431	8.305
15.0%	8.293	8.164	8.088	8.038	7.917
15.5%	7.906	7.782	7.709	7.661	7.545
16.0%	7.535	7.415	7.345	7.299	7.187

OPINION OF VALUE

We are of the opinion that the market value of the Project, subject to the assumptions, investigations, terms and conditions contained within and annexed to our report, assuming the Land is free of all encumbrances, as of 1 November 2012, is in the sum of:

HK\$8,088,000,000
HONG KONG DOLLARS EIGHT BILLION AND EIGHTY EIGHT MILLION

We do not provide assurance on the achievability of any financial results estimated by the Company as the market behavior and conditions may change unexpectedly; differences between actual and expected results may be material, and achievement of the forecasted results is dependent on actions, plans, and assumptions of the Management.

Yours sincerely,
For and on behalf of
Colliers International (Hong Kong) Limited

David Faulkner
FRICS FHKIS RPS(GP) MAE
Executive Director
Valuation & Advisory Services

Gregory Tam
MRICS MHKIS RPS(GP)
Associate Director
Valuation & Advisory Services

Note: Mr. Faulkner is a fellow member of the Royal Institution of Chartered Surveyors, a fellow member of the Hong Kong Institute of Surveyors and a practising Member of The Academy of Experts. He has over 30 years of experience in the real estate field and over 28 years of experience in valuation of properties in Hong Kong, Macau, the PRC and various Asian countries.

Mr. Tam is a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He has over 15 years valuation experience in the Asia Pacific Region.

A. Letter from the reporting accountant on the valuation report on the Project

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

**ACCOUNTANTS' REPORT ON CALCULATIONS OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE PROJECT VALUE OF THE PROPOSED HOTEL DEVELOPMENT ON LOTE 1, ESTRADA DE SEAC PAI VAN N° S/N, ATERRO DA CONCÓRDIA N° S/N, COLOANE, MACAO SPECIAL ADMINISTRATIVE REGION (THE "PROJECT")****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 Colliers International (Hong Kong) Limited dated 5 January 2013 of projected value of the proposed hotel development on Lote 1, Estrada de Seac Pai Van N° S/N, Aterro da Concórdia N° S/N, Coloane, Macao Special Administrative Region (the "**Valuation**") is based. The Project represents the construction and operation of an exclusive luxury five-star hotel and entertainment facilities (including but not limited to gaming) which forms part of a larger comprehensive development on Coloane Island, Macau. 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 5 January 2013 to be issued by Paul Y. Engineering Group Limited (the "**Company**") in connection with (i) proposed allotment and issue of shares and issue of convertible bonds by the Company requiring a specific mandate; (ii) proposed acquisition of Falloncroft Investments Limited ("**Falloncroft**") constituting a very substantial acquisition and connected transaction; (iii) proposed distribution in specie of a 49% interest in its existing business, with the offer of a cash alternative; and (iv) proposed special cash dividend by the Company of HK\$0.26 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 the sections headed "Valuation Assumptions" and "Assumptions and Caveats" in Appendix III of 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.

APPENDIX IV LETTERS IN RELATION TO THE VALUATION REPORTS

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 the Project.

Because the Valuation relates to 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
5 January 2013

APPENDIX IV LETTERS IN RELATION TO THE VALUATION REPORTS

B. Letter from the financial adviser on the valuation report on the Project

The following is the text of a letter, prepared for inclusion in this circular, from Anglo Chinese in connection with the valuation of the Project as set out in Appendix III in the circular.

ANGLO CHINESE

CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

財務顧問有限公司
英高

5 January 2013

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 current capital value of the proposed hotel development (the “**Project**”) by Colliers International (Hong Kong) Limited (“**Colliers**”) as at 5 January 2013 (the “**Valuation**”) as set out in appendix III in the circular of Paul Y. Engineering Group Limited (the “**Company**”) dated 5 January 2013 (the “**Circular**”).

The valuation methodology of the Valuation was based on the discounted cash flow of the future estimated cash flows of the proposed hotel development (the “**Forecast**”) as prepared by Colliers, and for which the Management are solely responsible.

We have discussed with the Management the bases and assumptions, as set out in appendix III of the Circular, upon which the Forecast has been made. We have also considered the letter to the Company from Deloitte Touche Tohmatsu dated 5 January 2013 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 Colliers and the accounting policies and calculations adopted by the Colliers 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 2012 and for the six months ended 30 September 2012 are disclosed in the annual reports of the Company for the years ended 31 March 2010 at <http://www.hkexnews.hk/listedco/listconews/sehk/20100729/LTN20100729652.pdf>; 31 March 2011 at <http://www.hkexnews.hk/listedco/listconews/sehk/20110721/LTN20110721297.pdf>, and 31 March 2012 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0724/LTN20120724317.pdf>, and interim report for the six months ended 30 September 2012 at <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1218/LTN20121218204.pdf> respectively, which are published on both the website of the Stock Exchange (www.hkexnews.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 2010, 2011 and 2012 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 2010, 2011 and 2012 and for the six months ended 30 September 2012:

Results

	Unaudited Period ended 30.9.2012 HK\$'000	Audited Year ended 31.3.2012 HK\$'000	Audited Year ended 31.3.2011 HK\$'000	Audited Year ended 31.3.2010 HK\$'000
Turnover	3,438,504	4,304,247	4,333,791	3,644,873
Cost of sales	(3,326,517)	(4,117,543)	(4,141,601)	(3,449,549)
Gross profit	111,987	186,704	192,190	195,324
Other income	2,302	12,125	12,889	22,894
Administrative expenses	(94,739)	(167,582)	(155,611)	(152,195)
Finance costs	(6,449)	(13,254)	(10,076)	(13,561)
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	5,919	3,474	(552)	3,072
Share of results of jointly controlled entities	5,230	13,056	2,892	(5,241)
Profit before tax	24,250	34,523	41,658	47,811
Income tax expense	(3,064)	(1,527)	(7,895)	(1,240)
Profit for the period/year	<u>21,186</u>	<u>32,996</u>	<u>33,763</u>	<u>46,571</u>
Attributable to:				
Owners of the Company	20,973	30,303	30,083	44,688
Non-controlling interests	213	2,693	3,680	1,883
	<u>21,186</u>	<u>32,996</u>	<u>33,763</u>	<u>46,571</u>

Assets and Liabilities

	Unaudited	Audited	Audited	Audited
	As at	As at	As at	As at
	30.9.2012	31.3.2012	31.3.2011	31.3.2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	588,964	551,568	477,887	358,978
Current assets	3,306,834	2,777,072	2,293,761	2,189,912
Current liabilities	(3,074,165)	(2,574,747)	(2,158,124)	(1,954,505)
Non-current liabilities	(165,397)	(112,842)	(9,203)	(4,972)
	<u>656,236</u>	<u>641,051</u>	<u>604,321</u>	<u>589,413</u>
Attributable to:				
Owners of the Company	654,402	639,430	605,393	574,657
Non-controlling interests	1,834	1,621	(1,072)	14,756
TOTAL EQUITY	<u>656,236</u>	<u>641,051</u>	<u>604,321</u>	<u>589,413</u>

2. INDEBTEDNESS**(a) Borrowings**

As at the close of business on 30 November 2012, 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 bank borrowings of approximately HK\$548.1 million comprising (i) secured bank borrowings of approximately HK\$310.6 million; and (ii) unsecured bank borrowings of approximately HK\$237.5 million. In addition, on 30 November 2012, the Target Company had outstanding unsecured convertible bonds* with an aggregate principal value of HK\$360.0 million and outstanding amount due to ultimate holding company* of approximately HK\$3.3 million.

The secured bank borrowings were secured by the Group's plant and equipment with an aggregate carrying amount of approximately HK\$116.2 million and charges over the Group's benefit from certain construction contracts as at 30 November 2012.

* Pursuant to the Falloncroft SPA, the convertible bonds and amount due to ultimate holding company shall be cancelled without further cost or liability to the Company before the completion of the Acquisition.

(b) Contingent liabilities

As at the close of business on 30 November 2012, the Enlarged Group had contingent liabilities in respect of guarantee of approximately HK\$28.0 million given to banks for performance bonds in respect of construction contracts undertaken by an associate and a jointly controlled entity.

(c) **Disclaimer**

Save as aforesaid or as otherwise disclosed on page 256 to this circular under the heading “Litigation”, and apart from intra-group liabilities, as at the close of business on 30 November 2012, 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 2012, 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 Enlarged Group;
- (d) net proceeds of approximately HK\$3,028.0 million (net of commission, legal and professional fees and other related expenses) to be received from the issue of Placing Shares and Convertible Bonds under the Placing Agreement assuming no exercise of Upsize Option and no completion of the Contingent Placing Convertible Bonds;
- (e) cash outflow arising on acquisition of Falloncroft constituting a very substantial acquisition of approximately HK\$2,000.0 million; and
- (f) payment of special cash dividend of approximately HK\$157.8 million assuming no election of Scrip Alternative.

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 SIX MONTHS ENDED 30 SEPTEMBER 2012*****1. Business review**

For the six months ended 30 September 2012, the Group's business activities organised into three segments including (1) management contracting division, (2) property development management division and (3) property investment division. The management contracting division remained as the core business and the major revenue contributor of the Group.

For the six months ended 30 September 2012, the Group's turnover and gross profit amounted to approximately HK\$3,438.5 million and approximately HK\$112.0 million, representing an increase of approximately 66.3% and approximately 50.8% from last corresponding period, respectively. Taking into account the share of turnover of associates and jointly controlled entities, the turnover would be approximately HK\$3,782.6 million, representing an increase of approximately 61.9%. Gross profit ratio amounted to approximately 3.3%, representing a decrease of approximately 0.3%, which was mainly due to the rise in manpower costs and other construction costs.

For the six months ended 30 September 2012, the Group's profit attributable to owners of the Company and basic earnings per share amounted to approximately HK\$21.0 million and approximately HK\$0.035, representing an increase of approximately 43.0% and approximately 45.8% from last period, respectively, which is mainly due to the increase in turnover.

2. Comments on segment information

For the six months ended 30 September 2012, the turnover of the management contracting division amounted to approximately HK\$3,434.4 million, representing an increase of approximately 68.2%. Taking into account the share of turnover of associates and jointly controlled entities, the turnover would be approximately HK\$3,775.8 million, representing an increase of approximately 64.3%. Its operating profit amounted to approximately HK\$63.7 million, representing an increase of approximately 40.7% from last corresponding period. This division has secured new construction contracts with an aggregate value of approximately HK\$3,503.6 million, representing an increase of approximately 2.7% from that of last period. As at 30 September 2012, the value of contracts on hand and value of work remaining amounted to approximately HK\$15,874.7 million and approximately HK\$10,506.5 million, respectively.

For the six months ended 30 September 2012, the turnover and operating profit of the property development management division amounted to approximately HK\$4.6 million and approximately HK\$1.0 million respectively. However, the value of contracts on hand for property development management division at the period end amounted to approximately HK\$3.6 million.

The property investment division also reported a profit, through its associate, of approximately HK\$5.8 million for the period under review. The associate holds an investment property in Hangzhou, the Pioneer Technology Building, which is an office building with gross floor area of some 20,000 square meters. The building contributed rental income of about HK\$5 million (2011: HK\$5 million) during the period and it was almost fully leased as at 30 September 2012.

3. Capital structure, liquidity and financial resources

As at 30 September 2012, the Group's bank deposits, bank balances and cash amounted to approximately HK\$273.9 million, of which approximately HK\$99.8 million, HK\$53.3 million, HK\$110.8 million, HK\$9.0 million and HK\$1.0 million were denominated in HK\$, RMB, MOP, Singapore Dollars and Japanese Yen respectively. The Group's bank deposits, bank balances and cash represented approximately 41.9% of equity attributable to owners of the Company of approximately HK\$654.4 million and approximately 7.0% of the total assets of approximately HK\$3,895.8 million. Current assets amounted to approximately HK\$3,306.8 million, representing approximately 1.1 times the current liabilities of approximately HK\$3,074.2 million.

Under its prudent funding and treasury policies, the Group maintains a variety of credit facilities to meet requirements of working capital. As at 30 September 2012, the Group's total bank borrowings amounted to approximately HK\$377.0 million of which approximately HK\$211.6 million are repayable within one year. All 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 30 September 2012, the Group's gearing ratio, measured as the total bank borrowings of approximately HK\$377.0 million over the equity attributable to owners of the Company of approximately HK\$654.4 million, was increased from approximately 0.53 at 31 March 2012 to about 0.58 at 30 September 2012.

The Group's net cash inflow from operating activities and net cash outflow from investing and financing activities amounted to approximately HK\$44.0 million and approximately HK\$75.8 million respectively, resulting in a net decrease in cash and cash equivalents of approximately HK\$31.8 million for the period.

As at 30 September 2012, the Group had capital expenditure contracted for but not provided in the condensed consolidated financial statements, in respect of the acquisition of property, plant and equipment, of approximately HK\$13.0 million.

As at 30 September 2012, the Group did not have any outstanding forward contracts in foreign currency committed that might involved it in significant foreign exchange risks and exposures.

4. Contingent liabilities and pledge of assets

As at 30 September 2012, the Group's contingent liabilities, in respect of indemnities issued to banks for performance bonds in respect of construction contracts undertaken by an associate and jointly controlled entities, amounted to approximately HK\$38.8 million.

As at 30 September 2012, the Group pledged property, plant and equipment of approximately HK\$118.6 million, and charged the Group's benefits over certain construction contracts to secure general banking facilities granted to the Group.

