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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, a bank manager, solicitor, professional accountant or other professional adviser.

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

CONTINUING CONNECTED TRANSACTION BUSINESS SERVICES AGREEMENT

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**

OSK Capital Hong Kong Limited

A notice convening the special general meeting of the Company to be held at 11th Floor, Paul Y, Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Friday, 6 May 2011 at 10:00 a.m. is set out on pages 22 and 23 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 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

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DEFINITIONS

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

“associates”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“Business Services Agreement”	the business services agreement between the Company and PYI dated 25 March 2011;
“Company”	Paul Y. Engineering Group Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“Directors”	the directors of the Company;
“FY”	the financial year ended/ending 31 March of the relevant year;
“First Original Agreement”	the business services agreement between the Company and PYI dated 1 March 2007;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board which comprises Ir James Chiu, Professor Lee Chack Fan and Mr Iain Ferguson Bruce;
“Independent Shareholders”	shareholders of the Company other than PYI and its associates;
“Latest Practicable Date”	15 April 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“OSK”	OSK Capital Hong Kong Limited, a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Business Services Agreement, the annual caps and the transactions contemplated thereunder are fair and reasonable;

DEFINITIONS

“PRC”	the People’s Republic of China;
“PYI”	PYI Corporation Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange;
“PYI Associates”	PYI and its associates, excluding the Group, from time to time;
“PYI Group”	PYI and its subsidiaries, excluding the Group, from time to time;
“SGM”	the special general meeting of the Company to be convened for the purpose of approving the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder;
“Second Original Agreement”	the business services agreement between the Company and PYI dated 23 April 2008;
“Services”	services covering construction, maintenance, property development management, project management, building management and facilities management related services including provision of services as main contractor, project manager, consultant and sub-contractor for a variety of works including superstructure, foundation, civil engineering, port and infrastructure facilities, maintenance, construction and interior decoration;
“SFO”	the Securities and Futures Ordinance;
“Shareholders”	the shareholders of the Company; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

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:

Ir James Chiu, OBE, JP (Chairman)

Professor Lee Chack Fan, SBS, JP

Mr Iain Ferguson Bruce

Non-Executive Director:

Mr Lau Ko Yuen, Tom (Deputy Chairman)

Executive Directors:

Mr Chan Fut Yan (Deputy Chairman)

Ir Dr 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

18 April 2011

To the Shareholders

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTION BUSINESS SERVICES AGREEMENT

INTRODUCTION

On 1 March 2007, the Company and PYI entered into the First Original Agreement pursuant to which the Group agreed to provide Services to the PYI Group on normal commercial terms or terms no less favourable to the Group than those offered to the Group from independent third parties. On 23 April 2008, the Company and PYI entered into the Second Original Agreement pursuant to which annual cap amounts for the value of Services for FY 2009 and FY 2010 were revised and the annual cap amount for FY 2011 was set. The Second Original Agreement expired on 31 March 2011 and in view of this, the Company and PYI have entered into the conditional Business Services Agreement on 25 March 2011.

Particulars of the First Original Agreement were the subject of the announcement and circular of the Company dated 1 March 2007 and 15 March 2007 respectively, and particulars of the Second Original Agreement were the subject of the announcement and circular of the Company dated 23 April 2008 and 14 May 2008 respectively.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (a) further details of the Business Services Agreement and the annual cap amounts for each of the three years ending 31 March 2014; (b) the recommendation from the Independent Board Committee in respect of the terms of the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder; (c) a letter of advice from OSK to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder; and (d) a notice of SGM.

THE BUSINESS SERVICES AGREEMENT, REASONS AND BENEFITS THEREOF

The key terms of the Business Services Agreement are as follows:–

- Date: 25 March 2011
- Parties: (1) the Company
- (2) PYI

PYI is a substantial shareholder of the Company and owns or controls approximately 61.92% of the Company's issued share capital. PYI is therefore a connected person of the Company within the meaning of the Listing Rules and the transactions under the Business Services Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

- Services: The Group may from time to time during the term of the Business Services Agreement provide the Services to the PYI Associates on normal commercial terms or terms no less favourable to the Group than those offered to the Group from independent third parties and subject to the annual cap amounts set out below.