5. Employee and remuneration policy

As at 30 September 2012, the Group employed 1,385 full-time employees, including the Directors of the Group but excluding contracted casual labour in Macau. 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 six months ended 30 September 2012, no Shares were granted under the said schemes.

6. Material investments, acquisitions and disposals

For the six months ended 30 September 2012, the Group did not have any material investments, acquisitions and disposals.

7. Financial and trading prospects

Looking forward, there are still uncertainties in the global economy in the near future. Risks such as the European Sovereign Debt Crisis and the "fiscal cliff" of the United States are still looming. It is believed that the governments of the western economies will continue to use quantitative easing as a tool to revitalize their economies. Nevertheless the quantitative easing may also create undesirable consequences, such as hyper-inflation and asset bubble to other developing economies such as Mainland China. Mainland China may impose even more stringent austerity measures to neutralize those adverse effects arising from the quantitative easing of the western economies. It is hard to predict in what direction our short to medium term economy, which stands right in between those of Mainland China and the rest of the world, will evolve.

The Group has endeavored to diversify our regional risks through increasing our activities outside Hong Kong. Macau is one of our major expansion targets in recent years. With its economy almost immune from the recent global financial turmoil, Macau's demand for construction services is still very strong. It is our strategy to secure more construction contracts from Macau in the near future.

It is anticipated that our order book will increase at a faster pace. Nevertheless, the costs for resources such as staff, material and machinery may also escalate as a result of quantitative easing of the West and severe competition in the local markets. The Group will closely monitor the situation and strike a reasonable balance between risk and return. Riding on our solid foundation, the expertise and the business network that we have accumulated over the past six decades, our professional team and the contracts we have on hand, we are confident that the Group will continue to create values to the shareholders.

FOR THE YEAR ENDED 31 MARCH 2012**1. Business review**

For the year ended 31 March 2012, the Group's business activities organised into three segments including (1) management contracting division, (2) property development management division and (3) property investment division. The management contracting division remained as the core business and the major revenue contributor of the Group.

For the year ended 31 March 2012, the Group's turnover and gross profit amounted to approximately HK\$4,304.2 million and approximately HK\$186.7 million, representing a decrease of approximately 0.7% and approximately 2.9% from last year, respectively. Taking into account the share of turnover of associates and jointly controlled entities, the turnover would be approximately HK\$4,714.2 million, representing an increase of approximately 5.6%. Gross profit ratio amounted to approximately 4.3%, representing a decrease of approximately 0.1%, which was mainly due to the rise in manpower costs and other construction costs.

For the year ended 31 March 2012, the Group's profit attributable to owners of the Company amounted to approximately HK\$30.3 million, representing an increase of approximately 0.7% from last year, which is mainly due to the increase in share of results of associates and jointly controlled entities and decrease in income tax expense. Basic earnings per share amounted to approximately HK\$0.05, which remained unchanged for both years.

2. Comments on segment information

For the year ended 31 March 2012, the turnover of the management contracting division amounted to approximately HK\$4,268.5 million, representing a decrease of approximately 1.0%. Taking into account the share of turnover of associates and jointly controlled entities, the turnover would be approximately HK\$4,663.4 million, representing an increase of approximately 5.5%. Its operating profit amounted to approximately HK\$100.6 million, representing an increase of approximately 20.9% from last year. This division has secured new construction contracts with an aggregate value of approximately HK\$8,891.6 million, representing an increase of approximately 90.4% from last year. As at 31 March 2012, the value of contracts on hand and value of work remaining amounted to approximately HK\$15,102.3 million and approximately HK\$10,806.6 million, representing an increase of approximately 45.1% and approximately 82.9% from last year, respectively.

For the year ended 31 March 2012, the turnover and operating profit of the property development management division amounted to approximately HK\$36.8 million and approximately HK\$4.2 million respectively. However, the value of contracts on hand for property development management division at the year end was increased to approximately HK\$3.6 million.

The property investment division also reported a profit, through its associate, of approximately HK\$4 million for the year under review. The associate holds an investment property in Hangzhou, the Pioneer Technology Building, which is an office building with gross floor area of some 20,000 square meters. The building contributed rental income of about HK\$10 million (2011: HK\$8 million) and its occupancy was about 97% as at 31 March 2012.

3. Major customers and suppliers

For the year ended 31 March 2012, the five largest customers and the single largest customer of the Group accounted for approximately 53% 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 2012.

4. Capital structure, liquidity and financial resources

As at 31 March 2012, the Group's bank deposits, bank balances and cash amounted to approximately HK\$305.8 million, of which approximately HK\$251.5 million, HK\$31.4 million, HK\$11.0 million, HK\$11.0 million, HK\$0.7 million and HK\$0.2 million were denominated in HK\$, RMB, MOP, Singapore Dollars, Japanese Yen and US\$ respectively. The Group's bank deposits, bank balances and cash represented approximately 47.8% of equity attributable to owners of the Company of approximately HK\$639.4 million and approximately 9.2% of the total assets of approximately HK\$3,328.6 million. Current assets amounted to approximately HK\$2,777.1 million, representing approximately 1.1 times the current liabilities of approximately HK\$2,574.7 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 2012, the Group's total bank borrowings amounted to approximately HK\$339.2 million of which approximately HK\$226.3 million are repayable within one year. All 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 2012, the Group's gearing ratio, measured as the total bank borrowings of approximately HK\$339.2 million over the equity attributable to owners of the Company of approximately HK\$639.4 million, was increased from approximately 0.42 at 31 March 2011 to about 0.53 at 31 March 2012.

The Group's net cash outflow from operating activities and net cash inflow from investing and financing activities amounted to approximately HK\$180.4 million and approximately HK\$152.7 million respectively, resulting in a net decrease in cash and cash equivalents of approximately HK\$27.7 million for the year.

As at 31 March 2012, 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\$19.9 million.

As at 31 March 2012, 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 2012, the Group's contingent liabilities, in respect of indemnities issued to banks for performance bonds in respect of construction contracts undertaken by an associate and jointly controlled entities, amounted to approximately HK\$38.8 million.

As at 31 March 2012, the Group pledged property, plant and equipment of approximately HK\$96.9 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 2012, the Group employed 1,336 full-time employees, including the Directors of the Group but excluding contracted casual labour in Macau. Total staff costs during the year amounted to approximately HK\$427.5 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 2012, no Shares were granted under the said schemes.

7. Material investments, acquisitions and disposals

For the year ended 31 March 2012, the Group did not have any material investments, acquisitions and disposals.

8. Financial and trading prospects

Prospects of the global economy remain uncertain. Though the International Monetary Fund revised up its projection for growth in major economies, the global economy is still fragile. It is believed that the effect of the euro debt crisis has not yet been fully manifested. In the Mainland China, there are also signs showing that its economy is slowing down as a result of its tightening measures and the worsening external environment.

In Hong Kong, although the low unemployment rate and the thriving inbound tourism have continued to boost the growth of the private consumption, its export is inevitably affected by the weak external economic environment. However, the HKSAR Government has devoted to increase its investment in capital works for the long term development of Hong Kong and committed to increase the supply of land and public housing. It also announced its plan for the redevelopment of Kowloon East, and the expansion and redevelopment of hospitals. In the 2012-13 Budget, it has proposed to maintain the expenditure on capital works exceeding HK\$70 billion per annum in the next few years. That will provide strong momentum for the construction industry in the local market in the foreseeable future.

In Macau, the demand for construction services will continue to increase as more new hotels, entertainment complexes and residential developments are putting on stream.

On the other hand, despite the surge in the volume of works, it is expected that the growth in profit margin would still be restrained due to keen competition and escalation in construction costs.

Amid an ever-changing economic environment, the Group is committed to strengthening its business continually. Besides the local market, the Group will put more focus on the premium projects in Macau. The Group will continue to diversify its risks through joint ventures with other contractors. Riding on the Group's solid foundation and professional expertise, the Group will strive to expand and diversify its business to strike a balance between risk and return to shareholders.

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 investments, 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 HKSAR 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 investments, 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.

The Ten Major Infrastructure Projects, which are still in the initial stage with a total budget of HK\$250 billion, will continue to provide enormous opportunities for the Hong Kong construction industry. Besides the Ten Major Infrastructure Projects, more large scale projects are also expected to come on to stream in future. In fact, the Hong Kong SAR Government estimates that the capital works expenditure for each of the next few years will be at an all-time high of over HK\$50 billion per year. At the same time, current expansion of the industry is constrained by the time required for training up professionals and limited supply of local labour. As the industry capacity is being filled up fast after a period of inertness, equilibrium of market demand and supply will inevitably shift. Such adjustment of market condition will favour those contractors who have strategically planned their resources and reserved capacity for the supplyside market. As we considerably improved our workbook and maintained stability in the amount of new contracts secured in the past two years, we also sharpened our capabilities and optimised our operation efficiency. The Group is well positioned to take advantage of any opportunities for further business growth. In Mainland China, sustaining growth of the overall economy, together with continual implementation of the RMB4 trillion stimulus package, will drive the demand for infrastructure and professional engineering services. The recent controlling measures over the property market will help its soft landing and avoid overheating, setting the backdrop for its healthy long-term development, which induces stable demand for construction services. With consolidation approaching completion, the Macau and Middle East markets are moving towards recovery. The Group will ride on its wealth of experience and reputation in these markets to tap quality projects.

In the past two years, our workbook has considerably improved, and the amount of new contracts secured has been growing for two consecutive years. Coupled by our solid foundation and professional experience, our prospect remains optimistic. Rest assured that the Group is well positioned to strive for further business growth and delivery of sustainable returns for our shareholders.

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.



5 January 2013

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

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) regarding Falloncroft Investments Limited (“**Falloncroft**”) for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 (the “**Relevant Period**”), for inclusion in the circular of Paul Y. Engineering Group Limited (the “**Company**”) dated 5 January 2013 in connection with, inter alia, the proposed acquisition of Falloncroft by the Company constituting a very substantial acquisition (the “**Circular**”).

Falloncroft was incorporated with limited liability in the British Virgin Islands (the “**BVI**”) on 6 October 2006. The registered office of Falloncroft is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI.

The audited financial statements of Falloncroft were prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). The audited financial statements of Falloncroft for each of the years ended 31 December 2009, 2010 and 2011 were audited by Cheng & Cheng Limited (Certified Public Accountants registered with the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”)) in accordance with International Standards on Auditing who issued qualified opinions in respect of the recognition of convertible bonds issued by Falloncroft for each of those years. The convertible bonds amounting to HK\$360,000,000 were stated at cost as at 31 December 2009, 2010 and 2011 which is not in accordance with International Accounting Standard (“**IAS**”) 32 “Financial Instrument: Presentation” (“**IAS 32**”).

For the purpose of this report, the directors of Falloncroft have prepared the financial statements of Falloncroft for the Relevant Period in accordance with the IFRSs except for the failure to follow IAS 32 and IAS 39 “Financial Instrument: Recognition and Measurement” (“IAS 39”) as described below. Except for the inability to obtain sufficient audit evidence as explained below, we have undertaken an independent audit on the financial statements of Falloncroft for the nine months ended 30 September 2012 (together with the above audited financial statements of Falloncroft for each of the years ended 31 December 2009, 2010 and 2011 collectively referred to as “Underlying Financial Statements”) in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Falloncroft set out in this report has been prepared from the Underlying Financial Statements on the basis set out in notes 2 and 4 of Section A below after making adjustments as we consider appropriate for the purpose of preparing our report for the inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Falloncroft 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 Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you. However, for the purposes of this report, we identified the following departures from IFRSs and limitation of scope such that we were unable to carry out the procedures we considered necessary, as described below.

Basis for Adverse Opinion

- (1) Falloncroft recognised convertible bonds with an aggregate principal amount of HK\$360,000,000 as liabilities (as detailed in note 13 to the Financial Information) in the statements of financial position at their nominal amounts at initial recognition and at each of the reporting dates in the Relevant Period. This is not in accordance with IAS 32 nor IAS 39 which requires that such financial instrument shall be separately presented as liability component, conversion option component (which may be equity or derivative liability in nature) and redemption option components, if applicable, at their respective fair values. In the absence of further information in respect of the fair values of the convertible bonds, it is not practicable for us to quantify the effects of the departure from these requirements on the Financial Information as at 31 December 2009, 2010, 2011 and 30 September 2012 and for the Relevant Period.
- (2) We have not received confirmations from the respective parties in respect of the convertible bonds referred to in (1) above in the amount of HK\$360,000,000 as at 31 December 2009, 2010, 2011 and 30 September 2012, and the interest payable on the convertible bonds of HK\$118,750,000, HK\$163,750,000, HK\$208,750,000 and HK\$242,500,000 as at 31 December 2009, 2010, 2011 and 30 September 2012 respectively. We have been unable to perform alternative procedures to satisfy ourselves as to whether these account balances are

fairly stated. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of the recorded values of convertible bonds and interest payable in the statements of financial position as at 31 December 2009, 2010, 2011 and 30 September 2012, and the corresponding amounts of interest expenses on convertible bonds included in the income statements and the statements of cash flows for the Relevant Period.

- (3) We were unable to satisfy ourselves as to whether it is appropriate for the prepayment of transaction fee in the amount of HK\$144,000,000 (as detailed in note 10 to the Financial Information) to be included in the statement of financial position as at 31 December 2009 or whether it should have been included as an expense in the income statement when it was originally paid in 2007.
- (4) As explained in note 15 to the Financial Information, Falloncroft had granted to an independent third party the right to subscribe for a certain number of new shares in Falloncroft at a subscription price of HK\$764,000,000. The right to subscribe was not exercised and expired on 28 June 2009. However, this has not been accounted for as a derivative financial instrument at its fair value and the fair value changes of the instrument were not recorded in the Financial Information of Falloncroft for the year ended 31 December 2009. This is not in accordance with IAS 39 which requires that such financial instrument shall be recorded at its fair value and any changes in the fair value are required to be included in the income statement. In the absence of further information in respect of the fair value of the derivative financial instrument, it is not practicable for us to quantify the effects of the departure from these requirements on the Financial Information for the Relevant Period.
- (5) As explained in note 2 to the Financial Information, Falloncroft incurred a net loss of HK\$46,749,513, HK\$407,656,878, HK\$45,481,211, HK\$34,110,908 and HK\$33,758,396 for the years ended 31 December 2009, 2010, 2011 and the nine months ended 30 September 2011 and 2012, respectively, and, as of 31 December 2009, 2010, 2011 and 30 September 2012, Falloncroft's net liabilities were HK\$118,902,181, HK\$526,559,059, HK\$572,040,270 and HK\$605,798,666, respectively. The Financial Information has been prepared on a going concern basis because the directors of Falloncroft believe that, in the event that the acquisition of Falloncroft by the Company is not successful, the current ultimate holding company will provide adequate funds to enable Falloncroft to meet in full its financial obligations as they fall due for the foreseeable future. However, in the absence of a letter of financial support from its current ultimate holding company and other supporting documentation, we were unable to assess whether the current ultimate holding company has the intention or ability to provide financial support to Falloncroft. The Financial Information has been prepared on the basis that the financial support of the ultimate holding company will be available as requested. If the financial support is not forthcoming, Falloncroft may have to cease its operations and the going concern basis would be inappropriate. In these circumstances, adjustments might be required to reduce the value of assets to their recoverable amounts and to reclassify the non-current assets and liabilities as current assets and liabilities.

Adverse Opinion

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, the Financial Information does not give a true and fair view of the state of affairs of Falloncroft as at 31 December 2009, 2010, 2011 and 30 September 2012 and of Falloncroft's loss and cash flows for the Relevant Period in accordance with IFRSs.

The comparative income statement, statement of changes in equity and statement of cash flows of Falloncroft for the nine months ended 30 September 2011, together with the notes thereon have been extracted from Falloncroft's unaudited consolidated financial information for the same period (the "**September 2011 Financial Information**") which was prepared by the directors of Falloncroft solely for the purpose of this report. We conducted our review of the September 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the financial information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2011 Financial Information. Our review indicates that, as a result of the matters as mentioned above, the September 2011 Financial Information is not prepared in all material respects in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRS.

A. FINANCIAL INFORMATION OF FALLONCROFT**INCOME STATEMENTS**

	<i>Notes</i>	Year ended 31 December			Nine months ended 30 September	
		2009 <i>HK\$</i>	2010 <i>HK\$</i>	2011 <i>HK\$</i>	2011 <i>HK\$</i>	2012 <i>HK\$</i>
Interest Income		939	236	7	5	4
Deposit forfeited	10(a)	-	(216,000,000)	-	-	-
Transaction fee written off	10(b)	-	(144,000,000)	-	-	-
Administrative expenses		(40,780)	(588,041)	(188,000)	(141,000)	(8,400)
Other expenses	9	(1,709,672)	(2,069,073)	(293,218)	(219,913)	-
Finance costs	7	(45,000,000)	(45,000,000)	(45,000,000)	(33,750,000)	(33,750,000)
Loss for the year/period	9	(46,749,513)	(407,656,878)	(45,481,211)	(34,110,908)	(33,758,396)

STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December		At 30 September	
		2009 HK\$	2010 HK\$	2011 HK\$	2012 HK\$
Non-current asset					
Deposit and prepayment	10	360,000,000	–	–	–
Current assets					
Amount due from a shareholder	11	5,231	5,231	5,231	–
Bank balances and cash	12	301,050	13,091	13,098	11,402
		<u>306,281</u>	<u>18,322</u>	<u>18,329</u>	<u>11,402</u>
Current liabilities					
Other creditors		355,550	38,000	76,000	5,000
Amount due to ultimate holding company	11	102,912	2,789,381	3,232,599	3,305,068
Interest payable		–	–	208,750,000	242,500,000
Convertible bonds	13	–	–	360,000,000	360,000,000
		<u>458,462</u>	<u>2,827,381</u>	<u>572,058,599</u>	<u>605,810,068</u>
Net current liabilities		<u>(152,181)</u>	<u>(2,809,059)</u>	<u>(572,040,270)</u>	<u>(605,798,666)</u>
Total assets less current liabilities		<u>359,847,819</u>	<u>(2,809,059)</u>	<u>(572,040,270)</u>	<u>(605,798,666)</u>
Non-current liabilities					
Convertible bonds	13	360,000,000	360,000,000	–	–
Interest payable		118,750,000	163,750,000	–	–
		<u>478,750,000</u>	<u>523,750,000</u>	<u>–</u>	<u>–</u>
		<u>(118,902,181)</u>	<u>(526,559,059)</u>	<u>(572,040,270)</u>	<u>(605,798,666)</u>
Capital and reserve					
Share capital	14	79,515	79,515	79,515	79,515
Reserve		(118,981,696)	(526,638,574)	(572,119,785)	(605,878,181)
		<u>(118,902,181)</u>	<u>(526,559,059)</u>	<u>(572,040,270)</u>	<u>(605,798,666)</u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2009	775	(72,232,183)	(72,231,408)
Loss for the year	–	(46,749,513)	(46,749,513)
Issue of shares (<i>note 14</i>)	78,740	–	78,740
	<hr/>	<hr/>	<hr/>
At 31 December 2009	79,515	(118,981,696)	(118,902,181)
Loss for the year	–	(407,656,878)	(407,656,878)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	79,515	(526,638,574)	(526,559,059)
Loss for the year	–	(45,481,211)	(45,481,211)
	<hr/>	<hr/>	<hr/>
At 31 December 2011	79,515	(572,119,785)	(572,040,270)
Loss for the period	–	(33,758,396)	(33,758,396)
	<hr/>	<hr/>	<hr/>
At 30 September 2012	<u>79,515</u>	<u>(605,878,181)</u>	<u>(605,798,666)</u>
(Unaudited)			
At 1 January 2011	79,515	(526,638,574)	(526,559,059)
Loss for the period	–	(34,110,908)	(34,110,908)
	<hr/>	<hr/>	<hr/>
At 30 September 2011	<u>79,515</u>	<u>(560,749,482)</u>	<u>(560,669,967)</u>

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2009 HK\$	2010 HK\$	2011 HK\$	2011 HK\$	2012 HK\$
				(Unaudited)	
OPERATING ACTIVITIES					
Loss for the year/period	(46,749,513)	(407,656,878)	(45,481,211)	(34,110,908)	(33,758,396)
Adjustments for:					
Interest income	(939)	(236)	(7)	(5)	(4)
Deposit forfeited	–	216,000,000	–	–	–
Transaction fee written off	–	144,000,000	–	–	–
Interest on convertible bonds	45,000,000	45,000,000	45,000,000	33,750,000	33,750,000
Operating cash flows before movements in working capital	(1,750,452)	(2,657,114)	(481,218)	(360,913)	(8,400)
Increase (decrease) in other creditors	275,550	(317,550)	38,000	38,000	(71,000)
NET CASH USED IN OPERATING ACTIVITIES	(1,474,902)	(2,974,664)	(443,218)	(322,913)	(79,400)
INVESTING ACTIVITIES					
Interest received	939	236	7	5	4
(Increase) decrease in amount due from a shareholder	(5,208)	–	–	–	5,231
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(4,269)	236	7	5	5,235
FINANCING ACTIVITIES					
Proceeds from issue of shares	78,740	–	–	–	–
Increase in amount due to ultimate holding company	103,664	2,686,469	443,218	443,218	72,469
NET CASH FROM FINANCING ACTIVITIES	182,404	2,686,469	443,218	443,218	72,469
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,296,767)	(287,959)	7	120,310	(1,696)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	1,597,817	301,050	13,091	13,091	13,098
CASH AND CASH EQUIVALENTS CARRIED FORWARD					
Bank balances and cash	301,050	13,091	13,098	133,401	11,402

NOTES TO FINANCIAL INFORMATION

1. GENERAL

Throughout the Relevant Period, the immediate and ultimate holding company of Falloncroft is Pride Wisdom Group Limited (“**Pride Wisdom**”), a private company incorporated in the BVI. The ultimate controlling party of Falloncroft is Mr. Sean Hung, the son of Mr. Stephen Hung, director of Falloncroft.

The functional currency of Falloncroft is Macau Patacas, the currency of the primary economic environment in which Falloncroft is set up to operate the hotel and entertainment facilities in Macau. The Financial Information is presented in Hong Kong Dollars (“**HK\$**”), as such information is to be included in a circular to be issued by Paul Y. Engineering Group Limited (the “**Company**”).

Falloncroft, as the purchaser, had entered into a sale and purchase agreement on 29 September 2007 (“**Uni-Dragon SPA 2007**”) with Concordia Property Development Holdings Limited (“**Concordia**”), the immediate holding company of Uni-Dragon Limited (“**Uni-Dargon**”), as the vendor, and Empresa De Fomento Industrial E Comercial Concórdia, S.A. (“**Empresa**”), as the guarantor, for the acquisition of the entire issued share capital of Uni-Dragon, which indirectly owns New Concordia Hotel Limited (“**New Concordia**”) at a consideration of HK\$1,080,000,000. According to addendum made on 27 June 2009 related to the original agreement, Uni-Dragon SPA 2007, it was a completion obligation that New Concordia having been granted the power of attorney (“**POA**”) by Empresa in respect of a parcel of land known as Lot 1 situated in the Coloane Island of Macau, at the site of Concordia, along the Road of Seac Pai Van (“**Land**”) on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming). This was the only operating and reportable segment of Falloncroft and accordingly no segmental information is provided in the Financial Information.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

In preparing the Financial Information, the directors of Falloncroft have given careful consideration to the future liquidity in light of the fact that Falloncroft incurred a net loss of HK\$46,749,513, HK\$407,656,878, HK\$45,481,211, HK\$34,110,908 and HK\$33,758,396 for the years ended 31 December 2009, 2010, 2011 and the nine months ended 30 September 2011 and 2012, respectively, and, as of 31 December 2009, 2010, 2011 and 30 September 2012, Falloncroft’s net liabilities were HK\$118,902,181, HK\$526,559,059, HK\$572,040,270 and HK\$605,798,666, respectively. The Financial Information has been prepared on a going concern basis because the directors of Falloncroft believe that, on completion of the acquisition of Falloncroft by the Company, the Company will provide adequate funds to enable Falloncroft to meet in full its financial obligations as they fall due for the foreseeable future. In the event that the acquisition is not successful, the directors of Falloncroft believe that Pride Wisdom will provide adequate funds to enable Falloncroft to meet in full its financial obligations as they fall due for the foreseeable future.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the Relevant Period, Falloncroft has applied, the new and revised International Accounting Standards (“**IASs**”), International Financial Reporting Standards (“**IFRSs**”), amendments and interpretations (“**IFRIC**”) (hereinafter collectively referred to as “new and revised IFRSs”), which are effective for Falloncroft’s financial year beginning on 1 January 2012. For the purposes of preparing and presenting the Financial Information for the Relevant Period, Falloncroft has consistently adopted all these new IFRSs throughout the Relevant Period.

Falloncroft has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRSs (Amendments)	Annual Improvements to IFRSs 2009-2011 Cycle ²
IFRS 1 (Amendments)	Government Loans ²
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures ⁴
IFRS 10, IFRS 11 and IFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
IFRS 10, IFRS 12 and IAS 27 (Amendments)	Investment Entities ³
IFRS 9	Financial Instruments ⁴
IFRS 10	Consolidated Financial Statements ²
IFRS 11	Joint Arrangements ²
IFRS 12	Disclosure of Interests in Other Entities ²
IFRS 13	Fair Value Measurement ²
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ¹
IAS 19 (Revised 2011)	Employee Benefits ²
IAS 27 (Revised 2011)	Separate Financial Statements ²
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ²

- ¹ Effective for annual periods beginning on or after 1 July 2012
² Effective for annual periods beginning on or after 1 January 2013
³ Effective for annual periods beginning on or after 1 January 2014
⁴ Effective for annual periods beginning on or after 1 January 2015

Except as described below, the directors of Falloncroft are in the process of assessing the impact of the above new and revised standards, amendments or interpretation on the results and financial position of Falloncroft.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of Falloncroft's financial assets and financial liabilities. Regarding the Falloncroft's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis. The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs, with the exception of the accounting policies adopted for convertible bonds as described below. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Falloncroft and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when Falloncroft becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

The Falloncroft's financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instrument

Financial liabilities and equity instrument issued by Falloncroft are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Other financial liabilities

Other financial liabilities (including other creditors and amount due to ultimate holding company) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of Falloncroft after deducting all of its liabilities, equity instrument issued by Falloncroft are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

Convertible bonds issued by Falloncroft that contain the liability, conversion option and other components are recorded as liabilities at their nominal amounts.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Falloncroft has transferred substantially all the risks and rewards of ownership of the financial asset. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 year/period. Taxable profit differs from profit as reported in the income statement 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. Falloncroft'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 amount of assets and liabilities in the Financial Information and the corresponding tax bases 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 difference 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 the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in 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 Falloncroft 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.