Relevant members of the Group and relevant members of the PYI Associates will enter into subsidiary agreements for providing the Services under the Business Services Agreement. Each subsidiary agreement will set out the particulars and the terms upon which particular Services will be rendered by the Group to the PYI Associates. The terms of each subsidiary agreement must (i) comply with the terms of the Business Services Agreement, in particular, that the commercial terms of the Services be no less favourable to the Group than those offered to the Group from independent third parties; (ii) provide that the Services to be provided in any one year in aggregate shall be subject to the annual cap amounts set out below; and (iii) be in compliance with the relevant requirements under the Listing Rules.

LETTER FROM THE BOARD

Condition precedent: The Business Services Agreement is conditional on its approval by the Independent Shareholders.

Term: The Business Services Agreement will take effect on 1 April 2011 if the condition precedent becomes fulfilled, and will continue thereafter for a term expiring on 31 March 2014. Upon expiry, the parties may renew the Business Services Agreement subject to compliance with the Listing Rules and all applicable law.

The terms (including settlement terms) of subsidiary agreements under the Business Services Agreement are negotiated on a case-by-case basis between relevant members of the Group with relevant members of the PYI Associates, subject to compliance with the Business Services Agreement. Credit periods under these subsidiary agreements will follow the Group's policy, which generally range from 60 to 90 days.

The Services to be provided by the Group to the PYI Associates under the Business Services Agreement will be in the usual and ordinary course of business of the Group and will be conducted on arm's length basis and on normal commercial terms. The Directors therefore consider that it would not be in the interests of the Company to deliberately exclude PYI Associates as customers purely because they are connected persons of the Company.

PROPOSED ANNUAL CAP AMOUNTS AND BASIS OF DETERMINATION

The annual cap amounts of the value of Services under the Second Original Agreement for each of the three years ended 31 March 2009, 2010 and 2011 are set out below:

	FY 2009	FY 2010	FY 2011
Annual transaction amount cap (<i>HK\$'000</i>)	250,000	350,000	500,000

For each of the two financial years ended 31 March 2009 and 2010 and the six months ended 30 September 2010, the value of Services (in terms of revenue recognition) rendered by the Group to the PYI Group are set out below:

	FY 2009	FY 2010	Six months ended 30 September 2010
Transaction amount (<i>HK\$'000</i>)	123,838	44,313	6,416

The annual cap amounts of the value of Services under the Second Original Agreement above have been made based on, among other things, a buffer of about 15% to 20% in respect of projects in progress and under discussion, and additional allowances for projects not identified. However, due to the change of the scope of works for the projects in progress, and the reschedule of certain development projects of

LETTER FROM THE BOARD

the PYI Group, the actual transacted amounts of the value of Services for the two financial years ended 31 March 2009 and 2010 and the six months ended 30 September 2010 have fallen considerably short of the approved annual cap amounts of the value of Services under the Second Original Agreement.

Although the actual transacted amounts of the value of Services for FY 2009, FY 2010 and the six months ended 30 September 2010 have fallen considerably short of the approved annual cap amounts of the value of Services under the Second Original Agreement, the Company, after discussion with PYI, expects an increase in the size and number of projects to be taken up from PYI Associates for FY 2012, FY 2013 and FY 2014. Therefore, the Directors propose that the annual cap amounts of the value of Services to be rendered under the Business Services Agreement by the Group to the PYI Associates for each of the three years ending 31 March 2012, 2013 and 2014 are set out below:–

	FY 2012 <i>Note</i>	FY 2013	FY 2014
Annual transaction amount cap (HK\$'000)	200,000	300,000	500,000

Note: The value of Services rendered by the Group to PYI Associates during the period between 1 April 2011 and the approval of the Business Services Agreement by Independent Shareholders at the SGM will be included for the purposes of calculating the value of Services for FY 2012.