Foreign currencies

Transactions in currencies other than the functional currency of Falloncroft (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the Relevant Period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the financial statements, the assets and liabilities of Falloncroft are translated into the presentation currency (i.e. HK\$) using exchange rates prevailing at each of the reporting dates. Income and expenses items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in the income statement.

5. CAPITAL RISK MANAGEMENT

The management of Falloncroft manages its capital while maximising the return to shareholders through the optimisation of the debt and equity balance. Falloncroft's overall strategy remains unchanged during the Relevant Period.

The capital structure of Falloncroft consists of debts, which includes convertible bonds and amount due to ultimate holding company and equity attributable to owners of Falloncroft, comprising share capital and reserve.

The management of Falloncroft reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. It will balance its overall capital structure through issuance of new shares as well as the raising of new debts and redemption of existing debts.

6. FINANCIAL INSTRUMENTS AND CAPITAL RISK DISCLOSURES

a. Categories of financial instruments

	2009	At 31 December 2010	2011	At 30 September 2012
	HK\$	HK\$	HK\$	HK\$
Financial assets:				
Loans and receivables (including cash and cash equivalents)	306,281	18,322	18,329	11,402
Financial liabilities:				
At amortised cost	458,462	2,827,381	3,308,599	3,310,068
At nominal amount (convertible bonds and related interest payable)	478,750,000	523,750,000	568,750,000	602,500,000
	<u>479,208,462</u>	<u>526,577,381</u>	<u>572,058,599</u>	<u>605,810,068</u>

b. Financial risk management objectives and policies

The risks associated with the Falloncroft's financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Fair value interest rate risk

Falloncroft has significant convertible bonds which bear interest-rate risk. Convertible bonds issued at fixed rates expose Falloncroft to fair value interest-rate risk. During the Relevant Period, Falloncroft has not hedged its fair value interest rate risk.

Credit risk

At the end of each reporting period, Falloncroft's maximum exposure to credit risk which will cause a financial loss to Falloncroft due to failure to discharge an obligation by the counterparties provided by Falloncroft is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management is in close involvement in overseeing the recovery of the assets. In this regard, the management of Falloncroft considers that the credit risk of Falloncroft is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are financial institutions with good credit standing regarded by the management.

Liquidity risk

Falloncroft's liquidity position is monitored closely by the management of Falloncroft. In the management of the liquidity risk, the management of Falloncroft monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Falloncroft's operations and mitigate the effects of fluctuations in cash flows.

The directors of Falloncroft believe that the ultimate holding company will provide adequate funds to Falloncroft to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Falloncroft's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Falloncroft can be required to pay. The table includes both interest and principal cash flows.

	On demand or less than 1 month HK\$	1 – 3 months HK\$	3 months to 1 year HK\$	1 – 5 years HK\$	Total undiscounted cash flows HK\$	Carrying amount HK\$
As at 31 December 2009						
Other creditors	355,550	–	–	–	355,550	355,550
Amount due to ultimate holding company	102,912	–	–	–	102,912	102,912
Convertible bonds and related interest payable*	–	–	–	630,000,000	630,000,000	478,750,000
	<u>458,462</u>	<u>–</u>	<u>–</u>	<u>630,000,000</u>	<u>630,458,462</u>	<u>479,208,462</u>
As at 31 December 2010						
Other creditors	38,000	–	–	–	38,000	38,000
Amount due to ultimate holding company	2,789,381	–	–	–	2,789,381	2,789,381
Convertible bonds and related interest payable*	–	–	–	630,000,000	630,000,000	523,750,000
	<u>2,827,381</u>	<u>–</u>	<u>–</u>	<u>630,000,000</u>	<u>632,827,381</u>	<u>526,577,381</u>
As at 31 December 2011						
Other creditors	76,000	–	–	–	76,000	76,000
Amount due to ultimate holding company	3,232,599	–	–	–	3,232,599	3,232,599
Convertible bonds and related interest payable*	–	–	630,000,000	–	630,000,000	568,750,000
	<u>3,308,599</u>	<u>–</u>	<u>630,000,000</u>	<u>–</u>	<u>633,308,599</u>	<u>572,058,599</u>
As at 30 September 2012						
Other creditors	5,000	–	–	–	5,000	5,000
Amount due to ultimate holding company	3,305,068	–	–	–	3,305,068	3,305,068
Convertible bonds and related interest payable*	–	–	630,000,000	–	630,000,000	602,500,000
	<u>3,310,068</u>	<u>–</u>	<u>630,000,000</u>	<u>–</u>	<u>633,310,068</u>	<u>605,810,068</u>

* The convertible bonds are issued with coupon rate 12.5% per annum.

c. Fair values

The fair value of financial assets and financial liabilities is determined in accordance with general accepted pricing models based on discounted cash flow except the convertible bonds and call option subscription agreements.

7. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(Unaudited)	
Interest expense on convertible bonds	45,000,000	45,000,000	45,000,000	33,750,000	33,750,000

8. TAXATION

Falloncroft is incorporated in the BVI and has no operation in Hong Kong. No provision for profit tax has been made accordingly as Falloncroft did not have any assessable profit during the Relevant Period.

There was no unprovided deferred taxation for the Relevant Period as at respective reporting dates.

9. LOSS FOR THE YEAR/PERIOD

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(Unaudited)	
Loss for the year/period has been arrived at after charging:					
Auditor's remuneration	40,000	38,000	38,000	28,500	–
Directors' emoluments	–	–	–	–	–

Other expenses mainly represent the legal and professional fees incurred for the acquisition of the entire issued share capital of Uni-Dragon. Details of the acquisition is disclosed in note 10 of the Financial Information for the Relevant Period.

10. DEPOSIT AND PREPAYMENT

	Notes	At 31 December		At 30 September	
		2009 HK\$	2010 HK\$	2011 HK\$	2012 HK\$
Deposit for purchase of Uni-Dragon Limited ("Uni-Dragon")	(a)	216,000,000	–	–	–
Transaction fee prepaid	(b)	144,000,000	–	–	–
		360,000,000	–	–	–

Notes:

- (a) As mentioned in note 1, Falloncroft, as the purchaser, has entered into Uni-Dragon SPA 2007 with Concordia, the immediate holding company of Uni-Dragon, as the vendor, and Empresa, as the guarantor, for the acquisition of the entire issued share capital of Uni-Dragon, which indirectly owns New Concordia, at a consideration of HK\$1,080,000,000. According to Addendum made on 27 June 2009 related to the original agreement, Uni-Dragon SPA 2007, it was a completion obligation that New Concordia having been granted the POA by Empresa in respect of the Land on which it was proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming).

The deposit above represented 20% of the total consideration for the acquisition of Uni-Dragon. The balance of the cash consideration in the amount of HK\$864,000,000 (note 16) was scheduled to be payable upon completion of the acquisition of Uni-Dragon. The deposit was fully and irrevocably non-refundable and completion should take place on or before 24 September 2009 which was subsequently extended to 16 April 2010. The transaction failed to complete by 16 April 2010 and the Uni-Dragon SPA 2007 lapsed. The deposit was forfeited and recognised as expense in the income statement for the year ended 31 December 2010 accordingly.

On 30 October 2012, a new sale and purchase agreement (“**Uni-Dragon SPA 2012**”) was entered into among the same parties, Falloncroft, Concordia and Empresa. Empresa and Concordia are associates under ITC Properties Group Limited. Uni-Dragon SPA 2012 stated that all previous agreements among the parties relating to the sale and purchase of entire issued shares of Uni-Dragon were superseded and extinguished. Under this new agreement, the consideration was HK\$900,000,000 and a deposit of HK\$30,000,000 was required to be paid within 5 business days following the date of this agreement, and the balance of HK\$870,000,000 is required to be paid by Falloncroft on completion of the Uni-Dragon SPA 2012. The completion date is scheduled on to 8 February 2013 or any other date that may be agreed among the parties to the Uni-Dragon SPA 2012, which has to be no later than 4 months from 30 October 2012. Same as the Uni-Dragon SPA 2007, New Concordia having been granted the POA by Empresa in respect of the Land is a completion obligation for Concordia under the Uni-Dragon SPA 2012.

- (b) The amount represents transaction fee paid to Pride Wisdom based on the terms of a Deed of Agreement (the “**Deed**”) dated 1 June 2007 entered into among Falloncroft, Pride Wisdom and Mr. Stephen Hung, director of Falloncroft, relating to the acquisition of the Land. The Deed stated that, after signing the sale and purchase agreement, should the acquisition of the Land fail to complete, HK\$84,000,000 will be refunded to Falloncroft and such refund was guaranteed by Mr. Stephen Hung. Pursuant to a supplementary deed entered into on 8 January 2008, an additional condition was added that the above HK\$84,000,000 would be refunded unless the rights granted to Sun Innovation (as defined in note 15) under the call option subscription agreement detailed in note 15 were not exercised. Pursuant to another supplementary deed entered into 16 April 2008, the above guarantee by Mr. Stephen Hung was terminated and extinguished. As the rights of Sun Innovation mentioned above were not exercised during the option period, the prepaid transaction fee was written off to income statement for the year ended 31 December 2010 upon the termination of the Uni-Dragon SPA 2007 as explained in (a) above.

11. AMOUNT DUE FROM (TO) A SHAREHOLDER/ULTIMATE HOLDING COMPANY

The amounts due from (to) a shareholder/ultimate holding company are unsecured, interest-free and repayable on demand.

The shareholder is Artech Development Limited, an entity incorporated in the BVI which holds 6.58% equity interest of Falloncroft.

12. BANK BALANCES AND CASH

The bank balances carry prevailing market rates at 0.10%, 0.15%, 0.05% and 0.03% per annum for the year ended 31 December 2009, 31 December 2010, 31 December 2011 and nine months ended 30 September 2012, respectively.

13. CONVERTIBLE BONDS

On 12 March 2007 and 1 June 2007, 5 and 13 series of convertible bonds (with principal value of HK\$20,000,000 each) with an aggregate principal values of HK\$100,000,000 and HK\$260,000,000 respectively were issued by Falloncroft to independent third parties. The convertible bonds are denominated in Hong Kong dollars, unsecured, carry interest at 12.5% per annum and were due to mature on 18 March 2012 and 31 May 2012 respectively. Interest is repayable in one lump sum on 18 March 2012 and 31 May 2012 respectively. Each series of the bonds (with principal value of HK\$20,000,000) would be convertible to 200 ordinary shares of Falloncroft at any time prior to the maturity date. On 20 April 2012 and 1 June 2012, deeds of amendment were entered into with the bond holders to extend the maturity of all outstanding convertible bonds to 31 May 2013. No conversion option was exercised during the Relevant Period.

There are mandatory and optional conversion features attached to the bonds. For mandatory conversion, at any time prior to the maturity date and after the issuance of new shares by Falloncroft to the third party investor under the option agreement described in note 15, Falloncroft may require the bond holders to convert the whole (but not part) of the principal amount (i.e. HK\$20,000,000 per series) of the convertible bonds into 200 shares. For optional conversion, at any time prior to maturity date, at the option of the bond holders, the bond holders may convert all (but not some only) of the principal amount (i.e. HK\$20,000,000 per series) of the convertible bond (together with all interest accrued thereon) it holds into 200 shares.

In addition to the conversion option, there is also a redemption feature for the 5 series of convertible bonds. In the event that the Uni-Dragon SPA 2007 is terminated, either the bond holders may choose to require Falloncroft or Falloncroft itself may choose to redeem the outstanding convertible bonds at par and the bond holders shall irrevocably waive all accrued and unpaid interest on the convertible bonds.

As analysis of convertible bonds for the year/period are set out as below:

	Convertible Bonds issued on 12 March 2007 at principal amount HK\$	Convertible Bonds issued on 1 June 2007 at principal amount HK\$	Total HK\$
At 1 January 2009, 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012	<u>100,000,000</u>	<u>260,000,000</u>	<u>360,000,000</u>

14. SHARE CAPITAL

	Number of shares	Amount US\$
Shares of par value of US\$1 each:		
Authorised:		
At 1 January 2009, 31 December 2009, 2010, 2011 and 30 September 2012	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1 January 2009	100	100
Shares allotted	<u>10,160</u>	<u>10,160</u>
31 December 2009, 2010, 2011 and 30 September 2012	<u>10,260</u>	<u>10,260</u>
Shown in the financial statements		
At 31 December 2009, 2010, 2011 and 30 September 2012	HK\$ equivalent	<u>79,515</u>

On 24 September 2009, a total of 10,160 shares were allotted to the existing shareholders including its ultimate holding company, for cash at par to finance the working capital of Falloncroft. All the shares were issued and fully paid and ranked pari passu with the other shares in issue in all respects.

15. CALL OPTION SUBSCRIPTION AGREEMENT

On 8 January 2008, Falloncroft, Pride Wisdom and Sun Innovation Holdings Limited (“**Sun Innovation**”), an independent third party and a company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited, entered into a call option subscription agreement under which Pride Wisdom granted Sun Innovation, at a consideration of HK\$1, the right to purchase the then entire existing issue share capital of Falloncroft at a consideration of HK\$576,000,000 before the end of the call option period (i.e. 28 June 2009).

Under the same agreement, Falloncroft granted Sun Innovation, at a consideration of HK\$1,000,000, the right to subscribe for 2,160 new ordinary shares in Falloncroft at an aggregate subscription price of HK\$764,000,000 before the end of the call option period. The call option and subscription right were not exercised and had expired on 28 June 2009. This right has not been measured at fair value in the Financial Information.

16. CAPITAL COMMITMENT

	At 31 December		At 30 September	
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Contracted but not provided for the acquisition of Uni-Dragon	872,640,000*	–	–	–

* The 80% balance payable of Uni-Dragon SPA 2007 is HK\$864,000,000. The amount was increased to HK\$872,640,000 subsequently due to Falloncroft’s failure to complete the transaction within 14 days from the date of extension letter issued on 17 November 2009.

17. RELATED PARTY TRANSACTIONS AND BALANCES

During the Relevant Period, Falloncroft has no other transactions with related parties except for those disclosed in the statements of financial position and notes 10(b) and 11.

B. DIRECTORS’ REMUNERATION

No remuneration was paid or is payable by Falloncroft to its directors for the Relevant Period. There was no current arrangement for payment of remuneration to the directors.

C. EVENT AFTER THE REPORTING PERIOD

On 30 October 2012, Uni-Dragon SPA 2012 was entered into among Falloncroft, Concordia and Empresa. Details of the transaction are set out in note 10(a).

On 19 November 2012, the Company entered into a sale and purchase agreement with Pride Wisdom, pursuant to which Pride Wisdom agreed to sell, or procure the sale of, and the Company agreed to purchase, or procure the purchase of, the entire issued share capital of Falloncroft for a cash consideration of HK\$2,000,000,000.

Under this agreement, Falloncroft adopts a share option scheme prior to completion of the Falloncroft SPA and will, prior to such completion, grant options that would, for a subscription and capital contribution, in cash, of up to HK\$600 million, entitle Chief Wise Limited, an affiliate of Mr. Stephen Hung, to subscribe new Falloncroft shares. If exercised in full, this will represent up to 10% of the issued share capital of Falloncroft as enlarged by the injection of new capital after completion of the Falloncroft SPA for the purposes of pursuing the proposed construction and operation of a 5 star hotel and ancillary retail and entertainment facilities, including but not limited to gaming, and which would

in aggregate result in Falloncroft having an issued share capital and, or shareholders' loans valued at HK\$6,000 million, calculated as the product of the HK\$2,000 million acquisition cost of Falloncroft plus the injection of additional capital in the form of shares and, or shareholders' loans to an aggregate amount of up to HK\$3,400 million from the Company and up to HK\$600 million in the form of capital from the optionholders on exercise of the options). The share options are not yet granted up to the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Falloncroft in respect of any period subsequent to 30 September 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong



5 January 2013

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

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) regarding Uni-Dragon Limited (“**Uni-Dragon**”) and its subsidiaries (collectively referred to as “**Uni-Dragon Group**”) for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 (the “**Relevant Period**”), for inclusion in the circular of Paul Y. Engineering Group Limited (the “**Company**”) dated 5 January 2013 in connection with, inter alia, the proposed acquisition of Falloncroft by the Company constituting a very substantial acquisition (the “**Circular**”).

Uni-Dragon was incorporated with limited liability in the British Virgin Islands (the “**BVI**”) on 5 September 2007. The registered office of Uni-Dragon is Portcullis TrustNet Chambers P.O. Box 3444, Road Town, Tortola, the BVI. It acts as an investment holding company.

All the companies comprising the Uni-Dragon Group have adopted 31 December as their financial year end date. Particulars of the Uni-Dragon’s subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital	Equity interest attributable to Uni-Dragon				Principal activities	
			At 31 December 2009	At 31 December 2010	At 30 September 2011	At 30 September 2012		
			%	%	%	%		
Manlink Limited (“ Manlink ”)	BVI 6 July 2007	United States Dollar (“ US\$ ”) 1	100	100	100	100	100	Investment holding
Challenge Shore Limited (“ Challenge Shore ”)	BVI 25 July 2007	US\$1	100	100	100	100	100	Investment holding
Hotel Nova Concórdia, Limitada (“ New Concordia Hotel Limited ” [#])	Macau 30 March 2009	Macau Patacas (“ MOP ”) 25,000	100	100	100	100	100	See details in Note 1 of the Financial Information

[#] The English name is for identification purpose only

Manlink and Challenge Shore are directly held by Uni-Dragon and New Concordia Hotel Limited is held by Uni-Dragon indirectly.

No audited financial statements have been prepared for Uni-Dragon or any of its subsidiaries since their respective dates of incorporation as there is no statutory requirement to do so.

For the purpose of this report, the directors of Uni-Dragon have prepared the consolidated financial statements of Uni-Dragon Group 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 Financial Statements**”). We have undertaken an independent audit on the Underlying Financial Statements of Uni-Dragon Group for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements 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 Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for the inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Uni-Dragon 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 Financial Statements, 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 Uni-Dragon Group as at 31 December 2009, 2010, 2011 and 30 September 2012, and of its results for the Relevant Period.

The comparative consolidated statement of changes in equity of Uni-Dragon for the nine months ended 30 September 2011, together with the notes thereon have been extracted from Uni-Dragon’s unaudited consolidated financial information for the same period (the “**September 2011 Financial Information**”) which was prepared by the directors of Uni-Dragon solely for the purpose of this report. We conducted our review of the September 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the September 2011 Financial Information consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with the HKFRSs.

A. FINANCIAL INFORMATION OF UNI-DRAGON GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At
	<i>Note</i>	2009	2010	2011	30 September
		HK\$	HK\$	HK\$	2012
					HK\$
Total assets		–	–	–	–
Total liabilities		–	–	–	–
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
CAPITAL AND RESERVES					
Share capital	6	8	8	8	8
Reserves		(8)	(8)	(8)	(8)
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$
At 1 January 2009	8	–	(38,768)	(38,760)
Waiver of amount due to intermediate holding company	–	38,760	–	38,760
	<u>–</u>	<u>38,760</u>	<u>–</u>	<u>38,760</u>
At 31 December 2009, 2010, 2011 and 30 September 2011 and 2012	<u>8</u>	<u>38,760</u>	<u>(38,768)</u>	<u>–</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Throughout the Relevant Period, the immediate holding company of Uni-Dragon is Concordia Property Development Holdings Limited, a private company incorporated in the BVI. Its ultimate holding company is Orient Town Limited, a private limited company incorporated in Hong Kong.

The functional currency of Uni-Dragon and its subsidiaries is Macau Patacas, the currency of the primary economic environment in which the group entities are designed to operate in. The Financial Information is presented in Hong Kong Dollars (“HK\$”), as such information is to be included in a circular to be issued by Paul Y. Engineering Group Limited (the “Company”).

Consolidated statements of comprehensive income have not been presented as Uni-Dragon and its subsidiaries had not incurred any expenditure nor generated any revenue during the Relevant Period.

Consolidated statements of cash flows have not been presented as there was no cash transaction during the Relevant Period.

Falloncroft Investments Limited (“Falloncroft”), an entity incorporated in the BVI, as the purchaser, had entered into a sale and purchase agreement on 29 September 2007 (the “Uni-Dragon SPA 2007”) with Concordia Property Development Holdings Limited (“Concordia”), the immediate holding company of Uni-Dragon, as the vendor, and Empresa De Fomento Industrial E Comercial Concórdia, S.A. (“Empresa”), as the guarantor, for the acquisition of the entire issued share capital of Uni-Dragon, which indirectly owns New Concordia Hotel Limited (“New Concordia”) at a consideration of HK\$1,080,000,000. According to addendum made on 27 June 2009 related to the original agreement, Uni-Dragon SPA 2007, it was a completion obligation that the acquisition of Uni-Dragon include New Concordia having been granted the power of attorney by Empresa in respect of a parcel of land known as Lot 1 situated in the Coloane Island of Macau, at the site of Concordia, along the Road of Seac Pai Van on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming). The transaction was failed to be completed on 16 April 2010 and the Uni-Dragon SPA 2007 was lapsed.

On 30 October 2012, a new sale and purchase agreement was entered again among the same parties, Falloncroft, Concordia and Empresa. The consideration had been revised to HK\$900,000,000. The completion date was scheduled on 8 February 2013 or any other date that may be agreed among the parties to the Uni-Dragon SPA 2012, which has to be no later than 4 months from 30 October 2012. Same as the Uni-Dragon SPA 2007, New Concordia having been granted the POA by Empresa in respect of the Land is the completion obligation for Concordia under the Uni-Dragon SPA 2012.

This was the only operating and reportable segment of Uni-Dragon and its subsidiaries and accordingly no segmental information is provided in the Financial Information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretations (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “new HKFRSs”) which are effective for the Uni-Dragon Group’s financial year beginning on 1 January 2012. For the purposes of preparing and presenting the Financial Information for the Relevant Period, Uni-Dragon Group has consistently adopted all these new HKFRSs throughout the Relevant Period.

The Uni-Dragon Group has not early applied the following standards, amendments or interpretation that have been issued but are not yet effective:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 – 2011 Cycle ²
HKFRS 1 (Amendments)	Government Loans ²
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ³
HKFRS 9	Financial Instruments ⁴
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 ¹
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
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ³
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

- ¹ Effective for annual periods beginning on or after 1 July 2012
² Effective for annual periods beginning on or after 1 January 2013
³ Effective for annual periods beginning on or after 1 January 2014
⁴ Effective for annual periods beginning on or after 1 January 2015

The directors of Uni-Dragon anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the results and financial position of the Uni-Dragon Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of Uni-Dragon after deducting all of its liabilities. Equity instruments issued by Uni-Dragon are recorded at the proceeds received, net of direct issue costs.

Equity instruments issued by Uni-Dragon and its subsidiaries are classified according to the substance of the contractual arrangements entered into and the definitions of an equity instrument.

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 year/period. Taxable profit differs from profit as reported in the consolidated income statement 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. Uni-Dragon Group'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 the initial recognition of 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 in 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 Uni-Dragon Group 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.

4. CAPITAL RISK MANAGEMENT

The management of Uni-Dragon manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Uni-Dragon's overall strategy remains unchanged during the Relevant Period.

The capital structure of Uni-Dragon consists of equity attributable to owners of Uni-Dragon, represent the share capital.

The management of Uni-Dragon reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. It will balance its overall capital structure through issuance of new shares as well as the raising of new debts.

5. TAXATION

None of Uni-Dragon and its subsidiaries operates in Hong Kong. In addition, Uni-Dragon, Manlink and Challenge Shore are all incorporated in the BVI, while New Concordia does not subject to taxation of Macau as it does not generate any taxable income, thus Uni-Dragon Group was not subject to any taxation during the Relevant Period.

There was no significant unprovided deferred taxation for the Relevant Period as at respective reporting dates.

6. SHARE CAPITAL

	Number of shares	Amount US\$
Shares of par value of US\$1 each:		
Authorised:		
At 1 January 2009, 31 December 2009, 2010, 2011 and 30 September 2012	50,000	50,000
Issued and fully paid:		
At 1 January 2009, 31 December 2009, 2010, 2011 and 30 September 2012	1	1
Shown in the Financial Information		
At 31 December 2009, 2010, 2011 and 30 September 2012	HK\$ equivalent	8

7. RELATED PARTY TRANSACTION

During the Relevant Period, Uni-Dragon Group has not entered into any transactions with its related parties.

B. DIRECTORS' REMUNERATION

No remuneration was paid or is payable by the Uni-Dragon Group to the directors of Uni-Dragon for the Relevant Period. There was no current arrangement for payment of remuneration to the directors.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by Uni-Dragon or any of its subsidiaries in respective of any period subsequent to 30 September 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

As at the Latest Practicable Date, Falloncroft does not have any operation since its incorporation on 6 October 2006. It was incorporated for the purpose of development of hotel.

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

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) proposed allotment and issue of shares and issue of convertible bonds by the Company requiring a specific mandate; (ii) proposed acquisition of Falloncroft constituting a very substantial acquisition and connected transaction; (iii) proposed distribution in specie of a 49% interest in its existing business, with the offer of a cash alternative; and (iv) proposed special cash dividend by the Company of HK\$0.26 per share with a scrip alternative) had been completed on 30 September 2012; and (b) the results and cash flows of the Enlarged Group as if the transactions had been completed on 1 April 2012 based on two scenarios. Scenario 1 reflects the unaudited pro forma financial information assuming no exercise of the Upsize Option and no completion of the Contingent Placing Convertible Bonds. Scenario 2 reflects the unaudited pro forma financial information assuming the full exercise of the Upsize Option and the completion of the Contingent Placing Convertible Bonds.

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 30 September 2012 or at any future date had the transactions been completed on 30 September 2012 or the results and cash flows of the Enlarged Group for the six months ended 30 September 2012 or for any future period had the transactions been completed on 1 April 2012.