Revenue from construction contract is recognised on the percentage of completion method, measured by reference to the value of work certified. Revenue from maintenance, property development management, project management, building management and facilities management related services are recognised when the services are provided. Fees from construction contracts (including interior contractor works and electrical and mechanical works) and maintenance contracts are charged by reference to the value of works certified. The fees may change if the works specified in the contract are varied. Fees from property development management services, project management services and facilities management services are usually charged based on a percentage of the property development costs or the construction costs of the development or construction project. The fees may vary in line with changes in the project costs.

The estimates for the three financial years have been made based on (i) information provided by the PYI Group regarding the proposed construction schedules and/or completion or delivery of the relevant projects in progress and under discussion, the gross floor area covered by the relevant projects and indicative scope of services required; (ii) historical and market rates and method for calculation of fees for the relevant services (the component of services provided which are to be charged by reference to value of works certified, as opposed to a fixed percentage of development costs having increased leading to a need to adjust in estimated timing for revenue recognition); (iii) a buffer of about 15% to 20% in respect of projects in progress and under discussion, to allow for further upward adjustments in revenue recognised in the relevant years, whether because of increases in sizes of the relevant projects, acceleration or alteration of construction or delivery schedules which are not within the Group's control, or changes to the final scope of services that may be required; and (iv) additional allowances for other new projects not identified at present.

For projects not currently identified but which may be taken up and/or generate revenue during FY 2012 or FY 2013 or FY 2014, the Company has factored in further allowances of HK\$80 million (for FY 2012), HK\$125 million (for FY 2013) and HK\$210 million (for FY 2014), representing an allowance of

LETTER FROM THE BOARD

approximately 70% over the adjusted estimates for revenue contribution from projects in progress and under discussion determined on the basis referred to above. The allowances included in the transaction caps for FY 2012, FY 2013 and FY 2014 cater for the possible continued growth of the Group's services and allow for the Group to readily capture potential business opportunities with the PYI Group.

Shareholders and investors should note that the annual cap amounts referred to above are prepared to enable the Company to comply with the requirements of Chapter 14A of the Listing Rules. No assurance is given as to whether or not, and the extent to which, the Group will be able to secure the additional projects for Services and/or generate revenue as contemplated or estimated for the sole purpose of establishing the caps or at all.

GENERAL INFORMATION AND LISTING RULES IMPLICATIONS

The Group is an international engineering services group serving Hong Kong, the PRC and the international market with over 60 years of expertise. It has three core areas of business: management contracting, property development management and property investment.

PYI Group is principally engaged in the business of development and investment in port and other infrastructure projects, land and property development and investment in association with port facilities in the PRC.

The Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder are subject to approval of the Independent Shareholders (by way of poll) as set out in Chapter 14A of the Listing Rules at the SGM. PYI and its Associates together hold 375,826,317 shares representing approximately 61.92% of the shareholding of the Company and will abstain from voting on the resolution to approve the Business Services Agreement at the SGM.

None of the Directors have a material interest in the transactions contemplated under the Business Services Agreement and accordingly, no Director was required to abstain from voting on the board resolutions in respect thereof.

SGM

A notice convening the SGM to be held on 6 May 2011 at 10:00 a.m. at 11th Floor, Paul Y, Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong is set out on pages 22 and 23 of this circular.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able 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

The Directors (including the non-executive Director and independent non-executive Directors) consider that the terms of the Business Services Agreement and the annual cap amounts for each of the three years ending 31 March 2014 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having taken into account the advice of OSK, considers that the terms of the Business Services Agreement and the annual cap amounts for each of the three years ending 31 March 2014 are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

For and on behalf of the Board of
Paul Y. Engineering Group Limited
Wong Kam Cheong, Stanley
*Executive Director &
Chief Executive Officer*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Paul Y. Engineering Group Limited

保華建業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 577)

18 April 2011

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS BUSINESS SERVICES AGREEMENT

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Paul Y. Engineering Group Limited in respect of the resolution to approve the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We wish to draw your attention to the “Letter from the Board”, the advice of OSK in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by OSK in relation thereto as stated in its letter, we consider the terms of the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 to be fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Business Services Agreement, the annual cap amounts for each of the three years ending 31 March 2014 and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

James Chiu, Lee Chack Fan and Iain Ferguson Bruce

Independent Non-executive Directors

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from OSK, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Business Services Agreement for the purpose of inclusion in this circular.