The unaudited pro forma financial information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2012, the unaudited condensed consolidated income statement and unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 September 2012 extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2012 after giving effect to the pro forma adjustments described in the accompanying notes and was prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

**Unaudited Pro Forma Condensed Consolidated Statement of Financial Position of the
Enlarged Group as at 30 September 2012**

	The Group HK\$'000	Pro forma adjustments					The Enlarged Group before Upsize Option and Contingent Placing HK\$'000 (Note 6)	Pro forma adjustments			The Enlarged Group after Upsize Option and Contingent Placing HK\$'000
		HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000 (Note 5)		HK\$'000 (Note 9)	HK\$'000 (Note 10)	HK\$'000 (Note 11)	
NON-CURRENT ASSETS											
Property, plant and equipment	201,572						201,572				201,572
Prepaid land lease payments	19,399				1,900,000		1,919,399				1,919,399
Goodwill	61,646						61,646				61,646
Other intangible assets	7,570						7,570				7,570
Interests in associates	96,430						96,430				96,430
Interests in jointly controlled entities	17,614						17,614				17,614
Other debtors – non-current portion	184,733						184,733				184,733
	<u>588,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,900,000</u>	<u>-</u>	<u>2,488,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,488,964</u>
CURRENT ASSETS											
Prepaid land lease payments	575				100,000		100,575				100,575
Amounts due from customers for contract works	474,211						474,211				474,211
Amounts due from PYI Group	-			76,538			76,538				76,538
Trade and other debtors, deposits and prepayments	2,290,787						2,290,787				2,290,787
Amount due from a related company	31						31				31
Amounts due from associates	30,068						30,068				30,068
Amounts due from jointly controlled entities	152,539						152,539				152,539
Amounts due from fellow subsidiaries	76,538			(76,538)			-				-
Other loan receivable	8,148						8,148				8,148
Short term bank deposits	20,799						20,799				20,799
Bank balances and cash	253,138	724,000	2,304,000	(2,000,000)	(157,808)		1,123,330	384,000	1,152,000	1,536,000	4,195,330
	<u>3,306,834</u>	<u>724,000</u>	<u>2,304,000</u>	<u>(1,900,000)</u>	<u>(157,808)</u>	<u>-</u>	<u>4,277,026</u>	<u>384,000</u>	<u>1,152,000</u>	<u>1,536,000</u>	<u>7,349,026</u>
CURRENT LIABILITIES											
Amounts due to customers for contract works	850,224						850,224				850,224
Trade and other creditors and accrued expenses	1,892,504						1,892,504				1,892,504
Amounts due to associates	70,982						70,982				70,982
Amounts due to jointly controlled entities	37,000						37,000				37,000
Amounts due to non-controlling interests	61						61				61
Taxation payable	5,739						5,739				5,739
Dividend payable	6,070						6,070				6,070
Bank borrowings – due within one year	211,585						211,585				211,585
	<u>3,074,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,074,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,074,165</u>
NET CURRENT ASSETS	232,669	724,000	2,304,000	(1,900,000)	(157,808)	-	1,202,861	384,000	1,152,000	1,536,000	4,274,861
TOTAL ASSETS LESS CURRENT LIABILITIES	821,633	724,000	2,304,000	-	(157,808)	-	3,691,825	384,000	1,152,000	1,536,000	6,763,825
NON-CURRENT LIABILITIES											
Bank borrowings – due after one year	165,397						165,397				165,397
Liability component of convertible bonds	-		411,670				411,670	206,007	274,524		892,201
Embedded derivative components of convertible bonds	-		1,892,330				1,892,330	945,993	1,261,476		4,099,799
	<u>165,397</u>	<u>-</u>	<u>2,304,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,469,397</u>	<u>-</u>	<u>1,152,000</u>	<u>1,536,000</u>	<u>5,157,397</u>
	<u>656,236</u>	<u>724,000</u>	<u>-</u>	<u>-</u>	<u>(157,808)</u>	<u>-</u>	<u>1,222,428</u>	<u>384,000</u>	<u>-</u>	<u>-</u>	<u>1,606,428</u>
CAPITAL AND RESERVES											
Share capital	121,391	235,294					356,685	117,647			474,332
Reserves	533,011	488,706			(157,808)	(320,657)	543,252	266,353			809,605
Equity attributable to owners of the Company	654,402	724,000	-	-	(157,808)	(320,657)	899,937	384,000	-	-	1,283,937
Non-controlling interests	1,834					320,657	322,491				322,491
TOTAL EQUITY	656,236	724,000	-	-	(157,808)	-	1,222,428	384,000	-	-	1,606,428

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

**Unaudited Pro Forma Condensed Consolidated Income Statement of the Enlarged Group for
the six months ended 30 September 2012**

	The Group	Pro forma adjustments		The Enlarged Group before or after upside option and contingent placing
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note 7)</i>	<i>HK\$'000</i> <i>(Note 8)</i>	<i>HK\$'000</i>
Group turnover	3,438,504			3,438,504
Cost of sales	(3,326,517)			(3,326,517)
Gross profit	111,987	–	–	111,987
Other income	2,302			2,302
Administrative expenses	(94,739)		(10,465)	(105,204)
Finance costs	(6,449)			(6,449)
Share of results of associates	5,919			5,919
Share of results of jointly controlled entities	5,230			5,230
Profit before tax	24,250	–	(10,465)	13,785
Income tax expense	(3,064)			(3,064)
Profit for the period	<u>21,186</u>	<u>–</u>	<u>(10,465)</u>	<u>10,721</u>
Profit for the period attributable to:				
Owners of the Company	20,973	(10,277)	(10,465)	231
Non-controlling interests	213	10,277		10,490
	<u>21,186</u>	<u>–</u>	<u>(10,465)</u>	<u>10,721</u>

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

**Unaudited Pro Forma Condensed Consolidated Statement of Cash Flows of the Enlarged Group
for the six months ended 30 September 2012**

	The Group				The Enlarged Group before Upsize Option and Contingent Placing				The Enlarged Group after Upsize Option and Contingent Placing	
	HK\$'000	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000	HK\$'000 (Note 9)	HK\$'000 (Note 10)	HK\$'000 (Note 11)	HK\$'000
NET CASH FROM OPERATING ACTIVITIES	43,968					43,968				43,968
INVESTING ACTIVITIES										
Purchase of property, plant and equipment	(41,961)					(41,961)				(41,961)
Repayment from an associate	10,305					10,305				10,305
Other investing cash flows	558					558				558
Acquisition of prepaid land lease payments	-			(2,000,000)		(2,000,000)				(2,000,000)
NET CASH USED IN INVESTING ACTIVITIES	(31,098)	-	-	(2,000,000)	-	(2,031,098)	-	-	-	(2,031,098)
FINANCING ACTIVITIES										
Bank loans raised	360,916					360,916				360,916
Repayment of bank loans	(323,111)					(323,111)				(323,111)
Repayment to a jointly controlled entity	(58,500)					(58,500)				(58,500)
Dividends paid	-				(157,808)	(157,808)				(157,808)
Other financing cash flows	(24,033)					(24,033)				(24,033)
Proceeds from issue of shares	-	800,000				800,000	400,000			1,200,000
Share issue expenses	-	(76,000)				(76,000)	(16,000)			(92,000)
Proceeds from issue of convertible bonds	-		2,400,000			2,400,000		1,200,000	1,600,000	5,200,000
Transaction costs of issue of convertible bonds	-		(96,000)			(96,000)		(48,000)	(64,000)	(208,000)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(44,728)	724,000	2,304,000	-	(157,808)	2,825,464	384,000	1,152,000	1,536,000	5,897,464
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31,858)	724,000	2,304,000	(2,000,000)	(157,808)	838,334	384,000	1,152,000	1,536,000	3,910,334
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3					3				3
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	305,792					305,792				305,792
CASH AND CASH EQUIVALENTS CARRIED FORWARD	<u>273,937</u>	<u>724,000</u>	<u>2,304,000</u>	<u>(2,000,000)</u>	<u>(157,808)</u>	<u>1,144,129</u>	<u>384,000</u>	<u>1,152,000</u>	<u>1,536,000</u>	<u>4,216,129</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS										
Short term bank deposits	20,799					20,799				20,799
Bank balances and cash	253,138	724,000	2,304,000	(2,000,000)	(157,808)	1,123,330	384,000	1,152,000	1,536,000	4,195,330
	<u>273,937</u>	<u>724,000</u>	<u>2,304,000</u>	<u>(2,000,000)</u>	<u>(157,808)</u>	<u>1,144,129</u>	<u>384,000</u>	<u>1,152,000</u>	<u>1,536,000</u>	<u>4,216,129</u>

APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP (INCLUSIVE OF ITS INTEREST IN FALLONCROFT)

Notes:

1. These adjustments represent the net proceeds from the allotment and issue of a minimum of 1,176,470,588 new Shares with par value of HK\$0.20 at HK\$0.68 each pursuant to the Placing Agreement, net of share issues expenses (including placing commission of HK\$32 million, legal and professional fees and other related expenses payable by the Company) of approximately HK\$76 million, assuming (i) no exercise of the Upsize Option and no incentive payment to the Placing Agent is made, and (ii) legal and professional fees and other related expenses of HK\$44 million are deducted from the proceeds of the allotment and issue of new Shares.
2. These adjustments represent the issuance of Convertible Bonds with an aggregate of up to HK\$2,400 million at face value pursuant to the Placing Agreement, net of placing commission of approximately HK\$96 million, assuming no exercise of the Upsize Option. The Convertible Bonds contain three elements, liability component, conversion option and early redemption option. For the purpose of this unaudited pro forma financial information, the directors of the Company have determined the fair value of liability component and embedded derivatives (including conversion option and early redemption option), net of placing commission, to be approximately HK\$411,670,000 and HK\$1,892,330,000 respectively by reference to the valuation as at 19 November 2012 carried out by an independent valuer. On completion of the Placing, the fair value of the respective components of Convertible Bonds will have to be determined as at the date of completion. As a result, their respective fair values may be different from the estimated amounts as shown above.

The principal terms of the Convertible Bonds are disclosed in pages 22 to 26 of this circular. The early redemption option is classified as derivative instrument because the early redemption option is not closely related to the host debt contract and the conversion option is also classified as a derivative liability. The conversion option derivative and the early redemption option derivative are measured at fair value with fair value change recognised in profit or loss.

The placing commission relating to the issue of the Convertible Bonds, are allocated to the liability, conversion option and early redemption components in proportion to their relative fair values.

The effective interest expense of Convertible Bonds would be capitalised to the construction in progress of unaudited pro forma financial information of the Enlarged Group from the date of commencement of the construction project which is assumed to be started after the completion of Acquisition based on the capitalisation rate to the expenditure on the construction project.

For the fair value change of embedded derivative liability of Convertible Bonds for the six months ended 30 September 2012, it is not practicable to determine the pro forma fair value of the embedded derivative as at 1 April 2012 and 30 September 2012 as it is not practicable to determine the adjusted stock price of the Company reflecting the effects if Acquisition was already announced on those dates, which is one of the key parameters for the determination of fair value of embedded derivative liability.

3. These adjustments represent the reclassification of the amounts due from PYI and its subsidiaries as at 30 September 2012 because PYE will no longer be a subsidiary of PYI after the Placing.
4. The cash consideration for the acquisition of the entire equity interest in Falloncroft is HK\$2,000 million. The conditions precedent for completion of the acquisition of Falloncroft include the Uni-Dragon SPA having been duly entered into, pursuant to which Uni-Dragon going to indirectly own New Concordia upon completion, and it was a completion obligation that New Concordia having been granted the POA by Empresa in respect of the Land on which it is proposed to construct and operate a 5 star hotel with ancillary retail and entertainment facilities (including but not limited to gaming).

The useful life of the Land owned by Empresa is 25 years commencing from 31 October 2007, renewable under the applicable law subject to the completion of the development and the payment of land premium. As at 30 September 2012, the land lease was classified as a medium-term operating lease with approximately 20 years remaining lease period, under which the risks and rewards of the Land incidental to ownership have not been substantially transferred to New Concordia.

According to one of the conditions precedent for the completion of the Falloncroft SPA, Falloncroft and Uni-Dragon and its subsidiaries shall have zero assets and liabilities (other than those related to the Land, the MOU and the Construction LOI) at the date of completion of the Acquisition.

The conditions precedent specifically mentioned that the convertible bonds issued by Falloncroft and any shareholder's loans owed by Falloncroft shall be cancelled or repaid without further cost or liability to Falloncroft.

Considering all of the above, this transaction is considered as the acquisition of an asset (interest in the Land which, as a result of the MOU, can be used to set up and operate a casino) and the cash consideration of HK\$2,000 million is therefore recognised as prepaid land lease payments in the unaudited pro forma financial information.

As explained on page 105 of this circular, the construction of the Project is scheduled to commence in 2013. The amortisation of the prepaid land lease payments will therefore be capitalised as construction in progress within the category of property, plant and equipment. It is assumed that the construction of the Project will commence immediately after the completion of the acquisition of Falloncroft.

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

5. These adjustments represent the proposed payment of special cash dividend of HK\$0.26 per share, for existing 606,954,322 shares of the Company as at 30 September 2012, assuming all shareholders elect to receive cash but not elect to any Scrip Alternative.
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 assets value of PYE BVI and its subsidiaries (collectively referred to as “**PYE BVI Group**”) as at 30 September 2012, which amounted to approximately HK\$654,402,000 as at 30 September 2012, is adjusted from equity interest of PYE to non-controlling interests.
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 2012. For the purpose of this unaudited pro forma financial information, the profit of PYE BVI Group amounted to approximately HK\$20,973,000 for the six months ended 30 September 2012.
8. Prior to completion of the Falloncroft SPA, Falloncroft will adopt a share option scheme and grant options that would, for a subscription and capital contribution, in cash, of up to HK\$600 million, entitle Chief Wise, an affiliate of Mr. Hung, to subscribe for new Falloncroft Shares. The scheme will be structured that the option holders, on exercise, will always have to pay the same pro rata amount (up to maximum of HK\$600 million) for the shares as the Company pays for its interest in Falloncroft. Holders of the options subscribing for Falloncroft Shares, on exercise of the options, have the right to require PYE to purchase their respective holdings of Falloncroft shares in exchange for an allotment and issue of new Shares of PYE. Details of the above share option scheme and Exchange Right are set out on pages 38 to 40 of this circular. As Mr. Hung is a proposed new director of the Company upon completion of the Transaction, the fair value of the above share options are measured at fair value and accounted for in accordance with HKFRS 2 “Share-based Payment” with reference to the valuation as at 19 November 2012 carried out by an independent valuer.

The fair value of services to be received from Mr. Hung as a director is determined by reference to the fair value of share options granted and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). A pro forma amount of HK\$10,465,000 was expensed to the unaudited pro forma financial information for six months ended 30 September 2012.

There are 3 tranches of share options to be issued, in which 180,000,000 share options are attached to each of Series A and B, and 240,000,000 share options are attached to Series C. The fair values were calculated using the Binomial model. The inputs into the model were as follows:

	Series A	Series B	Series C
Weighted average share price of PYE	HK\$0.55	HK\$0.55	HK\$0.55
Exercise price	HK\$0.68	HK\$0.68	HK\$0.68
Expected volatility	44.7%	44.7%	43.8%
Expected life	5 years	5 years	5 years
Risk-free rate	0.16%	0.16%	0.19%
Assumed vesting period*	Immediately	2 years	3 years
Estimated fair value	HK\$7,444,545	HK\$7,444,545	HK\$11,789,166

* The vesting conditions for the 3 tranches of share options are as follows:

Series A: Completion of the Falloncroft SPA.

Series B: Completion of the Falloncroft SPA and the roof topping out in respect of the hotel (the “Hotel”) to be constructed on the Land.

Series C: Completion of the Falloncroft SPA, the roof topping out in respect of the Hotel to be constructed on the Land and the formal opening of the Casino to be located and operated within the Hotel.

9. These adjustments represent the additional net proceeds from the allotment and issue of up to 588,235,294 new Shares with par value of HK\$0.20 at HK\$0.68 each pursuant to the Placing Agreement, net of placing commission of approximately HK\$16 million, assuming the full exercise of the Upsize Option.

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

10. These adjustments represent the issuance of additional Convertible Bonds of up to HK\$1,200 million at face value pursuant to the Placing Agreement, net of placing commission of approximately HK\$48 million, assuming the full exercise, of the Upsize Option. For the purpose of this unaudited pro forma financial information, the directors of the Company have determined the fair value of liability component and the embedded derivative liability (including conversion option and early redemption option), net of placing commission, to be approximately HK\$206,007,000 and HK\$945,993,000 respectively by reference to the valuation as at 19 November 2012 carried out by an independent valuer. On completion of the Placing, the fair value of Contingent Convertible Bonds will have to be determined as at the date of completion and the fair values of the respective components may be different from the estimated amounts as shown above.

As stated in note 2 of the unaudited pro forma financial information of the Enlarged Group, the principal terms of the Convertible Bonds are disclosed in pages 22 to 26 of this circular. The early redemption option is classified as derivative instrument because the early redemption option is not closely related to the host debt contract and the conversion option is also classified as a derivative liability. The conversion option derivative and the early redemption option derivative are measured at fair value with fair value change recognised in profit or loss.

The placing commission relating to the issue of the Convertible Bonds, are allocated to the liability, conversion option and early redemption components in proportion to their relative fair values.

The effective interest expense of Convertible Bonds would be capitalised to the construction in progress of unaudited pro forma financial information of the Enlarged Group from the date of commencement of the construction project which is assumed to be started after the completion of Acquisition based on the capitalisation rate to the expenditure on the construction project.

For the fair value change of embedded derivative liability of Convertible Bonds for the six months ended 30 September 2012, it is not practicable to determine the pro forma fair value of the embedded derivatives as at 1 April 2012 and 30 September 2012 as it is not practicable to determine the adjusted stock price of the Company reflecting the effects if Acquisition was already announced on those dates, which is one of the key parameters for the determination of fair value of embedded derivative liability.

11. These adjustments represent the issuance of Convertible Bonds with an aggregate of up to HK\$1,600 million at face value pursuant to the Contingent Placing Agreement, net of placing commission of approximately HK\$64 million, assuming PYE elects to complete the issue of Contingent Placing Convertible Bonds. For the purpose of this unaudited pro forma financial information, the directors of the Company have determined the fair value of liability component and the embedded derivative liability (including conversion option and early redemption option), net of placing commission amounting to approximately HK\$274,524,000 and HK\$1,261,476,000 respectively by reference to the valuation as at 19 November 2012 carried out by an independent valuer. On completion of the Placing, the fair value of Contingent Placing Convertible Bonds will have to be determined as at the date of completion and the fair values of the respective components may be different from the estimated amounts as shown above.

As stated in note 2 of the unaudited pro forma financial information of the Enlarged Group, the principal terms of the Convertible Bonds are disclosed in pages 22 to 26 of this circular. The early redemption option is classified as derivative instrument because the early redemption option is not closely related to the host debt contract and the conversion option is also classified as a derivative liability. The conversion option derivative and the early redemption option derivative are measured at fair value with fair value change recognised in profit or loss.

The placing commission relating to the issue of the Convertible Bonds, are allocated to the liability, conversion option and early redemption components in proportion to their relative fair values.

The effective interest expense of Convertible Bonds would be capitalised to the construction in progress of the unaudited pro forma financial information of the Enlarged Group from the date of commencement of the construction project which is assumed to be started after the completion of Acquisition based on the capitalisation rate to the expenditure on the construction project.

For the fair value change of embedded derivative liability of Convertible Bonds for the six months ended 30 September 2012, it is not practicable to determine the pro forma fair value of the embedded derivatives as at 1 April 2012 and 30 September 2012 as it is not practicable to determine the adjusted stock price of the Company reflecting the effects if Acquisition was already announced on those dates, which is one of the key parameters for the determination of fair value of embedded derivative liability.

12. According to valuation report on the indemnities provided by PYE to the placees in respect of the claims as disclosed in PYE 2012 annual report and on page 256 of this circular, no value has been recognised in the above unaudited pro forma financial information as the value is insignificant.



**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**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the (i) proposed allotment and issue of shares and issue of Convertible Bonds by the Company requiring a specific mandate; (ii) proposed acquisition of Falloncroft constituting a very substantial acquisition and connected transaction; (iii) proposed distribution in specie of a 49% interest in its existing business, with the offer of a cash alternative; and (iv) proposed special cash dividend by the Company of HK\$0.26 per share with a scrip alternative might have affected the financial information presented, for inclusion in Appendix IX of the circular dated 5 January 2013 (the “**Circular**”). The basis of preparation of the unaudited pro forma financial information is set out in Page 189 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of Opinion

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

**APPENDIX IX UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP (INCLUSIVE OF
ITS INTEREST IN FALLONCROFT)**

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 September 2012 or any future date or the results and cash flows of the Group for the six months ended 30 September 2012 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
5 January 2013

APPENDIX X MATTERS RELEVANT TO HOLDING SHARES IN PYE BVI

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(s)”	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
“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\$0.26 per 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

APPENDIX X MATTERS RELEVANT TO HOLDING SHARES IN PYE BVI

“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 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
“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

APPENDIX X MATTERS RELEVANT TO HOLDING SHARES IN PYE BVI

“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 to be adopted by PYE BVI
“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 Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on 21 January 2013 at 10:30 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”	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 the PYE SGM
“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

APPENDIX X MATTERS RELEVANT TO HOLDING SHARES IN PYE BVI

“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
“Shareholder(s)”	shareholder(s) of PYE
“special resolution”	<p>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</p> <p>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</p>
“Statutes”	the BVI Companies Act and any other applicable laws of the BVI
“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 where PYE BVI has shares that carry a par value 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; or

- (ee) 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) 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 total number 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 or of the total number 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 per cent (95%) 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 save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

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.

PYE BVI will adopt the following procedures as regards the preparation and publication of its accounts:

- (i) A printed copy of the directors' report, accompanied by statement of financial position 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 of 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 or the total number 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 statement of financial position and the reports of the directors and Auditor and other documents required to be annexed to the statement of financial position;
- (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, 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. In relation to any other distribution, the Company may, by special resolution of members, authorise a distribution by the Company to the members (other than by way of the purchase, redemption or other acquisition of shares in the Company or by way of dividend) at such time and of such an amount, provided the board is satisfied, on reasonable grounds that, immediately after the payment of the distribution, the value of the Company's assets will exceed its liabilities and the Company is able to pay its debts as they fall due.

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 during business hours 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 this paragraph 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 (aa) and (bb), 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.

APPENDIX X MATTERS RELEVANT TO HOLDING SHARES IN 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 and the bye-laws of PYE, 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. PYE BVI 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 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); and
- (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. Separate accounts of PYE BVI would be 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 signed, completed and returned to PYE BVI's place of business in Hong Kong, 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 preceding 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 PYE BVI, 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 Hong Kong 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. 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%. Dissident 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. Dissident 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 appendix XIII. 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 general 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 74, 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 48 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 Contractors' Association Limited.

Ir Chiu is a fellow of the Hong Kong Institution of Engineers and Hong Kong Academy of Engineering Sciences.

Lau Ko Yuen, Tom, aged 61, 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 39 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) until November 2011. 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 59, 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 39 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 54, 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 a director of certain subsidiaries of the Company. Ir Dr Wong has over 30 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. Ir Dr Wong has been appointed as a member of the Land and Development Advisory Committee of the Hong Kong Special Administrative Region Government with effect from 1 July 2012 for a term of three years.

Lee Chack Fan, SBS, JP, aged 67, 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 71, 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 48 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, and Yingli Green Energy Holding Company Limited, a company whose shares are traded on the New York Stock Exchange.

PROPOSED NEW DIRECTORS

Stephen Hung, aged 54, has over 30 years of experience in the finance and investment industries. He is the Chairman of Falloncroft, the Chairman of The Taipan Investment Group and the Vice Chairman of Rio Entertainment Group, which operates the Rio Hotel & Casino through its affiliates in Macau. Mr. Hung was formerly co-head of investment banking for Asia at Merrill Lynch and subsequently formed his own investment banking firm, Amida Capital Group Limited in 1992. From 2000 to 2002, Mr. Hung served as the Vice Chairman of eSun Holdings Limited (HK stock code: 571). From 2000 to 2004, he also served as a non-executive director of AcrossAsia Limited (HK stock code: 8061). Mr. Hung graduated from University of Southern California, Los Angeles with a master's degree in business administration in 1981.

Peter Lee Coker Jr., aged 44, has over 22 years of experience in the finance and investment industries. He is the Managing Partner of Pacific Advisers, and is also a partner of TDR Capital Investment Ltd (a Shenzhen-based private equity firm). Mr. Coker served as an officer of the Bridge Companies prior to joining Wellington Securities (New Zealand) in 2002. During his service with the Bridge Companies, Mr. Coker held the title of Managing Director-Asia, Chief Executive Officer of E-Bridge and Managing Director of Bridge Asia where he was responsible for the firm's equity business in Japan and South East Asia/Australia. From 1999 to 2001, Mr. Coker served as the Chairman of IRESS Market Technology Limited (formerly BridgeDFS) (ASX: IRE). From 2002 to 2005, Mr. Coker served as the Chairman of Wellington Securities (New Zealand). From 2006 to 2009, Mr. Coker served as Chairman of Global Trading Offshore Pte (Singapore). Mr. Coker graduated from Lehigh University in the United States with a Bachelor of Arts degree in 1990.

Walter Craig Power, aged 58, is one of the longest serving casino executive expatriates in Macau's gaming industry. Arrived in Macau in January 2003, Mr. Power has held the positions of Chief Operating Officer of New Cotai Entertainment, an investor and developer of Macau Studio City, as well as Senior Vice President of Operations of Venetian Macau Limited. Mr. Power was instrumental to the success of the development, opening and operation of the Sands, the first western casino in Macau. During his tenure at the Sands, he was responsible for casino operations, hotel operations, all food and beverage outlets and security operations. He was also a member of the Compliance and Credit Committees. Being one of first western executives to enter the Macau gaming market, and having worked in Macau for over nine years, Mr. Power is known internationally for his extensive knowledge of Macau gaming to include junket, VIP, and mass market operations. A 20-year gaming industry veteran, Mr. Power accumulated extensive international gaming experience through executive operational positions at casino resorts in the United States, Argentina, South Africa and the Philippines, in addition to his work in Macau. Mr. Power, a former United States Marine Corps Major and Naval Aviator, received his BA and MBA from the University of Michigan. He is also a graduate of the casino industry's Executive Development Program offered by the University of Nevada/Reno.

SENIOR MANAGEMENT

Law Man Wah, Conrad, aged 53, joined the construction division of the Group in April 1985. Mr. Law is now the managing director, Macau Region, of the Group. He is also a director of certain subsidiaries of the Company. He is responsible for management of the overall construction business of the Group in Macau. Mr. Law has over 29 years' experience in the local and overseas construction field.

Man Wai Ming, aged 54, re-joined the Group in November 2012 as the chief operating officer of the Company. He is also a director of certain subsidiaries of the Company, and is responsible for management of the overall construction business of the Group. Mr. Man has over 30 years' experience in construction management and project management. He holds an Associateship in addition to the Higher Diploma in Building Technology & Management, and is a member of the Hong Kong Institute of Project Management, the Hong Kong Institute of Engineers (Building Division), the Royal Institute of Chartered Surveyors, and The Chartered Institute of Building (UK).

Law Hon Wa, William, aged 47, 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 a director of certain subsidiaries of the Company. Mr. Law has over 23 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.

Lo Seung Chi, Stanley, aged 55, joined the Group in March 2008. He is group legal counsel, head of civil division and a director of certain subsidiaries of the Company. Mr. Lo has over 30 years' experience in the construction industry in Hong Kong, China and Australia. In addition to being a Chartered Quantity Surveyor, a Chartered Builder and a Registered Professional Surveyor (Quantity Surveying), Mr. Lo is also admitted as a solicitor of the High Court of Hong Kong SAR. He holds a honoured bachelor degree in laws, a master degree in laws and a master degree in business administration in construction and real estate. Mr. Lo is a fellow of The Hong Kong Institute of Surveyors, The Royal Institution of Chartered Surveyors and The Chartered Institute of Building, and he is also a member of The Chartered Institute of Arbitrators.