OSK Capital Hong Kong Limited
僑豐融資有限公司
Subsidiary of OSK Investment Bank Berhad, Malaysia

11/F., Hip Shing Hong Centre,
55 Des Voeux Road Central, Hong Kong

18 April 2011

*The Independent Board Committee and the Independent Shareholders
Paul Y. Engineering Group Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION BUSINESS SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the terms of the Business Services Agreement and the proposed annual caps for each of the three years ending 31 March 2014 for the transactions which may be carried out thereunder, details of which are set out in the circular of the Company dated 18 April 2011 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

The Independent Shareholders approved at special general meetings of the Company the First Original Agreement and the Second Original Agreement held on 30 March 2007 and 29 May 2008 respectively. The Second Original Agreement expired on 31 March 2011. In view of this, the Company and PYI entered into the Business Services Agreement on 25 March 2011 to set out the new annual caps for each of the three years ending 31 March 2014. The Business Services Agreement is subject to the approval of the Independent Shareholders.

PYI is a substantial shareholder of the Company and, through its subsidiaries, owns or controls a total of approximately 61.92% of the Company’s issued share capital. PYI is therefore a connected person of the Company within the meaning of the Listing Rules. PYI and its Associates who are Shareholders are required to abstain from voting on the resolution at the SGM to approve the Business Services Agreement.

The Independent Board Committee comprising all 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 advise the Independent Shareholders in respect of the terms of the Business Services Agreement, the new annual caps for the three years ending 31 March 2014 and the transactions contemplated thereunder. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Committee and the Independent Shareholders as to whether the terms of the Business Services Agreement, the new annual caps for the three years ending 31 March 2014 and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders are concerned and whether the possible transactions under the Business Services Agreement will be carried out on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the announcement made by the Company dated 25 March 2011 and the Circular regarding the Business Services Agreement and the transactions which may be carried out thereunder, and those supplied or made by the Directors and management of the Company to us, including the Business Services Agreement, and certain information on the Group, the PYI Group and the transactions or possible transactions under the Business Services Agreement. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of the information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group, the PYI Group or the property and construction industry in Hong Kong and the PRC.

PRINCIPAL REASONS AND FACTORS

In formulating our opinion in respect of the terms of the Business Services Agreement and the new annual caps for the three years ending 31 March 2014 for the transactions which may be carried out thereunder, we have taken into consideration, among other things, the following principal reasons and factors:

Background of the Business Services Agreement

The Group is an international engineering services group serving Hong Kong, the PRC and the international market with over 60 years of expertise. It has three core areas of business: management contracting, property development management and property investment.

PYI Group is principally engaged in the business of development and investment in port and other infrastructure projects, land and property development and investment in association with port facilities in the PRC. The PYI Group has been using the Services provided by the Group to facilitate its business development and operation. PYI is a substantial shareholder of the Company and owns or controls a total of approximately 61.92% of the Company's issued share capital. PYI is therefore a connected person of the Company within the meaning of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Shareholders approved at special general meetings of the Company the First Original Agreement and the Second Original Agreement and the Second Original Agreement expired on 31 March 2011. Accordingly, the Company and PYI entered into the Business Services Agreement on 25 March 2011 and proposed the new annual caps in respect of the Group's revenue from the Services of HK\$200 million, HK\$300 million and HK\$500 million for each of the three years ending 31 March 2012, 2013 and 2014. As required under the Listing Rules, the Business Services Agreement is conditional upon the approval of the Independent Shareholders at the SGM.

Principal terms of the Business Services Agreement

Under the Business Services Agreement, the Group may from time to time during the term of the Business Services Agreement provide the Services to the PYI Associates on normal commercial terms or terms no less favourable to the Group than those offered to the Group from independent third parties.

Relevant members of the Group and relevant members of the PYI Associates will enter into subsidiary agreements for providing the Services under the Business Services Agreement. Each subsidiary agreement will set out the particulars and the terms upon which particular Services will be rendered by the Group to the PYI Associates. The terms of each subsidiary agreement must (i) comply with the terms of the Business Services Agreement, in particular, that the commercial terms of the Services be no less favourable to the Group than those offered to the Group from independent third parties; (ii) provide that the revenue of the Group generated from the provision of the Services in any one year in aggregate shall be subject to the annual cap amounts for the three years ending 31 March 2014; and (iii) be in compliance with the relevant requirements under the Listing Rules.

The Business Services Agreement will take effect on 1 April 2011 if the condition precedent becomes fulfilled, and will continue thereafter for a term expiring on 31 March 2014. Upon expiry, the parties may renew the Business Services Agreement subject to compliance with the Listing Rules and all applicable law.

The terms (including settlement terms) of any subsidiary agreement which may be entered into under the Business Services Agreement are to be negotiated on a case-by-case and arm's length basis between relevant members of the Group and the relevant members of the PYI Associates, subject to compliance with the Business Services Agreement. We understand from the Company that the credit periods under these subsidiary agreements will generally range from 60 to 90 days and are comparable to the credit period offered by the Group to independent third party customers.

We understand from the Company that apart from the new annual caps for the three years ending 31 March 2014, the terms of the Business Services Agreement are substantially the same as the terms of the First Original Agreement and the Second Original Agreement which were approved by the Independent Shareholders on 30 March 2007 and 29 May 2008 respectively. We understand from the annual report of the Company for the year ended 31 March 2010 (being the latest annual report which has been issued by the Company) that the Company engaged its auditors to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. Based on the findings reported by the auditors of the Company, the independent non-executive Directors have confirmed that the continuing connected transactions of the Company, including the provision of the Services by the Group to the PYI Group had been carried out (i) in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms or terms no less favourable to the Company than terms available from independent third

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

parties; and (iii) in accordance with the relevant agreements governing them on the terms that were fair and reasonable and in the interests of the Shareholders.

We have also been provided by the Company with (i) the terms of certain projects in relation to construction services provided by the Group to the PYI Group which part of the service fees are expected to be recognised in the year ending 31 March 2012 and therefore constitute part of the Group's revenue subject to annual cap for the year ending 31 March 2012 and (ii) the proposed terms of certain projects currently under negotiation which may constitute transactions under the Business Services Agreement. The Company has confirmed that the relevant agreements of the contracted projects were agreed after arm's length negotiations between the Company and PYI or via tenders. With regards to the proposed terms of the other identified projects currently under negotiation, the Company has confirmed that the negotiations have been and will continue to be conducted on an arm's length basis.

As required under the Listing Rules, any transactions which may be carried out under the Business Services Agreement will have to be reviewed annually by the independent non-executive Directors and the auditors of the Company. The independent non-executive Directors will have to confirm that such transactions have been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors of the Company will have to confirm that any transactions which may be carried out under the Business Services Agreement (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Company; (iii) have been entered into in accordance with the relevant agreements governing the transactions; and (iv) have not exceeded the caps to be approved by the Independent Shareholders at the SGM.

Based on the factors stated above in this paragraph, we are of the view that the Business Services Agreement is and the transactions which may be carried out thereunder will be conducted on normal commercial terms.

Reasons for the entering into of the Business Services Agreement

We understand that the principal businesses of the Group include management contracting, property development management and property investment. Accordingly, it will be in the ordinary and usual course of the business of the Group for the Group to provide the Services to the PYI Associates under the Business Services Agreement. As stated in the letter from the Board of this Circular, the Directors consider that it would not be in the interests of the Company to deliberately exclude PYI Associates as customers because they are connected persons of the Company. We understand from the Company that the provision of the Services will allow the Group to generate additional revenue on normal commercial terms as per the terms of the Business Services Agreement.