Mui Ching Hung, Joanna, aged 43, 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 20 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 20th Floor, Aon China Building 29 Queen's Road Central Hong Kong
Placing Agents to the Company	CLSA Limited 18th Floor, One Pacific Place 88 Queensway Hong Kong
Hong Kong Legal adviser to the Company	Reed Smith 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 Agent	Slaughter and May 47th Floor, Jardine House One Connaught Place, Central Hong Kong
Auditor and reporting accountant to the Company	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway, Admiralty Hong Kong
Independent valuer	Colliers International (Hong Kong) Limited Suite 5701, Central Plaza 18 Harbour Road, Wanchai Wanchai Hong Kong

Principal share registrar and transfer office	Butterfield Fulcrum Group (Bermuda) Limited 26 Burnaby Street Hamilton HM 11 Bermuda
Branch share registrar and transfer office	Tricor Standard 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 Bank of China, Macau Branch Bank of China Building Avenida Doutor Mario Soares Macau 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 China 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) Limited
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

Hang Seng Bank Limited
20th Floor
83 Des Voeux Road Central
Hong Kong

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 Pride Wisdom, Empresa and the Falloncroft Group) 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 Shares 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	Approximate percentage of shareholding of PYI
Lau Ko Yuen, Tom	Beneficial owner	Long position	14,237,475	0.31%
Lau Ko Yuen, Tom	Family interest and Interest of controlled corporation	Long position	153,016,185 (Note)	3.36%

Note:

Such interests are indirectly held by a company which is equally owned by Mr. Lau Ko Yuen, Tom and his wife.

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 Shareholder	Capacity	Long position	Number of 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 (<i>Note 1</i>)	Long position	375,826,317	–	375,826,317	61.92%
PYI Treasury Group Limited (“PYIT”)	Interest of controlled corporation (<i>Note 1</i>)	Long position	375,826,317	–	375,826,317	61.92%
Growing Success Limited (“Growing Success”)	Interest of controlled corporation (<i>Note 1</i>)	Long position	375,826,317	–	375,826,317	61.92%
Paul Y. Investments Limited (“PYIL”)	Beneficial owner (<i>Note 1</i>)	Long position	375,826,317	–	375,826,317	61.92%
Mr. Sean Hung	Interest of controlled corporation (<i>Note 2</i>)	Long position	–	882,352,941	882,352,941	145.37%
S Hung Limited	Interest of controlled corporation (<i>Note 2</i>)	Long position	–	882,352,941	882,352,941	145.37%
I Hung Limited	Interest of controlled corporation (<i>Note 2</i>)	Long position	–	882,352,941	882,352,941	145.37%
Chief Wise Limited	Beneficial owner (<i>Note 2</i>)	Long position	–	882,352,941	882,352,941	145.37%

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 chairman and managing director of PYI; and (iii) a director of PYIT, Growing Success and PYIL.
2. Chief Wise Limited is jointly owned by S Hung Limited and I Hung Limited, which are wholly owned by Mr. Sean Hung. S Hung Limited, I Hung Limited and Mr. Sean Hung are deemed to be interested in the new Shares to be issued by the Company upon exercise of the Exchange Right.

(B) Interests of other persons in Shares and underlying Shares

Name of person	Capacity	Long position	Number of Shares held	Approximate percentage of shareholding of the Company
Christian Emil Toggenburger	Beneficial owner	Long position	30,446,777	5.01%

(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. – CRGL 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	49.0%
PYSCG JV Limited	SCG (H.K.) Limited	49.0%
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. – CRGL 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 were no outstanding options granted under the Share Option Scheme.

F. TRADEMARKS

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks:

	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	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
	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 21 to the consolidated financial statements in the annual report of the Company for the year ended 31 March 2012. 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 the Proposed 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 THE TRANSACTIONS, CONTRACTS AND ASSETS

None of the Directors has any material interest in the Transactions.

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.

Save as disclosed in this circular, 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 2012 (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	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

Name	Qualification
Deloitte Touche Tohmatsu	certified public accountants
Colliers International (Hong Kong) Limited	independent valuer
Conyers Dill & Pearman	offshore legal adviser
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
Rider Levett Bucknall Limited	qualified quantity surveyor
Leonel Alves' Law Firm	Macau legal adviser

Each of Anglo Chinese, Deloitte, Colliers, Somerley, CDP, Rider Levett Bucknall Limited and Leonel Alves' Law Firm 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, Colliers, Somerley, CDP, Rider Levett Bucknall Limited or Leonel Alves' Law Firm had 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, Colliers, Somerley, CDP, Rider Levett Bucknall Limited or Leonel Alves' Law Firm has any direct or indirect interest in any assets which had been, since 31 March 2012 (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 PYI and its subsidiaries with the annual cap amounts of HK\$200 million, HK\$300 million and HK\$500 million for the three years ended/ending 31 March 2012, 2013 and 2014 respectively;

- (b) conditional business services agreement dated 3 May 2012 entered into between the Company and ITC Properties Group Limited pursuant to which the Company agreed to provide services to ITC Properties Group Limited and its subsidiaries with the annual cap amounts of HK\$200 million, HK\$210 million and HK\$220 million for the three years ending 31 March 2013, 2014 and 2015 respectively;
- (c) Placing Agreement;
- (d) Contingent Placing Agreements;
- (e) Falloncroft SPA; and
- (f) Uni-Dragon SPA.

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 26 Burnaby Street Hamilton HM 11, 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 PYE 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 PYE 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 2011 and 31 March 2012;
- (c) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix and the Construction LOI;
- (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 Land, the text of which is set out in appendix II of this circular, together with the cost estimation report annexed thereto;
- (f) the valuation report in respect of the Project, 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 Falloncroft), the text of which is set out in appendix IX 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 CDP as referred to in appendix X 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 X to this circular;
- (l) a copy of each circular of the Company issued pursuant to the requirements of Chapters 14 and, or, 14A of the Listing Rules since 31 March 2012;
- (m) a copy of the memorandum and articles of association of Falloncroft;
- (n) a copy of the draft share option scheme of Falloncroft;
- (o) a copy of the Macau legal opinion issued by Leonel Alves’ Law Firm, the Macau legal adviser;
- (p) the letter from Deloitte relating to the financial statements of Falloncroft, the text of which is set out in appendix VII of this circular;

- (q) the letter from Deloitte relating to the financial statements of Uni-Dragon and its subsidiaries, the text of which is set out in appendix VII of this circular;
- (r) the letter from Deloitte relating to the valuation report in respect of the Project, the text of which is set out in appendix IV of this circular; and
- (s) the letter from Anglo Chinese relating to the valuation report in respect of the Project, the text of which is set out in appendix IV of this circular.

NOTICE OF SPECIAL GENERAL MEETING



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 Victoria Room, 2nd Floor, Mandarin Oriental, Hong Kong, 5 Connaught Road, Central, Hong Kong on Monday, 21 January 2013 at 10:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) “THAT:

- (a) the Distribution in Specie (as defined in the Company’s circular dated 5 January 2013, 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 such date, falling within 90 days of the date of this resolution, 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 purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (2) “THAT, conditional on resolutions (3) to (5) contained in this notice being duly passed as ordinary resolutions of the Company:
- (a) the sale and purchase agreement dated 19 November 2012 entered into by and between the Company and Pride Wisdom Group Limited (the “**Falloncroft SPA**”), 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 Falloncroft SPA and the execution, performance and implementation thereof and ancillary matters contemplated thereunder (the “**Acquisition**”), 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 Acquisition 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 Acquisition; and (ii) exercising all such powers of the Company to give effect to the Company’s obligations under or in relation to the Acquisition.”
- (3) “THAT, conditional on resolutions (2), (4) and (5) contained in this notice being duly passed as ordinary resolutions of the Company;
- (a) the authorised share capital of the Company be increased (the “**Capital Increase**”) from HK\$2,000,000,000 divided into 10,000,000,000 shares of HK\$0.20 each to HK\$3,000,000,000 by the creation of an additional 5,000,000,000 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;
 - (b) the creation and issue by the Company of the twelve-year zero coupon convertible bonds up to an aggregate principal sum of HK\$5,200 million (the “**Convertible Bonds**”), convertible into new shares of HK\$0.20 each in the capital of the Company on substantially the same terms and conditions (the “**Bond Conditions**”) contained in the annex to a placing agreement dated 19 November 2012 entered into by and between the Company and CLSA Limited (the “**Placing Agreement**”), a copy of which has been produced to this Meeting marked “B” and initialled by the chairman of the meeting for identification purposes, in respect of, inter alia, the placing of the Convertible Bonds pursuant to the Placing Agreement and, or, the Contingent Placing Agreements (as defined below) be and is hereby generally and unconditionally approved in all respects;

NOTICE OF SPECIAL GENERAL MEETING

- (c) the Placing Agreement 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, and the board of directors of the Company be and are hereby authorised to issue the Convertible Bonds upon and subject to the terms of the Placing Agreement, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the board of directors of the Company may think necessary, appropriate, desirable or expedient to implement and, or, give effect to the terms of, or the transactions contemplated by the Placing Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of the Bond Conditions) as are, in the opinion of the board of directors of the Company, in the interests of the Company and its shareholders as a whole;
- (d) the contingent placing agreements each dated 19 November 2012 entered into by and between the Company and each of Chrystal Capital Partners LLP, Kilometre Capital Management Cayman and TDR Investment Holdings Corporation, respectively (the “**Contingent Placing Agreements**”), a copy of each agreement of which is produced to the meeting marked “C1”, “C2” and “C3” and initialled by the chairman of the meeting for identification purposes and the transactions contemplated under the Contingent Placing Agreements and the execution, performance and implementation thereof and ancillary matters contemplated thereunder be and are hereby confirmed, approved and ratified, and the board of directors of the Company be and are hereby authorised to issue the Convertible Bonds upon and subject to the terms of the Contingent Placing Agreements, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the board of directors of the Company may think necessary, appropriate, desirable or expedient to implement and, or, give effect to the terms of, or the transactions contemplated by the Contingent Placing Agreements and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of the Bond Conditions) as are, in the opinion of the board of directors of the Company, in the interests of the Company and its shareholders as a whole;
- (e) 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 1,764,705,882 new shares of HK\$0.20 per share in the capital of the Company, and such number of additional new shares, up to 5,294,117,646 new shares of HK\$0.20 per share (or such greater number as may be required to be issued as a result of an adjustment to the conversion price as provided for in accordance with the terms of the Bond Conditions), in the capital of the Company as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds pursuant to the Placing Agreement, subject to and in accordance with the terms and conditions set out in the Placing Agreement, such mandate to expire (except that such mandate shall continue to authorise the allotment and issue of such new shares by the directors of the Company as a result of any exercise of the conversion rights under the Bond Conditions of the Convertible Bonds which may require the directors of the Company to exercise such powers to allot and issue new shares) on the date that falls nine months after the date of this meeting;

NOTICE OF SPECIAL GENERAL MEETING

- 2) to allot and issue such number of new shares, up to 2,352,941,176 new shares of HK\$0.20 per share (or such greater number as may be required to be issued as a result of an adjustment to the conversion price as provided for in accordance with the terms of the Bond Conditions), in the capital of the Company as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds pursuant to the Contingent Placing Agreements, subject to and in accordance with the terms and conditions set out in the Contingent Placing Agreements, such mandate to expire (except that such mandate shall continue to authorise the allotment and issue of such new shares by the directors of the Company as a result of any exercise of the conversion rights under the Bond Conditions of the Convertible Bonds which may require the directors of the Company to exercise such powers to allot and issue new shares) on the date that falls nine months after the date of this meeting;
 - 3) to allot and issue up to 882,352,941 new shares of HK\$0.20 per share in the capital of the Company (or such greater number as may be required to be issued as a result of an adjustment as provided for in accordance with the existing terms of the Falloncroft SPA), subject to and in accordance with the Exchange Right (as defined in the Circular), and such mandate to remain perpetually valid; and
- (f) 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 Contingent Placing Agreements, the Exchange Right or otherwise); and (ii) exercising all such powers of the Company to give effect to the Capital Increase and the Specific Mandate.”
- (4) “THAT, conditional on (i) resolutions (2), (3) and (5) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Acquisition:
- (a) a special cash dividend (the “**Cash Dividend**”) of HK\$0.26 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\$0.68 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\$0.68 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;

NOTICE OF SPECIAL GENERAL MEETING

- (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, 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.”
- (5) “THAT, conditional on (i) resolutions (2) to (4) contained in this notice being duly passed as ordinary resolutions of the Company; and (ii) completion of the Acquisition:
- (a) Mr. Stephen Hung be elected as an executive director and joint chairman of the Company;
- (b) Mr. Peter Lee Coker Jr. be elected as an executive director and joint chairman of the Company;
- (c) Mr. Walter Craig Power be elected as an executive director and chief executive officer of the Company; and
- (d) that the abovementioned directors’ remuneration be fixed,
- in each case with effect from completion of the Acquisition 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, 5 January 2013

Principal Place of Business:
16th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

NOTICE OF SPECIAL GENERAL MEETING

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 Friday, 1 February 2013 to Monday, 4 February 2013, 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 Thursday, 31 January 2013.

As at the date of this notice, the Directors of the Company are:

Ir James Chiu, <i>OBE, JP</i>	:	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, <i>SBS, JP</i>	:	Independent Non-Executive Director
Mr. Iain Ferguson Bruce	:	Independent Non-Executive Director