Under the Listing Rules, the Company is required to enter into an agreement with PYI in respect of the continuing provision of the Services to the PYI Associates. As in the Second Original Agreement, the Business Services Agreement sets out the principal terms of the provision of the Services which may be provided by the Group to the PYI Associates in accordance with the requirement of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above reasons, we concur with the Directors' view that the entering into of the Business Services Agreement is, and the transactions under the Business Services Agreement will be carried out, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

The proposed annual cap amounts

The following table sets out (i) the annual cap amounts of the value of the Services under the Second Original Agreement for each of the three years ended 31 March 2009, 2010 and 2011, (ii) value of Services (in terms of revenue recognition) rendered by the Group to PYI Group for the two years ended 31 March 2009 and 2010 and the six months ended 30 September 2010 and (iii) the annual cap amounts of the value of the Services under the Business Services Agreement for each of the three years ending 31 March 2012, 2013 and 2014:

	For the financial year ended 31 March		
	2009	2010	2011
Annual transaction amount caps under the Second Original Agreement (<i>HK\$'000</i>)	250,000	350,000	500,000
	For the financial		Six months
	year ended 31 March		ended
	2009	2010	30 September
			2010
Transaction amount (<i>HK\$'000</i>)	123,838	44,313	6,416
	For the financial year ending 31 March		
	2012	2013	2014
Annual transaction amount caps under the Business Services Agreement (<i>HK\$'000</i>)	200,000	300,000	500,000

We consider that the purpose of the annual caps is to set a threshold as approved by the Independent Shareholders which the Group may carry out the related transactions without the burden of complying with the various announcement and independent shareholders' approval requirements all the time. When determining the new annual caps for the next three financial years, we agree with the Company that it is more important to refer to all possible projects that the Group may be engaged as the provision of the Services is part of the Group's principal business.

The basis of determining the proposed cap amounts for the three financial years ending 31 March 2014 is set out in the section headed "Proposed annual cap amounts and basis of determination" in the letter from the Board of the Circular. To summarise, the proposed annual caps for the three years ending 31 March 2014 were determined by the Company with reference to the estimated transaction values for the three years ending 31 March 2014 based on projects currently identified and the agreed terms or terms currently under negotiation with reference to the nature and scope of the relevant work and the Group's expected profit margin with sufficient allowances and buffers for (a) potential upside adjustments of

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service fees chargeable by the Group to the PYI Associates due to increase in project size, acceleration or alteration of construction schedules and changes to scope of services to be provided by the Group and (b) new business opportunities which have not yet been identified but may arise as the PYI Associates continue to grow and develop their business in the PRC.

We understand from the Company that, for the three financial years ending 31 March 2014, the Company expects that the Services which may be provided by the Group to the PYI Associates will mainly relate to different property and facilities construction of the PYI Associates. As set out in PYI's interim report for the six months ended 30 September 2010, under the rapid development of the Western and Central China, the increase of shipping demand was foreseen to boost the importance of the inland river transportation. PYI took the position to extend its network of bulk cargo ports to the middle stream of the Yangtze River. The near-term outlook of the global economy would continue to be challenging. The launch of second round of the quantitative easing policy by the Federal Reserve is anticipated to cause a substantial capital flow to the emerging economy which may create currency volatility. However, the economic prospect of China is still positively supported by strong domestic demand. The Central Government of the PRC was expected to take determined and timely measures against any underlying threats from rising inflation and overheating pressure for stabilizing the market. The Regional Plan for the Yangtze River Delta approved by the State Council of the PRC in May 2010 will accelerate the development of Yangtze River region. The 12th five-year plan announced in October 2010 specifically stressed on private investment in infrastructure development and focused on transforming increased domestic consumption to major force of economic growth.

Based on the annual report of PYI for the year ended 31 March 2010, we understand that the PYI Group has established business interests, among others, in Nantong port, Yichang port and Jiangyin Sunan Container Terminal in the PRC. Nantong International Trade Center, a commercial and office development in the heart of Nantong City with a gross floor area of 80,000 square metres, was scheduled to be completed by mid 2011.

PYI further stated in its annual report for the year ended 31 March 2010 that port pushed forward the development of communities in surrounding area, and generated opportunities in land and property developments. Xiao Yangkou, located about 35 kilometres west of Yangkou Port, was planned by the PYI Group to be developed as residential and resort area in support of the Yangkou industrial zone. Besides, as set out in the interim report of the PYI Group for the six months ended 30 September 2010, Jiaxing International Feeder Port declared soft opening in mid 2010 and was expected to commence operation in 2011. Located at Nanhu district of Jiaxing city, Jiaxing Feeder Port multifunctional zone is one of the major feeder ports in China planned by Ministry of Transport and a focal infrastructure project in Zhejiang province. The feeder port owns a shoreline of 570 metres and a land mass of 326,000 square metres. Its annual throughput capacity could reach 2.5 million tonnes upon completion of the 10 berths. The port also features a range of logistics supporting services.

The above information helps demonstrate the potential growth of the PYI Group's investments in and operation of the port and facilities development segment. It is possible that the Group may obtain more business opportunities from the PYI Group in relation to the provision of the Services under the Business Services Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With the PYI Group's continual development in the PRC, we concur with the Company's view that the caps for the three years ending 31 March 2014 should be determined based on the possible future business opportunities which may arise rather than the historical values.

The Company has provided us with a schedule showing the estimated transaction values of the transactions which may be carried out under the Business Services Agreement for the three years ending 31 March 2014 in respect of those identified projects of the PYI Group or still under negotiation in respect of which the Group may provide Services. The Company has confirmed that the fees used in the schedule for calculating the estimated transaction values have either been agreed at after arm's length negotiations or via tenders or are subject to negotiation currently being carried out on an arm's length basis between the Company and PYI Associates. In such schedule, all of the projects relate to construction work and development projects in association with port facilities. These estimates are consistent with the development plan discussed by PYI in its annual report. The expected margin of the projects is comparable with the average gross profit margins of the Group for the two years ended 31 March 2009 and 2010. The Company considers it possible that more development projects in association with port facilities may be formulated and carried out by the PYI Associates in the future during the three years ending 31 March 2014 and thus there may be more business opportunities for the Group to provide the Services to the PYI Associates under the Business Services Agreement.

The Company has provided buffers in the proposed annual caps in order to allow the Company to take up further projects of the PYI Associates (not yet identified and/or confirmed by the PYI Associates), in particular in view of the expected continuing growth of the PYI Group and the growing PRC economy, and any possible upside adjustment to the existing estimated fees in the future.

We understand that the Company also considers it necessary for the proposed caps to have sufficient room for projects not currently identified but which may be taken up and/or generate revenue for the three years ending 31 March 2014, the Company has factored in further allowance representing approximately 70% over the estimates for revenue contribution from the Services for the three years ending 31 March 2012, 2013 and 2014 (after buffers of about 15% to 20%). These allowances cater for increase in the cost of the Services and thus fees of the Services, and new projects from PYI Associates. Given the nature of the business of the Group that one single project may potentially generate substantial revenue, we agree with the Company a relatively bigger buffer allowance is in the interests of the Company.

Given that the provision of the Services is part of the principal businesses of the Group and will only be carried out on normal commercial terms, we concur with the Company that it is in the interests of the Company and its Shareholders to build in sufficient allowances and buffers in the proposed annual caps with a view to avoiding incurring extra time and costs should approval from the Independent Shareholders be again required if more business opportunities arise but there is no sufficient cap.

In view of the above factors, we agree with the Company that the proposed annual caps for the transactions which may be carried out under the Business Services Agreement are justifiable and fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

Having considered the principal reasons and factors, namely (i) the principal business of the Group, (ii) the business development of the PYI Group, (iii) the revenue nature of the Services, (iv) the principal terms of the Business Services Agreement which stipulate that the Group may only provide the Services to the PYI Associates on normal commercial terms or terms no less favourable to the Group than those offered to the Group from independent third parties and (v) the estimates made by the management of the Company in respect of the transaction values under the Business Services Agreement based on projects currently identified by the management of the Group with buffer and allowance for possible unidentified projects and other possible fee upside adjustments, the details of which are set out above in this letter, we are of the view that the terms of the Business Services Agreement and the proposed annual caps for the transactions which may be carried out thereunder are fair and reasonable so far as the Shareholders are concerned and that the Business Services Agreement are, and the transactions which may be carried out under the Business Services Agreement will be, entered into on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the Business Services Agreement, and annual caps for the three years ending 31 March 2014 and the transactions which may be carried out thereunder.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Director

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 enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(1) Interests and short positions in the shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position	Number of shares of the Company held	Total	Approximate percentage of shareholding of the Company
Iain Ferguson Bruce	Beneficial owner	Long position	817,111	817,111	0.13%

(2) *Interests and short positions in the shares, underlying shares and debentures of PYI*

Name of Director	Capacity	Long position	Number of shares of PYI held	Number of underlying shares (in respect of the share options (unlisted equity derivatives)) of PYI held	Total	Approximate percentage of shareholding of PYI
Lau Ko Yuen, Tom	Beneficial owner	Long position	14,237,475	36,833,332 <i>(Note i)</i>	51,070,807	1.13%
Lau Ko Yuen, Tom	Family interest and interest of controlled corporation	Long position	146,863,544 <i>(Note ii)</i>	–	146,863,544	3.24%
Chan Fut Yan	Beneficial owner	Long position	–	7,083,334 <i>(Note iii)</i>	7,083,334	0.16%

Notes:

- (i) The share options were granted to Mr Lau Ko Yuen, Tom on 28 December 2004 under the share option scheme of PYI adopted on 27 August 2002 (“PYI Share Option Scheme”) which entitle him to subscribe for a total of 36,833,332 shares upon exercise at the exercise prices of HK\$0.43762 (as to 18,416,666 options) and HK\$0.52940 (as to 18,416,666 options) per share exercisable during the period from 28 December 2004 to 26 August 2012.
- (ii) Such interests are indirectly held by a company which is equally owned by Mr Lau Ko Yuen, Tom and his wife.
- (iii) The share options were granted to Mr Chan Fut Yan on 28 December 2004 under the PYI Share Option Scheme and entitle him to subscribe for a total of 7,083,334 shares upon exercise at an exercise price of HK\$0.52940 per share exercisable during the period from 28 December 2004 to 26 August 2012.

PYI, the ultimate holding company of the Company, is an associated corporation, within the meaning of Part XV of the SFO, of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group which is not terminable by the Group within one year, without payment of compensation (other than statutory compensation).

EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which are contained or referred to in this circular:

Name	Qualification
OSK	OSK Capital Hong Kong Limited, a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO

OSK has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and references to its names in the form and context in which they are included.

As at the Latest Practicable Date, OSK was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, OSK does not have any interest, either directly or indirectly, in any assets which have been, since 31 March 2010 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010 (the date to which the latest published audited consolidated financial statements of the Company were made up).

DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

Up to the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been 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 since 31 March 2010 (the date to which the latest published audited consolidated financial statements of the Company were made up).

DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group.

MISCELLANEOUS

The English version of this circular shall prevail over the Chinese text for the purpose of interpretation.

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 up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the First Original Agreement;
- (c) the Second Original Agreement;
- (d) the Business Services Agreement;
- (e) the letter addressed to the Independent Shareholders from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (f) the letter of advice from OSK to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 10 to 17 of this circular; and
- (g) the letter of consent from OSK referred to in the section headed "Expert and consent" of this appendix.

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 11th Floor, Paul Y, Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Friday, 6 May 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:–

ORDINARY RESOLUTION

“**THAT** the performance by the Company and its subsidiaries of the transactions contemplated under the agreement (the “Business Services Agreement”) dated 25 March 2011 between the Company and PYI Corporation Limited (a copy of which has been produced and marked “A” and signed by the Chairman of the meeting for the purpose of identification) be and is hereby approved and confirmed and that the directors of the Company be and are hereby authorised to do all such acts and things and to take such steps as they may consider necessary, desirable or expedient to give effect to or in connection with the Business Services Agreement or any of the transactions contemplated thereunder.”

By Order of the Board
Mui Ching Hung, Joanna
Company Secretary

Hong Kong, 18 April 2011

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

* For identification purpose only

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 proposes to vote.

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